ITIF | INFORMATION TECHNOLOGY & INNOVATION FOUNDATION

Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of		
	)	
Lifeline and Link Up Reform and Modernization	)	WC Docket No. 11-42
	)	
Telecommunications Carriers Eligible for Universal Service Support Connect America Fund	)	WC Docket No. 09-197
	)	
	)	
Connect America Fund	)	WC Docket No. 10-90

Comments of ITIF

The Information Technology and Innovation Foundation (ITIF)[1] appreciates this opportunity to comment on the Federal Communications Commission's (FCC or the Commission) efforts to modernize the Lifeline program for the broadband era.[2]

ITIF strongly supports providing subsidies to help low-income Americans afford the communications services that are increasingly essential for modern life. Bringing Lifeline into the 21st century by adding support for broadband (wireline or wireless), coupled with common-sense reforms around eligibility administration and program oversight, should be change everyone supports. Introducing additional tools to cut waste, fraud, and abuse in the program, while extending a key component of universal service makes this is a win for both sides of the aisle. However, we urge the FCC to ensure consumers are free to choose the technology that best suits their needs, not forced into specific plans of the Commission's choosing.

[1] Founded in 2006, The Information Technology and Innovation Foundation, or ITIF, is a 501(c)(3) nonprofit, nonpartisan research and educational institute—a think tank—focusing on a host of critical issues at the intersection of technological innovation and public policy. Its mission is to formulate and promote policy solutions that accelerate innovation and boost productivity to spur growth, opportunity, and progress.

[2] *Lifeline and Link Up Reform and Modernization et al.*, WC Docket No. 11-42 et al., Second Further Notice of Proposed Rulemaking Order on Reconsideration, Second Report and Order, and Memorandum Opinion and Order, 30 FCC Rcd 7818 (2015) (Lifeline FNPRM).

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THE COMMISSION SHOULD MODERNIZE LIFELINE TO SUPPORT BROADBAND

ITIF reiterates its strong support for transitioning the Lifeline program to support broadband access for low-income consumers.[3] An effective national strategy to make the most of broadband requires policies not just to expand the supply of broadband infrastructure, but also address the demand side of the equation. The 2010 National Broadband Plan did just that, proposing that both Lifeline and Link-Up programs be extended to support broadband as a part of the goal to ensure that every American have affordable access to robust broadband service.[4]

As more and more services migrate online, realizing the full promise of the digital economy requires that the vast majority of citizens use the Internet. However, recent surveys show that roughly 15 percent of American adults do not use the Internet at all, and about 25 percent do not have an Internet connection at home.[5]

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[3] Indeed, such a change has been a long time coming—since 2009 we at ITIF have called for allowing consumers to use Lifeline assistance for broadband. *See* Robert D. Atkinson, "Policies to Increase Broadband Adoption at Home," ITIF (Nov., 2009), http://www.itif.org/files/2009-demand-side-policies.pdf.

[4] Federal Communications Commission, Connecting America: The National Broadband Plan at 10, 172-73 (2010) https://apps.fcc.gov/edocs_public/attachmatch/DOC-296935A1.pdf (National Broadband Plan).

[5] *See* Monica Anderson & Andrew Perrin, "15% of Americans don't use the internet. Who are they?" Pew Research Center: FactTank, (July 28, 2015) http://www.pewresearch.org/fact-tank/2015/07/28/15-of-americans-dont-use-the-

Surveys have uncovered a variety of different reasons consumers decide to go without broadband. Non-adoption is a complex social issue, with no single panacea. Important factors include a lack of perceived relevance, inadequate digital literacy, and limited computer ownership.[6] According to Pew research, roughly one third of Internet non-adopters did not go online because they had no interest or did not think the Internet was relevant to them.[7] Another third of non-users said the Internet was too difficult to use.[8]

But, importantly, cost was an explicit barrier for some non-adopters: Almost twenty percent cited the expense of Internet service or owning a computer as a reason for not subscribing to broadband services. So while Lifeline will not solve all Internet adoption challenges—and we should continue to support other programs aimed at addressing digital literacy—a subsidy to help low-income users pay for broadband will address a clear need.

