THE POLITICAL ECONOMY OF PROGRESSIVE, DEMOCRATIC CAPITALISM AND THE SUCCESS OF THE INTERNET:

Toward a Theory of Dynamic Innovation and Distributive Justice in the Digital Mode of Production

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The Virtuous Cycle Of Innovation And Investment

The Virtuous Circle of Progressive Justice

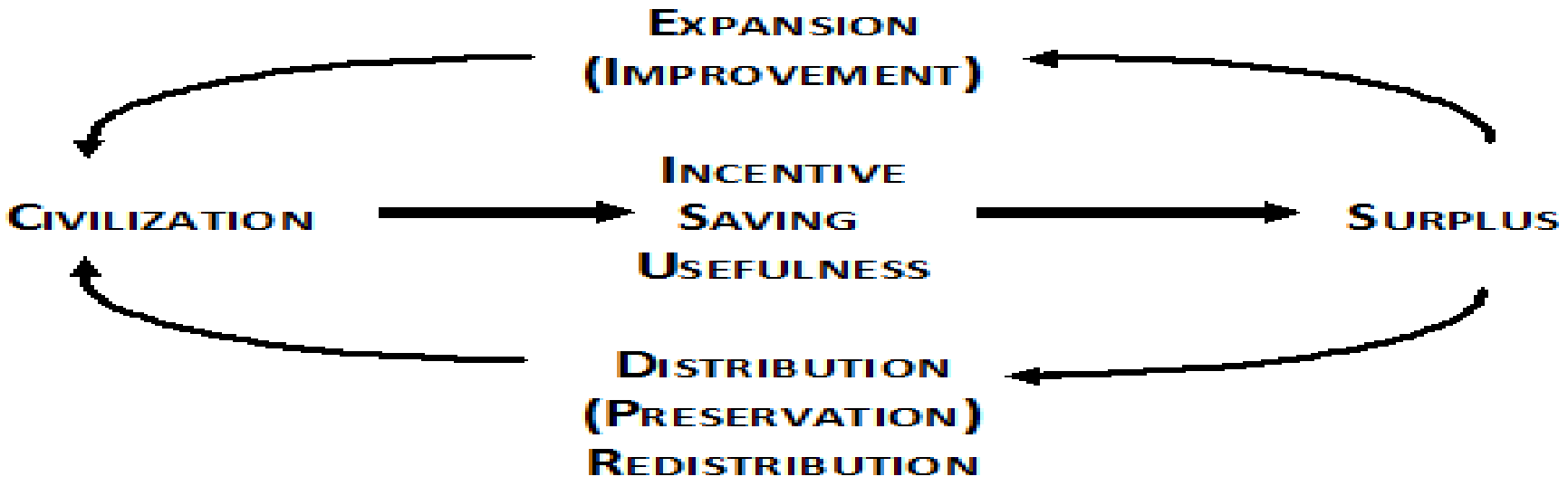
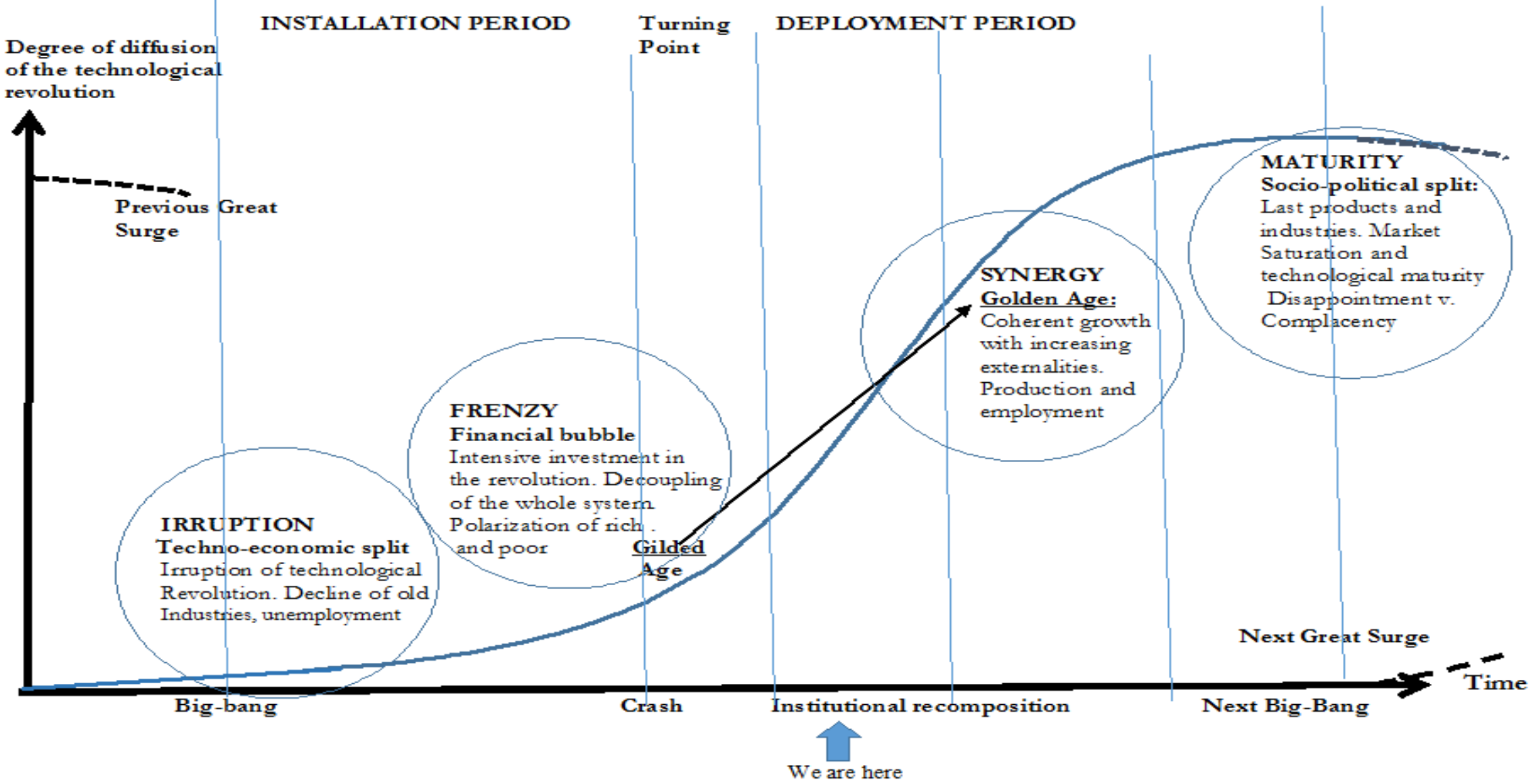
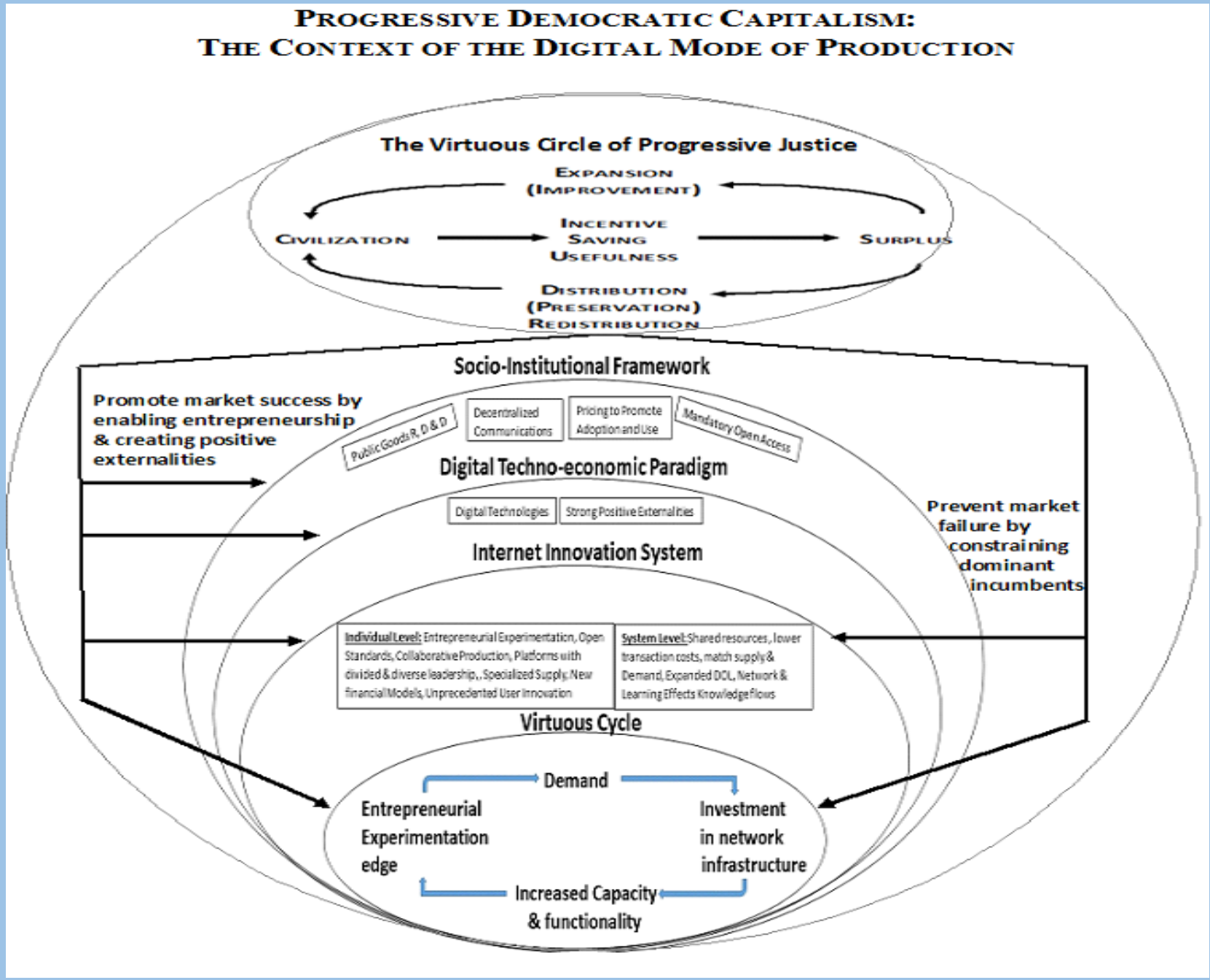


