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UNIVERSAL SERVICE AND INTERCARRIER COMPENSATION: WILL THE FCC FINALLY BITE THE REFORM BULLET?

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* This transcript has been edited for purposes of correcting obvious syntax, grammar, and punctuation errors, and eliminating redundancy. None of the meaning was changed in doing so.

P R O C E E D I N G S

Mr. MAY: Okay, we're going to start in just about one or two minutes. I'm going to ask the panel to come up and take their seats, please.

If anyone needs any coffee or another bagel, or whatever, help yourself to that, as well, of course.

Okay. I assume that everyone can hear in the back. Is the mic working fine? Great.

I'm Randy May, President of the Free State Foundation, and I want to welcome you here.

I have to say, for such a complex, if not arcane, topic as the one we're discussing today, it's great, particularly early in the morning, to see such a terrific crowd here.

I recognize a lot of you, of course. But others I don't. And I'm afraid, or at least wondering whether some of you might have seen the billboard down at the bottom, or out on the street that said "USF," and thought that it stood for "Unusual Sexual Fantasies," or something like that.

But that's not the case.

But we have you here now, which is good.

So the title of our program today pretty much sums up what we're about: Reforming universal service, what should be done, and how to do it.

And because the FCC is actually in the process of receiving comments and considering changes to the USF program and acting shortly, hopefully, the seminar is particularly timely.

I don't want to steal the thunder from Commissioner Tate or from our distinguished panel, which I will introduce in a few moments.

I know they will cover the full range of the issues before us, before we're done today. So I'm just going to set the stage, very briefly, with this background.

One way to set the stage is to analyze the level of financial support for the various USF programs. Consumers today pay an 11 percent fee on their interstate calls. It was about seven percent in 2001.

Now, wake up everybody? Okay? Wake up. Because the name of today's program is not actually

"Reforming Universal Service: What Should be Done and How to Do It"; although it well could have been, in part.

Rather, it is "Universal Service and Intercarrier Compensation: Will the FCC Finally Bite the Reform Bullet"? That's the name of today's program. And USF contribution factor today is not the 11 percent I just mentioned, but close to 15 percent.

Right?

What I recited just a few moments ago is verbatim; verbatim from an introduction to a Free State Foundation Program held on April 28, 2008, when it looked like the FCC was on the verge of tackling USF and Intercarrier Compensation Reform.

(Laughter.)

MR. MAY: Well, we'll get to that.

(Laughter.)

MR. MAY: But you can check the transcript; that was actually verbatim.

And I mentioned Commissioner Tate. I singled her out just now in my remarks because she gave some fine introductory remarks at the 2008 program about how she was hopeful that the FCC was on the cusp of acting.

So that was April of 2008. This is July 2011. But it's still accurate to say now, as I did then, quote -- you can check the transcript:

"Because the FCC is actually in the process of receiving comments and considering various changes to the USF Program, this seminar is particularly timely."

Now while that program was focused more on the USF side than Intercarrier Compensation, because they are inextricably linked, today's seminar is explicitly focused on both.

For context, I just want to read a couple of excerpts from two different Commission decisions. These are from 2001, expressing a sense of urgency regarding the Agency's need to comprehensively reform the Intercarrier Compensation regime:

Quote: "We believe it essential to re-evaluate these existing Intercarrier Compensation regimes in light of increasing competition and new technologies, such as the Internet and Internet-based services, and commercial mobile radio services.

"We are particularly interested in identifying a unified approach to Intercarrier Compensation, one that would apply to interconnection arrangements between all types of carriers, interconnecting with the local telephone network, and all types of traffic passing over the local telephone network.

"The existing Intercarrier Compensation rules raise several pressing issues. First, and probably most important, are the opportunities for a regulatory arbitrage created by the existing patchwork of Intercarrier Compensation rules."

Okay, that was 2001.

So here's what the FCC said this spring in launching its current reform effort:

"We face these problems because our Universal Service rules and Intercarrier Compensation system, designed for 20th Century networks and market dynamics, have not been comprehensively reassessed in more than a decade, even though the communications landscape has changed dramatically."

Now we all know or I think most of you know -- except those of you who wandered in, expecting us to be talking about unusual sexual fantasies -- you know what these issues are. So I'm not going to really steal any thunder from today's panel or try and outline them in any depth.

Let me just throw out a few macro level sort of headlines, without getting into any sub, sub, sub levels, or any other levels:

Should the proposed Connect America Fund be kept? Should other funds be kept? At what levels? How should the subsidy distributions be prioritized?

Should reverse auctions be used to distribute subsidies? Should Lifeline subsidies support broadband? Should subsidies support broadband adoption programs? Who should contribute to the subsidy funds?

Of course, those are just a few of the

high-level issues.

Now you might not believe this from watching the news over the last week or two, but I think there are a lot of people that would probably subscribe to the view that resolving or solving and acting on these USF/ICC issues is more difficult than solving the debt ceiling issue, but maybe in our world, just as important.

I'm hopeful that progress is going to be made in a market-oriented way, and in one that promotes competition and also promotes consumer welfare.

Okay. With that, I'm going to introduce the panel. I'm going to introduce them actually in the order that I'd like for them to speak, so they can pay attention to this order.

And I'm going to ask them to speak initially for about seven or eight minutes. That will give us plenty of time for them to interact with each other, which I like for them to do, as they listen to their fellow panelists, and also for questions from the audience.

So as you're listening to the panelists, please be thinking about whether you have questions for the panelists.

Now every one of you should have hopefully picked up a sheet with a biography of the speakers when you came in. If not, they are on our Free State Foundation website, or there are probably still some outside.

So I'm going to dispense with telling you where they went to school and their entire job history, and just give you a couple of quick highlights for each speaker. And they're so distinguished, I know most of you know them, and you probably know their bios.

First off, we're going to hear from James Assey. James is Executive Vice President for the National Cable and Telecommunications Association, NCTA. It's going to be important to keep NCTA and NTCA straight here this morning. James began his tenure with NCTA as Executive Vice President on February 1, 2008.

And as NCTA's second most senior

executive, he is involved in all aspects of NCTA's work, on behalf of the cable industry. And before joining NCTA, he was a long-time senior staff member on the Commerce Committee in the U.S. Senate.

And during the interim between Kyle McSlarrow and Michael Powell, the new chair, James was the Acting CEO. The Association didn't miss a beat, of course.

Okay. So next up will be Mike Romano. And Mike is Senior Vice President at NTCA, National Telecommunications Cooperative Association. He's been in that position since August 2010. And in that capacity, Mike oversees the Association's recently merged Government Affairs, Legal and Industry Divisions, with a particular focus on regulatory and industry efforts.

And I would just add, with respect to Mike, that from my reading of trade press, he seems to be right at the heart of the public policy efforts for his association and other rural interests that are taking place in the current cycle.

So next up, we're going to hear from Tom Tauke.

As all of you know, Tom is Executive Vice President at Verizon. His full title is: Executive Vice President, Public Affairs, Policy and Communications. He's been in that position since May 2004, where he oversees media relations, employee communications, reputation management, philanthropy, corporate responsibility, and external relations.

Tom, what's left for Ivan Seidenberg to do over there at Verizon? That's a full portfolio.

(Laughter.)

MR. MAY: So Tom is obviously the company's senior policy executive and responsible for development of Verizon's public policy positions.

Next we're going to hear from Jerry Ellig. And Jerry is Senior -- I think I've used "Senior" so far in every single one of these bios --

MR. ELLIG: (Off mic.) Good for discounts.

(Laughter.)

MR. MAY: Jerry Ellig is Senior Research Fellow at the Mercatus Center at George Mason University, where Jerry has worked since 1996.

But between August 2001 and August 2003, Dr. Ellig -- so I'm not doing degrees, but that gave away Jerry is a Ph.D. -- served as Deputy Director and Acting Director of the Office of Policy and Planning at the Federal Trade Commission.

Remember that 2008 program I mentioned? Was anyone there? Well, you probably wouldn't remember, that's been a long time ago.

But Jerry was on that program. And he might not have remembered until I told him, but as part of the dialogue, after the introductory remarks, Jerry actually sang, "When the Money Comes Rolling In," from Evita.

I think he was making a point.

But I'm going to force him to do an encore of that, at some time. So you're on notice. If you still think it's relevant.

Now. So last but not least, of course,

we've got Deborah Taylor Tate. As you know, Debi's a former Commissioner at the Federal Communications Commission.

She is now -- which in my book is equally as prestigious and as important -- Distinguished Adjunct Senior Fellow at the Free State Foundation.

MS. TATE: (Off mic.)

MR. MAY: No, you didn't. But you would have sailed through. And we're really pleased with all of her contributions.

And so now for our present purposes, I'm just going to mention that, probably significantly for our purposes here today, Debi served as Chair of both the Federal State Joint Board on Universal Service and the Federal State Joint Board on Jurisdictional Separations.

Anybody know what jurisdictional separations is? That's the docket the Commission opened in 1980. It still has a Docket No., 80-286, which indicates that it was opened in 1980.

I wish they'd change the docket number and throw us off.

(Laughter.)

MR. MAY: But anyway, that's still going on, for those of you interested in that (laughing).

Now. By the way, Debi's probably going to say more than this, but I'll say it too. In addition to stuff like the USF and Intercarrier Compensation Reform, as important as those things are, she has a passion for certain other issues;

One of which is the relationship of children in today's media and how children relate to the media. And she's done a number of things in that area, as you know.

But most recently she teamed up with Geena Davis for this new effort, called Healthy Media, which is important. And she sent me some nice pictures of her and Geena Davis working on that effort.

