



What's the Best Internet Policy? Finland May Have the Answer

by Doug Strickler

In the late 19th century, the rulers of Finland decided that the newfangled telephone was just a passing fad, and not worthy of their regulatory attention. As a result, Finland has one of the least regulated telecommunications environments in the industrialized world.¹ While this might seem to be a minor footnote in the history of a small Scandinavian nation, the implications of this action can provide valuable lessons for the United States.

Lack of regulation has led to a competitive and innovative telecommunications environment in Finland that is unrivaled in the rest of the world. Consider:

- Finland is the first nation in the world to have a greater number of cellular phone subscribers than land-line phone subscribers, despite having one of the world's highest proportions of land-lines to population.
- Finland is the home of Nokia, the world's top cellular phone manufacturer.
- Finns have a per-capita cellular telephone usage rate of nearly 65%, easily the highest in the world and twice the rate of the United States.²

While Finland's telephone use rates are impressive, its most remarkable achievement may be in internet access. Because the early development of the internet has been almost completely dependent on land-based telephone systems, and Finland has such a high density of land-based phone lines, the nation has an extraordinary rate of internet connection. By the end of 1998, more than 30% of Finns were regular internet users. While the U.S. has more than half of the world's internet users³, surveys indicate that Finland's share of users is about 100 times greater than its share of the world's population.⁴

The importance of the internet in trade, information, and communication is becoming increasingly clear. It is in the interest of the United States to encourage universal access and in this we could take a lesson from the Finns.

Several battles are now being fought in the U.S. communications industry. Telephone and cable companies are competing for regulatory favor with Congress, and internet service providers are seeking access to established wire infrastructures. The outcomes of these battles will have significant influence on the future of internet access.

The U.S. Federal Communications Commission (FCC), despite challenges, has claimed regulatory authority over internet access, both telephone line- and cable-based. In August 1999, the Commission asserted that it had authority to regulate high-speed access because local officials could create "regulatory disparity."⁵

FCC chairman William Kennard favors national non-regulation of internet access. He opposes regulations that would force phone and cable companies to share their lines with rival internet service providers.⁶ Despite Kennard's arguments, the FCC in November ordered regional Bells to share telephone lines with competitors. This action was aimed at bringing inexpensive, fast internet access into homes at lower prices. The FCC anticipated that the order would result in a high-speed internet access price cut of about \$10 per month.⁷

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Mr. Kennard is correct in favoring non-regulation. While a drop in price from \$50 per month to \$40 per month sounds attractive, it's an insignificant improvement in the long run. Requiring phone and cable companies to share of their lines removes much of the incentive for adding or upgrading lines. The U.S. Telephone Association asks, "Why risk a large investment in facilities when you will have to share the fruits?"⁸ Ultimately, the reduction in prices paid by consumers will be more than offset by the removal of the incentive for internet access providers to continually improve communication hardware systems.

Regulation also removes incentives for internet access providers to innovate. Wire-based internet access has become the norm because the infrastructure was in place when the internet was created. There is no reason that access must be wire-based. A few providers already supply wireless access to customers. This type of access is much faster than access through phone or cable lines – up to 11mbps, or nearly 200 times as fast as the fastest phone-line modem.⁹ The companies that provide these services are concentrated in highly urbanized areas, where their primary markets are located. High-speed access could be a huge benefit to rural areas. However, the motivation for providers to make this technology less expensive and more widely available will be eliminated if regulators guarantee artificially cheap access to existing wire networks.

Finally, eliminating regulation would slow the flood of phone company money now flowing into the pockets of Congress. The Center for Responsive Politics reports that the telecommunications industry gave members of Congress more than \$14 million in the 1997-98 election cycle, a 50% increase over the previous cycle. Much of the increase is attributed to attempts to influence decisions regarding internet regulation.¹⁰ The money would have been much better spent on research and development.

Unregulated Finland has the cheapest internet access and highest use rate in the world. Finns are making cell phones their only phones, and the nation's phone companies are working to transform land-based phone lines into video delivery systems. Deregulation of internet access provision could help foster that type of innovation in the United States.¹¹

ENDNOTES

1. Geoffrey Colvin. "We See the Future, and It's Finland." *Fortune*, 8/16/99, p. 180.
2. *Ibid.*
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6. Kathy Chen. "FCC's Kennard to Argue Against Rules on Broadband Web Access at Local Level." *Wall Street Journal*, 7/21/99, p. A2.
7. Paul Davidson. "FCC Orders Bells to share Internet lines." *USA Today*, 9/19/99, p. 1A.
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10. Robert McNatt, ed. "Greasing the Wheel: The Telcos Try To Take The Hill." *Business Week*, 6/28/99, p. 6.
11. Geoffrey Colvin. "We See the Future, and It's Finland." *Fortune*, 8/16/99, p. 180.

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