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To: Bruce Reed
Asst. to the President for Domestic Policy
From: Jeff Chester
Executive Director, Center for Media Education
Re: Deepening the Digital Divide

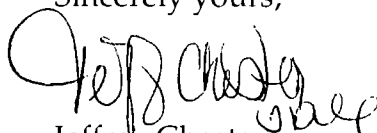
As you know, longstanding federal universal service policy has been bringing affordable telecommunications services to American homes and businesses regardless of geographic location or income for over sixty years. Most recently, Universal Service was updated for the Twenty First century to include discounts on information and telecommunications services for schools and libraries in the program popularly known as the "E-Rate."

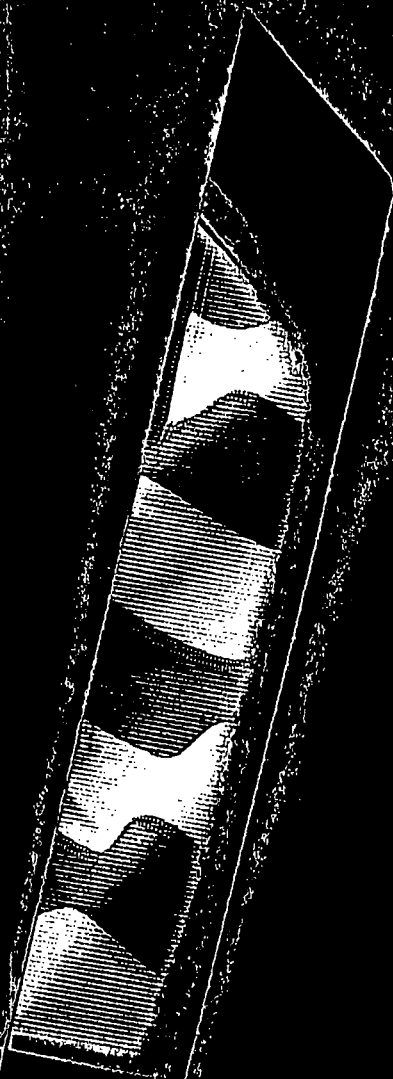
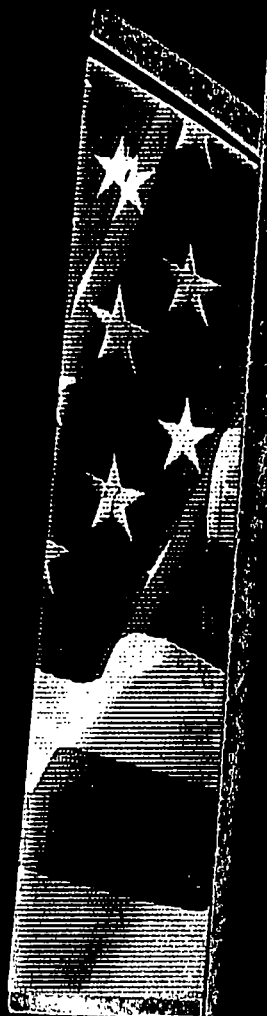
In recent months, however, Universal Service policy has come under attack from a number of different sides. Most critics seek to dismantle Universal Service in the name of competition, claiming (incorrectly) that the two cannot exist side-by-side. Others have set their sights on the E-Rate charging, among other things that program is an illegal tax. But all critics appear united in one goal: dismantling the federal commitment to assure that all Americans are able to enjoy the benefits of the information age.

Enclosed is a copy of Deepening the Digital Divide, a new report by the Center for Media Education intended to set the record straight on the universal service program. Our analysis shows that universal service policies are not at odds with competition or with the development of new information technologies. Indeed, the growing importance of telecommunications and information services to every aspect of civic life makes clear that the Universal Service program is essential to assuring that the information age unites and empowers us all rather than leaving many behind. Without Universal Service, many Americans will simply be unable to meaningfully participate in the civic, cultural and economic benefits that these new technologies afford.

I hope that you find the report to be informative and that it will prove useful to you as policy deliberations on universal service continue at both the state and federal level next year. The Report is also available online at www.cme.org.

