

# Broadband Connectivity

Improved Internet connectivity is essential to reduce socioeconomic inequality at home and to improve America's global economic competitiveness abroad. Recent increases in broadband investment and connectivity improvements suggest that the private sector could greatly expand broadband access without taxpayer assistance. Thanks to growing competition and technological innovation, Americans' Internet access will likely continue to improve without substantial intervention from Congress. Instead of providing wasteful subsidies, policy makers should work to remove regulatory barriers to entry to encourage broadband competition.

**Congress should:**

- ◆ Refrain from providing additional broadband funding in light of recent subsidies.
- ◆ Hold the Federal Communications Commission (FCC) accountable for meeting its statutory objectives.
- ◆ End the Universal Service Fund (USF) surcharge and fund the program via congressional appropriations instead.

Congress can take steps to ensure that newly allocated broadband funding is used effectively to promote connectivity while reducing long-term costs to American taxpayers.

First, given the recent authorization of funds through the American Rescue Plan and the Infrastructure Investment and Jobs Act, Congress should instruct the Federal Communications Commission to reconsider the future of its Universal Service Fund programs, which are intended to increase Internet connectivity to underserved areas, and evaluate which programs are necessary to achieve the Commission's statutory objectives.

Second, Congress should ensure that the FCC uses such funding effectively to meet the FCC's statutory objectives.

Third, Congress should create a legal framework to eliminate the USF surcharge and provide for congressional appropriations to fund future USF programs. Eliminating the surcharge will make broadband more affordable for lower-income households. Direct appropriations will allow Congress to set a hard limit on the amount of USF assistance, thereby encouraging more efficient usage of such funds.

## **Broadband Funding**

Congress should not provide any additional funding for broadband connectivity. The recent dramatic increase in federal funding means that the FCC has more than enough resources for the capital expenditures required to ensure universal broadband connectivity. A 2017 FCC report found that it would cost approximately \$40 billion in capital expenditures to ensure that broadband services reach 98 percent of households and small and medium-sized businesses. However, the FCC has already spent more than \$43 billion since 2017. Most recently, the American Rescue Plan provided \$350 billion to states and counties to improve infrastructure, including broadband. The Infrastructure Investment and Jobs Act provided more than \$60 billion for broadband.

## **Universal Service Fund**

Congress should direct the FCC to reconsider the extent to which its Universal Service Fund programs continue to serve their original intended purpose. For example, the FCC should consider phasing out its high-cost program, also known as the Connect America Fund. The USF's most expensive component, with an annual budget of \$4.5 billion, the high-cost program provides subsidies to Internet service providers (ISPs) for connectivity in rural, sparsely populated areas. However, as

noted, the Commission already has more than enough resources to achieve universal service without additional support through the high-cost program.

Furthermore, as private-sector investment has expanded broadband investment in rural areas, the lack of affordability—rather than connectivity—is now the more significant barrier to achieving universal Internet access.

Congress should ask the FCC to examine the extent to which the different USF components have been effective and to provide a rationale for continuing any existing programs, such as the E-Rate program for public schools and libraries. A comprehensive audit today will help ensure that taxpayer funding is used effectively in the future.

To ensure fiscal transparency, Congress should also instruct the FCC to provide a detailed timeline of when and how it plans to use the existing broadband funding to achieve universal Internet access throughout the country.

### **Universal Service Fund Surcharge**

In the long run, any remaining broadband subsidy programs should be subject to congressional oversight. To that end, Congress should shift the USF's funding from the current surcharge to direct congressional appropriations. The FCC imposes the surcharge on telecommunications companies, which generally pass it on to consumers in their broadband bill. The surcharge was only 3 percent in 1998, but it has steadily increased to reach 33.4 percent as of the second quarter of 2021—even though broadband subscription fees declined by 26 percent between 2008 and 2020.

The USF surcharge's regressive nature means that consumers pay the same percentage regardless of their income level, which undermines the program's purpose of promoting broadband access for lower-income households.

Congressional appropriations will have three advantages over the USF surcharge funding mechanism.

1. Removing the surcharge will make broadband subscriptions more affordable at the point of purchase.

2. Appropriations can help Congress hold the FCC accountable for how funds are used. According to the Government Accountability Office, USF programs are plagued by inefficiency and the lack of internal controls, and other sources have also criticized the misuse of funds.
3. Appropriations will allow Congress to set a hard limit on the amount of USF assistance, encouraging more efficient usage of such funds. To that end, Congress should consider annual reviews of different USF programs' effectiveness at meeting their intended targets. Such reviews can enable evidence-based decision making about which programs should continue to be funded and how much funding should be allocated.

In the long run, there is no alternative to market competition to expand broadband access. With that in mind, the FCC should seek to reduce regulatory barriers to private broadband investment and to promote competition between different types of ISPs, such as cable, fiber, and satellite. Creating a market-friendly regulatory environment is crucial to reducing broadband subscription prices and ensuring universal Internet access while lowering costs to taxpayers.

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### ***For Further Reading***

- Ryan Nabil, Comments before the Federal Communications Commission on the Future of the Universal Service Fund, Competitive Enterprise Institute, March 17, 2022, [https://cei.org/regulatory\\_comments/cei-comments-to-the-fcc-fcc-21-127/](https://cei.org/regulatory_comments/cei-comments-to-the-fcc-fcc-21-127/).
- Ryan Nabil, "Promote Competition Between 5G and Satellite Internet Providers," *Real Clear Policy*, May 10, 2021, [https://www.realclearpolicy.com/2021/05/10/promote\\_competition\\_between\\_5g\\_and\\_satellite\\_internet\\_providers\\_776392.html](https://www.realclearpolicy.com/2021/05/10/promote_competition_between_5g_and_satellite_internet_providers_776392.html).
- Ryan Nabil, "How to Expand Broadband Access without Spending \$100 Billion," *Real Clear Policy*, April 13, 2021, [https://www.realclearpolicy.com/articles/2021/04/13/how\\_to\\_expand\\_broadband\\_access\\_without\\_spending\\_100\\_billion\\_772426.html](https://www.realclearpolicy.com/articles/2021/04/13/how_to_expand_broadband_access_without_spending_100_billion_772426.html).