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To Narrow the Digital Divide, the FCC Should Not Simply Extend Lifeline to Broadband

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To narrow the digital divide, the FCC should not simply extend Lifeline to broadband

Daniel Lyons

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Editor's note: The next president is in for a rough welcome to the Oval Office given the list of immediate crises and slow-burning policy challenges, both foreign and domestic. What should Washington do? Why should the average American care? We've set out to clearly define US strategic interests and provide actionable policy solutions to help the new administration build a 2017 agenda that strengthens American leadership abroad while bolstering prosperity at home.

[What to Do: Policy Recommendations for 2017](http://www.aei.org/spotlight/what-to-do-policy-recommendations-for-2017/) (<http://www.aei.org/spotlight/what-to-do-policy-recommendations-for-2017/>) is an ongoing project from AEI. [Click here for access](http://www.aei.org/spotlight/what-to-do-policy-recommendations-for-2017/) (<http://www.aei.org/spotlight/what-to-do-policy-recommendations-for-2017/>) to the complete series, which addresses a wide range of issues from rebuilding America's military to higher education reform to helping people find work.



Key Points

- As more activities move online, it is becoming increasingly important to narrow the digital divide by helping those who cannot afford Internet access.

- The FCC's \$2.25 billion proposal to expand the Lifeline telephone assistance program into a monthly broadband subsidy is unlikely to narrow the digital divide.
- Congress should adopt a comprehensive approach that encompasses digital literacy outreach programs and low-cost equipment plans as well as monthly service plan subsidies.

Introduction

Universal service has long been an integral component of American telecommunications policy—and rightly so. As more activities move online, it becomes increasingly important to narrow the digital divide by helping those who cannot afford Internet access to get onto the network.

Regrettably, the proposal from the Federal Communications Commission (FCC) to expand Lifeline is unlikely to help solve this problem. The agency proposes to spend \$2.25 billion annually to transform a Reagan-era telephone assistance program into a broadband subsidy. Yet when prompted by the GAO, the agency admitted it has no proof that the existing subsidy of \$9.25 monthly per household meaningfully increases telephone penetration rates, and independent academic studies suggest that as much as 88 percent of program funding is wasted each year.