Sincerely yours,


Jeffrey Chester



Deepening the Digital Divide:

THE WAR ON UNIVERSAL SERVICE

October 1998



Center for Media Education

Deepening the Digital Divide: *The War on Universal Service*

Executive Summary	3
Introduction	5
Universal Service: An American Value	6
Universal Service – Myths versus Facts	7
High Cost Support	8
Lifeline And Link Up	9
Schools, Libraries, And Rural Health Care Providers	11
“Hidden Taxes:” Pushing the Usual Hot Button	14
Competition: Still Waiting for the Dial Tone	17
Conclusion	19

The **Center for Media Education** is a national nonprofit organization dedicated to creating a quality media culture for children, families and their communities. Founded in 1991, **CME** fosters telecommunications policymaking in the public interest through its research, advocacy, public education and outreach initiatives. This report is part of **CME's Connecting Children to the Future** initiative, which is focused on ensuring that families from economically-disadvantaged communities will have equitable access to the information infrastructure. Major funding for the initiative comes from the Annie E. Casey Foundation and the Carnegie Corporation of New York. "Deepening the Digital Divide" follows an earlier report, "Ensuring Telephone Access in the Digital Age," released last February. **CME** has also recently issued a brochure, "Educating Your Child for the 21st Century: A Parent's Guide to the E-Rate." The February report and recent brochure are available from the **Center for Media Education's** website at <http://www.cme.org/cme>.

Deepening the Digital Divide: *The War on Universal Service*

Executive Summary

Two and a half years ago, the Congress enacted the Telecommunications Act of 1996. This landmark piece of legislation charted a course to move America's highly regulated telecommunications industry into the open waters of competition while preserving Universal Service. Universal Service policy has been one of the foundations of telecommunications policy in the United States for more than 60 years. The Act enhanced the tradition of Universal Service by extending discounts to schools and libraries. Critics have viciously attacked the schools and libraries program, contributing to the program being downsized 50% in its first year. These attacks are part of a larger strategy to dismantle the idea of equitable access to communications, even as we move into the Information Age.

Universal Service – a program whose name makes clear its goal – consists of several elements. These different programs make phone service available and affordable for rural and low income consumers, and lower rates on telecommunications services, Internet access, and internal networking for schools and libraries. These programs have served and continue to serve important roles. Recent evidence indicates that the digital divide in America is actually widening. Low income households are significantly less likely to be connected than medium and high income households. Equally discouraging, schools in low income communities are also significantly less likely to be connected than schools in more wealthy communities.

Universal Service is a program designed to protect equality of opportunity in America. By giving people access to communications technologies, Universal Service enhances the very value of those technologies. Furthermore, by supporting public institutions like schools and libraries, the program is helping to bring access to the tools of the future to every community in America.

Critics have pointed to the evolution of technology as rendering Universal Service obsolete. According to these critics, technology, partnered with competition, will ensure that services are inexpensive and widely available. Unfortunately, these analyses typically forget to mention that prices will rise dramatically in much of the country, especially in rural areas, where new technologies have not been and are not likely to be deployed, at least in the short to medium term. Equally unfortunate, the loudly cried benefits of competition also have yet to emerge; Americans are paying more, rather than less, for their phone and cable service than they were two years ago. Rather than

competition, the last two years have seen consolidation, and the elimination of Universal Service will leave consumers with the bill.

The most recent round of criticisms of Universal Service have been complaints that the program is a new, hidden tax. Unfortunately, these complaints are without merit. Universal Service is neither new nor a tax. Telecommunications companies, not the Federal Government, have made the decision to charge consumers Universal Service fees for the first time, and have tacked on their own surcharge at the same time.

A meaningful debate on the real issues surrounding telecommunications deregulation – where are the benefits for consumers, which programs should be continued, and how to continue them in a competitively neutral fashion – needs to be held. Ideological attacks not only miss the point but also unnecessarily muddy the waters, preventing the real issues from being addressed.

