Thoughts on the USO – when is it fair to treat consumers differently?

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Are the claims of the poor and the not-so-poor (and/or of basic and advanced services) rival claims?

Determining the balance of advantage, or harm, that might accrue from policies designed to improve advanced services and policies designed to extend basic services (USO) is a classic problem of utilitarianism. Which will better achieve the greatest happiness of the greatest number?

But USO is not just a utilitarian issue. It’s also an issue of rights, fairness and justice.

Is it unfair and unjust to make claims for the, doubtless, comparatively wealthy users of advanced services when there are unsatisfied claims of low income consumers (actual and potential).

John Rawls' "A Theory of Justice" (1971 and 1999) argues for "justice as fairness" and is claimed to have decisively re-orientated and re-invigorated modern political philosophy. Will Kymlicka referred to "A Theory of Justice" as the "rebirth of normative political philosophy" (Kymlicka 1990: 9).

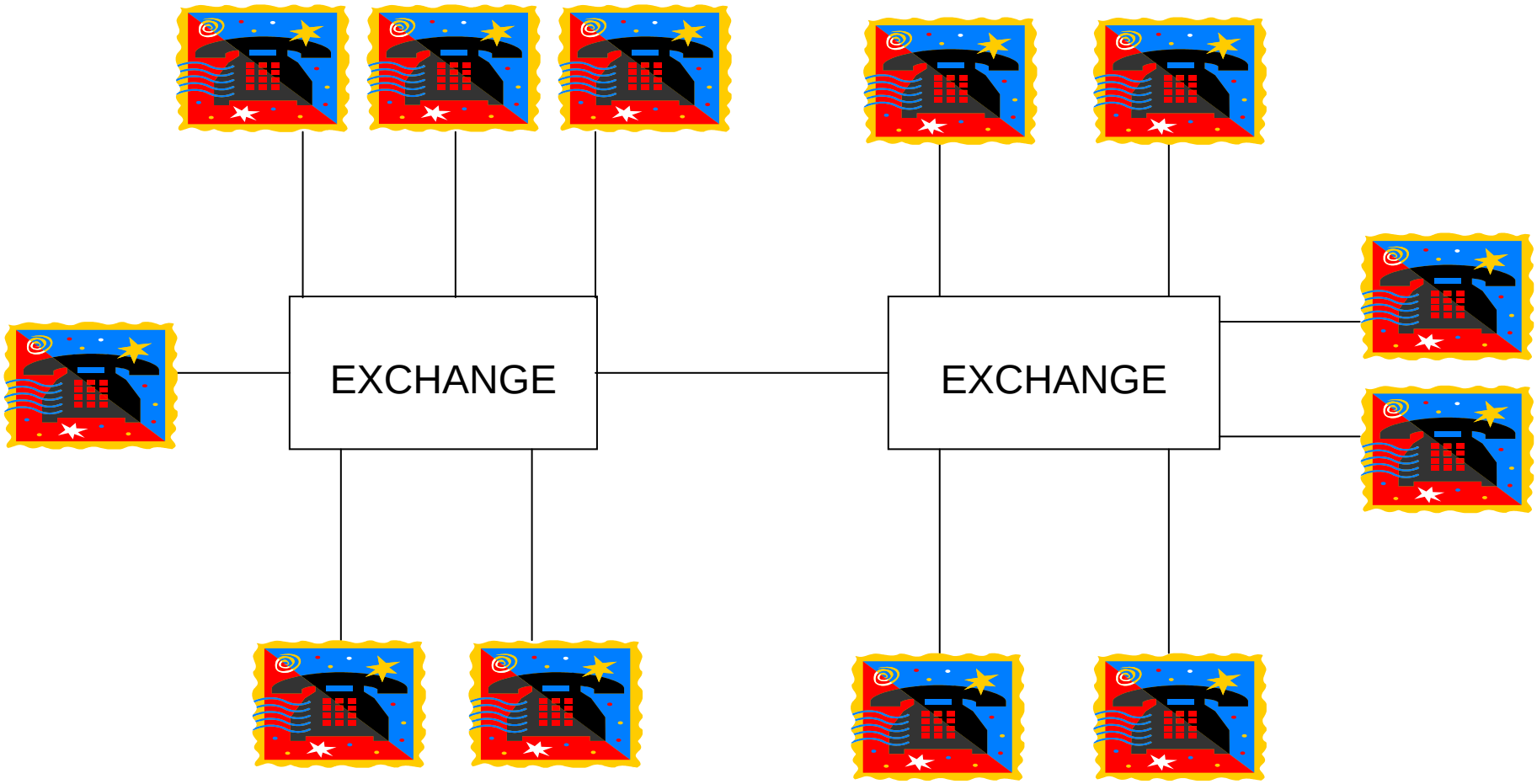
Rawls proposes a "difference principle" whereby all "social primary goods" – rights, liberties, opportunities, income, wealth and so on (Rawls 1999: 79) are "to be distributed equally unless an unequal distribution of any or all of these goods is to the advantage of the least favoured" (Rawls 1971: 303).

