

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

In the Matter of)	
)	
Lifeline and Link Up Reform and Modernization)	WC Docket No. 11-42
)	
Federal-State Joint Board on Universal Service)	CC Docket No. 96-45
)	
Lifeline and Link Up)	WC Docket No. 03-109
)	

COMMENTS OF

THE FREE STATE FOUNDATION*

These comments are submitted in regards to the Commission's proceeding for reforming and modernizing the Universal Service Fund's (USF) Lifeline and Link Up programs. The Commission recently adopted near-term rule changes to address fraud, waste, and abuse concerns regarding the Lifeline and Link Up programs. And in undertaking long-term Lifeline and Link Up reforms, the Commission seeks further comment on certain specific issues.

We support efforts to adopt reforms to make Lifeline/Link Up operate efficiently and with accountability, and, as program support shifts to broadband services, this is very important. Nevertheless, because Lifeline/Link Up subsidies are targeted to eligible low-income customers, if properly conceived and administered to address waste and fraud, the programs offer a more transparent and effective approach to achieving universal service goals than USF programs subsidizing providers. Once reforms are implemented, the

* These comments express the views of Randolph J. May, President of the Free State Foundation and Seth L. Cooper, Research Fellow of the Free State Foundation. The views expressed do not necessarily represent the views of others associated with the Free State Foundation. The Free State Foundation is a nonpartisan, non-profit free market-oriented think tank.

modernized Lifeline/Link Up, over time, ought to diminish substantially the need for continuing USF support for service providers. In other words, as we have previously stated, the end game for the Commission's comprehensive USF reforms should be the eventual elimination, say, in ten years, of all high-cost fund subsidies. Then, the Lifeline/Link Up programs would be the exclusive, or at least the near-exclusive, mechanism for distributing USF support.

A primary strength of the Lifeline/Link Up programs is that their subsidies are targeted to those low-income persons that need them. Subsidies that are targeted to needy individuals allow the consumers themselves to choose a communications service that best meets their needs. Subsidies targeted to individuals are more efficient and can be more reliably monitored for accountability than subsidies targeted more broadly to service providers.

While Lifeline/Link Up subsidies are not provided directly to low-income consumers in the form of vouchers, they are nonetheless targeted to such consumers by reimbursing Eligible Telecommunications Carriers (ETCs) from the USF for providing discounted service to eligible persons. Currently, "Lifeline provides discounts of up to \$10 on monthly telephone charges, and Link Up provides a discount of up to \$30 on the cost of commencing telephone service for qualifying low-income households."¹ But as acknowledged in its NPRM, "[t]he Commission has not systematically re-examined Lifeline/Link Up since the passage of the 1996 Act."² And "[i]n the last several years, Lifeline/Link Up has grown significantly, from an inflation-adjusted \$667 million in 2000 to \$1.3 billion in 2010."³ The Commission's recent order adopted sensible rule

¹ Notice of Proposed Rulemaking ("NPRM"), In the Matter of Lifeline and Link Up Reform and Modernization, WC Docket No. 11-42, *et al.* (released March 4, 2011), at 7-8, para.

² NPRM, at 3-4, para 3.

³ NPRM, at 4, para. 4.

changes aimed at "preventing duplicative payments for multiple Lifeline-supported services to the same individual."⁴

We support ongoing efforts, such as some the proposals put forward by the Commission, to ensure the programs operate with integrity and efficiency. For example, we support pro-efficiency and anti-fraud measures to eliminate duplicate enrollment by the same customers with multiple ETCs,⁵ to provide Link Up support to reimburse only costs actually incurred for initiating service,⁶ and to improve methods for verifying customers' eligibility.⁷

But consistent with our view that a well-designed and well-functioning Lifeline program targeted to needy low-income individuals ought to lead to a diminishment – and, over time, ultimately to elimination – of the less targeted high-cost support provided to service providers, we do not favor the Commission artificially constraining the size of the program, especially now when the nation's consumers are in the midst of difficult economic times. Likewise, we see no basis for the Commission to impose measures such as mandatory minimum charges that require low-income consumers themselves pay some specified amount in order to be eligible under an ETC plan. If a person otherwise meets the requisite low-income eligibility requirements, it is counterproductive for the Commission to impose requirements that, as a practical matter, may render such eligibility ineffective.

The Commission should also establish a broadband pilot program that will provide sufficient but not excessive support to help make broadband affordable to low-income customers

⁴ Report and Order ("order"), In the Matter of Lifeline and Link Up Reform and Modernization, WC Docket No. 11-42, *et al.* (released June 21, 2011), at 1-2, para. 1.

⁵ See Further Inquiry into Four Issues in the Universal Service Lifeline / Link Up Reform and Modernization Proceeding ("Further Inquiry"), In the Matter of Lifeline and Link Up Reform and Modernization, WC Docket No. 11-42, *et al.*, (released August 5, 2011), at 3-6.

⁶ See Further Inquiry, at 6-7.

⁷ See Further Inquiry, at 7-8.

and be subject to the same controls.⁸ Such an undertaking should recognize the direct, important benefits that low-income customers derive from being online, such as job searching capabilities and the ability to determine the availability of social services, as well as the general, indirect benefits, or network effects, resulting from connecting additional users to the Internet.

With Lifeline/Link Up reformed and modernized, the need for continuing non-Lifeline/Link Up USF support for voice or broadband providers should diminish over time. As we recently stated in our Docket No. 10-90 reply comments, "the Commission's end game for its comprehensive USF and ICC reforms should be the eventual elimination of all high-cost fund and related subsidies."⁹ We also stated there that "[f]ollowing the sunset of high-cost subsidies for voice and broadband service providers, any ongoing universal service objectives necessitating subsidies could be met by programs that are transparent, explicit, and targeted to individual voice and broadband users," such as Lifeline/Link Up.¹⁰

Respectfully submitted,

Randolph J. May
President

Seth L. Cooper
Research Fellow

Free State Foundation
P.O. Box 60680
Potomac, MD 20859
301-984-8253

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⁸ See Further Inquiry, at 2-3.

⁹ Reply Comments of the Free State Foundation, In the Matter of Connect America Fund, WC Docket No. 10-90, *et al.* (May 23, 2011), at 1, available at: http://www.freestatefoundation.org/images/USF_Comments_05.23.11.pdf.

¹⁰ Reply Comments, at 6.