The Free State Foundation

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Perspectives from FSF Scholars
March 11, 2009
Vol. 4, No. 4

The Washington Times
March 11, 2009

Give Consumers a Tax Break Now

by

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President Obama has said we cannot solve 21st-century problems with 20th-century regulations. Perhaps nowhere is this more true than with respect to our nation's information and communications policies, which desperately need reforming in light of digital age marketplace and technological developments.

Specifically, the government's "universal service" subsidy regime is saddled with antiquated rules that fail to provide incentives for the deployment of new lower-cost technologies, while at the same time supporting the provision of service by multiple providers in the nation's highest cost areas.

Who pays for this inefficiency and waste? You do. Just look at the "universal service fee" line item on your monthly phone bill.

Rep. Rick Boucher, Virginia Democrat and the new chairman of the House Telecommunications and Internet Subcommittee, is holding a timely hearing on Capitol Hill Thursday to examine universal service reform. It is timely because the hearing can shine the spotlight on immediate steps that the FCC can take to reform the program at a time when the acting chairman of the Commission has recently said he is "open to overhauls in the near-term" and there appears to be a consensus among his fellow commissioners.

"Universal service," originally conceived in the days of the Bell System monopoly, had the laudable goal of providing telephone service to all Americans. With the United States leading the world with almost 99 percent phone penetration, the program achieved success. Nevertheless, the size of the subsidy fund has continued to grow as a result of an obtuse regulatory regime that benefits companies more than consumers.

The part of the universal service regime most in need of reform is the so-called "high cost" fund, which provides subsidies to multiple providers in mostly rural areas. Its goal was to ensure phone rates in rural, difficult to serve areas would remain reasonably comparable to urban rates.

Unfortunately, even though these "high cost" areas were so expensive to serve that government subsidies were deemed necessary, it was decided the fund should be expanded to underwrite multiple competitors. Even worse, as innovative, less expensive technologies - like wireless - appeared, the subsidies available to new entrants were not based on their real cost, but rather on complex formulas reflecting the huge capital expenditures of laying the original telephone lines across mountains and prairies.

The high-cost fund, which by far has experienced the most rapid growth in the overall universal service program, now distributes $4.5 billion in subsidies annually, more than half of the total $7 billion in annual distributions. All these subsidies are paid by consumers who are assessed a "phone tax" of approximately 10 percent on all their interstate and international calls - no small amount in these tough recessionary times.

Here's what the FCC should do without delay:

(1) Eliminate its "Identical Support Rule" whereby new entrants receive subsidies based on the assumption their costs are identical to those of the traditional wireline provider. Any subsidy should provide an incentive for using the most efficient technology. Under the rule, not only do consumers pay for subsidies to multiple carriers - up to 14 in some high-cost areas - but the subsidies are based on the costs assumed for older, more expensive wireline technologies even though, for example, wireless companies' costs are likely to be lower.

(2) Expand the Lifeline and Linkup programs, which presently provide modest assistance to qualified low-income consumers for ordinary telephone service, to include subsidies for increasing broadband subscription among those who meet a needs-based test. This will help ensure our most at-risk Americans are not left behind in the digital age.

(3) Require any subsidies to additional providers be awarded through a competitive bidding process, such as a "reverse auction." Payments to multiple providers in the same service area have been growing about 100 percent year over year since 2002, from $1 million in 2000 to $1 billion last year. A reverse auction would award the subsidy to the new entrant that submits the lowest bid to provide service at a defined level in the defined area. Several providers have endorsed reverse auctions and even offered to "pilot" the concept. The FCC should take them up on the idea immediately. Universal service should not be about subsidizing competition, but about targeting assistance where market forces won't work.

(4) Develop a process for fundamental systemic reform. Some have suggested the already exploding high-cost fund should be expanded even more to include broadband. This should not be considered until the three reforms above have been implemented, the impact analyzed, and a formal reform process established.

In the recently adopted economic stimulus package, Congress has spoken clearly regarding the import of broadband by including two new broadband funds totaling more than $7 billion. Coincidentally, these funds are to be disbursed by units in the Commerce and Agriculture Departments, not the FCC.

However, the FCC is tasked with developing a national broadband policy that must include additional audits and safeguards to prevent waste, fraud and abuse. Interagency cooperation is necessary and must continue long past the grant process to ensure that consumers don't foot the bill for more ill-conceived, duplicative government subsidies.

Adopting these reforms would be good news during the worst economic downturn in recent memory because the cost savings from reductions in the current 10 percent universal service phone tax would go directly into consumer's pocketbooks.

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