AOL Letter to the Editor

Markus Kreusch and Frank Luby's opinion piece 'The Flat-Rate Fallacy,' (May 14 2001) entirely misses the point of why consumers around the world want the right to buy Internet access through simple flat-rate pricing.

Why do consumers want a flat rate? Because it's the same way they pay for every other kind of media. Imagine having to pay your local newspaper separately for each section that you read in the morning. Think about what radio and television would be like if consumers had to pay by the minute. With the clock ticking, people would catch five minutes of news, or a few minutes of a favored program at off-peak hours. The entertainment, advertising and commerce that drove the explosive growth of these media would have been severely impeded.

The authors seem to be trying to distract regulators from the reality that metered rates benefit their telco clients at the expense of both consumers and the rest of the Internet industry. Telcos such as Deutsche Telekom quickly recoup the cost of providing an Internet call because those costs are fixed. (Before the U.K. went to flat-rate capacity wholesale rates, for example, British Telecom was covering its costs in the first couple of minutes of a call.) But as long as the call continues, DT keeps collecting from consumers and the ISP. This is the real reason DT and its consultants sing the praises of metered pricing.

But the record is clear from experience in the U.S. and U.K. that flat rates are not only more friendly to consumers, they create more opportunities for businesses of all kinds. Flat rates allow online consumers the time to discover the convenience of online commerce and other transaction-based opportunities. And they create a level of usage that makes online advertising viable.

One of the biggest beneficiaries of a flat-rate boom would be DT, as new adopters and heavier users across the population would multiply its margins above the fixed cost of each Internet call. The recent AOL Europe/Roper Starch Cyberstudy demonstrates that online consumers today are enjoying an ever-wider range of activities online, and that an overwhelming majority feels that this has made their lives better. The survey also shows, however, that telephone costs are a significant barrier to increasing usage and further broadening those activities. If telcos persist in forcing consumers to watch the clock, they will keep consumers from enjoying the full benefits of the medium, and thereby suppress usage, online advertising and e-commerce, and overall economic growth.

About the only thing Messrs. Kreusch and Luby got right is that pricing is a powerful lever indeed. Perhaps they should help their client use this power to catapult the German Internet into the flat-rate future instead of keeping it trapped in a metered past.

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