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FCC Internet Regulation Would Hit Consumers with Hidden Fees

by

Seth L. Cooper *

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The Internet is a continuing success story of high-tech innovation and economic vitality. Critical to that success is the largely hands-off approach that federal government has taken toward regulating and taxing the Internet.

But a federal agency, at the urging of President Obama, now aims to subject Internet services to new restrictions — and to stick Internet consumers with billions in costly new fees and taxes.

In a Nov. 10 public announcement, Obama urged the Federal Communications Commission to stop regulating broadband Internet lightly as an “information service” under Title I of the Communications Act and reclassify it as a “telecommunications service” under Title II of the act.

That means subjecting the Internet to heavy-handed controls on prices and service options. It also means placing government restrictions on marketplace decision-making over investment-backed private property, despite no showing of anticompetitive conduct in the market.

The Free State Foundation
P.O. Box 60680, Potomac, MD 20859
info@freestatefoundation.org
www.freestatefoundation.org

This new proposal jeopardizes the continuing course of technological innovation, entrepreneurial investment, and job growth in the digital economy. Under the current light regulatory regime, businesses have invested \$1.3 trillion to improve the Internet. That would surely change. But left unspoken in Obama's announcement is the critical fact that Title II reclassification would also saddle consumers with a new federal Internet tax.

Title II reclassification of Internet services would trigger Universal Service Fund obligations. The USF is an \$8 billion-per-year federal subsidy program funded by consumers to subsidize phone service in rural areas, for low-income consumers and for schools and libraries. By law, all providers of telecommunications services must make USF contributions, which are taken directly from consumers and show up as a 16.1 percent surcharge on your phone bill.

In a new study, economists Robert Litan and Hal Singer tackle some of the negative tax consequences of the FCC reclassifying the Internet as a telecommunications service. They say Obama's plan would subject consumers to as much as \$2 billion more in annual fees than they currently pay.

Internet services offer a tempting source of funds for revenue-hungry FCC regulators, who have watched the USF budget grow consistently since 2000. FCC Chairman Tom Wheeler recently announced a plan to increase USF annual E-rate subsidies to schools and libraries by \$1.5 billion, so an extra \$2 billion from the hide of Internet consumers would provide an easy cash stash from which the FCC could satisfy the USF's growing budgetary appetite.

USF surcharges don't go into the U.S. Treasury and they're not subject to congressional spending authority, but from a consumer standpoint they are a tax. And the fact that a federal agency wields defacto taxing power without accountability to taxpayers is a problem in itself. Does anyone believe Congress would pass and the president would sign a \$2 billion per year tax on Internet consumers?

Congress needs to step in and spare consumers the billions in surcharges that would follow from regulating the Internet as though it were an old-fashioned telephone service. Either that or the FCC needs to wise up and say no to Title II Internet regulation. Otherwise, new Internet regulations and taxes will threaten the pro-innovation, pro-investment, pro-consumer conditions under which the Internet has flourished for two decades.

* Seth L. Cooper is a Senior Fellow at the Free State Foundation, an independent, nonpartisan free market-oriented think tank located in Rockville, Maryland. *FCC Internet Regulation Would Hit Consumers with Hidden Fees* appeared in the *Washington Examiner* on December 13, 2014.