Robert Nozick in his “Anarchy, State and Utopia” (1974), argued for the legitimacy of certain kinds of inequality. Nozick argued that inequality that derived from the exploitation of legitimately gained advantages might be just. He gave the persuasive example of the wealth enjoyed by sports stars. Is it just, Nozick asked, for us to be denied the possibility of paying to watch people like Venus Williams if the sum of our voluntary payments makes Venus (and those few like her) better off – i.e. further favouring the already favoured?

Roll out of universal access to basic services (however defined) should, under a Rawlsian set of values, seem to take priority over improvement of advanced services.

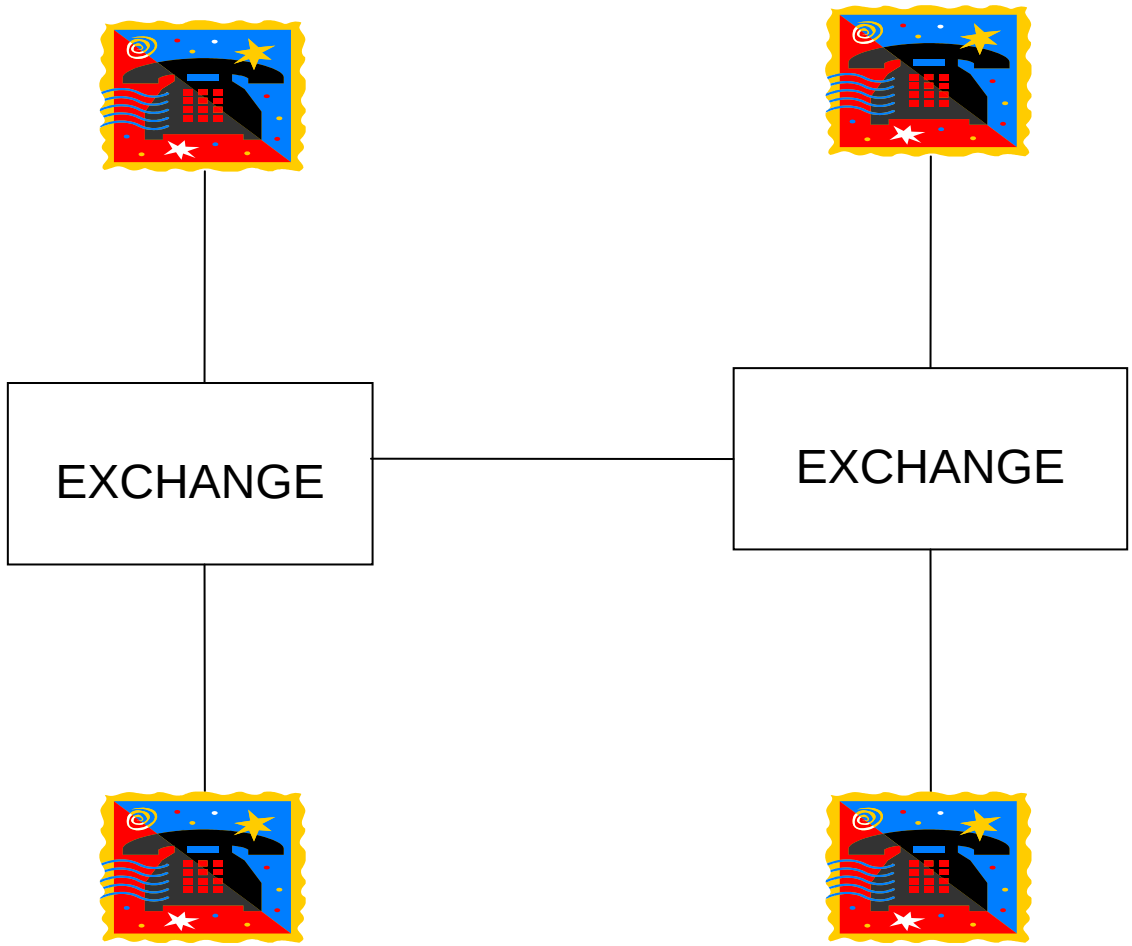
Telecom tariff baskets are often constructed so that different classes of users pay different prices for the same service.