EXHIBIT IV-2: RECURRING PHASES OF EACH GREAT SURGE OF THE TECHNOLOGICAL REVOLUTIONS IN THE CORE COUNTRIES



Progressive Democratic Capitalism: The Context of the Digital Mode of Production



Progressive Policies Promoting Market Success Of Digital Communications

Sector Specific Policies

- Neutrality of the communications protocols and network devices
- No need to engage in costly bilateral negotiations over the cost and quality of access
- Interoperability
- Open access to open standards
- Freedom to experiment

External Supports

- Sustained support for basic research, development and initial deployment of key technologies
- Commitment to strategic defense of decentralized networks
- Support for the Internet Protocols and the development of a browser
- Quasi-governmental management of the network, while norms were being developed
- A significant market in the public sector
- Long standing New Deal tradition of pricing to promote use:
    - bill-and-keep for interconnecting networks
    - flat rate pricing for end users

PREVENTING MARKET FAILURE IS IMPORTANT, TOO, AND INVOLVES A LOT MORE THAN CONTROLLING THE MARKET POWER OF INCUMBENTS

Incumbent network operators
can dampen the willingness and ability of the edge to experiment:

- imposing counterproductive "worry" about the network and its devices
- increasing costs substantially by forcing edge entrepreneurs to engage in bilateral negotiations
- undermining interoperability
- chilling innovation threatening the "hold up" of successful edge activities.

have a conservative, myopic bias and are less innovative and dynamic than the edge based on

- a preference for preserving the old structure
- pursuit of incremental, process innovation rather than radical, product innovation
- proprietary culture that prefers restrictions on the flow of knowledge.

face weaker competition than edge companies, which means they

- face less pressure to innovate
- have the ability to influence industrial structure to favor their interests at the expense of the public interest
- can use vertical leverage to gain competitive advantage over independent edge entrepreneurs
- have the ability to extract rents, where they possess market power or where switching costs are high.