And I think the Cable Association actually plays a big role.

So all that said, by way of introduction, we're going to move now to the program. And again, I'm going to ask our speakers if they could just limit their remarks probably to seven or eight minutes initially, and then we'll some good back-and-forth.

James?

MR. ASSEY: Thank you, Randy. It's a pleasure to be here, and I'm always amazed whenever we have panels on Universal Service Reform that anyone actually shows up.

So maybe a mistake or just the fact that we had coffee was a big draw.

But I am glad to be here, because I do think we sit at an inflection point of sorts with respect to Universal Service. It's important that we give this issue its due, and that we discuss what the future is going to look like.

Oftentimes, as we sit on these panels, talking about Universal Service Reform, the pendulum swings back and forth from the time is now to the end is near.

I'll start somewhere in the middle, which is: If not now, when?

As all of us in this room know, this has been one of the most intractable problems. Universal Service has been essentially Exhibit A, as a government program in need of reform, for at least the last 20 years.

It's a problem. The current mechanism that we have is not adapted to the modern telecommunications marketplace that we live in. It places a growing burden on the consumers, as Randy has adverted to the fact that the contribution factor has tripled since basically the last decade.

And we increasingly have a program that is designed not to respect fair competition in the marketplace, where people are providing broadband service and voice service, without subsidy.

So I think there's no question that if you had a vote on whether or not the Universal Service program needs to change, you'd be well north of probably 85 percent.

The question is: How do we get from A to B? And there are some very big questions that we ought to spend some serious time talking about.

When I dealt with this issue many moons

ago, I said, "Universal Service is just so easy to get pulled down into the weeds," and once lobbyist turned to me and they said, "Yeah, and even the weeds have weeds."

(Laughter.)

MR. ASSEY: You know, it's true. We can wrap ourselves up on acronyms until we are asphyxiated.

But what's more important, I should give kudos to the Commission and the Broadband Plan for really trying to go back to first principles, and to ask us, as a nation, "What is it that we want this system to accomplish?"

And I think there was an important recognition that the Universal Service system that we grew up with is not reflective of the modern marketplace we live in.

We had in the 20th Century a single provider, incumbent telephone company, that provided a single service, which was local exchange service, over a single technology, which was essentially a twisted copper pair.

Today, we have ILECs, CLECs, cable, wireless, satellite providers. We have multiple services with which to recover costs, voice, video, Internet. And we have multiple technology platforms that will enable us to give consumers the access that reaches the spirit of Universal Service.

So we have to adapt that system that we have to meet the challenges and to respect the benefits of competition that we see in the marketplace, essentially on a daily basis.

So I'm going to try to not tie myself up in Gordian knots here of epic proportions, because I feel like the debate has almost always led us to that.

But to really go back, there are four elements of reform to think about and that will be informative if we are to move forward in achieving a sustainable Universal Service policy.

The first, and one of the more important things that we ought to consider as we move forward, is really getting a control on the size of the high-cost fund.

One of the ways that we can prove we're serious about reform, about re-establishing priorities within the fund, is by capping USF support, so that we can essentially put a tourniquet on what we see as rampant growth in the program.

Secondly, we need to recognize that with respect to voice service, we have done a good job that has largely achieved our objective.

I'm sure there are pockets that people point to, where we still have a little ways to go. But by and large, those people who want voice service today can get voice service.

And as a result, the support that we have dedicated for voice service can now be used for other purposes.

We have record subscribership. We in the cable industry already provide broadband to 93 percent of households, pretty much largely without any subsidy.

And we see situations where, whether or not you're a rural cable customer or you're in downtown D.C., the rates are by and large, uniform.

The key -- and obviously this is an important key -- is that we figure out how to phase in the reductions in a responsible way, and that we try to do it in a way that is sensible, given the current need for us to achieve reform.

The third point that I'd stress is that we need to figure out a new broadband support system that targets funds to where we don't have broadband.

One of the most difficult problems that we see with the current mechanism is that it essentially rewards companies who are essentially in a competitive environment. And we are essentially thwarting the incentives of folks who are risking private capital in the marketplace to provide service.

You can object to that on the basis that the government should not be in the business of picking winners and losers. But there's an even stronger objection that we ought to think about, which is:

We're not spending the monies wisely enough. We need to be more efficient in how we target support. Establishing a support mechanism that really focuses on areas where there is either a monopoly or no provision of service will help us achieve our objectives.

In that respect, the other point is that the National Broadband Plan, did a very good job of explaining the task before us. The last 0.2 percent of the households that we have in the nation are incredibly expensive to reach.

We have to recognize that there are alternatives out there that will provide access through satellite broadband, and the growth of new technologies that we should not discount, so that we can achieve what is achievable in the near term of extending broadband to the roughly seven million households that don't have it today.

And lastly, we have to get our hands around reforming Intercarrier Compensation. We have a system today, where the weeds have weeds, and they're not rationally related to anything that people would point to as being objectively fair.

So we have to get our hands around that.

We have to figure out a system that, at least in the short term, will provide an effective mechanism that will compensate those companies that are not going to be able to recover their costs purely through Universal Service support mechanisms, but are going to be able to demonstrate real need for additional support in the short term.

These are all problems that we're going to face in between point A and point B. But as I said at the start, if not now, when?

MR. MAY: James, thank you very much.

I don't know that all of you can hear it. There's a demonstration outside, so I'm going to ask the speakers to make sure they speak up. I think they're demonstrating, from what I can gather, demanding USF reform.

(Laughter.)

MR. MAY: But I'm not sure. So let's make sure you speak up.

So next, Mike. You're up next.

MR. ROMANO: Great. Thank you, Randy. I appreciate that chance to be here as well. I listened to James talk about weeds on weeds, and for someone who lives in the weeds, far too often, it feels more like thorns sometimes.

(Laughter.)

MR. ROMANO: So I was glad to be able to pull myself away to be here. It's a much more pleasant experience than some of the debates.

I appreciated what James had to say about the four elements of an approach. But I think it's also helpful to step back and do a little bit of a fact check about what guides the approach that we need to take to reform.

We hear a lot about rampant growth, we hear a lot about waste, fraud, and abuse. When one puts a spotlight on the facts, neither of those is true.

First, let's take a look at the success of this program. I understand that there are problems in the program. And I'll talk about a few that actually are driving our members, the rural providers, to seek change, as well, and to want change this year.

But it's a program that, at least as to the rural providers, has worked very well. It's a system of which the U.S. government should be proud.

You've got a program that, from our membership's draw, has only grown by about three percent per year, on average, over the last six years.

And at the same time, you've gotten broadband penetration in these most rural, hard-to-serve areas up from under about 75, 78 percent, up to over 92, 93 percent.

So when we say that the program isn't working, there are elements of it that are broken, but let's not pretend that the entire system is broken.

Let's not fall back into that rhetoric. Let's figure out what is broken within the system, and take targeted, surgical measures to figure out what to fix within that.

Broadband is far too important in rural areas to take overly visionary and overly experimental approaches to it.

Instead, let's take a look at the facts, and then figure out, based upon those facts, what steps do we need to take to address the problems that are found?

The other thing worth noting here is that we talk about rampant growth in the fund.

As I just mentioned, the rural draw on Universal Service support has been growing at about three percent per year. That's not rampant growth. That's maybe a little bit ahead of inflation right now. It's probably behind inflation, depending on where it goes in the future.

But the fact is that there is not rampant growth in the high-cost fund. There may be rampant growth in the Universal Service Fund, as a whole, but the high-cost fund is only a portion of that.

Then, if you unpack that further, within the high-cost fund, the growth has not come from rural carriers' draws on Universal Service.

It has come, by and large, from growth in identical support, and from growth in Lifeline Link-Up.

And again, look at it from the perspective of "What problems do I need to solve?" Let's start there. Let's figure out how to address those issues. And then working backward from that, we can come up with common sense solutions for what reform should look like.

So then you get into, "Well, how do we do this? What are the approaches?" James mentioned several. And I think we do have some agreement on some of those.

In terms of controlling the size of the fund, again if you look at it from the perspective of what's going on in the high-cost fund, it's a solution in search of a problem.

We also run into the issue of: How do you predict what that cap should look like? Was the 2010 funding level, for example, for Universal Service, the right answer?

Who determined that that's sufficient, predictable, and specific support, under the statute?

We have a statute that's a backdrop here.

We could come up with what we think is the most desirable policy in the world. But at the end of the day, we have to look back to a statute that tells us what we need to do.

And a cap, unless someone comes up with an evidentiary basis for it, isn't going to be specific, predictable, or sufficient.

That being said, the Commission can take steps to constrain growth in the fund, and should do that.

We think there are ways that the Commission can do this to make sure that it addresses something called, for example, the race to the top.

The race to the top is a dynamic, whereby carriers may be encouraged to invest in networks aggressively. It doesn't always happen, but it may have incentive in the system.

The Commission should take a step to address that. It actually hurts our members, because they start to lose support, as others invest over them.

This is something that would help to constrain growth in the fund, and solve one of the biggest problems out there.

So we look at it and say:

"Let's be targeted, let's not engage in predictive judgments, let's not pretend we know what the world is going to look like 10 or 15 years from now, and define an end game, and pretend that that's going to be right."

When the Commission issued that 2001 Notice of Proposed Rulemaking on Intercarrier Compensation Reform, the word "broadband" was mentioned once, substantively, in passing.

We didn't know ten years ago what Intercarrier Compensation Reform needs might be. We didn't know what factors might drive it. To pretend that we're going to know what it's going to look like in 10 or 15 years from now is both overly ambitious and dangerous.