As well-detailed in the Further Notice of Proposed Rulemaking (FNPRM), this is good social policy as well. Schools increasingly rely on online learning and expect students to have a broadband connection at home—Lifeline can help to close the "homework gap" by assisting the five million households with school-age children that do not have a broadband connection.[9] An Internet connection is also quickly becoming an essential tool to participate in the economy. When the majority of large companies require job applications be submitted online, and, for similar reasons, government services at the federal and local level are moving online, we should ensure as many citizens have access to the Internet as possible.[10]

Broadband exhibits positive externalities—the benefits from broadband adoption accrue not just to individual consumers, but to other broadband users and society as a whole. Perhaps the most important of these

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internet-who-are-they/; Pew Research Center: Internet, Science & Tech, "Offline Adults," http://www.pewinternet.org/data-trend/internet-use/offline-adults/.

[6] *See* Kathryn Zickuhr, "Who's Not Online and Why," Pew Research Center: Internet, Science & Tech (Sept. 25, 2013), http://www.pewinternet.org/2013/09/25/whos-not-online-and-why/; s*ee also*, Octavian Carare *et. al.*, "The Willingness to Pay for Broadband of Non-Adopters in the U.S.: Estimates from a Multi-State Survey" (Nov. 18, 2014).

[7] *Id*.

[8] *Id*.

[9] *See* Jessica Rosenworcel, "Bridging the Homework Gap," Huff Post Education (June 15, 2015) http://www.huffingtonpost.com/jessica-rosenworcel/bridging-the-homework-gap_b_7590042.html.

[10] *See* FNPRM at 7823, para 5 *citing* John Horrigan, "The Essentials of Connectivity: Comcast's Internet Essential Program and a Playbook for Expanding Broadband Adoption and Use in America," at 6 (Mar. 2014).

externalities are network effects: the more people are online, the more valuable it is to other users and society as a whole.

There are real efficiencies to getting a greater percentage of our population online. If we as a society could operate with the assumption that everyone is online, the cost savings to government and businesses alike would be significant, as they could more easily phase out more expensive non-digital channels. To make the most of these benefits, the FCC should think of Lifeline not just as a subsidy program, but as an adoption tool.

The Lifeline program presents an opportunity to target broadband adoption efforts to those most likely to go without access. Computer ownership and Internet use are strongly correlated with income level—a low-income subsidy provides a tool to create an adoption platform targeted to populations, even if cost is not the primary reason they choose to go without access.[11]

ITIF believes this is good policy regardless of the specific legal mechanism that underpins a transition, but cautions against relying solely on the Commission's unfortunate decision to classify broadband Internet access as a telecommunications service. With the Title II classification of broadband pending in court, the FCC would be wise to utilize other legal authority that does not reduce consumers' ability to choose the communications platform of their choice.[12] Section 706 could be appropriate grounds: Bringing additional users online expands the demand for broadband.[13] As more users see the value of broadband, the additional demand will increase competition to provide advanced telecommunications capabilities, as encouraged by section 706 of the Communications Act.[14] The unsteady jurisdictional footing for this transition is yet another reason to support an alternative, contemporary legal framework for broadband regulation over Title II.

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[11] *See* Economics and Statistics Administration and National Telecommunications and Information Administration (NTIA), "Exploring the Digital Nation: Computer and Internet Use at Home" at 11-12 (Nov., 2011), http://www.ntia.doc.gov/files/ntia/publications/exploring_the_digital_nation_computer_and_internet_use_at_home_11092011.pdf.

[12] Lifeline beneficiaries should not be forced to purchase a bundle of broadband and voice, which may be required if the Commission relies on conditions placed on traditional voice services. *See* FNPRM at 7845, para 62.

[13] "Broadband" as used throughout the FNPRM. *See* FNPRM at 7821, fn. 13.

[14] 47 U.S.C § 1302.