Building Blocks Of The Virtuous Cycle

Micro-Level

- User-driven to an unprecedented degree
- Importance of platforms
- New relationship to capital markets
- Dramatic increases in entry
- Voluntary, Multi-stakeholder management of Open Standards

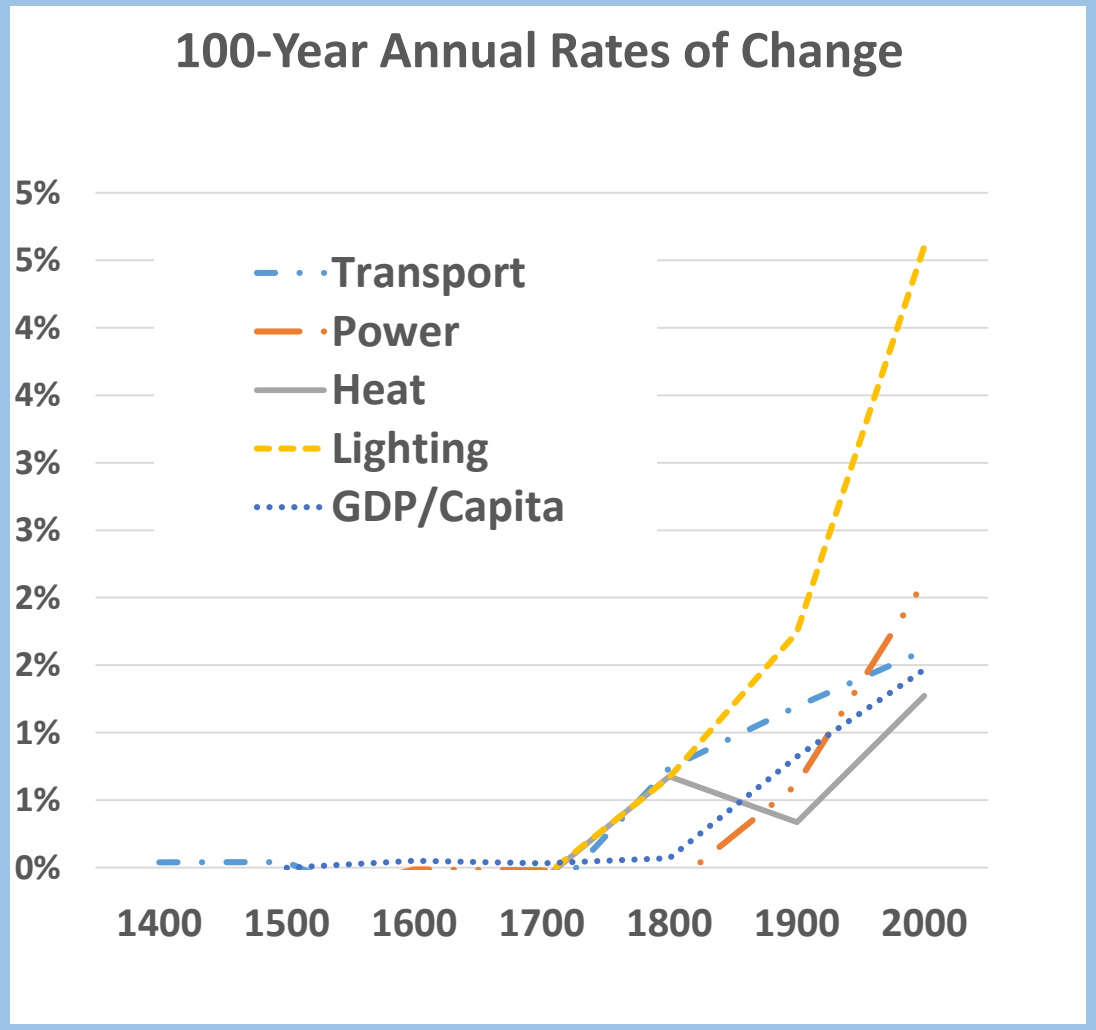
Autonomously Generated, Sector-Specific Externalities