Another point that James mentioned is phasing in the reforms in a responsible way. Couldn't agree more.

Again, I hark back to doing it surgically. and also to making sure that we've got these reforms in place that are not death spirals or flash cuts, but are more along the lines of sensible transitions to put us on the path to a desired end game, but not to flash-cut to that end game.

At the end of the day, the legacy that the Commission should be looking for in terms of a reform package here is sustainability.

Everybody talks about "Let's try to get broadband into unserved areas." It will do no one any good in a 21st-Century economy to get broadband to an unserved area if there's nothing to help it stay there.

If there's no business plan to keep it there, it will simply die off over time, under its own weight.

We have to look at this as a two-pronged approach. We have to be looking at how to get broadband where it's needed, and we have to be looking at how to keep broadband where a market won't support it on its own.

So with that, I'll stop there, and we can come back to some of those points during the questions. But thank you, Randy.

MR. MAY: Good. Thank you, Mike. I know one thing that Mike said that I made a note of. He said the high-cost fund cap is "a solution in search of a problem."

I think that that's right. So we'll see whether Tom Tauke and others agree with that, as we keep sharpening the focus here back and forth.

Tom?

MR. TAUKE: Good morning. Thank you, Randy, for the invitation and the opportunity to be here.

I'm going to be somewhat less diplomatic. I guess that comes with old age. You can be blunter in your assessment of what's going on.

If I had been here a dozen years ago, representing at that time Bell Atlantic, I would have considered this a really vital issue for our company because we were going through a really tough transition from a legacy-voice business to a new world. Over the last dozen years, we've made that transition.

So we've invested heavily in wireless, which is now the growth engine of the company. We've invested in video, which is the growth engine on the wire line side of the business.

We've divested a lot of rural lines, and transferred those to other companies. And so as a result, we have largely made the transition.

We don't have a whole lot of revenue at stake any more in the access business, and we've never relied much on Universal Service support.

So this no longer, frankly, is a big deal for Verizon. But it is a big deal for the industry. And since we're part of the industry, it's a significant thing for us, and that's why it's still an important issue.

But in terms of our company standing alone, or AT&T, if I could speak for Bob here, we've been through the transition.

Now the transition is hitting other companies, those serving less-urban parts of the country. And they do not have, many of them, the advantage of also being in the wireless business.

Some of them have not gone into the video business. They are still largely voice and broadband companies. And this transition is very tough for them.

Let's look at what's happening to the three legs of the financial stool for these companies.

Some are midsize, some are small. They essentially have three major sources of revenue:

What they charge their consumers, first;

Second, what they get from access charges that other carries pay them;

And third, Universal Service support.

Let me address the second leg of that stool, access charges, which for some of these companies is in excess of a third of their revenue.

From 2006 to 2007, the decline in access minutes was 8 percent. From 2007 to 2008, the decline in access minutes was 9.4 percent. From 2008 to 2009, the decline in minutes was 11.9

percent. And from 2009 into 2010, the decline in minutes was 13.8 percent.

Do you sense a pattern here? The access minutes are essentially going away.

For many of the companies who are not rate-of-return companies, the revenue is going away.

Now for some of the rate-of-return companies, they are maintaining the revenue. How do they do that? They raise the access rates.

So the average NECA switched access minute has almost doubled between 2006 and 2011. So in 2006, it was 1.9 cents per minute. Now it's at 3.6 cents per minute.

This year, NECA's average rate is going up 17.8 percent per minute in one year, 17.8 percent.

So what do we have? Minutes are down for some companies, rates are up. And third, technology is there to allow bypass.

This is not a good scenario for those who are trying to make the transition.

So when I look at this issue now, ten years later or 11 years later from where I started, how do I look at this issue?

First, we're trying to figure out a way to manage the transition to the broadband world for those who have not yet made that transition; that is, fully made that transition.

And we're trying to do it in a way that provides stability to those carriers who have relied on the access support and Universal Service support system.

This is all about trying to preserve the stability of those entities.

Now frankly, I'll just say, as an aside, it's pretty astonishing sometimes that the ones who want to change least are those who are need it the most.

But in any event, we have to provide stability for those companies, because all of us need those wireline carriers, whether we love them or not -- and I love them --

(Laughter.)

MR. TAUKE: But we need them to be stable and to be able to grow and prosper. Otherwise, we have significant problems in our communications infrastructure in the country.

So the first objective is to manage this transition in a way which allows those carriers to maintain financial stability.

The second objective is to support broadband deployment, rather than hold down voice rates. The whole system in the past was holding down the amount you paid for voice. And now we don't need to do that anymore.

People can sign up for MagicJack or Skype, or a variety of other things, and get really cheap voice service. They can get really cheap voice service via wireless.

And there are lots of alternatives.

Holding down voice rates is not a national priority any more.

The priority is to get deployment of broadband to everybody in the country, so they can be part of the new world of communications.

So those are the two objectives: Stability of the remaining companies, and deployment of broadband.

As you know, there has been a lot of effort made to try to develop some kind of industry position, consensus, whatever, and that work is ongoing.

There is a strong hope and anticipation that within the next couple of weeks, a proposal will be filed with the FCC. It sure won't have support from everybody in the industry is my guess; but it will be a solid effort to try to address these two major issues, and to do it in a way that is responsible.

So the first part of that plan, or at least the first part in my mind, is that we move to a very low Intercarrier Compensation rate, moving to adopt that triple-zero compensation rate for the exchange of traffic at the end of a five-year period.

We need immediate FCC action on a number of other things, relating to VoIP compensation, traffic pumping, phantom traffic, and the like.

Because that is obviously a significant

potential hit to one leg of the stool for some of the carriers, we provide a mechanism to replace some of that access revenue with Universal Service support.

The second big piece of it is to move from the voice subsidy to promoting the deployment of broadband. And so as a result, the money flows to the areas where broadband has not been deployed.

We have done the mapping of the nation. We know where the targets are. And we have focused the dollars on getting the money to the places where broadband has not yet deployed in order to give additional incentive for that deployment.

That is the essence of the plan. There are lot of other details, which people may want to ask about, and which I may or may not want to disclose at this juncture.

(Laughter.)

MR. TAUKE: But in any event, the bottom line is: The effort is underway to try to get something done.

And I would just close with the same

message the first two speakers have had, in slightly different forms.

This is the time for dealing with this issue. It isn't going to get better if we put it off. It may be, however, that it will be less meaningful to many players in the system the longer we put it off, and we'll have to do more dramatic things to save the infrastructure in some parts of the country.

MR. MAY: Tom, thank you very much.

If you'll allow me to say this, with due respect to every one of our other speakers, all other speakers everywhere, I'm really pleased that Tom is here, because I think you can tell, with his long experience in the industry and the expertise he's developed, and also I think the vision that he has, and his goodwill, that if there's going to be a solution to this thing in the near term that will move forward, I'm sure Tom will be instrumental in that.

So I appreciate especially your being here, Tom.

Jerry, you're up next. And do not sing those bars from Evita now. That's later.

MR. ELLIG: Darn.

Heck Randy, it might have been at the event several years ago, or it might have been someplace else, where somebody led off a talk on Universal Service by saying:

"Well, you know, pretty much everything that could be said about Universal Service has been said, but not everybody's had a chance to say it yet."

And that's why we still have conferences and panels.

And so I was beating myself up yesterday, trying to figure out, "Is there anything I could conceivably talk about that hasn't been brought up at some point, and wouldn't likely be brought up by somebody on the panel?"

And I finally, after doing that yesterday, I realized this morning what it is.

I want to talk about something that I don't think I've ever heard very explicitly discussed in Universal Service debates, which is:

Greed.

And I'm going to say something that you're going to be surprised to hear from an economist: Greed is bad.

(Laughter.)

MR. ELLIG: Okay, now anybody from the media, there's your man bites dog sound bite. Economist says, "Greed is bad."

How could this possibly be? Because we all "know" that Adam Smith said "Greed is good." Well, actually, he never used those words.

And if you actually go back and read the Wealth of Nations, you find that what Adam Smith said is: Under a particular set of rules of the game, which he referred to as "the system of natural liberty," people's propensity to want to better themselves can be turned into a propensity to also do things that are in the general public interest.

So even if you want to characterize that as saying "Greed is good," Adam Smith was not saying that greed is good in all circumstances, it is only good under a certain set of rules of the game, under a certain set of political principles.

When subsidies are on the table, greed is bad.

Let me give you three examples of that from Universal Service. I don't have quite the history. I'm sorry, I missed the grand opening of Docket 80-286.

(Laughter.)

MR. ELLIG: I didn't get involved in this until later, only in time for the grand re-opening.

But in any case, I haven't been doing this as long as some people. I mean, there's people like Bob Crandall of the Brookings Institution, who has been studying Universal Service since I was in diapers, almost literally.

So I can't claim to have quite the perspective that a lot of folks have. But I can give three examples of this kind of thing:

One was on phone service.

Oh, but let me do one other thing. Let me define what I would say is "greed" in the Universal

Service context. It's going beyond what's basic or essential, for whenever reasons, whether it's self-interest, whether it's ideological reasons, whether it's somebody's political philosophy.

Greed, in the Universal Service context, is going beyond what's basic or essential.

Probably, with a good enough lawyer, you could find that's with the Telecom access as well. But I'm not going to go down that road.

But three examples:

One is on voice service. The Telecom Act and the FCC regulations implementing it started with a very sound idea, which is that technology has changed, and that means that in some areas where traditionally there had to be subsidized monopolies, competition may be possible now, because we have lower-cost technologies.