Introduction

In recent months, a number of conservative groups and pundits have launched assaults on the nation's longstanding Universal Service program. The Cato Institute, for example recently released a report "Universal Service: The New Entitlement and Taxes," which called for the elimination of Universal Service for rural residents, low income consumers, schools and libraries. Others have quickly followed suit.¹ The groups have argued that, rather than continuing the nation's historic obligation to ensure that all Americans are able to connect to the fundamental communications networks that binds us together, the federal government should completely eliminate industry's Universal Service obligations and place blind trust in the forces of competition to bring affordable service to all Americans.

These assaults represent the opening salvos in an ideological war on Universal Service in which the historical, technological, and economic realities that continue to shape the telecommunications industry are all but ignored. If the "let them eat deregulation" solution prevails, many Americans will be unhitched from the high technology train that is driving the growth of the American economy, shaping the job market and providing new opportunities for civic engagement.

Many of the recent attacks center on the newest Universal Service program – the E-Rate, which provides discounted telecommunications services to schools and libraries; but they are not aimed at that program alone. They are a stalking horse intended to undermine support for all of Universal Service, chill thoughtful discussion of its future course, and create division and distrust among Universal Service stakeholders in order to weaken the support for the program as a whole.²

In the next year – when critical decisions about Universal Service will be made³ – and for

¹ See, for example, James Glassman's article op-ed "Gore's Internet Fiasco," June 2, 1998, available online at <http://www.aei.org/ra/raglass23.htm>; the National Taxpayers Union's "Gore Tax" website at <http://www.goretax.com>; or "Technology Will Kill Telecom Taxes," an op-ed by Ira Goldman in the August 10, 1998 Wall Street Journal. The Cato Institute's report "Universal Service: the New Telecommunications Entitlement and Taxes," June 1998, is available from the Cato website at <http://www.cato.org>.

² While most of the debate in recent months has only explicitly threatened the Schools and Libraries program, some of the recent criticisms have made it clear that the entire Universal Service program is under threat. For instance, the Cato Institute's report calls for the dismantling of the entire Universal Service program.

³ The FCC has postponed the decision on the high cost fund for large local exchange carriers until July 1999. For small carriers, the FCC will be making a transition to the newer high cost mechanisms in 2001. See "FCC Asks Joint Board For Universal Service Recommendations," Telecom AM, July 20, 1998 (available online at <http://www.telecommunications.com/am/>). The Joint Board on Universal Service will also conduct a broader review of the entire Universal Service program in 2001 (or sooner if necessary; see the Report and Order on Universal Service (with errata), FCC 97-157, 6/4/98, Sec. X, ¶526, available online at http://www.fcc.gov/ccb/universal_service/fcc97157/sec10.html).

the foreseeable future, it is important not to allow shrill ideological voices undermine a thoughtful discussion of the appropriate shape and scope of Universal Service for the twenty-first century. Is, as the Cato Institute argues, the “nation-building phase” of our history long past, and thus the need for Universal Service diminished, or do new information technologies provide an opportunity to build a stronger civic connection and a nation equipped to meet the challenges of the next century? Unlike the program’s critics, the Center for Media Education strongly believes that we must preserve Universal Service and assure that all Americans have affordable access to new technologies. How to get there is a question that deserves informed debate and a firm understanding of the facts. The recent reports by Cato and the like – which simply call for junking the system – are a dangerous point of departure for that debate.

Universal Service: An American Value

Universal Service has been a core value of American telecommunications policy since 1934. For more than 60 years, Universal Service policies have assured that all Americans regardless of geography and income have had access to affordable telephone service. In doing so, they have been assured more than a phone; they have been assured a connection to the diverse sources of information and ideas upon which our democracy was founded. Universal Service has been particularly important in bringing telephone service to rural and insular areas, where communication is traditionally difficult. In addition, Universal Service policy has added economic value to the phone network as more and more users are able to communicate with one another.