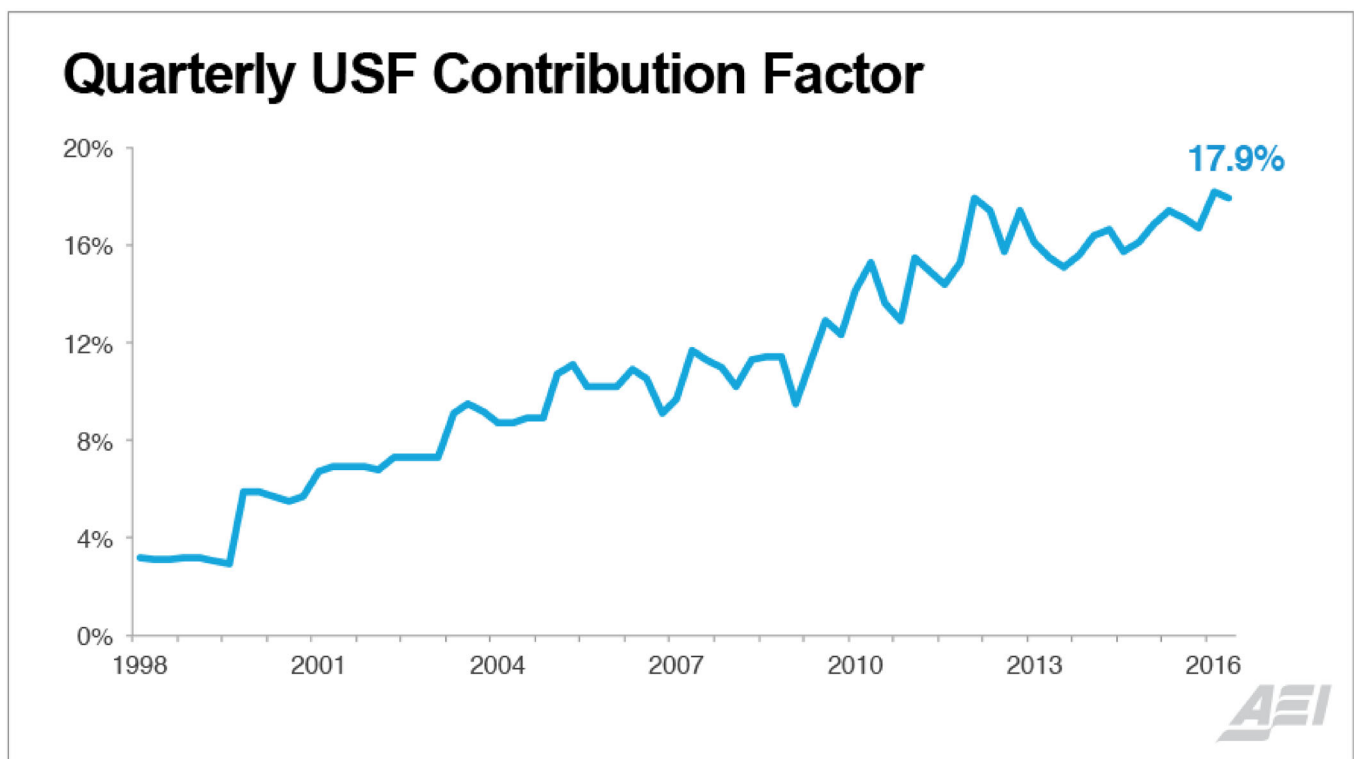
Now the FCC proposes to extend the same monthly subsidy to broadband access, but it offers no plan to limit the proposed subsidy to households that otherwise would not purchase Internet access and no proof that an extra \$9.25 each month would entice those households to buy Internet access. Its definition of qualifying broadband service is inconsistent with earlier agency rulings, and its desire to phase out telephone support is unnecessarily paternalistic. The proposal would increase Lifeline expenditures by 50 percent without addressing serious structural flaws in the existing program, such as runaway costs and an unsustainable funding mechanism. Even if it passes, a broadband Lifeline program does nothing to address other, potentially more significant barriers to Internet adoption, such as low interest in buying household Internet access and the high cost of computers. The FCC's proposal amounts to a \$2.25 billion annual bet that giving a little bit of money to millions of low-income households will somehow solve the broadband gap.

We can, and must, do better.

Lifeline needs revolutionary, not evolutionary, change. Congress should adopt a comprehensive approach to closing the digital divide that encompasses digital literacy

outreach programs and low-cost equipment plans as well as monthly service plan subsidies. The subsidy should be data-driven, and rather than arbitrarily choosing minimum download speeds, the program should define a minimum set of activities that recipients should be able to do online, and target plans that will allow recipients to do those things. Consistent with President Obama's ConnectALL initiative, this subsidy should be direct and portable: recipients should receive the subsidy directly and be able to choose how best to use this credit toward the bundle of telecommunications services that best fit their household needs.

The program should be placed on a fixed budget subject to congressional control and oversight, to increase incentives to deploy funds efficiently and reduce opportunities for fraud and waste. Finally, Congress should consider moving the program to another agency, such as the Department of Health and Human Services, that has a better understanding of poverty-related issues.



(http://www.aei.org/wp-content/uploads/2016/03/Slide1_web.png)Sources: 1998–2000: Federal Communications Commission, “Trends in Telephone Service,” September 2010, https://apps.fcc.gov/edocs_public/attachmatch/DOC-301823A1.pdf. 2000–2016: Universal Service Administrative Company, quarterly administrative filings to Federal Communications Commission, <https://www.fcc.gov/general/contribution-factor-quarterly-filings-universal-service-fund-usf-management-support> (<https://www.fcc.gov/general/contribution-factor-quarterly-filings-universal-service-fund-usf-management-support>).