And in other places, where traditionally we had only one firm, maybe the market can still only support one carrier, but there might be a way to do it at lower cost.

So somehow, we need to have some form of competition to figure out: Can the incumbent still do it at lowest cost? Or can somebody new do it at lowest cost?

But we went from that sensible proposition to a system in which somehow folks in rural areas virtually got guaranteed the right to both a basic landline and mobile service.

And this is not necessarily the FCC's fault, because I know, if I recall correctly -- you can tell me if I'm wrong -- there were cases where the FCC or the Joint Board on Universal Service said:

"You know, maybe we should tell people not to be so greedy, and say, 'We're going to limit this to one line per household.'"

And whenever that was even suggested, certain members of Congress would go ballistic. So I'm not just blaming the FCC here.

But somehow we went from the idea that we ought to have some kind of competition to figure out how to do this at the lowest cost to a *non-sequitur* that "Well, now everybody's got a right to a subsidized mobile telephone line as well."

There's something that's just not right there.

Second example, more recent, is the National Broadband Plan's definition of broadband as four-megabyte download, one-megabyte upload.

I think this far overreaches what's in the Telecom Act, and Jerry Brito and I filed comments on this.

But let me suggest a few things about this that folks may not have realized or thought of, when you've heard this figure quoted.

If four megabytes download, one megabyte upload is the goal, the Broadband Plan calculates that about seven million households, or about five percent of the population, don't have access to broadband.

This calculation ignores the availability of satellite, so satellite doesn't count as broadband, for the purpose of figuring out that seven million households don't have access.

The four-megabyte download, one-megabyte upload pretty much rules out third-generation wireless from counting as broadband.

So folks who have access to broadband through 3G wireless, but not wireline, are counted as not having access to broadband.

Now, you could have a debate over what the appropriate speed is. My only point is that this particular definition does some things that substantially increases the estimated cost of bringing broadband to rural areas by saying it must be four-megabyte download, one-megabyte upload.

I was at a session a couple of weeks ago, where Billy Jack Gregg, the long-time consumer advocate from West Virginia, said, "Heck, I've been to places where 768 kilobytes would be like dying and going to heaven to the folks who live there."

So this may be overreaching a little bit.

It raises the cost of the subsidies. And it also inflates the percentage of the population that is perceived as not having access to broadband.

I took a look at some FCC statistics this past spring that suggest that about one percent of the population lacks access to broadband that's at least three megabytes download, two hundred kilobytes upload.

So if you use that as your definition, the size of the problem falls to one-fifth the size calculated in the National Broadband Plan.

Again, these are all kind of round numbers.

I took a shot at estimating. If you assume that about one percent of the population still needs subsidized broadband, and you assume that those households ought to pay about the average that people pay for broadband, and the subsidy could chip in the rest, it would cost around $635 million a year to just buy them all satellite subscriptions.

That's a lot smaller than the figure in the National Broadband Plan. I'm not saying that's necessarily the right figure. I'm just tossing that out to be a little provocative and get folks thinking that perhaps four megabytes download, one megabyte upload is a tad greedy.

The third manifestation of this is not a particular policy, but the long-time refusal, until the past few years, of regulators and some who comment in the regulatory process. It was a long-time refusal to actually measure and assess what the program has accomplished.

The Government Accounting Office came out with a report several years ago that said ten years after the FCC created the high-cost program, the FCC still doesn't have performance measures for it.

Now to its credit, the FCC initiated a rulemaking on performance measures. It asked about performance measurement in the current NPRM. So I think there's a lot of progress there.

Again, I'm not just trying to beat up the FCC.

But I think it's interesting that even a couple of years ago, in the FCC proceeding on performance measurement for Universal Service, there were some commenters arguing that the FCC does not need to know what the program accomplished.

Being in an educational institution, I was really ashamed to see this. There were even some representatives of the educational community, who said -- and I realize this is about the high-cost program -- but there were some representatives of the educational community who argued in comments to the FCC that the FCC does not need to know whether the Schools and Libraries Program has done anything to improve the quality of education. Folks argued this with a straight face.

That is just amazing to me. I was ashamed to read other folks who consider themselves educators saying that we should make policy based on ignorance of what the actual effects of the policy are.

MR. MAY: And by the way, this is not only about the high-cost fund, although that's a big issue, so feel free to, any of you, talk about any parts of the USF program.

Go ahead. Excuse me.

MR. ELLIG: Oh, okay. Cool. No problem, then.

So I'm glad to see that the FCC is trying to remedy this.

At this point, on the issue of doing retrospective evaluation of these programs, what we need to look out for is that we measure the results of the programs, by comparing what happens to a counterfactual of what would have happened in the absence of the program, not just say:

"Well, broadband subscribership is going up, so we must be doing a great job."

Maybe it would have gone up by any amount for some other reason anyway.

That's the kind of thing I think we need to watch out for in the performance measurement component of the reforms. It's what people who are trained in analysis do all the time. But this isn't necessarily easy.

So will the FCC bite the reform bullet? Whether the FCC will, and the nature of the reforms adopted, are going to depend on whether the Commission is going to take a strong stand for or against greed.

MR. MAY: Okay. Thank you, Jerry.

And then, finally, to wrap up the initial presentations, we have Debi Tate. And remember, as you know, she is a former FCC Commissioner, and Head of the Joint Board and FSF Adjunct Senior Fellow.

I have this thing in my mind, this dream that maybe at this program here, there's going to be some agreement reached that's free-market-oriented, economically sound, and pro-competitive.

So Ted, you'll be writing this headline, "Free State Foundation Seminar Agreement Reached, Debt Ceiling Talks Surpassed."

You'll knock them off the front page.

So with that, Debi?

MS. TATE: While Tom was talking, I was actually thinking maybe we should just lock the doors down, and I should get out of the way, and we should get Bob up here.

And Bob, I want to give you equal time to say that you love Mike's members too.

(Laughter.)

MS. TATE: I know. I know. So I wanted to make sure we got that on the record.

(Laughter.)

MS. TATE: But seriously, there is something to be said once you've dealt with these issues for this long.

This is an ecosystem. And I felt like I begged, cajoled, not only my fellow Commissioners, but most everybody in this room, to try to come to an agreement.

It's been interesting to sit here and think about where we were.

And I have some of my notes with me that I thought you all would just find very interesting. When we were four of us, our happy, bipartisan FCC, we had actually gotten to some agreements, I thought, at that point. Agreements where the Commissioners would still be open to total overhauls of ICC and USF in the near term. I felt like I'd really made some progress when Commissioner Copps actually said that he hoped in the last year to make even more progress than we did. So this is talking about at that point in time in '08.

And then, I had made a few notes that we had consensus on phantom traffic, traffic pumping, the idea of some kind of reserve auction, and pilot project. And then I made a little note that Commissioner Copps -- of course, I'm not quoting him, I'm just saying these are my notes -- would want it limited in some way;

And that Lifeline and Link-Up would be eligibility-based, which, of course, it is, and based on need, and precisely what was the original USF's purpose;

That the identical support rule would be eliminated; and there would be a CETC cap -- so this is before that had even happened, but no overall cap on the fund.

I talked some about what Commissioner McDowell would have liked to address regarding audits and safeguards; much of that has been implemented, as you all know, for the overall USF;

And there are many more audits being done now with regard to Lifeline and Link-Up, which I think is wonderful that they've moved in that way;

And that we would move toward a unified rate about intercarrier comps.

So it was pretty interesting to think about that you had a bipartisan group of people who had come to that much agreement.

Now not everybody at this table would have probably been in agreement with that. But we at least moved the ball, I thought, pretty far forward.

And yet remarkably, how in the world could it be 2011, and I feel like, wow, we're back even farther than that.

I was very interested, and like Randy, I looked at some of what people say.

I learned that sometimes you learn what a chairman wants to do in a speech or the *New York Times*, or by a statement.

(Laughter.)

MS. TATE: And so taking that lesson, I then applied it to the new chairman, where he said, "At the same time USF and ICC are riddled with inefficient, outdated rules and perverse incentives;

"For example, according to one study, a hundred million flow to phone companies each year to serve areas where competing providers without a dollar of government support offer voice to all households. In many places, USF funds four or more phone companies."

I remember funding 14 to serve the same area.

"And at least hundreds of companies control their own funding spigot with guaranteed double-digit returns. Does that make sense?"

Then he gives an example:

"On the ICC side, it can cost ten times more to call a friend a few towns over than to call someone on the other side of the world."

So I think that this chairman was sending out some signals that everybody in this room may want to quote and use; or at least realize that that's where we are.

He said that we were "wasting taxpayer dollars every year, growing without constraint," and that that's "unacceptable.

So I think that he has laid down the gauntlet about that.

One of the things that you all know is that I started out as a state commissioner. And actually I will be joining my colleagues, along with some of you all, next week in LA.

And so one of the things that I wanted to talk just a moment about, is Lifeline and Link-Up. Because I think it's kind of interesting, as a fiscal conservative, and as you all know, a strong Republican, that this would be something that is very near and dear to my heart.

But when you think about a program like Lifeline and Link-Up, it does many of the things that we would hope that a government program might do.

There are really strict eligibility requirements, the subsidy actually goes to a consumer, and the consumer has a choice about what kind of service to select.

Hopefully, one day very soon, we might also be able to do exactly what all of you were talking about, about wireless, and getting wireless broadband, for instance.

So I'm a big fan of Lifeline and Link-Up. I recognize that it is, in some ways, a way to have a much cheaper and more efficient way to bridge what is becoming the digital divide.

The broadband gap between homes with incomes over $100,000 and below $25,000 is about 34 points. The educational gap between college degrees and no high school degree is 29 points.