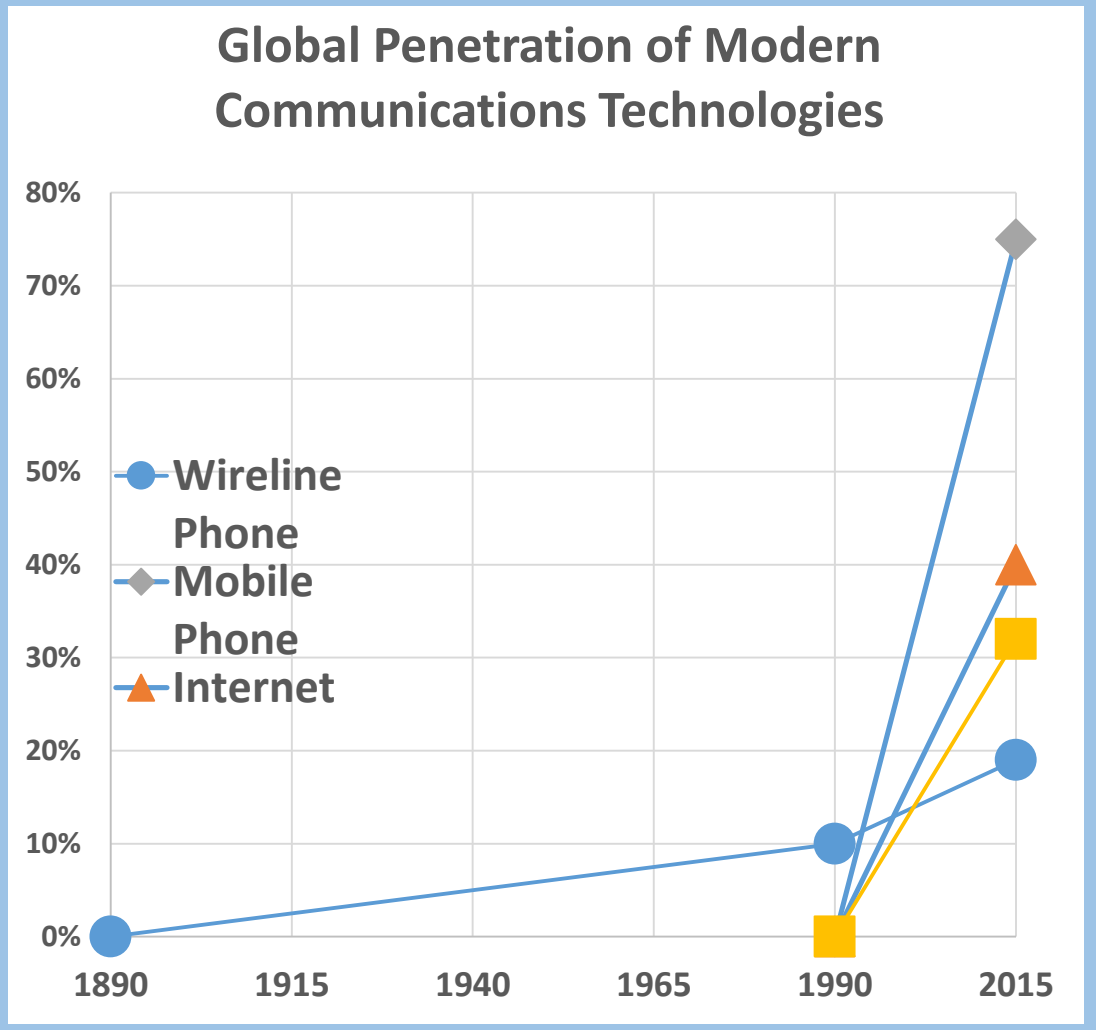
- Expanded division of labor
- Divided and diverse technical platform leadership
- Specialization of supply firms
- Network effects
- Knowledge flows
- Learning externalities

Democratic Equality

Focus	Social Purpose	Income Level
Democracy	Collective self-determination by means of open discourse among equals, Cooperative social experimentation, Epistemic justice to create institutions to foster norms of communicative justice & expand scope of prosocial norms	All the way
Property-owning market economy	Individual & Collective responsibility, Agency, Recognize role of capital labor & firms, Understand capitalism's dynamism, progress, & risk management	All the way & Global
Range Constraints		
Equality based on sufficiency	Entitlements set the thresholds to achieve Sufficiency, Autonomy, Equal Standing, Reciprocity & Personal Independence in social relationships of equality	Bottom
Independence based on security	Ensure freedom to choose, Security, Promote Solidarity & Community	Middle
Constrain inequality	Prevent leverage for advantage, Avoid Crypto-Plutocracy	Top

95% of the improvement in the material conditions that affect well-being (e.g. income, light, heat, transportation, communications) has taken place in the last 2% of human history, the era of industrial capitalism

