

Georgetown University



The Georgetown Center for Business and Public Policy

Creating a 21st Century Universal Service Policy

John W. Mayo
Georgetown University
The Georgetown Center for Business and Public Policy
m Mayo@georgetown.edu
(202) 687-6972

Rayburn House Office Building
Friday, October 24, 2008

Can we do more, with less?

The Theory of Universal Service

- For most goods and services, we do not need a “universal service” policy.
- Why telecommunications?
 - Network externalities
 - Political unacceptability of some goods being unavailable to a segment or available only at a high cost (e.g., rural consumers)

The Evolution of Universal Service Policy

- 1907 - “one system, one policy, universal service.”
- 1934 - “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.”
- 1996 -The FCC and states shall “encourage the deployment on a reasonable and timely basis of advanced telecommunications capability to all Americans ...”

The Evolution of Universal Service

- 2008 - “Continued 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.”
 - Broadband Data Improvement Act
 - October 10, 2008

The Evolution of Universal Service Goals

- Corporate and governmental goals *may* be complementary
- Move from narrowband to broadband
- Availability/deployment to “deployment and adoption”

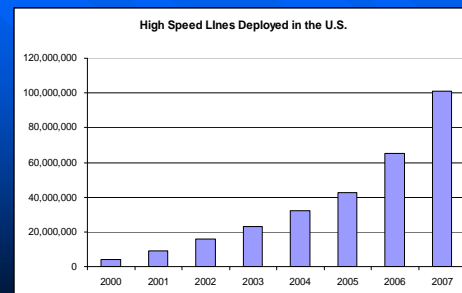
What have we accomplished and at what price?

- Narrowband
 - 94.6% of household have phone available (3/07)
- Wireless
 - 270 million handsets

Moving to the 21st Century...

- Declare victory and move on to the 21st century problem!
- So, moving on to broadband, where are we today?

Broadband Deployment in the United States



Source: FCC (2007)

Lessons learned from the narrowband USF policy

- Principles of Subsidization 101
 - Be clear on the goal
 - Make subsidies explicit and transparent
 - » Residual pricing
 - » Intercarrier compensation, urban/rural, business/residential
 - Collect subsidies from the widest possible funding base
 - Target subsidy flows to households (firms?) in need of subsidy
 - Design program to minimize the amount of subsidies necessary to accomplish the objective
 - » Competition & auctions to drive costs down
 - Design program to alleviate relevant constraints

Foundations for a 21st Century Universal Service Policy

- Must reorient funds away from narrow band
- Need to fund broadly
- For deployment, must hold telcos accountable to discrete goal
- For deployment create incentives for minimizing costs (e.g., competition enabling policies, reverse auctions)
- For adoption of broadband technology, must target assistance.
- For adoption, must identify and address relevant constraints.

Conclusion

- There is an opportunity to reform and rationalize universal service policy in the U.S.
- Narrowband universal service goals took a century and at too high a cost
- By adhering to the sound economic principles a 21st century policy can be far more effective and cost efficient