The gap between Caucasians and persons of color is in the double digits.

So it's interesting to Jerry's definitions, that while we watch democracy growing and tyranny being toppled in many other countries through the use of wireless devices -- whether it's Egypt or other countries that have unrest right now, or we see African villages, where they're connecting for the first time, through wireless devices, or Chinese farmers checking market prices -- our own citizens, in some ways, can't even take advantage of this unbelievable technology that the world is now using to compete against us.

Try to leave your cell phone at home for a day and see what your life is like. I mean, I accidentally did it --

(Laughter.)

MS. TATE: Right now, this world is so digitally connected, whether it's e-commerce or e-government. In many states you can't even get a driver's license without filling out the online application;

And as we all know, if your kids are out there, looking for jobs, like mine are, the only way to get a job now is to apply online.

So it's all services. The only way basically that I talk to my doctor right now is online, through health information systems.

So there's no doubt. We all agree. The great news is everybody agrees that that USF fund needs reform, and that every segment of it needs reform.

And the other thing that we need to be doing, and certainly Randy touched on this, is that we need to be funding the most efficient technologies that are available.

So whether it's wireless or it's prepaid, or wireless prepaid, or wireless prepaid broadband, 25 percent of us now live in a wireless-only world; and that is only growing, as our kids move into this world.

All of you with kids know that they're not connected by a landline any more.

Not that we don't need landlines, but we also have to be vigilant, obviously. And I think the Chairman has said this. I certainly think that Rob, Commissioner McDowell, is very interested in ensuring that fraud, waste, and abuse are reduced to an absolute minimum.

As I said, regular audits are already being performed. I think they need to be.

There's always been this penalty of perjury, that, interestingly, nobody has ever gone after, either at the state level or at the federal level.

And then, obviously, all of these companies are subject to fines by the FCC or federal other oversight, as well as oversight by state AGs and appropriate oversight by other state entities.

There is also obviously strong front end oversight of the eligibility, which I believe is going to probably be even stronger through some of the industries coming together, the Lifeline Link-Up providers, *et al*.

So here we are at a time when unemployment in many states is far above the national average of 9.2. Most jobs require online applications.

And many people basically are still seeing the really tough signs of the economic recession. Washington in many ways is insulated and is booming. Even your real estate market really hasn't taken the hit.

But if you all go out to towns and even cities across America, you'll see that Americans are really hurting.

So that's why I just believe that Lifeline and Link-Up is one of those important government subsidies that needs to be continued, certainly improved, and certainly reformed.

But it is emphatically the way that we can provide people the link to our nation's communications systems, to ensure that nobody is left behind;

And that, indeed, as the Congress has intended since the 1934 Act, all Americans should have access to our communications, and since the '94 Act, to advance telecommunications services.

I wanted to say just a couple of other things. Mike, I think it was your three percent that you talked about. And so maybe you can talk a little bit more about the three percent growth.

I didn't want to ask Randy to pay the gigantic fee to put up one slide. But this is the slide that I used to use all the time, and this is the growth in the high-cost fund.

(Laughter.)

MS. TATE: So I'm dating myself, but at that point in time those statistics were 100 percent growth year after every year.

And so that has been ingrained in my brain for a long time.

In one other statement, you used the word "experimental." And in some ways, that is where the FCC should be heading. Because it's going to take some experimentation, some pilot projects, and some new ideas about how we do reach those last few million people, whether they're Jerry's numbers or they're the numbers that have been quoted by the FCC.

So, thanks, Randy.

MR. MAY: Okay. Debi, thank you very much.

Now, for the reporters here and our transcriber, I want to just point out, at the beginning of Commissioner Tate's remarks, she said "ecosystem," not "egosystem," when she was talking about this issue that we're dealing with today.

And also thanks for bringing up the Lifeline thing. I don't want to go on about it and you can go back and see what I've written for many, many years. I've always been supportive of the Lifeline Link-Up programs, of course, properly administered. And they ought to be that.

But it's always seemed to me that that type of safety net program made sense. And if done properly and with adequate support, in my view, that's where a focus ought to be, that makes it easier than to deal with really reducing the subsidy support that is much less targeted and much more indiscriminate.

And so there's a Link-Up between Lifeline and these other things, in my mind. For many years I've said that, because I see a role for Universal Service subsidies.

But I really see a focus that, to an important extent, ought to be on the Lifeline Program.

Now the panelists are going to be interacting. I know Debi has already thrown out a bit of a challenge here.

Just for the moment, while I'm thinking of it, I want to have you join me in thanking Kathee Baker, our Events Coordinator, who does a lot of the arrangements for these programs.

So if you'll do that, I'd appreciate it.

(Applause.)

MR. MAY: Kathee's over there.

And also at this time, I want to

acknowledge Seth Cooper over there. Seth, as many of you know, is a research fellow at the Free State Foundation, and Seth has been doing an awful lot of good work here for the past many months, which contribute greatly to the Free State Foundation's success. So Seth, we thank you for that, as well.

(Applause.)

MR. MAY: Okay. Now, with that, let's have some interaction among the panelists, and then I'm going to turn to the audience for questions.

So Mike, we'll start off with you. Because I did have in mind that in the past I had done graphs or tables, things like Commissioner Tate held up.

I was never good at math, though. That was not one of my subjects. But it does seem to me like the high-cost fund was growing more than three percent a year.

So just explain what you meant by that three percent number?

MR. ROMANO: Sure. So if you look at it from, say 2005 onward, or the earlier part of that decade, 2003, 2004, 2005, you had a number of plans coming into effect. You had CALLS and MAG and other things.

That led to some access or structuring that may have led to the growth that you're talking about or thinking of in years past, in the earlier part of the decade.

But since that access or structuring in 2005/2006, or so, the high-cost fund has been relatively stable.

If you look at the high-cost fund portion of the Universal Service Fund, there's actually a chart in the FCC's Notice of Proposed Rulemaking. I've got this committed to memory and I think it's Figure 7.

But there's a chart that shows from 2006 to 2010 the relative growth in the high-cost fund among different types of carriers: CETCs, non-rural price caps, and then rate-of-return carriers.

And that showed overall a relatively stable high-cost fund during that last five or six year period.

MR. MAY: Okay. Tom?

MR. TAUKE: I think that that's for wireline carriers. The stability. We've had great growth in the amount of money going to wireless carriers from the high-cost fund.

Now this is really an abuse of the system, I think. Debi recalled a case where there were 14 carriers qualifying to receive Universal Service support for a given geographic area.

And that's because probably a dozen of those were wireless carriers. The wireless carriers then received the support, based on the cost of providing wireline service in the area.

Of course, when you provide wireline service, you usually have one phone in the household. With wireless service, you might have three or four or five phones in the household, and you can get that level of support for each of those devices.

Now as you know, the purpose of Universal Service support was to provide a subsidy to high-cost areas, so that customers didn't have to pay huge amounts for voice service.

But because wireless is basically priced on a nationwide basis, driven by the nationwide carriers, you don't have these high-cost areas for voice with wireless service.

So now it's a distortion of the purpose of the fund. It's obviously a gaming of the system. It doesn't make any sense from an economic perspective.

But you saw the growth skyrocket in the last five years for wireless services.

MR. MAY: Okay. Jerry?

MR. ELLIG: Yeah.

Let me just follow up on that, with a question.

We have wireless service, a basic wireless plan available for $29.95 a month. Or, we have satellite phone service. I went and looked online yesterday and found out if you take the cost of a satellite phone, amortize it over 12 months, and add the monthly fee, you can get a satellite phone for a cost of about 60 bucks a month, dividing the cost of the equipment by 12 and then throwing the monthly fee in.

So, the question that we ought to ask and answer is: Why would we ever pay a per-line subsidy greater than about 30 bucks in an area where wireless is available, or greater than 60 bucks in an area where only satellite is available?

There may be reasons. Sometimes, because there are economies to scale, when you have companies that aren't receiving support for all lines, and they're just receiving support for lines in some areas.

And so I grant that there are some indivisibilities, and in some cases there may be good reasons.

But I think it's a question worth asking: If we can simply buy somebody the service for 30 bucks or 60 bucks a month, why are we ever paying more than that in a subsidy?

MR. MAY: Let's go to Mike, and then Tom after that.

MR. ROMANO: Yeah. Just to be clear, I

couldn't agree with you more, Tom, on the point about where the growth has come from.

That was what I actually mentioned when I started with that three percent figure. The rampant growth that was cited really has come from the identical support and multiple carriers receiving support in a single area. Also, Lifeline Link-Up has led to an increase over the last several years.

And perhaps appropriately so. But that's also a source of where the increase has come from.

I think we agree. So then, it comes back to: What problem am I trying to solve?

Am I trying to solve: Where is the growth coming from and how do I control it? If I am, let's isolate where that growth is, *i.e.*, identical support, for example. Let's start there.

Then beyond that, say, "Okay, I've taken care of that issue. Now let's target to what the next set of questions is."

And that gets into Jerry's point about what an efficient support vehicle is. Does it make sense to be supporting so much per line, or whatever it is?

There is one comment I'll make on that. And this has to do with a debate that comes up often about wireless and wires:

Wireless needs wires. They're complementary services. The FCC has said as much. There is a large nationwide provider of cell phone service out there today, who is putting out a huge marketing campaign, giving away femtocell technology devices to customers.

The reason they're doing that, I assume, is because it's cheaper for them to make sure that they can hop the data off on to the WiFi connection to the house, that's a landline connection, and have it not go over their mobile data network.