The Need to Narrow the Digital Divide

The basic tenet of universal service—that the government should assist those who cannot afford basic access to the telecommunications network—has been a cornerstone of telecommunications policy for nearly a century. One of the FCC’s primary obligations is to “make available, so far as possible, to all the people of the United States . . . a rapid, efficient, Nation-wide, and world-wide wire and radio communication service with adequate facilities at reasonable charges.”[1] To an economist, this policy is justified by *network effects*: the value of a network connection to a consumer generally increases as the number of people the consumer can reach on the network increases.[2] Therefore, a policy that encourages low-income consumers to subscribe to telecommunications service benefits not only those consumers, but also all other subscribers as well. Universal service also helps maximize the utility of the network for society as a whole, by improving civic participation levels, economic opportunities, and public safety.

The case for a robust universal service program is even stronger in the digital age. As more of our daily activities move online, it becomes increasingly important to make sure that low-income consumers can continue to participate in society and benefit from the information revolution. These activities include:

- Internet access lowers the cost of information, making it easier to be an informed citizen. More Americans report getting their news each week via laptop or computer (70 percent) than via traditional newspapers and magazines (61 percent).[3]
- FCC Chairman Tom Wheeler notes a 2012 study showing that broadband access helps a typical consumer save \$8,800 each year by providing access to bargains on goods and services.[4]
- A recent study from the Council of Economic Advisers shows that young unemployed individuals who use the Internet to find jobs are re-employed 25 percent faster than those using only traditional methods.[5]
- FCC Commissioner Jessica Rosenworcel has highlighted the role of Internet access for schoolchildren and the need to avoid a “Homework Gap” for those who lack access at home.[6]

Despite these clear benefits, almost one-third of American households lack high-speed Internet access at home. The disparity is greater when segmented by income: 95 percent of households earning \$150,000 or more annually are connected, compared with only about half of households earning less than \$25,000.[7] As the Internet displaces the telephone as the nation’s primary telecommunications network, the case

for modernizing our traditional universal service mandate to fit the 21st century is becoming increasingly strong.

[Read the full report.](http://www.aei.org/wp-content/uploads/2016/03/To-Narrow-the-Digital-Divide.pdf) (<http://www.aei.org/wp-content/uploads/2016/03/To-Narrow-the-Digital-Divide.pdf>)

Notes

1. 47 U.S.C. § 151.
2. See, for example, Steve G. Parsons and James Bixby, “Universal Service in the United States: A Focus on Mobile Communications,” *Federal Communications Law Journal* 62, no. 119 (2010): 135–136, http://www.fclj.org/wp-content/uploads/2013/01/10-PARSONS_FINAL.pdf.
3. American Press Institute, “The Personal News Cycle: How Americans Choose to Get Their News,” March 17, 2014, <https://www.americanpressinstitute.org/publications/reports/survey-research/how-americans-get-news/>.
4. See Tom Wheeler, “A Lifeline for Low-Income Americans,” Federal Communications Commission, May 28, 2015, <https://www.fcc.gov/news-events/blog/2015/05/28/lifeline-low-income-americans> (<https://www.fcc.gov/news-events/blog/2015/05/28/lifeline-low-income-americans>).
5. See Council of Economic Advisers, “The Digital Divide and Economic Benefits of Broadband Access,” *Issue Brief*, March 2016, https://www.whitehouse.gov/sites/default/files/page/files/20160308_broadband_cea_issue_brief.pdf, citing Peter Kuhn and Hani Mansour, “Is Internet Job Search Still Ineffective?” Institute for the Study of Labor (Bonn), September 2011, <http://ftp.iza.org/dp5955.pdf> (<http://ftp.iza.org/dp5955.pdf>).
6. See Jessica Rosenworcel, “How to Close the ‘Homework Gap,’” *Miami Herald*, December 5, 2014, <http://www.miamiherald.com/opinion/op-ed/article4300806.html> (<http://www.miamiherald.com/opinion/op-ed/article4300806.html>).
7. See “Lifeline and Link Up Reform and Modernization,” 30 FCC Rcd. 7818, 7822, 7829, and n.232 (2015).

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