In addition to setting the stage for the deregulation of the telecommunications industry (one of the most profitable industries in America),⁴ the 1996 Telecommunications Act put into place a new, explicit system to ensure that Universal Service is preserved as the industry moves from the traditional regulated structure into a new, competitive phase.⁵ That new legislation provided two important advances to Universal Service policy. First, it recognized that all Americans should have access over time to advanced communications – a first step in moving Universal Service from phone service to Internet access. Also, the Act lowered the cost of telecommunications and information services for schools and libraries for the first time, bringing not only phone service but also broadband

⁴ According to the most recent figures in Business Week, profits for telephone companies in 1998 are up 46% compared to 1997. Telephone companies in the most recent quarter had a profit margin of 16.2%. See “Corporate Scoreboard,” Business Week, August 17, 1998 (available online from <http://www.businessweek.com/pdfs/2quart98.pdf>).

⁵ 47 U.S.C. § 254. The Act was heavily lobbied for by the telecommunications industry, which promised members of Congress that the resulting competition would drive down prices for consumers. This approach has met with limited success, at best. See “Competition: Still Waiting for the Dial Tone,” below.

two-way communications and information services into the classroom and the community.⁶

Together, these updated Universal Service policies are intended to ensure that every community will reap the benefits of the new information age no matter how remote or poor that community might be. Universal Service policy makes sense as national policy at several levels. As social policy, Universal Service has served to narrow the gap between rich and poor, and allowed all members of society to participate in the civic discourse; as industrial policy, Universal Service has increased the value of the telecommunications network by supporting the build out of the telecommunications infrastructure; and as educational policy, it will help to bring the tools of the twenty-first century into America's classrooms and libraries. With the continued growth in the importance of the new technologies, including e-mail and the Internet, CME believes that all Americans should be able to participate in this new world.⁷ Universal Service is an important part of making that happen.

Universal Service – Myths versus Facts

Accurate information is essential to any meaningful discourse. However, the debate over Universal Service has been fraught with misinformation. Whether the campaign of misinformation is intentional or not, many of these claims have taken on a life of their own. The record needs to be set straight. The following is a very brief explanation of the three components of Universal Service (high cost support, lifeline/link up, and schools and libraries) and a debunking of some of the more prevalent myths.

The Universal Service program originally consisted solely of "high cost support," that is, support to allow telephone companies to bring service at reasonable rates to areas that would otherwise be too expensive to serve. Most of these areas are rural and/or remote. After the break-up of the AT&T monopoly in the early 1980s, the Federal Communications Commission expanded the Universal Service program to include Lifeline and Link Up programs, which make phone service and installation, respectively, more affordable for low income residents. Most recently, the program was expanded to include support for elementary and secondary schools, public libraries, and rural health care facilities.

⁶ 47 U.S.C. § 254(h)(1)(b)

⁷ Many other organizations have also come out in favor of making the tools of the Information Superhighway universally available. For instance, Rand and the Markle Foundation have both stated that they believe free e-mail should be available to all citizens. See C. Richard Neu, Robert H. Anderson, Tora K. Bikson, E-Mail Communication Between Government and Citizens, August 1998 (available online from <http://www.rand.org/publications/IP/IP178/>).

High Cost Support

The original goal of Universal Service was to ensure that telecommunications services were available in all parts of the country. As the telephone network was first developing, consumers in many rural areas were unable to purchase telephone service at any cost because the phone company did not find it economically favorable to serve them. The high cost support program was designed as a set of cross subsidies to ensure that rural areas were served, and that rates in those areas that were roughly comparable to those in urban America. The costs of the program were included in the rates that phone users paid for long distance and in the higher rates that businesses pay for local service. The 1996 Act explicitly sought to provide services in rural and high cost areas at prices that are “reasonably comparable” to those charged in urban areas.⁸ Despite these policies, many rural residents are still unable to get many “advanced” telecommunications services – and, in some cases, people can’t even get basic phone service.⁹

Taken at face value, proposals to eliminate programs like support for affordable service in high cost areas would have a devastating effect on rural America. About a million households in the most sparsely populated areas of the nation would be subject to monthly bills for basic telephone service that average well over \$100 per month. Another 15 million people who live in more typical rural areas would experience a tripling of their bills to around \$40 per month. The rest of the country would have an average monthly bill of about \$13 per month. It was to avoid such disparities and to preserve the integration of rural and urban America that congress required that rural and urban areas have reasonably comparable services available at reasonably comparable rates.¹⁰

One frequent criticism of the high cost support fund is that it provides subsidies to all rural Americans, regardless of income. Why, they opine, should a town such as Aspen, Colorado or a ranch owned by Ted Turner be subsidized? The answer is actually rather simple. While some residents of rural America can surely afford higher phone rates, the high cost support program was never intended to be means tested; it is not a “welfare” policy. It is an infrastructure program (like the federal highway system) intended to ensure that rural areas that are uneconomical to serve are able to build the communications infrastructure necessary for economic as well as community development.¹¹ Therefore,

⁸ 47 U.S.C. § 254(b)(3).

