

BRIEF ANALYSIS

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The Private Sector Is Closing the Digital Divide

By Blake Bailey

As computers and the Internet revolutionize society, the need to have the latest and greatest technology is paramount. Since 1995 the U.S. Commerce Department has released three reports stating that certain segments of society have access to advanced technology, while others do not. This “digital divide” is said to be based on ethnicity, income and locale. President Clinton has proposed a \$2 billion initiative to close this alleged digital divide. Vice President Gore has made similar proposals. Yet the digital divide that does exist is small and is being rapidly closed, thanks to private markets and charities.

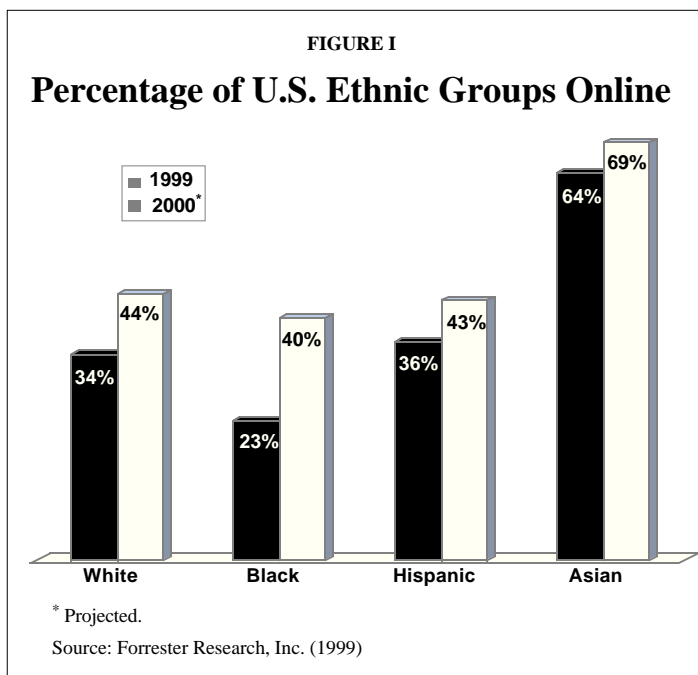
There Is No Racial Divide. Jesse Jackson has labeled the digital divide “classic apartheid.” However, the facts do not support his label. Whites do not have the highest percentage of Internet users. According to Forrester Research of Cambridge Massachusetts:

- 64 percent of Asian American households and 36 percent of Hispanic American households use the Internet, compared to 34 percent of white households [see Figure I].
- 23 percent of black households are wired and are increasing spending on computers at a rate 14 times faster than white families.
- Latinos, blacks and Asians are now signing up for the Internet faster than whites.

“There is no digital divide in terms of race,” said Ekaterina O. Walsh, author of the Forrester study. Henry Louis Gates Jr., director of Harvard’s W.E.B. Du Bois Institute for Afro-American Research, argues that blacks chose not to go online in the past and are now reversing their decisions.

Costs Are Shrinking for Computers and the Internet. Most researchers attribute the differences in computer ownership and Internet access to differences in income and education, not race. But the cost of computing power drops every year. The falling prices of computers and access to the Internet are negating income’s effect on the digital divide [see Figure II].

- The average price of a basic PC fell from \$1,434 in 1997 to \$916 in 1999, while computing power more than doubled.
- Egghead, Bestbuy, CompUSA and other companies offer computers complete with keyboard, monitor and mouse for under \$500, with some models under \$400.



- Several companies offer free computers to persons who sign up for an Internet service costing \$20.00 to \$29.99 a month.

Similarly, Internet access is getting cheaper.

- Internet access costs as little as \$9.99 to \$19.99 a month.

- At least 20 companies including the well-known Altavista and Lycos offer free Internet access.

Just as Henry Ford enabled the working class to own an automobile by making the Model T cheaper, computer companies are facilitating computer ownership and Internet access by making them cheaper. According

to Jupiter Communications, nearly 50 percent of Americans earning less than \$15,000 a year will be online by 2005, just 10 years after the Internet became readily available. By comparison, it took almost 20 years for personal computers to reach 50 percent penetration for all Americans.

