

Universal Service: Can We Do More with Less?

by

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Recommendations and Conclusion

During the second presidential debate of 2008, there was considerable discussion of the financial crisis. At one point in the debate, then Senator Obama argued that a key component of the financial crisis has been our nation's attempt to solve a twenty-first century problem with twentieth-century regulation. Almost everyone, of all political stripes, would agree as the phrase is applied to the financial sector.

President Obama's description, in general, would not seem to apply to modern telecommunications markets. In particular, a number of dimensions of the telecommunications industry and policy have been resoundingly successful. Policy developments have enabled long-distance prices to fall from \$.70 cents per minute in 1983 to roughly \$.07 per minute today.¹ Similarly, the opening of wireless markets to competition and the auctioning of spectrum have enabled prices for wireless services to decline substantially from \$.47 cents per minute in the mid-1990s to roughly \$.05 per minute today.² With the evolution of telecommunications policy, telecommunications services, as well as goods and services that rely on telecommunications, have become both inexpensive and ubiquitous. For instance, there are now over 260 million wireless subscribers in the United States. Moreover, broadband telecommunications infrastructure grew from only 4 million lines in 2000 to at least 120 million lines in late 2007.³ In general, the commitment by policymakers to enable competition and establish policies to promote investment in telecommunications infrastructure has been laudable.

At the same time, however, President Obama's phrase does not completely miss the mark in the realm of telecommunications policy. In particular, the now century-old effort to promote universal service remains woefully antiquated, misdirected and, from an economic perspective, massively bloated. The Broadband Data Improvement Act, signed into law at the end of 2007, points toward the future. It indicates that, "[c]ontinued progress in the deployment and adoption of broadband technology is vital to ensuring that our Nation remains competitive and continues to create business and job growth."⁴

In light of this clearly articulated goal, there should be little doubt that we should no longer linger on narrowband issues, but rather turn directly to the task of reforming and retooling universal service policy. Today, with roughly 95 percent of all households reporting availability of telephone service and some 260 million wireless subscribers, it is

¹ FEDERAL COMMUNICATIONS COMMISSION, TRENDS IN TELEPHONE SERVICE, Table 13.4 (2008). Prices are inflation-adjusted and stated in 2006 dollars.

² John W. Mayo, *It's No Time to Regulate Wireless Telephony*, 5 THE ECONOMISTS' VOICE, 2 (2008).

³ FEDERAL COMMUNICATIONS COMMISSION, HIGH-SPEED SERVICES FOR INTERNET ACCESS: STATUS AS OF DECEMBER 31, 2007, at 1(2009).

⁴ Broadband Data Improvement Act, *supra*, § 102 (1).

time – perhaps well past time – to declare victory in the quest to provide twentieth-century narrowband universal service and to turn to the twenty-first century challenge of broadband deployment and adoption.

In the face of a costly and backward-looking universal service policy and a clear, twenty-first century challenge of broadband deployment and adoption, the FCC has recently begun substantive efforts to reform universal service. It is essential that these reform efforts move forward in the Obama administration. While the details of an FCC reform plan can and should receive considerable discussion, the fundamental need for reform is, and has been, well known and long overdue. Given the clarity of economic principles and the possibility for improvements based on the lessons learned from narrowband universal service policy, a significant opportunity for the nation to “do more with less” presents itself as we turn to broadband universal service policies.

As clear as the path may seem, the path forward will certainly face challenges. Given the overwhelming *prima facie* case for universal service reform, however, opponents to such reform have increasingly adopted a “yes, but...” defense which essentially concedes that reform is necessary but argues that such reform is either: (a) in need of more discussion; or, (b) properly done at the state rather than federal level. While surely the process of reform should permit all parties to proffer their perspectives, it simply must be emphasized that *discussion* of reform has been going on for roughly twenty years.⁵ The positions and perspectives of virtually every industry player are well known and have been for a very long time. The call for further discussion should not be allowed to derail the critical need for tangible universal service policy reform.

It is also important not to allow the discussions of the appropriate venue (federal or state) to derail the move to universal service policy reform. Indeed, opponents of universal service reform have previously argued that state-level reforms must await the articulation of a retooled federal universal service policy. These same players now argue that FCC reform should defer to the leadership of the states. To accept this “dog-chasing-its-own-tail” argument will simply prolong the perpetuation of the massively costly and misdirected universal service subsidy mechanism. Moreover, a mechanism for the proper balancing and coordination of federal and state policy already exists in the form of the Federal-State Joint Board.

In conclusion, we stand at a moment that is ripe for substantively turning the corner on an antiquated, costly and “so-last-century” universal policy system. We can, indeed, do more with less, and the administration and Congress should encourage efforts by the FCC to streamline and refocus this twentieth-century policy to the challenges of the twenty-first century.

⁵ David. L. Kaserman, John W. Mayo and Joseph Flynn, *supra*.