



Research

Is Cost Really Stopping Consumers From Getting Broadband?

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Executive Summary

There has been sustained interest in why Americans do not take up broadband; according to the [most recent count](#) a number totaling about 13 percent of Americans. This short paper examines the evidence and finds that:

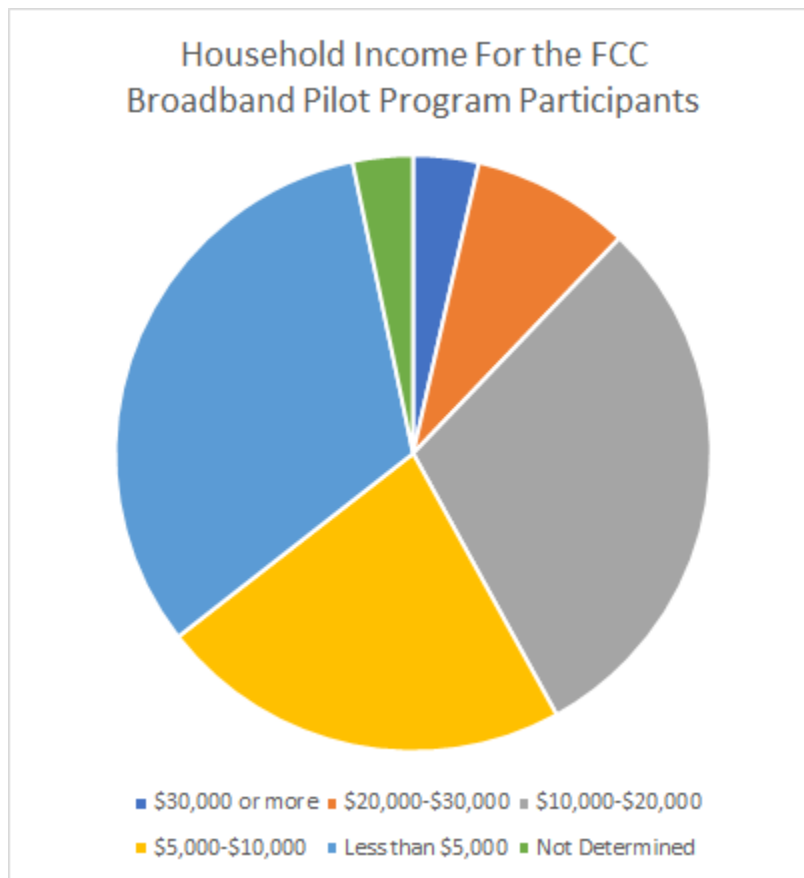
- While the cost of service is often cited as a barrier, data from a Federal Communications Commission pilot program hint at a more complex story;
- A great many Americans do not value, or cannot assign a value, to broadband access; and
- Government programs should not merely subsidize the cost, but rather educate on the value of broadband.

Introduction

According to the [most recent count](#), about 13 percent of Americans aren't connected to the Internet. Cost is often cited as a barrier to access. Yet, when considering the totality of evidence, including the results of a pilot program by the Federal Communications Commission (FCC), surveys from the Census, and research from Pew, a more complex story behind the lack of adoption emerges. Instead of merely focusing on cost, the value of broadband should be the focus. Practically speaking, this change of viewpoint would lead policymakers to reject blind increases in broadband subsidies for a more robust program that centers on education more than just income supplements.

Analysis

In 2012, the FCC launched [a broadband pilot program](#) to collect data on what policies might overcome the key broadband adoption barriers. The results show just how difficult it is to target non-adopters. In the end, [8634 new](#) Internet users got connected because of the project, yet, the agency [estimated 74,000 households](#) would opt in. One of the participating companies, XChange, expected 5,000 people to subscribe, but only found 214 takers. Frontier expected 1,500 people to sign up for the offer but got 118 instead. This program, as the pie chart below explains, largely targeted low-income consumers.



But, as economist Scott Walstein [first pointed out](#), the results of the surveys both before and after the project reveal some oddities. By and large, in advance of the pilot program cost was the most cited reason for not being on the Internet. Below that reason is broken down by household income.

Household Income	Pre-Program Percent Citing Cost As Reason for Non-adoption
\$30,000 or more	58.8%
\$20,000-\$30,000	71.0%
\$10,000-\$20,000	76.9%
\$5,000-\$10,000	68.4%
Less than \$5,000	61.2%

And yet, the post-program questionnaire flips this reasoning on its head. When asked afterwards, what is the reason for getting onto the Internet, the reduction in price doesn't top the list. Rather, keeping in touch with family and friends, and getting medical information are more commonly cited. While there are some problems with the wording of the question that could have reduced response rates, each of the income levels surveyed show marked decreases, as shown below.