⁹ See statement of FCC Commissioner Gloria Tristani at 7/9/1998 *En Banc* hearing on bandwidth (available online at <http://www.fcc.gov/enbanc/070998/eb070998.html>).

¹⁰ The cost of providing telephone service is generally determined by using a cost proxy model: the two most common are the Hatfield Model and the Benchmark Cost Proxy Model (BCPM). The cost figures used here are based on unpublished statistical runs of the Hatfield Model and BCPM run by Mark Cooper for the Center for Media Education.

¹¹ It is important to note that the other two parts of the Universal Service program – Lifeline/Linkup and Schools and Libraries – are both means tested.

all residents of high cost areas – regardless of their level of income – receive high cost support.

Universal Service critics have also claimed that market forces alone will find solutions for rural areas, as competition develops and new technologies are developed and brought to market. While new technologies offer promise for some rural areas, there are extensive technical difficulties and financial risks involved in reaching rural markets. Many critics have also failed to recognize that many of the new technologies rely in part on traditional wireline telephone service, and may not be fully substitutable. For example, although cellular services are available in some rural areas, in many they are not available or are available only at an exorbitant cost – hardly comparable to that of regular telephone service.¹² In recent years, cellular prices have tumbled, but many of the price changes have come in urban centers, where competition has emerged. Rural areas are unlikely to benefit directly from this competition.

To be sure, technology and competition will be strong, positive forces for change in the telecommunications arena, and both should be encouraged. However, there are communities that are simply not as profitable to serve without added incentives. The Universal Service program provides those incentives. If, as critics urge, the high cost support program were entirely eliminated, the price of telephone service in rural areas would become prohibitive.

Lifeline and Link Up

The Lifeline program lowers the cost of monthly phone service for people who would otherwise have great difficulty affording it. The Link Up program lowers the cost of phone service installation for low-income households. Both programs are means tested.¹³ Since the inception of the Lifeline program in 1984, the percentage of poor households (with an income of less than \$10,000/yr) that are able to afford telephone service has increased from 80% to 85%. The number of households taking advantage of the program has also increased dramatically, from roughly 100,000 in 1988 to more than 800,000 today. However, despite these successes, there is still a great need for these programs.

¹² Some wireless carriers have filed petitions with the FCC to provide services which presumably are comparable to wireline services in terms of quality (See “Wireless Industry Begins Push for Universal Service Support,” Telecom AM, 7/15/1998). However, it is important to keep in mind that many of the new technologies that are emerging to compete with traditional wireline technologies are in fact highly dependent (at some level) on traditional wireline connections. For instance, cellular towers are typically connected to a wireline connection through which cellular traffic is routed; similarly, many “interactive” satellite services, such as DirecPC, require a traditional telephone connection for upstream traffic, as the satellite is used purely for downstream connectivity.

¹³ Historically, each state could define its own threshold for need. However, the May 1997 Universal Service Order from the FCC standardizes the definition of need for states that wish to receive federal Universal Service assistance.

Approximately 11.8% of all households live below the poverty line (accounting for roughly 30 million Americans).¹⁴ Only 71% of households with an income under \$5,000 have phone service in their homes – compared to over 99% of households with an income of \$35,000 or above.¹⁵ Overall, 18% of households living in poverty lack phone service and an astonishing 23% of families with children living at or below the poverty line lack phone service.¹⁶ Divided along race lines, 94.9% of Whites had telephone service in their home in 1996, while only 87.3% of Blacks and 86.4% of Hispanics had phone service at home.¹⁷ Lifeline and Link Up allow many Americans to afford phone service that would otherwise be inaccessible to them.¹⁸ And the program could help many more. According to the Current Population Survey, approximately 19 million households would be eligible for Lifeline assistance based on the FCC guidelines. That means almost 50 million Americans could be helped by the program.