Consider a simple two exchange network in which each exchange serves six customers and where the annual cost of the network is 1920 units. If costs are shared equally, each telephone user pays 13.34 units per month for service.



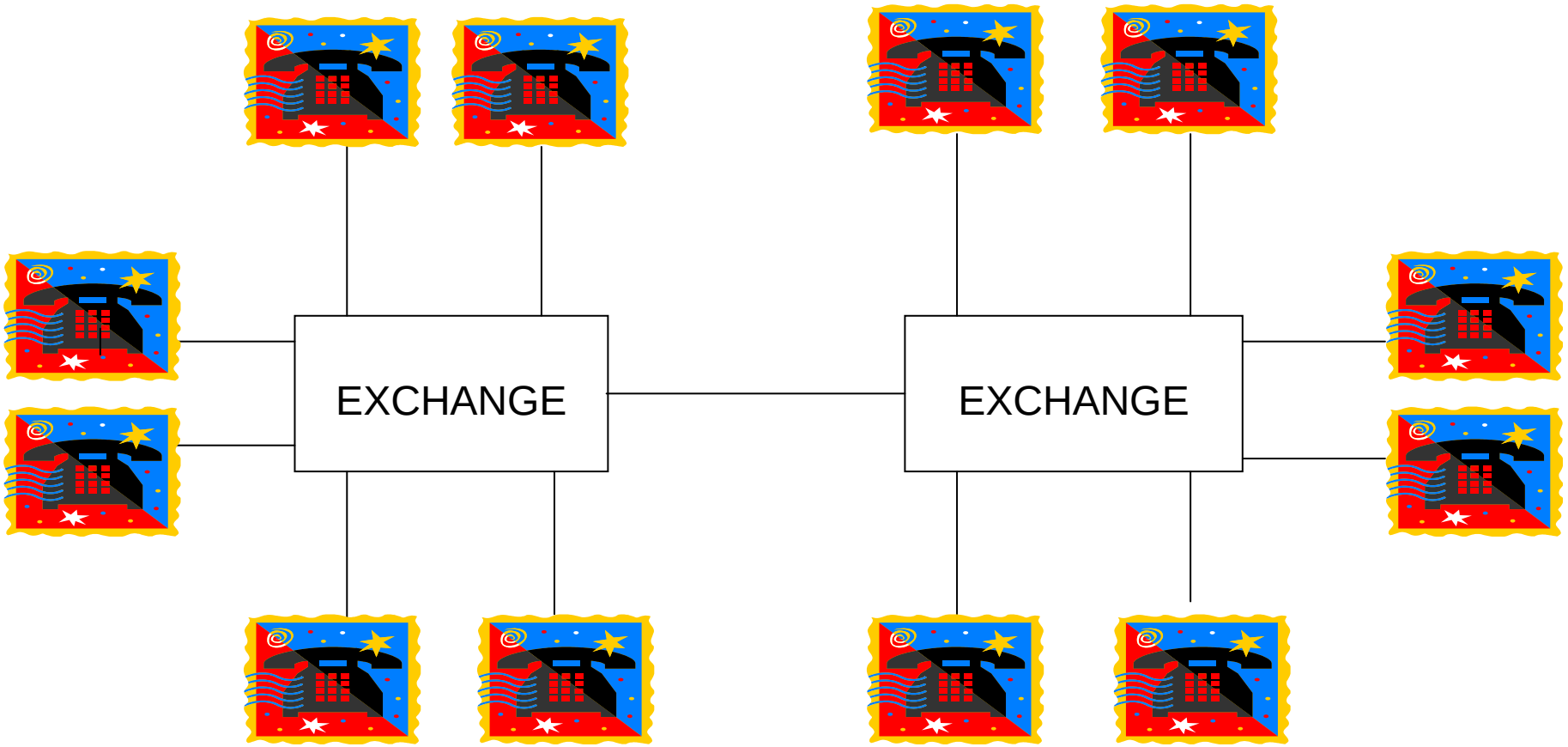
- Annual Network cost 1920 units. If customers split costs equally each pays 13.34 per month.