PCs Are Competing with TVs and VCRs. There is no indication that price decreases and quality increases are slowing down. At these rates, computers may become cheaper than television sets. According to the 1997 Residential Energy Consumption Survey, 98.7 percent of American households own television sets and nearly 75 percent have videocassette recorders. Even

low-income individuals can choose a computer over another electronic device.

The Private Sector Is Giving Away Computers. Several companies, realizing the potential of a computer-empowered workforce, have begun giving computers to employees.

- Ford Motor Company bought most of its employees a Hewlett Packard computer and printer for free and offered Internet access for \$5.00 a month.
- American Airlines gave 112,000 employees free computers and Delta Airlines gave 72,000 employees free computers.
- Intel Corporation provided 70,000 employees with free computers.

Companies have been equally generous with charities, donating millions of dollars worth of equipment and money.

- Microsoft and its employees have donated over \$100 million in money and software, creating more than 15 Technology Centers in cooperation with the Boys and Girls Club of America.
- US West has provided more than \$10 million worth of used computers to schools and nonprofits since 1997.
- Oakland Technology Exchange has furnished more than 3,000 computers to the cyber-needy.

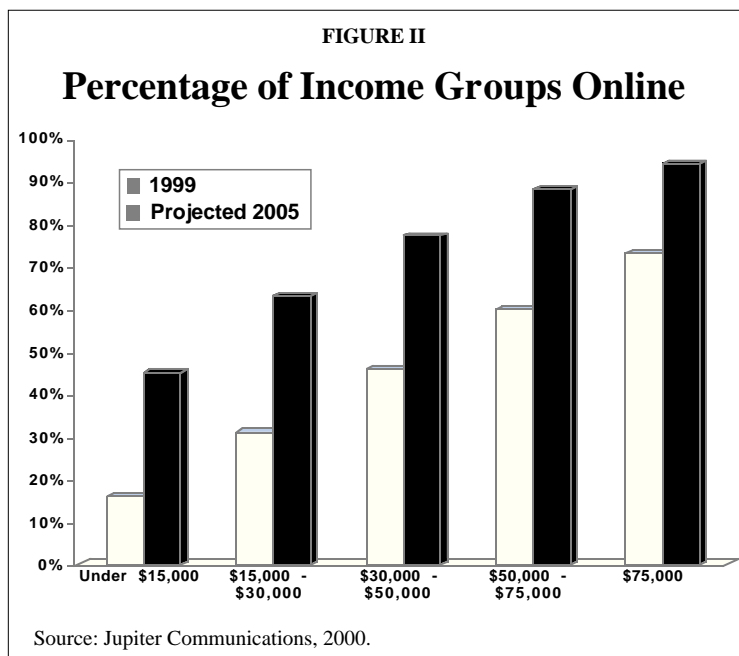
Vice President Al Gore has proposed tax credits as part of a plan to provide computers to low-income families. However, government giveaways are unnecessary; American companies are beating them to it.

Broadband Access Is Becoming Universal. Proponents of government intervention argue that broadband (high-speed) service providers are avoiding certain communities. They claim this gives unfair advantages to businesses located in larger, richer cities and leaves companies in poorer rural areas behind to fail.

However, the service providers are not so much avoiding rural areas as targeting urban areas. They are simply wiring the areas in which installation is easy and projected broadband use is high. Further:

- Montana Power Company has invested more than \$250 million in wiring that state for broadband access, deploying 12,000 miles of fiber optic cable to date and planning to double that amount by 2001.
- America Online recently invested \$1.5 billion for research into satellite-based broadband delivery.
- Utility companies that have wired their internal services with fiber optics are converting these lines for Internet use.

Government Regulation Is the Biggest Barrier. If anything is limiting access to broadband Internet services, it is telecommunications regulation. Federal regulations forbid deploying data networks across random geographic lines. Local zoning ordinances interfere with new services. Open access laws require the companies that build the broadband network to sell parts of their network at below cost. Cities such as Portland, Oregon, have tried such laws only to see their broadband expansion stall as the city and the



service provider argue in court.

Conclusion. Digital technology and access are spreading at an unprecedented rate. The government cannot make the industry grow any faster. America's failing education system is the true digital divide. If children cannot read, write or master simple arithmetic, all the wonders of the Internet are beyond their reach, even if a computer is within it.

Blake Bailey is an intern with the National Center for Policy Analysis.

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