MINIMUM SERVICE STANDARDS ARE MISGUIDED

While the FCC should make the transition to broadband support a priority, ITIF believes that its proposals around minimum speed or any other service standards, such as latency requirements or data caps, are misguided. It is not clear why such service standards would be necessary. Most applications can function with relatively modest throughput and existing low-cost options indicate deficient service should not be a concern. One overriding purpose of extending lifeline to broadband is precisely to give more choice to consumers in how they want to use this communications subsidy. Telling recipients that they cannot purchase lower speed broadband, even if it is cheaper, goes against the very spirit of the proposal.

Minimum standards are not necessary

The Commission proposes to establish minimum service levels for providers offerings of both fixed and mobile broadband service in order to be eligible to receive reimbursement, stating that such minimum service levels are necessary "to ensure that any Lifeline offering is sufficient for consumers to participate in the economy."[15] While the goal is to provide access to broadband, it is not clear that such minimum standards are necessary.

First, most all Internet applications can function with relatively modest throughput. Those functions necessary for participating in society and the economy, things like web browsing, email, or submitting a job application can be done with a relatively slow connection. The marginal value of additional broadband capacity drops off very quickly—the value of upgrading from 1 to 5 Mbps is higher than, say, from 10 to 50 Mbps. This suggests the Commission should focus primarily on assisting those who would otherwise go without broadband before worrying about minimum standards.

Bandwidth consumption is driven by high-resolution video. As explained in the National Broadband Plan, "[e]xcept for high-definition video, most applications in use today can be supported by actual download speeds of about 1 Mbps."[16] In 2009, ITIF examined the applications enabled by next-generation broadband speeds, finding that the amount of bandwidth a household requires depends largely on the *resolution* of video it draws from the Internet.[17]

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[15] FNPRM at 7828, para. 17.

[16] National Broadband Plan at 16.

[17] Stephen Ezell, et al., "The Need for Speed: The Importance of Next-Generation Broadband Networks" (2009) http://www.itif.org/files/2009-needforspeed.pdf.

In practice, the difference between, say, 5 and 20 Mbps would be little more than the capability to stream low-resolution video and high definition video. Browsing the web may be marginally slower, but the policy goal should be to help people simply get online in the first place. It would be bad policy to *require* our nation's poor to pay extra before benefiting from the Lifeline subsidies to ensure they enjoy YouTube in high-definition instead of 360p. Such a regime would be complex and paternalistic with little benefit to show for it.

Furthermore, low-cost options already offered in the marketplace indicate providers offering a deficient service should not be a concern. Comcast's Internet Essential's plan, for example, offers a 10 Mbps connection for little more than the proposed subsidy amount.[18] Such a download speed, while perhaps not enough for high-definition telepresence, is more than sufficient to "participate in the economy." As the government takes on the role of managing eligibility for such programs, the ability for providers to offer low-cost packages should expand.[19]

While the Commission does not offer any specific proposed standards, the Commission makes passing reference to the 10/1 Mbps standard in the Connect America Fund program.[20] The FCC should recognize the difference between funding the supply of broadband in high-cost areas, where it is perfectly legitimate to ensure a network can reach a certain level of performance, and assisting low-income Americans in an existing broadband marketplace. By broadening the number of carriers Lifeline participants can choose from, the Commission will allow participation in a dynamic market that has seen consistent improvement in services offered over time.

Minimum standards would reduce participation

Minimum speeds, if set high enough to require user contribution, could reduce participation significantly while tilting the program to those who can most easily afford broadband, running counter to the goal of the program. In stating that the minimum standards it proposes "may require low-income consumers to

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[18] *See* Internet Essentials from Comcast, "Affordable Internet at Home for Eligible Families," https://www.internetessentials.com/. Note that since starting the program, Comcast has doubled the download speed and is exploring expanding eligibility of the program to senior citizens without regulatory requirements, strongly indicating that such offerings would be sustainable for similar providers under a Lifeline subsidy.

[19] The extent the government can take on the burden of managing eligibility, such beneficial price discrimination should grow. The Commission should aim to enable a third-party platform to assist carriers identify potential broadband users who do not qualify for Lifeline that may be interested in other lower-cost offering.