At the end of the day, it's far cheaper on a per-negative basis to carry traffic over the wireline network than over the wireless network because of some of the spectrum concerns.

So it's not as simple to say, "Well, everybody should just get wireless." The two are complementary services.

You need greater and greater back-haul to support a wireless network and you're not going to have that out in rural America, if the only place a wireline network serves is a cell tower.

MR. MAY: Okay.

Well, let's have Tom and then James, after that.

This is good. Let's keep trying to hone in on where the biggest problems really are in dollars and efficiency and so forth, and then what the solutions are.

That will be most useful.

Tom?

MR. TAUKE: Jerry raised the question: Why pay for wireline networks in an age, as Debi noted, when so many people are moving to wireless?

It is one of the fundamental questions. Obviously, if you accepted my framework about why we're doing this, one of the objectives is to manage the transition for the wireline carrier, so they can go from the old world to the new world and do so while being financially stable.

And so then the question becomes, "What's the value of having the wireline carriers?" And Mike provided part of the answer in that: We think you need wireline carriers in order to be able to have good wireless service.

Wireless goes from the phone to the tower, but once it hits the tower, after that, it's carried by wireline.

So you need a decent wireline infrastructure. Do you need the last mile wireline infrastructure? Is that the next question?

As you look to the future, I believe most of us, on both sides of the business, conclude that:

Yes, consumers will use wireline infrastructure as more and more capacity is demanded and for very high capacity things, including a lot of video, HD, 3D, and so on. They're going to be using a wireline infrastructure as well for major files, teleconferencing, health care monitoring. For a lot of those things the wireline infrastructure is going to be more robust, more reliable, and more secure, potentially.

Wireless is making progress in all these areas. But we still think there's a role for wireline. That's why you want to manage this transition for those who are providing wireline service, and do it in a rational way.

There was a second point that I was going to make, and I forgot it. So I'll pass it on.

MR. MAY: We'll come back to you. Just think about it. And, in the meantime, James?

MR. ASSEY: Tom touched on one of the points that I wanted to raise.

One of the things we have to be careful to do is not assume what is or what is not a complementary service.

Debi adverted to the fact that 25 percent of people use wireless as their primary phone line. And I'm sure, as Tom just mentioned, in the future, you'll see Verizon ads touting their 4G services as an alternative broadband.

And that's all good, that's all fair competition. So we shouldn't necessarily assume a world that technology is just going to blow away, if it hasn't blown away already.

Secondly, Michael and Tom both raise good points. We have to be cognizant of the impact of the changes that we're making on companies.

But it's also important that we remember that Universal Service is a system that we've put together to serve consumers, not companies.

And while we are cognizant of that, we also need to incent companies that have not made the transition to do so in a more efficient way.

One of the things Tom just noted is that perhaps the exorbitant last-mile wireline cost can be met with a wireless technology.

These are tradeoffs that we're going to have to make. And I'm not here to say one way is better or one way is worse.

But we need to be cognizant of the fact that what we're trying to provide consumers with is access to a capability that will allow them to become participants in the Digital Age.

And that's really one of the most important things.

I'll make a last point. This goes to people like me expressing the need for a cap to put a tourniquet on the size of the fund, so that we can really get serious about reform.

I don't think I'd have much debate with any of the panelists over the notion that Universal Service generally should not be supporting multiple wireless networks.

In fact, the facts are the facts. There has been a substantial growth in the fund. But there's a disconnect between saying that the growth in the fund has only been two percent, and yet a cap would be cataclysmic in its import.

A cap is important because it will incent companies to become more efficient, and to do so within a construct that is going to lead to a policy result that is more sensible and sound, rather than something that is designed to blow up the fund.

MR. MAY: Okay. I'm going to come in here and just throw this out.

During Jerry's presentation, he talked about the Commission's articulation of a standard for broadband. It was, four megabytes download to one megabyte upload, four to one.

I know some people may think that's a good thing. I worry a lot about that myself, because often the marketplace really determines what users need.

And I worry about that being ratcheted up continually and being a real driver of the fund, apart from other things we've talked about.

But on the other hand, I understand if you have a program and you're setting a standard, then some people say that you’ve got to have a floor.

So maybe some of you can react to that, as well. Because I worry about that ratcheting-up effect.

So we're going to go to Debi and then Tom, and then we'll come back to James here.

MS. TATE: I wanted to just make one point. USAC found that only 33 percent of what would be eligible low-income households even participate. So why would you cap a fund when it's not even being totally utilized?

Usually you cap a fund when it is the hockey-stick --

MR. MAY: You're talking about the Lifeline fund --

MS. TATE: Right, Lifeline Link-Up.

MR. MAY: Yeah.

MS. TATE: I just wanted to raise that because we were talking about Lifeline and Link-Up growing.

When Congress set up Lifeline and Link-Up what I thought was so incredible is that it was to be based on eligibility.

As more people are out of work, obviously there are more low-income households in America. And it's a fund that they saw would go up and down as the need was there.

What we hope is that as more people get broadband, and as people go back to work, and as there are jobs that become available, then there will be fewer low-income households that both are eligible and want to apply.

Back to your comment on the ratcheting up.

The FCC's legal authority obviously is just in the United States. But we're very cognizant of what's going on around the world.

So when you get told over and over and over that Singapore and South Korea and Japan and all these countries that have technology that has surpassed us in terms of speeds or how they define broadband, I think it has an impact here.

Because we do know and see and want our companies to be globally competitive. And we want to be seen, obviously as a world leader.

MR. MAY: Good.

So I've got Tom and then James after Tom.

MR. TAUKE: Two points I want to make.

One is that the industry is looking at this alternative proposal, and we are looking at a lot of these subsidies being transitional subsidies.

I just want to underscore transitional.

When I represented Iowa in my previous life, we had 161 telephone companies in the state, far more than any other state. I'm very much aware of the challenges of serving some rural areas, and of the small telephone companies.

Many of them have made the transition to broadband. They provide video services, they provide high-speed data services. They are able to charge their customers more money than they used to for voice services.

As a result, they had in a sense reduced their need for subsidies. And in some cases they don't need subsidies at all anymore.

Others would not be in that position, and certainly many of the mid-size wireline carriers are not in that position.

So you need a transition to get from here to there when you're cutting out those two legs of the stool, the access charges and some of the high-cost fund money, or reducing those legs of the stool.

So it's transitionary.

But when broadband gets to the home, in many cases -- not in all -- but in many cases, the need for subsidy essentially should be going away, because the revenue per customer is going to increase significantly for the carrier.

So this is a way to think about it, as you think about planning for the future.

The second point that I want to make relates to the cap. First of all, as far as I know, there is no industry proposal to cap the Link-Up and Lifeline portions of the fund. As Debi indicated, that is driven in part by need.

We are talking about taking the five funds that we consider the high-cost portion of the package, and in essence, turning those into two funds:

One fund would be to provide some transitional support for the diminishment of access charges, some replacement revenue there;

The other one, what is called the Connect America Fund, to support the deployment of broadband in those areas which do not yet have broadband.

And the idea is that the total in those funds should not exceed the total that's currently being spent in the other five funds.

So that's the cap that is being talked

about. The subsidies that go to carriers today, would not grow. They would be redistributed, so to speak, for other purposes.

Alright. The last point that I'd make is that, as we look to the future, the objective is not to give subsidies to carriers just because you're a carrier.

We need this transition so carriers can survive and the infrastructure remains in place. But the idea is that in the future there should be more of a focus on the consumer. The consumer is the one that should be supported, if they live in really hard-to-reach areas, rather than having subsidies directed through the carriers to deliver the service. Very much like Lifeline Link-Up.

MS. TATE: Can I add one thing under that?

MR. MAY: Okay.

MS. TATE: So when Tom brought up the glide path, I noticed that the chairman also said, "One that gives companies sufficient runway to adapt with no overnight flash-cut."

Interestingly, in my little handwritten

notes I just jotted down "three, four, five years." But again, I'm not quoting any other Commissioners.

So I don't know where in the proposal you all are talking about a glide path. But we had been talking about that kind of time period.

MR. MAY: Okay. Now I want to go to James in just a moment. And then I'm going to ask Mike, and I want to be really direct.

What Tom said about the cap sounded very reasonable to me, even though I'm personally in favor of a glide path to reduction of these subsidies over time, a reduction for a lot of the reasons that we've talked about and Tom's talked about.

But I'm going to ask you, particularly in light of Jerry pointing out somewhat of a disconnect with you're saying how little the fund has grown.

It sounds like you certainly would be in favor of a cap. But you can think about that for a minute. I'm going to go to James, and then Mike.

And then we're going to go to questions from the audience.

We've got this microphone here, so if you could come up to the mic, that would be good.

James?

MR. ASSEY: I'm going to answer a totally different question than you had posed originally.

(Laughter.)

MR. MAY: It won't be the first time.

MR. ASSEY: But I do want to hear the answer to that.

You asked about four-and-one, you know.

MR. MAY: Right.

MR. ASSEY: And where you set the speed.

MR. MAY: Right, I think that's important.

MR. ASSEY: Fundamentally you've got to pick a number, right? And there are two basic considerations.

One is: What are the capabilities that we consumers need in order to kind of do the things all of us do online?

And secondarily and equally as important: What is the cost going to be to society to extend that? We were comfortable with four-and-one.

But the one thing I did want to point out about speed is: We shouldn't forget that technology improves over time.

Compression technologies may make us able to do more over four-and-one than we currently do.

So we shouldn't get wrapped around the axle over that question. But we do need to think about what is manageable. What the broadband plan basically came up with was something on the order of $10 billion over ten years to reach that 6-3/4 million households.