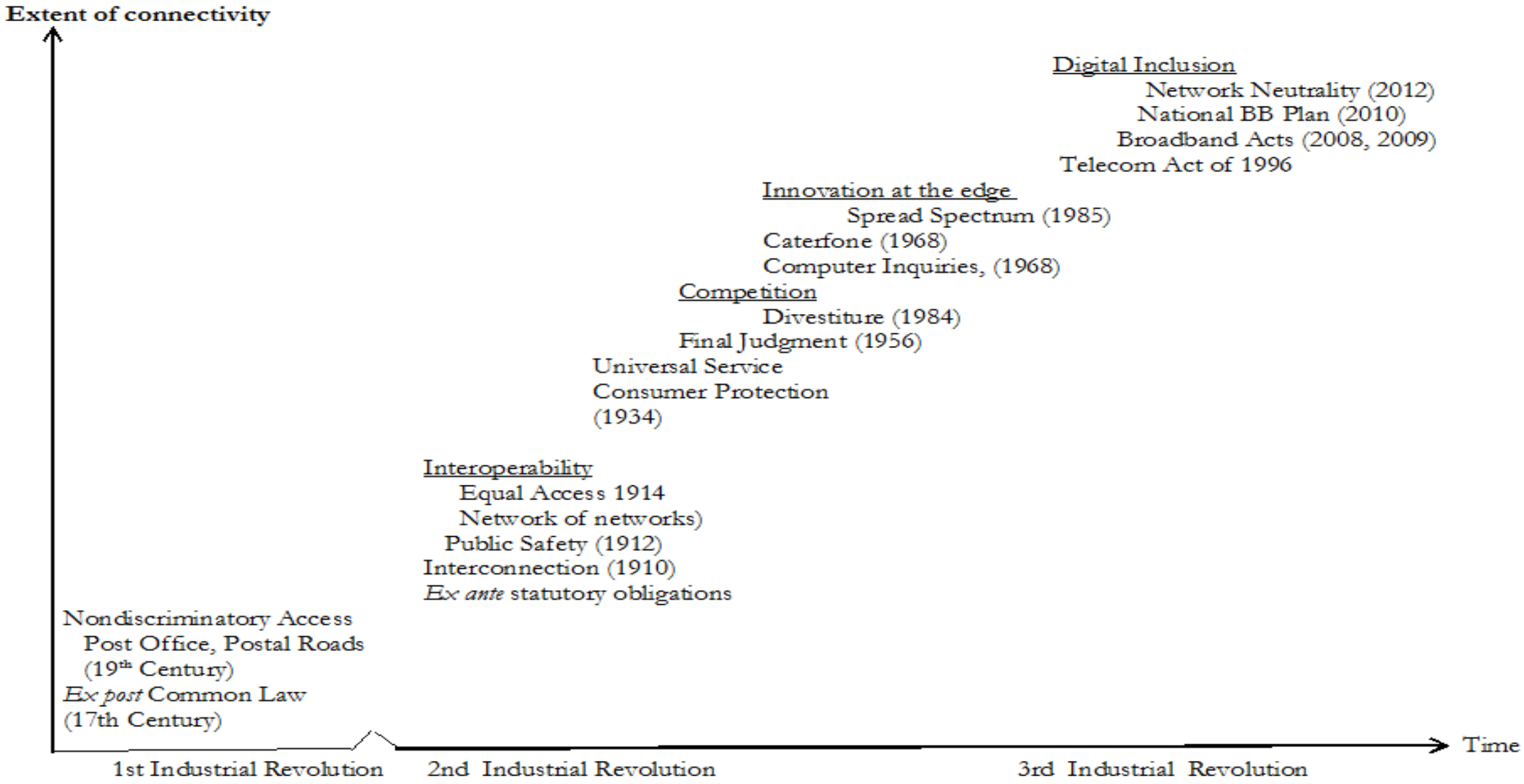




THE EVOLUTION OF UNIVERSAL SERVICE GOALS IN U.S. COMMUNICATIONS POLICY

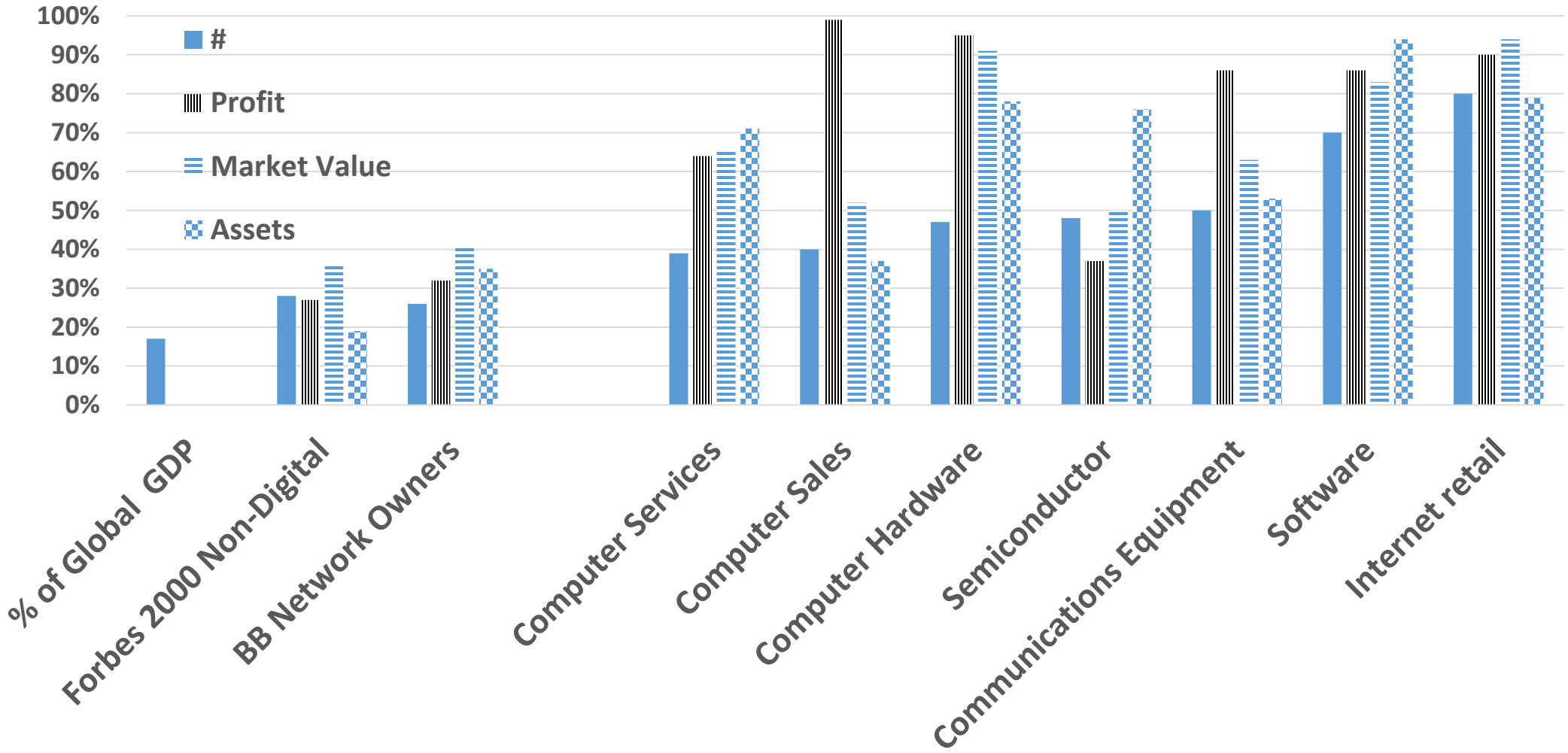
- **Nondiscrimination under Anglican Common Law (18th century)**
- **Commitment to post office and postal roads (19th century)**
- **Nondiscrimination in Network Operation: Mann-Elkins Act of 1910**
- **Equal Access & Interconnection: U.S. v ATT, Consent Decree, 1914**
- **Basic Goal of Universal Service: Communications Act 1934**
- **Universal Service as an Evolving Concept: Telecommunications Act of 1996:**
- **Focus on Adoption and Utilization: Broadband Data Improvement (2008) and the Broadband Technologies Opportunities (2009)**

THE PROGRESSIVE EVOLUTION OF PUBLIC SERVICE PRINCIPLES IN THE U.S COMMUNICATIONS SECTOR



The Digital Revolution is an American Revolution

(U.S. Share of Forbes Global 2000)*



*The output of the *Forbes Global 2000* equals 44% of the global GDP.