[20] *See* FNPRM at 7841; The Commission also relies on the June 10, 2015 letter from The Leadership Conference, which suggests a minimum speed requirement similar to that in the Connect America Fund.

contribute personal funds for such robust service," the FCC acknowledges this outcome is possible.[21] Instead, the Commission should determine the appropriate level of eligibility and work to get all those who qualify connected, leaving the choice of speeds and mode (wireline or wireless) up to the participants.

As discussed further below, such required contributions may be a useful tool to control the growth of the program if well designed. But contribution requirements should be made explicitly instead of trying to bake them into a minimum service standard. Behavioral economics teaches us that even small amounts of "skin in the game" can dramatically reduce participation—such requirements should be made with care, and not at a step removed through minimum service levels.

THE COMMISSION SHOULD SEEK TO MAXIMIZE CONSUMER CHOICE

The Commission should eschew a complex system of minimum service levels, that would have to be adjusted market-by-market and over time, and instead keep the program simple and straight-forward, maximizing flexibility. User choice and market forces should provide the best options in a given geography at a given time.

Voucher

A simple voucher system is the best way to allow market forces to cater to low-income broadband users. The FCC should favor a technologically neutral approach that allows consumers to choose the communications tools that best fit their needs. Consumers know best what they want and need in communications services and whether or how much of their income they would like to devote in addition to a subsidy.

The Commission should offer flexible vouchers than can be easily used with a wide array of providers and services. Eligibility should be flexible to allow consumer demand and market forces to find the best solutions to participants' needs. Consumers will presumably want the fastest service they can get for their money, alleviating concerns that an offering will not be "sufficient to participate in the economy," but they may well value, say, mobility over throughput. Or perhaps they may favor a brand for its reputation, customer service, or a particular pricing plan. Mobile broadband providers are increasingly seeking to differentiate themselves in creative ways that Lifeline beneficiaries may value. Perhaps they move frequently, or live in very rural locations and value a satellite service despite latency limitations.

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[21] FNPRM at 7827, para. 15.

The Commission should avoid putting too many restrictions on eligible carriers or the type of service that qualifies for support. The support should be in the form of a general-purpose communications voucher that could be used for standalone voice, broadband, or a bundle offered over any technological platform. Such flexibility should ultimately reduce costs for the government to administer, as a voucher system would forgo the cost of having to determine, verify, and monitor a required minimum level of service.

The Commission should avoid overly-specific privacy requirements beyond a baseline opt-out mechanism, and wait before implementing any privacy regulations until it has been through notice and comment of a proceeding specific to potential privacy rules.[22]

Streamlined

A voucher program should be integrated with other benefits programs. Many states already combine multiple benefits, such as Supplemental Nutrition Assistance Program (SNAP) or Temporary Assistance for Needy Families (TANF) onto a single Electronic Benefit Transfer (EBT) card. Lifeline should also be combined with such programs for coordinated, streamlined enrollment. This should allow benefits should be transferred directly to the consumer to spend on any eligible carrier they prefer.

THE COMMISSION SHOULD ADOPT EXPLICIT MECHANISMS TO MANAGE FINANCES

Lifeline support comes from an uncapped fund for which eligibility is determined by need, and demand of the program depends on many factors. Depending on the state of the economy, effect of outreach efforts, the amount of subsidy provided, the number and type of eligible services and the evolution of consumer demand, overall Lifeline spending can unpredictably grow or shrink over time.

The FCC is right to proceed carefully to avoid the need to increase in universal service contributions. From an economics perspective, it makes little sense to tax telecommunications services we want to encourage, even for as good a cause as Lifeline. It would be better if universal service funds were drawn from a general tax, or from a trust fund supported by spectrum auction revenues, but, for practical purposes, the FCC should move forward within the framework they have to work with.

[22] *See* Doug Brake et al., "The FCC's Privacy Foray: Privacy Regulation Under Title II," ITIF (April, 2015) http://www2.itif.org/2015-fcc-privacy.pdf.

