

BROADBAND AND THE UNIVERSAL SERVICE FUND

Broadband for America, one of a number of private-sector organizations seeking to promote the diffusion of high speed internet service as a key enabler for the many population segments who, by reason of economic disadvantage, ethnic insularity, geographical remoteness, and the like, are now without practicable access to the information cornucopia of the internet, not long ago requested, from a variety of ethnically oriented and other civil society groups, statements on the Universal Service Fund, one of the features of the federally regulated telecommunications industry, a fund long ago established but now arguably wandering lost in the moldy rooms of a past technological age — all in view of the project now gathering speed to reincarnate the USF, enlisting it as an instrument for bringing contemporary internet service to otherwise underserved corners of the U.S. population.

The following is an expanded version of the statement submitted by Dialogue on Diversity on the FCC, Broadband, and the fate of the USF.

The Federal Communications Commission, operating under guidelines fixed in the 1996 Telecommunications statute, and, more recently, the 2005 updating legislation, has established the Universal Service Fund, a scheme of support, to be operated by the Universal Service Administrative Company (USAC), an independent entity, for the benefit of several classes of potential and actual consumers of telecommunications services. The fund is continually replenished by assessments on a range of telecommunications service providers (now broadened to include a variety of internet service companies), at a rate of some 15% of their sales, for an annual total in 2010 of roughly \$8.5 billion. Well over half of this Universal Service Fund support is directed to *users of land line telephone services* in isolated or underdeveloped regions (the so-called “high-cost” program, aiming to reverse the damping effects of high costs in rural districts for ordinary telephone service, the very expensive result of the untrammelled workings of a free market régime in the industry). Historically, and indeed up to the present, much of this USF funding continues to be directed to land-line telephone services rather than to the novel and sophisticated internet services, which, seen prospectively, are to be the key to successful functioning by the U.S. population as it enters a world of increasingly sophisticated technologies, and of unexampled social and economic mobility. Broadband (the inclusive term for high speed internet access) is clearly a use in which (to bring into play the language of economics) the marginal product of a dollar of investment in modern telecommunications infrastructure, training in computer use, and the like, is substantially higher than that of the same dollar sunk into added saturation in obsolescent technologies.

A solidly developing consensus among experts in the relevant technical learning and in the pertinent economic principles may at this juncture prompt the FCC (which apparently is sufficiently empowered in the premises to heed these considerations) to act as follows: to recast the structure of the programs and purposes governing the USAC’s disposition of funds, to place the prime emphasis on *these most recent technologies, that is, Broadband internet service*. The broadband program, it appears, could be in large part supported by funds now expended on the “high-cost” (rural telephone) program, one which up to now has consumed, as noted, something over half the USF expenditures. The funds might be drawn from the present rural telephone program not simply by reducing the budget for continuing performance under the existing bureaucratic processes, but by radically rationalizing the structure and practice of the telephone program, which is believed to be ossified in its logic and wasteful in its practice — as well as fundamentally tending to divert resources from the more fruitful internet programs.

The newly fashioned broadband system, moreover, should build in a high degree of flexibility so that the direction of funding may be adjusted to the most productive lines of investment in a very rapidly innovating industry. The reform, which can probably be effected largely under the present statutory mandate, should as little as possible choose winners or prescribe any particular range of technological means for service provision. It should be carefully coordinated, moreover, with other governmental projects for building broadband capabilities – for example, use of (any remaining) funds from the stimulus act of early 2009.

Note: This is not to argue that a monolithic system of broadband construction and adoption is optimal. Ordinarily the competition of multiple entities is the source of experiment and innovation and of a surfacing of the more skilled and efficient personnel. Conduct of the broadband project by multiple centers acting at once in the same space may well be a salutary state of affairs as long as there is not wasteful duplication and the like. Operations might well be managed either through the monitoring of turf demarcation by a sort of neutral umpire, or by a carefully constituted charter defining the “rules of engagement” for each activity center. As now, the actual work, as contemplated, is to be carried out by private companies as contractors with the (governmental) funding entity, less often by the government entity through its own personnel. This exercise is similar to the more often discussed problem arising in health care systems, that of coordinating the operations of a governmental, or public plan, with a number of private plans operating under some kind of governmental standards.

The argument to this point has steered clear of any consideration of the manner in which the funds for the USF are raised. This is by laying an assessment on firms in the industry. As it stands this is, as noted, by a levy, or tax, one might term it, of roughly 15% on sales, which generates an annual “take” of roughly \$8.5 billion. This raises the cost of telecommunications, and in particular internet use by a substantial fraction, and thus tends to discourage use of the technologies. The policy, therefore, that is conceived to encourage use of these modalities of communication operates at the same time to discourage them. A similar phenomenon is observed in the newly instituted health care system. Here the young and healthy, who now shun the insurance market, are being driven to enter into insurance contracts, from the premiums on which the insurers will be able, arguably, to fund the increased costs of insuring the sick and otherwise difficult insureds at the same premium levels as others (the essence of the rule against insurers’ taking cognizance of “preexisting conditions”). That is, the army of newly insured will be paying to the insurance companies a levy in excess of the real costs of the insurance. This is in effect an excise tax on the young and healthy, who will therefore tend to evade the command to purchase, or to skate by with as meager insurance as can be arranged (when in the absence of the excise tax they might well have chosen a more ample coverage.) The policy of encouraging insurance thus, by its funding mechanism, tends perversely to dissuade consumers from using insurance.

This device is perhaps seized upon because it superficially resembles a “user fee”, which charges users for actual costs they impose on others or on the community as a whole by engaging in a specified activity. Tolls, gasoline taxes, and similar levies are of this kind. These fees force actors to take account of costs — incurred in some cases simply by way of the production costs of public goods (those for which private producers cannot practicably exact fees), but often as well in the form of harmful externalities attached to their activities (air pollution, erosion of pavement from gasoline use, for example) — and thus induce the users to retract (more accurately stated, to adjust the level of the activity so that its usefulness matches its costs) the level of the activity. These fees thus tend to achieve an optimal allocation of resources, while the USF and the health care schemata (in which the levies, or “fees”, do not correspond to actual costs of the activity) produce distortions and thus dead-weight social losses. The policy recommendation would be,

therefore, to fund the broadband (and health care) subsidies by way of tax proceeds gathered from the general population under a taxation rule that would not let the tax be sidestepped by taxpayers' changing consumption patterns.