Household Income	Post-Program Percent Citing Lowered Cost As Reason for Adoption

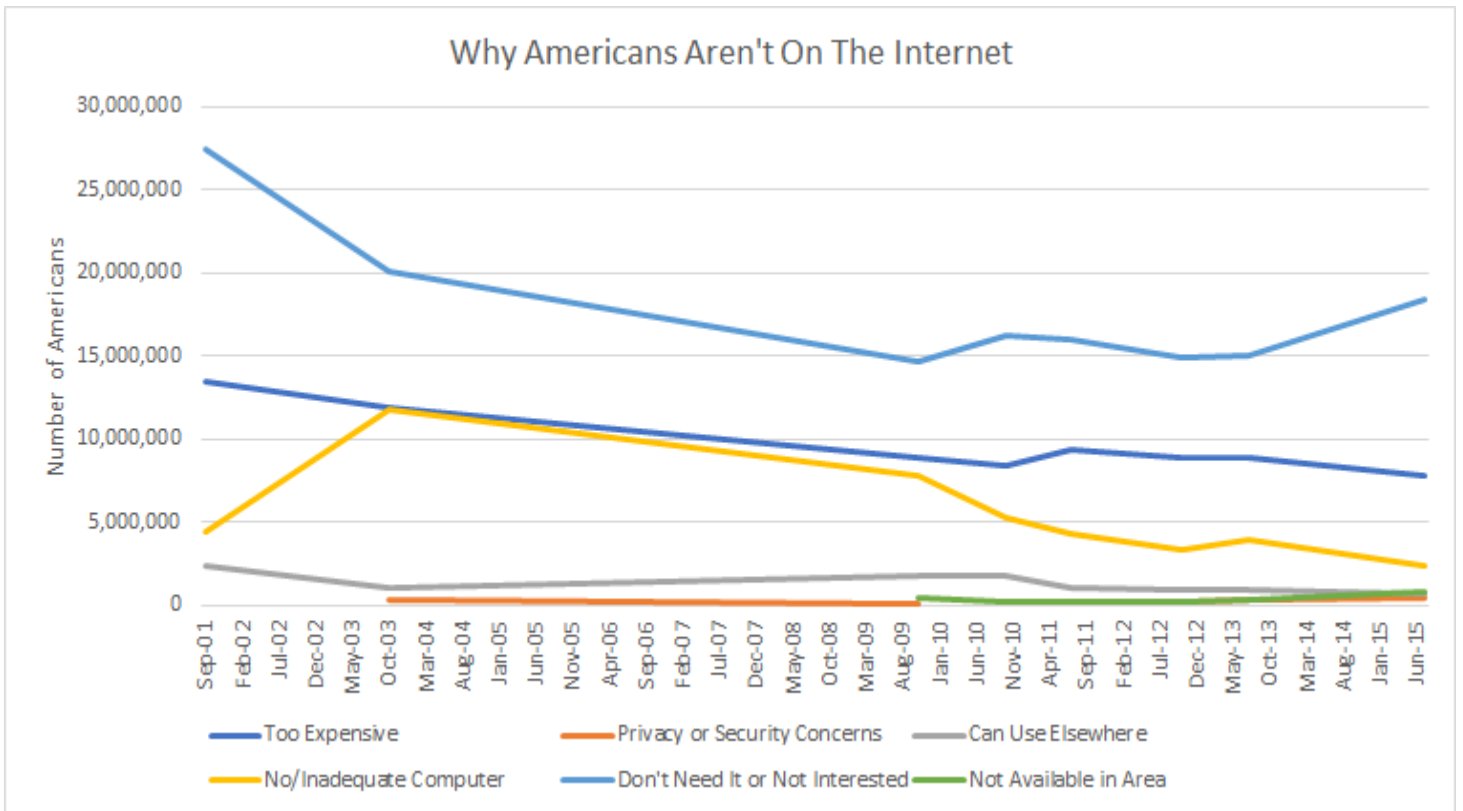
\$30,000 or more	25.5%
\$20,000-\$30,000	25.0%
\$10,000-\$20,000	32.9%
\$5,000-\$10,000	26.9%
Less than \$5,000	23.9%

The difference between the pre-program and post-program surveys seem to illuminate a problem that has seen intense study in recent decades under the banner of behavioral economics. How would you value a good or service that you haven't consumed yet?

Price isn't the same as value, but oftentimes it is treated as such. So when surveys ask those who haven't gotten onto the Internet the reason for their decision, respondents gravitate towards price because it is the closest proxy to value. Yet, once online, they tend to cite items of value as reasons for being on the Internet, like connections with family and friends, and medical information. Reducing the price might induce some to consume broadband, but it doesn't fundamentally alter the value proposition like sharing photos and getting medical information does. This should be an important lesson to policymakers. Value, more than just cost, is the reason people get onto the Internet.

Changes in the response to Pew surveys over time hint at this underlying trend. In [a 2010 survey](#), the group found that 31 percent of non-Internet users didn't subscribe because they weren't interested in the service, while 10 percent cited cost as the reason for non-adoption. A [similar report](#) from Pew in 2009 found that 22 percent of those without Internet weren't interested in getting online, while 16 percent agreed that cost was the barrier. In 2015, [another version of this survey](#) was conducted, but didn't include an option for non-relevance. This time around, 33 percent of non-broadband users said the expense of the service was the primary cause. When non-relevance isn't an option, respondents tended to gravitate towards cost.

The Census has consistently asked the same questions about non-adoption since September 2001, thus providing researchers a more consistent view of this group. Below is a chart of the number of US residents broken out by their reason for non-adoption.



Cost does tend to be a major reason for the lack of access, at about 3 percent of the total population, but this has been declining over time. Those who have no need or interest in the Internet have always been a larger group than those constrained by cost. By the most recent count, nearly 7 percent of those in the US don't see the relevance of the Internet, nearly double those highlighting costs. One way to understand the Pew data in light of the trends illuminated by the Census is to consider both relevancy and cost as being part of a bigger umbrella term, value. If they are partly substitutable, as the data suggest, then policymakers should be shifting their rhetoric and focus away from cost and toward value. Practically speaking, this would mean far less emphasis on broadband subsidy programs and more attention on education on the value of broadband.

As the FCC considers efforts to deploy broadband, some attention should be paid to the logic behind non-adoption. People get little satisfaction from having income, but enjoy what it can buy. So too is the case for broadband. Increases in income make us better off only insofar as they allow us to consume more things. While cost is a factor, a reduction in price might not matter much if there is little value attached to the service.