MR. MAY: So implicit in what you're saying, James, is the notion that you're comfortable with that. As time goes on, would you say the Commission necessarily has to revisit that, taking into account the cost, technology changes, what consumers want, and reset it over time?

MR. ASSEY: Yeah.

They would need to relook at it, but we shouldn't make an assumption about what we're going to need in the future, until we're actually there.

MR. MAY: Until the future arrives.

MR. ASSEY: Yeah.

MR. MAY: Okay.

Mike, so you know my question on the table. Are you agreeable to at least the cap that Tom described?

MR. ROMANO: No. Let me clarify. I've got two or three questions I've got to answer all at once here.

MR. MAY: Okay.

MR. ROMANO: Let me take them in turn.

The first thing I thought was really interesting, James picked up on one of the questions. His answer is that we shouldn't make assumptions about where it's going to go until we know where it's going to go.

I think the same thing applies to a cap.

You don't know where the fund will need to go over time.

That's the same thing that Commissioner Tate said about Lifeline and Link-Up. It could go up, it could go down. We don't know where it's going to end up over time.

But as a backdrop to all of this, we're dealing with a question of what the statute requires in terms of sufficiency.

We have this idea that it would be nice to impose a cap. It would be nice to say it's going to be specifically this amount.

But we don't know what the sufficiency will require. We don't know what savings we're going to realize out of eliminating identical support.

We don't know yet what the standards of broadband will be. If the standards of broadband are set a certain way, is it four-one versus some other standard? Is a 2010 funding level going to be enough 15, 20 years from now?

Those are questions that I don't think we can answer. So that, then, ties into the four-one discussion as well.

Then there's a statutory backdrop. The requirement in the statute is reasonable comparability. Taking it back to what the consumer needs, the consumer deserves reasonable comparability. The hallmark of Universal Service is reasonable comparability.

So it may be four-one. It may be something less. It may be something more. We're going to need to revisit that over time.

And that's why I say a cap isn't going to work, because we may find that the different technologies lead us to need something different over time.

Just in the last year, for example, I saw one report that said Netflix is driving 25 percent of all Internet traffic during peak periods. That places new bandwidth demands on the network that weren't there a year ago.

And so to try to arbitrarily pick a number, and say, "That seems like the right number to me, in terms of the cap. We'll go with that," it's a predictive judgment that may not come to pass.

Let's do it through an informed decision-making process, rather than making something up on the fly.

And one last point.

MR. MAY: Okay. Well, do it quickly.

MR. ROMANO: Yeah. One last point on four-one versus another standard too.

Networks aren't necessarily engineered just to a speed. You build a network that may be a fiber to the node, it might be a fiber to the home, it might be a fiber to the DSLAM.

It supports different speeds. And as James mentioned, over time, that can change as technology evolves and you put in new devices within the network that help to enable greater speeds.

So it's not as simple as just saying, "Let's make a four-one network." In a different area, a four-one network may create very different cost structures, based upon how mountainous the terrain is, *et cetera*.

It's very hard to predict all of that.

MR. MAY: Okay. Tom, and then we'll go to the audience. Tom?

MR. TAUKE: I just want to address the cap question.

We are operating in an environment where the money doesn't come from thin air. The money comes from consumers elsewhere in the country, who have these fees tacked onto their bills.

So the question that you have to address is how much will the body politic tolerate, when it comes to this kind of a subsidy system for a relatively limited portion of the population?

The bottom line is that this is probably as good as it's going to get, the amount that's being spent today.

And understand that while we're capping the fund -- and I say this to my wireless carrier friends -- while we're capping the fund, we're probably taking a billion dollars away from wireless carriers. So they'll essentially have very little in the way of high-cost support, once this is done.

But you have wireless carriers who are collecting from all of their consumers to support this fund.

So, wireless carriers aren't excited about this structure, as consumers in populated areas aren't overly excited about this structure, because they're paying money into a fund that's going to other places in the country.

So when you talk to, say a senator from New Jersey or New York, they think, "Well, why do I want to have all of my consumers paying all this money in order to be able to support players elsewhere?"

Well, you can make the case to a certain extent. But there are limitations on how much people are willing to pay.

So you look at what people are willing to pay, and then you look at what is needed.

Right now, a cap on the fund is a pretty generous thing for the wireline carriers who are making this transition, given that they're going to be getting more money, if you will, out of this fund tomorrow, if this plan would go in, than they're receiving today.

But in the future, it would diminish.

MR. MAY: Boy, I'm glad I didn't say anything, Tom, because I was about to say something like that before you did. At the beginning of the program, when I was setting the stage, I mentioned that actually the consumers pay an almost 15 percent fee.

It's easy to talk about all of the programs and the subsidies and what they can do, and forget about who pays.

And we haven't even gotten to the "Who pays?" I mean, we know "How much?" pays. But we haven't gotten to who pays, really, which is being delayed a little bit right now.

MR. TAUKE: The bottom line point is: This is a good deal for the traditional wireline carriers. And it's probably not going to get better, it only gets worse over time.

The status quo gets worse. I cited the access figures. The *status quo* gets worse. And the support from the body politic is going to diminish.

MR. MAY: Okay.

Mike, hold your response, just in case.

Do I have any questions from anyone in the audience? Any of the reporters or anyone else have a question?

Ted, if you can go to the mic and just identify yourself, it helps with the transcription. We are transcribing the record.

MR. GOTSCH: Hi, this is Ted Gotsch with Telecommunications Reports.

There's been a lot of referencing, mostly by Tom, in regards to the industry plan that's been worked on. And there have been reports. You even said that something's likely maybe in the next couple of weeks.

I know you don't want to talk it too much, but actually I'm not necessarily talking about the specifics.

We all know the FCC has a pretty tight deadline they'd like to get something out by. If that two-week timetable is correct, do you think that there is even enough time for it to be, shall we say, sufficiently processed to influence the FCC, and to have a real effect on what they ultimately put out? It has obviously been working on this as well for months if not years on this issue.

And I would like others, especially from the industry, to comment. I know, for example, that many of the folks involved in crafting this plan are members of U.S. Telecom.

And for those that aren't, I understand that you may be involved in talks in sort of a more supplementary way or being discussed with it. What are your thoughts on ultimately how it can shift or shape the discussion on USF order?

Thanks.

MR. MAY: Okay.

Tom, do you want to start off? That was directed to you first.

MR. TAUKE: First I think every effort is being made to file this as soon as possible.

I'm looking for any contradiction from any of the players in the room who are engaged, but I feel confident it will be filed by the end of the month.

I think we have to file it by the end of the month in order for the FCC to put it out for comment, get comments back, and for it to be a meaningful contribution to the process.

Secondly, between now and whenever it's filed, every effort is being made to reach out to all elements of the industry, to get input.

This is very complicated, as you know, to get input to understand any unintended consequences that may occur, to really be able to have a proposal that can effectively work.

It's one thing to have a theory, it's another thing to have something that works practically. So we want to make sure that it's a practical proposal, as well as one that is theoretically sound.

And so those efforts are certainly underway.

I expect that there will be support from a broad cross-section of those in the industry: Big companies, small companies, midsize companies, wireline, wireless, cable-oriented. There will be varying degrees of support and varying degrees of interest, frankly.

And I suspect there will be some

opposition. When you move money around, you have some people who gain and some people who lose. So there are going to be some people who are perhaps not supportive of the plan.

But it's a solid effort to try to get something that works and that achieves the objectives that we have talked about.

MR. MAY: I heard yesterday during a press conference, Tim Geithner said August 2nd is the drop-dead date on this thing.

James, do you want to go next?

MR. ASSEY: Sure.

I don't know whether it's kudos or sympathy I give to the folks who have obviously spent a lot of hours and a lot of time working within the telephone industry to try and put this plan together.

We have had preliminary discussions, as I know they have done outreach to a number of other groups and interested parties here.

MR. MAY: You communicate with them, and they're communicating with you?

MR. ASSEY: Yeah. We've had a couple meetings to discuss some of the broad-brush outlines. As Tom talked about, how the new process would work under a cap, that's, something that we think is extremely encouraging.

But the weeds have weeds. So we need to work through this process, and the cable industry is at the front of the line in believing that the time for reform is now.

So, it's one of these things that we're just going to work through. And we look forward to figuring out how to play a constructive role to actually getting us across the finish line here, and coming up with something that's fair for all industry parties.

MR. MAY: Okay, Mike, so tell us your view of the talks that are going on, and specifically your relationship, input/output to the talks, and your prognosis.

But at this particular point, don't rehash all the substantive points, just tell us.

MR. ROMANO: Yeah. The way I've

summarized this is everybody is really working hard, in good faith, in conference rooms for long hours on trying to solve a really hard math problem.

I mean, at the end of the day, what we're really dealing with here, is:

How do you take these support mechanisms that are in place, and try to move the money around in a way that makes sense and achieves worthwhile public policy objectives going forward, does not lose sight of the idea that you're trying to get broadband to places and keep it where it is, and also provides some ability, you know, to engage in shared sacrifice? That's one of the phrases that a lot of people use in these discussions. And that's certainly the case here.

But then, not to get into the weeds, but it becomes a question of how much sacrifice is everybody sharing?

And so where a lot of the discussions are focused right now, is "How do you crack this nut? How to you fit billions of dollars of access revenues that need to be restructured into a fund that's the size of today's fund?

And that's to some degree why we come to these cap discussions.

MR. MAY: Right.

MR. ROMANO: But everybody's working in very good faith. The U.S. Telecom folks have been terrific about reaching out, at least us, and I assume other sectors of the industry as well.