As suggested by the National Broadband Plan, the Commission should consider adjusting the relative proportion of its various universal service funds over time. For example, it may make sense to shift resources from the high-cost fund to Lifeline, as demand-side strategies offer more value than supply-side deployment subsidies.[23]

It is not necessary that the Commission get bogged down in specific budgetary details in this proceeding. The important first step is in transitioning the program to support broadband. As we learn more about the level of demand and other dynamics of the transition, the FCC can take steps to adjust the program through a number of mechanisms. However, the Commission should give itself these tools up front, and adjust the program to keep its finances under control.

Cap

The Lifeline program is intended to counteract negative economic circumstances, assisting those who are unable to pay for what is an increasingly essential service. If not well thought out, a cap could adversely affect the ability of the program to assist the economy in rebounding from a downturn if larger numbers of legitimate participants sign up.

However, a cap may be appropriate if the program begins to grow too quickly. Such restrictions should be implemented not by a cap directly on the number of participants, or cut-off on the amount of money spent, but by ratcheting up eligibility requirements over time. A cap should be designed so that those who would most benefit by the program remain eligible. Also, if it becomes apparent that a cap is necessary, it should be adjusted by rate of GDP growth as opposed to an annual increase tied to inflation in order to control for increase in population.

The Commission is right to want to avoid having to cut off support to eligible participants. Adjustments to the eligibility requirements could be coupled with a tapering of support over time to ensure that support goes to new participants who are most in need instead of prematurely denying benefits entirely.

Participant Contribution

As mentioned above, a minimum contribution requirement, to have some "skin in the game," can be a powerful tool to control overall spending levels, while also reducing fraud. While a minimum contribution

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[23] *See* National Broadband Plan at 150.

should be required, such mechanisms must be carefully designed to ensure it does not impede the ability for the Lifeline program to operate as a tool to increase adoption. If taken too far, required contribution could see subsidies shifting away from those most in need toward those who can more easily afford broadband.

Moreover, survey data indicate that non-adopters are primarily driven by a perceived lack of relevance or lack of interest.[24] A contribution requirement may reduce participation by those who are not too interested to begin with.

However, a required contribution, even minimal, would help reduce fraud and abuse. Therefore the Commission should proceed carefully, implementing only a modest, required contribution for the first year or two, with the contribution amount ratcheting up over time. Such a mechanism would ensure that Lifeline remains a useful tool to maximize broadband adoption. And, again, the Commission should implement a mandatory contribution directly.

REFORMS SHOULD TARGET WASTE, FRAUD AND ABUSE

As noted by the FNPRM, one of the best ways to limit excessive spending by the program is to cut waste, fraud, and abuse. As mentioned above, a modest participant contribution should help cut down on fraud. Another obvious step is to transition eligibility determination and verification to one or more third-parties. Not only will this remove a clear opportunity for fraud, it should reduce the burden on providers, freeing up resources to potentially improve the subsidized offering. Carriers should be able to easily check eligibility verification, allowing for a platform to design specialized service offerings for participants.

CONCLUSION

As Commissioner Clyburn has said, Lifeline reform presents a real opportunity to "increase the value to recipients through current market forces, without raising any existing subsidy, by streamlining and reducing administrative burdens, and encouraging broader participation and more choice for consumers."[25] This reform represents an important transition for a key component of universal service. The Commission should keep the program simple, relying on a straightforward voucher system that maximizes consumer choice.

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[24] *See* Carare et al., *supra* note 6 (stating that approximately two-thirds of reporting non-adopting households would not consider subscribing to broadband at any price).

[25] Commissioner Mignon Clyburn, "Reforming Lifeline for the Broadband Era," Speech at American Enterprise Insitute (Nov. 12, 2014), *available at* https://apps.fcc.gov/edocs_public/attachmatch/DOC-330453A1.pdf.

Commonsense reforms to reduce fraud and abuse, combined with smart mechanisms to control program finances, should ensure this is an effective tool to maximize broadband value for all Americans.

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August 31, 2015