

Economic Policy Vignettes

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**Universal Service: Can We Do More with Less?
John W. Mayo
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As an academic economist, I have spent the last twenty-five years studying the complex and sometimes mind-numbing world of telecommunications policy, and for twenty-five years I have been skeptical of those from the ideological right or the ideological left that offer overly simplistic answers to nuanced problems in telecommunications and other industries. The reality is that the world is simply too complex to have simple solutions provide anything approximating policy panaceas.

So today, as I offer my remarks and proposed reforms of the universal service system in the United States, which I believe and I hope you will find to be very simple and straightforward, I am fully aware that you may be a bit skeptical. So at the outset, I want to assure you that as politically contentious and controversial as universal service policy has been in this country, the economic principles for the reform that I lay out are among the least controversial economic policy topics that I have dealt with in my 25 years as a professional economist. The things I am about to say are simply NOT controversial among the community of economic scholars that have studied universal service policy.

The title of my chapter is "Universal Service: Can We Do More, with Less?"¹

In a phrase that has become increasingly popular, I will tell you that the answer is "yes, we can!"

We can do more with less. We currently devote over \$7 billion dollars a year to universal service efforts. In an economic sense, dollars are malleable and represent priorities of how we, as a society allocate our scarce resources. In this regard, you don't

¹ See Mayo, John W., "Universal Service: Can We Do More with Less? In New Directions in Communications Policy, R.J May Editor, Carolina Academic Press, forthcoming.

need to have been a long-time student of universal service policy to be struck by the incongruity of spending \$7 billion a year on universal telephone service relative to the \$900 million that we spend as a nation on Trade Adjustment Assistance (arguably our front line policy instrument to retool our workforce in the face of globalization). The \$7 billion also swamps the \$1.5 billion we spend on Job Corp, which targets our nation's disadvantaged youth for employability in an ever more rapidly changing economic environment. The \$7 billion on universal service even exceeds the entire federal expenditure on the Centers for Disease Control.

So, two questions emerge:

1. Should we have a universal service policy?
2. Are there economic principles that can and should guide ANY universal service mechanism?

It is tempting to set the first quest aside because no one is seriously proposing the elimination of the universal service goal. So for the moment, let me simply accept the fact that we do have a set of articulated Universal Service goals, and that the running assumption is that to accomplish these goals, a public policy of subsidization will need to be crafted.²

Then we can turn to the second question; namely, is there any guidance on how to construct such a subsidization scheme?

Fortunately, Yes.

TABLE 1

² This issue is, however, dealt with in detail in Mayo (forthcoming)

Economic Principles of Subsidization

- Establish clear goals to be accomplished by the subsidization program
- Make subsidies explicit and transparent
- Collect subsidies from the widest possible funding base
- Target subsidies to those in need of subsidies
- Design subsidies to relax complementary binding constraints to the achievement of the goal.

To be absolutely clear, I must tell you that however well-meaning policymakers have been in developing our nation's universal service policy, virtually every dispassionate observer of the design and implementation of universal service policy in this country will tell you that we have absolutely and lamentably violated every single one of these sound economic principles in the course of carrying out our universal telephone service policy. The result has been billions of dollars of economic waste – precious dollars that would allow us to do more, with less. In the chapter, I detail exactly how these principles are violated.

In this regard, I should parenthetically add that not all universal service policies are equally damnable. For instance, the targeted Lifeline and Link-up programs are more consistent with sound economic principles than the untargeted and bloated High Cost support mechanism. In the chapter [Mayo (forthcoming)], I survey the literature which details the ways in which the targeted programs have been considerably more effective than untargeted programs.

So where do we go from here?

First, we are at a special moment in history – technological changes are allowing and consumer preferences are demanding that we turn our attention away from traditional universal telephone service policies and toward broadband. This moment of inflection also affords an opportunity to reflect on narrowband universal service as we turn to the broadband, which is the subject of everyone's attention.

With respect to narrowband – it is time to declare victory – 95 percent of all households have access to telephone service and over 250 million wireless handsets are in service

today. Make no mistake -- it has NOT been pretty – as I said we have violated every economic principle of how to do universal service policy right – but at this stage we simply don't need \$7 billion a year to promote or achieve access to narrowband telephone service.

Second, it is absolutely essential that we do not repeat the mistakes of narrowband universal service policy as we move into broadband. To ensure this, it is critical that policymakers adhere strictly and resolutely to the economic principles that I have proffered. This means that:

- The goals of what we seek to accomplish with broadband universal service need to be clear and explicit.
- We need to make broadband universal service funding explicit and transparent.
- We need to fund broadband universal service from the broadest possible base.
- We need to target any broadband universal service funds to entities (preferably individual households or, as a one-time grant, to firms) where the subsidy will make a difference in economic behavior.
- We need to design broadband universal service policies with the complementary demand of consumers in mind (e.g., if households don't have a computer, then all the broadband subsidies in the world will be ineffective)

In closing, let me remind everyone that during the election cycle then-Senator Obama spoke about the problems of using twentieth century regulation to solve 21st century problems. While a lot of telecommunications policies have moved the industry forward, universal service policy is very deeply rooted in the past century and now is a golden opportunity to modernize universal service with a focused eye on broadband.