So kudos to them for the effort they're trying to put in to do this. And we likewise would like to see something this year.

MR. MAY: Well, good. That's encouraging to hear. I wouldn't have expected otherwise, but that's good.

Okay. Question from the audience. Mr. Brenner, come on up. I know you've got a booming voice, but for the official transcription, identify yourself.

MR. BRENNER: For the official transcription, I'm Dan Brenner.

Really a question for Mike and Jerry. One thing that was part of Tom's very eloquent defense of a kind of transition, or glide path, is that there should be some preservation of small rural telcos.

But having come out of the cable industry, there are many cable providers who today provide VoIP service, without a subsidy, in the face of companies in the rural areas that continue to get high-cost subsidies.

And to me, this doesn't make any sense. If a commercial provider is able to provide VoIP service on a commercial basis, at a price that often beats or meets the rural telco, then the need for subsidy seems to me to be unnecessary.

Add to that the part of the high-cost fund in non-rural areas, where you get the abuses that Debi talked about, about 14 ETCs, and you begin to see that there's lots of money here that simply can't be justified in any real economic terms.

The subsidies are going to places where there are commercial competitors providing value propositions that customers can take, without any subsidy to the carrier.

The only final point I'd make is that in the video business, I have observed that companies occasionally do go out of business. So the world of SNAFEs, the world of MMDS, these were video providers that competed with cable and satellite, and eventually found themselves out of the business, because they couldn't compete effectively.

So other than trying to give you guys a transition, what's the justification where commercial providers are providing the service without subsidy?

MR. MAY: Okay. So let's have Jerry and Mike answer. Now here's what's going to happen in the next nine minutes. We answer this question, and then if we have time, we'll have one more question.

We're going to end up, not with the Star Spangled Banner, but with Jerry singing from Evita, but we have to end at 11:00.

This has been such a fantastic discussion, really. I'm really pleased. I didn't think we could go on for two hours, necessarily, about USF and ICC.

But if we go past 11:00, I'll have to pay for another four hours for this room.

(Laughter.)

MR. MAY: And unless someone's going to subsidize it, I'm not doing it.

So here, who wants to go first?

MR. ELLIG: Oh, yeah. It's an excellent question.

The example of cable providing VoIP in places where previously the only voice service was from a telephone company is another example of how a lower-cost technology might make it possible to serve some areas, either without subsidy or with a much-reduced subsidy.

In the case of cable and VoIP, they're offered in some places with no subsidy now.

So, yes, I would add that as another example to what I was talking about earlier, along with when you have wireless available for 30 bucks, or when you have satellite available for 60 bucks.

Why are we paying a subsidy that's a lot more than that, in some cases.

MR. MAY: Okay. Mike, the gauntlet has been thrown down once again, eloquently again.

MR. ROMANO: I'm not shocked.

MR. MAY: Take a few seconds to answer.

MR. ROMANO: Yeah. So this is the so-called donut-hole problem. This is the problem where a cable company often is a problem.

It's the concept where a cable company operates perhaps in the franchised area of a town, but does not operate, for example, in many of the outlying portions of a study area, where there is a rural company serving the area.

We actually filed comments, and not to get into a ton of detail on it, but we basically said:

"Look, if you want to go through this process whereby you extract support of the town, the more densely populated area, where is the place that most often there may be a cable competitor and in many places there's not, then you have to take account of the fact that a lot of the support is based today on study-wide averages."

So you've suddenly eliminated the more

densely populated portion of the area, thereby extracting out perhaps where the only profitable portion of the rural serving area is. And now you're going to need to redirect that support to the outlying portions of the area, without the benefits of averaging.

You may reduce some costs. You may see some costs actually increase as a result of that. You may see the support reduce or increase accordingly.

But we did say that there is a need to consider a process, whereby you would figure out how to extract support out of the competitively-served areas, and redirect it towards donuts, if you will, of the donut hole.

MR. MAY: Okay. Is there one last question from the audience, before we wrap up?

MS. TATE: Can I say one thing, while all these people are gathered?

MR. MAY: Yes. Quick.

MS. TATE: Randy mentioned that yesterday Geena Davis and I kicked off over at NCTA the

Healthy Media Commission.

And I know that you all still think that you all are in the telecom world, but you're really also in the media world.

So I would really love for some of you to be part of this, as we move forward. It's really important for you to be part of hearing what's going on, and especially for those of you all who happen to be mothers or dads of girls.

So I welcome your participation. You all can either see me or e-mail me, or just go on the Girl Scout website.

But this is going to go on for the next year, and there are going to be really hard, blueprint-type recommendations. Thirty-plus media companies were there yesterday, along with print and magazines. So I'd like to welcome my friends from the telecom arena there too.

Thanks.

MR. MAY: Good. Thank you very much. And thanks for what you're doing with that.

Okay, now we're going to have a quick

question and answers, and then we're going to wrap up.

Yes, Terri?

MS. NATOLI: Terri Natoli from Time Warner Cable. I think this is both directed to Tom and to Mike.

Putting aside the issues with the short-term transition on the ICC side to reform, there seems to be a lot of support for going to some uniform termination rate, not making all these arbitrary distinctions in the long term.

But then when you really start to ask, "What does that mean?" there seems to be all these exceptions. And so I'm not sure everybody has a consistent view about what that really does mean at the end of the five-year period.

So if you assume that we're going to go to a .007 rate for all traffic, what does that mean? That anybody that terminates voice traffic on their network, regardless of what the technology is, that it would be .007? Is it only old-legacy TDM networks that get that?

What is envisioned by either of you guys?

MR. MAY: Okay.

MR. TAUKE: Any voice traffic.

MS. NATOLI: Any voice traffic terminated on any facilities-based network?

MR. TAUKE: That's our objective.

MR. MAY: Mike, you get the last word here on this.

MR. ROMANO: I'm glad you asked that, because I didn't know either.

(Laughter.)

MR. ROMANO: But it's fair to say we're still mulling over how that would work and really what it means. That's the purpose for that kind of an application.

But how you do that, making sure there aren't categories that inexplicably fall out of it, and also whether there is an adequate enough support available to support a structure mechanism associated with that low a rate? Those are all still very good questions.

MS. NATOLI: Okay. Thanks.

MR. MAY: Thank you very much, Terri.

MR. TAUKE: Did I misstate something there Bob? You shook your head.

MR. ROMANO: He was shaking it at me.

MR. BRENNER: (Off mic)

MR. MAY: Okay.

MR. TAUKE: But we are talking about VoIP.

MR. BRENNER: We are talking about VoIP, but are you agreeing to regulated (off mic).

MR. TAUKE: Well, we are covering VoIP. We aren't covering other IP services, is the way I'd characterize it.

MS. NATOLI: So I guess --

MR. MAY: Okay, we're going to have to --

(Simultaneous conversation.)

MR. TAUKE: This is the details and --

(Laughter.)

MR. ROMANO: This shows why your question was good.

MR. MAY: There's probably going to be something else to talk about, when they next convene in those meetings.

No, don't get up.

(Laughter.)

MR. MAY: This is the high point.

(Laughter.)

MR. MAY: Jerry Ellig, if you're still willing. I don't want to put you on the spot. But because it's so relevant to what we're talking about, I think I'd like to hear that little bit from Evita.

MR. ELLIG: Well, Randy, I think really what you just want is the novelty of hosting an event where a George Mason University economist quotes Che Guevara.

(Laughter.)

MR. MAY: That's good too. Yeah.

MR. ELLIG: No, this is relevant to the third point that I was making about looking back to find out whether the policy actually achieves the results for the public that we hoped it achieved, that we said it was going to achieve.

We spend an awful lot of time in Washington, wrangling over what the policy is going to be, and a lot less time looking back to see, you know, "Did we actually get something of value to the public?"

And I can't help but think that if we had had better retrospective analyses of these programs that looked at actual benefits produced for the public, we might have had Universal Service reform sooner.

Instead, we don't really know.

And there's a great little passage in the play, in the movie, Evita, where Che Guevara talks about all these charities that Eva Peron had founded, and how the money just comes in and then the money goes out to people, and nobody really knows much more than that the money's going somewhere.

And he sings, "When the money keeps rolling out, you don't keep books. You can tell you've done well by the happy and grateful looks. Accountants only slow things down, figures get in the way. Never met a lady loved as much as Eva Peron."

And then the chorus comes in: "Money, money, money, money, money, money."

And that is essentially how retrospective analysis of these Universal Services programs was conducted for many years.

We never measured really what the public purpose was that we were accomplishing. At best, we would have a head count of who was receiving.

MR. MAY: All right, sing it one more time, one more time, as we go. Come on. Go ahead.

MR. ELLIG: At best, we would have a head count of who was receiving how much subsidy.

Is that what you wanted again?

MR. MAY: I just want you to sing it one more time, and then --

MR. ELLIG: (Laughing).

MR. MAY: Hurry up.

MR. ELLIG: Oh, is this for the tape?

MR. MAY: Yep.

MR. ELLIG: Oh, okay. "When the money goes rolling out, you don't keep books. You can tell you've done well by the happy and grateful looks. Accountants only slow things down. Figures get in the way. Never met a lady loved as much as Eva Peron."

MR. MAY: Okay.

MR. ELLIG: That's a caution against what I call "McMeasures," just counting the number of people who got a subsidy, as your measure of success.

(Applause.)

MR. MAY: Okay. Not only thank Jerry, but our entire panel. This was a fantastic discussion. So thank the panel, as well, please.

(Applause.)

MR. MAY: Thanks a lot.

(Whereupon, at 11:02 a.m. the meeting was adjourned.)