Insight

FCC Proposes Changes to Lifeline

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Last week, Chairman Wheeler of the Federal Communications Commission (FCC) circulated plans to expand another major program under the agency's control, the Lifeline program. The program subsidizes the communication needs of low income Americans.[1] Lifeline needs to be modernized but the FCC has failed to prove the program's effectiveness and to cap the program's burgeoning budget.

The Lifeline program is the oldest of four programs administered by the Universal Service Fund (USF), which is subject to the control of the FCC. Following the 1996 Telecommunications Act, the Lifeline program, which was created in 1985, was bundled with three other new programs to also help support the communication needs of rural and high-cost areas; rural health care facilities; and schools and libraries. According to a previous AAF report on the USF on changes made in November, the program for schools and libraries was expanded by 123 percent from its 2008 level.[2]

Since its inception, the USF has been paid by a contribution pool of long distance wired and wireless phone calls. But as consumers have moved away from landline telephone services and adopted wireless phones and broadband connections for cheaper long distance communication, the fund has come under financial pressures. The Lifeline program saw reforms in 2012 that helped to reduce the size of the program by 24 percent, but the agency has still not implemented at least three other major changes including the addition of performance goals and measures.[3]

The effectiveness of Lifeline is at the heart of this discussion. In testimony before Congress, Michael Clements of the General Accountability Office pointed out that as currently structured, Lifeline "may be a rather inefficient and costly mechanism to increase telephone subscribership among low-income households." In part, the Commission's decision to focus on the availability instead of affordability probably misaligned institutional incentives.[4]

Now the Chairman wants to expand the program to include not just wired and wireless phone services, but also broadband. The Commission ran a pilot program to test broadband, the result of which they released in May. With 8,634 total participants, the $13.8 million pilot project cost $1598 per person. Initial projections suggested that the participant level should have been higher. But, as the report admitted that the "individual's willingness to pay for broadband is directly related to the perceived relevance of the broadband and how 'digitally literate' the individual is in using the service." In other words, the test program really was trying to solve the problem of adoption, but as we know from independent studies, 2/3 of broadband non-adopters won't currently subscribe to the service for any price.[5] Especially with the introduction of broadband into the mix, the Commission seems to be torn between the somewhat competing goals of availability, affordability and adoption. The Commission needs to answer a very simple question, what is the purpose of Lifeline?

The Lifeline program continues to be the only uncapped program in the Fund. Moreover, the FCC just passed expansive new utility-style regulations on the Internet with Title II reclassification, so broadband Internet might soon be included in the contribution pool, and thus be taxed. In all, the changes set up Lifeline to become yet another unaccountable entitlement program, unconnected from its actual purpose.

[1] https://www.fcc.gov/document/chairman-seeks-comment-modernizing-reforming-lifeline-broadband