

The Free State Foundation

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FSF President Testifies on Universal Service Reform

Randolph May Tells Congress Existing System Needs "Substantial Overhaul"

POTOMAC, MD – In [testimony](#) at a congressional hearing today on “The Future of Universal Service,” Free State Foundation President **Randolph May** told the House Subcommittee on Telecommunications and the Internet: “[T]he existing universal regime needs serious reform if telecommunications services are going to be provided in the most cost-effective and economical manner so that overall consumer welfare is enhanced. The fact of the matter is that new competitive entrants and new technologies have rendered the existing system wasteful, inefficient, and competition-distorting.” May said two interrelated fundamental principles should guide reform of the system. First, “market forces, rather than subsidies, should be relied on to the greatest extent possible to achieve the identified objective.” And second, “if there are to be subsidies, they should be targeted *narrowly* and financed *broadly*.” According to May, “anyone familiar with the current universal service system knows it is at odds with these fundamental principles.”

Applying the principles with respect to voice services, May said Congress should recognize that the goal of “universal service” as originally conceived has been generally achieved. He advocated a permanent cap on the existing high-cost fund. To the extent there are identifiable remaining high-cost areas without any affordable service, May stated he would “rely on competitive mechanisms, such as reverse auctions, to select a provider of last resort.” According to May, “[t]his is the most efficient and most technologically and competitively-neutral way to make service available in those areas.” As for funding, he urged adoption of a broad numbers-based financing system.

As for broadband, May observed that, by most measures, the nation has witnessed remarkable progress in deployment in a short time. He said: “This success is attributable primarily to the private sector responding to market forces, with more than \$100 billion – and still counting -- of investment. The success is not attributable in any significant way to government subsidies.” May stated: “If policymakers determine that, despite the progress already achieved through market forces, some subsidies nevertheless are desirable to achieve more ubiquitous deployment at a faster rate, such subsidies should be narrowly focused on selected high-cost geographic areas where service is unavailable or on low-income persons who otherwise cannot afford service.” Competitive bidding should be used to award any subsidies to the least cost provider. In keeping with the principle of financing broadly, “funding for any such subsidies should come from general Treasury appropriations.” May cautioned that while broadband is

available to most of the nation's consumers, there are many different demand-side reasons why people may not subscribe, and they will not be addressed by supply-side subsidies. In sum, "[a]ny broadband services deemed necessary should not be disbursed or financed through an unreformed universal service regime that resembles the existing one."

Randolph May has over thirty years of experience in communications law and policy, including service as Associate General Counsel of the FCC. May is the co-editor of two books on communications policy, *Net Neutrality or Net Neutering: Should Broadband Internet Services Be Regulated* and *Communications Deregulation and FCC Reform*, and the author of over a hundred scholarly law review articles, essays, and commentaries on communications law and policy topics. He is a past Chair of the American Bar Association's Section of Administrative Law and Regulatory Affairs and a past member of the Administrative Conference of the United States.

A PDF version of the [testimony](#) is here.

The Free State Foundation is an non-profit, tax-exempt Section 501(c)(3) Maryland-based think tank. Its purpose is to promote, through research and educational activities, understanding of free market, limited government, and rule of law principles.

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