Let’s say that’s unaffordable for eight of the twelve customers (and let’s call them residential customers). The four remaining customers (let’s call them businesses) are left with all the costs (though these might fall somewhat as the number of customers falls – let’s say to 1,200 units) and are considerably worse off – instead of paying 13.34 units a month each now pays 25 units.



- Annual Network cost 1200 units. If customers split costs equally each pays 25 per month (i.e. each is worse off by 11.66 per month and can call / be called fewer subscribers).

These remaining four customers, for whom prices have risen, will be better off if the eight lost customers return to the network and pay anything more than 7.51 units a month (reducing business customers' monthly charges to, at most, 24.98).



- Annual Network cost 1920 units. 12 customers split costs unequally all are connected and benefit at, say, a price split of

  4 customers pay 24.98

  8 customers pay 7.51

Moreover, business customers will benefit from the “network externality” by being able to communicate with the eight residential customers who have been attracted back to the network.

Fod Barnes first developed this worked example, when a consultant at Oftel in the mid 1990s and I’ve subsequently adapted and used it before - see Collins and Murroni 1996.

We feel fairness is satisfied if the customers least able to pay are charged less than those most able to pay.

All are better off, and the utilitarians among us are satisfied, if we contrive a tariffing scheme – such as that sketched above - that attracts and keeps as many people connected as possible.

Rawls' difference principle also seems to be satisfied. The unequal distribution is to the benefit of the least favoured.

But such redistributive tariffing works only to the point where it is cheaper for high tariff users to remain on the network rather than establish a new network.

But the chances are that in the real world such a scheme will work only if the network is optimised for those who are paying most. For they are the ones (let’s call them the rich or business) without whom there will be no network. If they drop off the network, or the network doesn’t exist in the first place because regulation doesn’t allow it to develop, the least favoured will continue to have nothing.

Doesn’t the network have to be created for the high payers first? Are we entering a space where unfairness is creeping back in?

Yes, people are being treated differently, yes, priorities are being set to suit the advantaged (whether we call them businesses or the wealthy). But within these unequal arrangements there is the potential for all to be better off than they would otherwise be. Although, initially at least, the least favoured may not benefit.

But if we take a Rawlsian snapshot, static, view the initial expenditure on the network for the notional business users is illegitimate. It won't immediately benefit the worst off. Indeed, some of them may never benefit.

Establishing a network is a dynamic process. Inevitably, when something new arrives access to it will be unequal.

The first users are likely to bear significant costs (and bear the risks of backing the wrong technology or application), and are unlikely to do so unless they perceive that they will benefit.

But their expenditure, and their demand, will provide the conditions in which others will be able to use the facilities established.

The least well off can benefit under inventive and unequal tariffing regimes.

Historically electronic communications networks have developed like this whether fixed voice, mobile voice or Internet.

Positive externalities derive from an efficient and pervasive telecoms infrastructure.

How under a regime of general authorisation rather than through licences with universal service conditions?

General authorisations plus USO levy.

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Rawls, J (1971 [1999]) A Theory of Justice. Oxford. Clarendon Press.