Critics have rejected the need for Lifeline and Link Up services to the poor by pointing to the high rate of subscribership for phone service. In doing so, they have completely confused cause and effect. A number of reports have conclusively proven the direct relationship between the level of income and the likelihood of telephone subscribership. In addition, as participation in the Lifeline and Link Up programs has increased (especially among low-income families), the rate of subscribership has experienced a commensurate increase. The current levels of subscribership – with over 95% of all households able to afford phone service – are as high as they are in part because of Universal Service.

Despite the claims of critics that the digital divide does not exist or is of no policy importance,¹⁹ the gap between information “haves” and “have-nots” is growing. A recent report by the National Telecommunications and Information Administration, part of the US Department of Commerce, underscored the need for greater access in all communities. According to that report, computers, modems, and online access are much more common

¹⁴ Cooper, Mark, Ensuring Telephone Access in the Digital Age, February 25, 1998 (available online at <http://www.cme.org/cme/telephoneaccess.html>).

¹⁵ See Monitoring Report, CC Docket 87-339, May 1997. Available online from http://www.fcc.gov/Bureaus/Common_Carrier/Reports/FCC-State_Link/monitor.html.

¹⁶ Cooper, Mark, Ensuring Telephone Access in the Digital Age, February 25, 1998 (available online at <http://www.cme.org/cme/telephoneaccess.html>).

¹⁷ See the FCC's 1997 Monitoring Report, Table 1.4 (available online at http://www.fcc.gov/Bureaus/Common_Carrier/Reports/FCC-State_Link/monitor.html).

¹⁸ See Report and Order on Universal Service (with errata), FCC 97-157, 6/4/98, Sec. VIII, ¶341, available online at http://www.fcc.gov/ccb/universal_service/fcc97157/sec08.html

¹⁹ For instance, the Cato Report on Universal Service says that “The leap from the importance of telecommunications to the need for subsidies to prevent the emergence of information have-nots is not based on any evidence or logic.” Of course, this same report likens the importance of telecommunications to that of washing machines, entirely missing the point that telecommunications services are increasingly the communications ties that bind our society together. See Cato Report, *ibid*.

now than they were in 1994.²⁰ But at the same time, the report also found that the gap between upper and lower income groups is widening, as is the gap between white and minority households. This societal information divide, which threatens to close the door to the future on many Americans, is precisely why Universal Service policy has existed for nearly 60 years – to ensure that all Americans have equitable access to services at reasonable prices.

Schools, Libraries, and Rural Health Care Providers

The 1996 Telecommunications Act revised the Universal Service program to allow schools, libraries, and rural health care providers to get discounts on more advanced telecommunications services. Arguing that understanding and being able to use advanced online information systems would be the key to economic success in the future, Senators Snowe, Rockefeller, Exon, and Kerrey co-sponsored an amendment which gives discounts to schools, libraries, and rural health care providers. The FCC issued its final rules on May 7, 1997, and discounts are scheduled to begin disbursement in the latter half of 1998.

The Schools and Libraries program gives eligible applicants discounts on select services. It also set up a fund to pay for these discounts. The discounts range from 20% to 90%, based on the poverty and rurality of the community (the poorest and most rural communities get the deepest discounts).²¹ Telecommunications services (including basic phone service and dedicated data lines), Internet service, and “internal connections” (the networking equipment required to connect computers to the Internet) are eligible for discounts. Because the funding is only a discount, the applicants must leverage their own resources in order to pay the undiscounted portion. Service providers are reimbursed from the fund for the nondiscounted portion. Applicants must also pay for the numerous other services that are needed to make technology work in schools and libraries, such as system administrator salaries, desktop computers, professional development, educational software, etc.

²⁰ According to the NTIA Report “Falling Through the Net II,” computer ownership has increased 51.9%, modem ownership has grown by an amazing 139.1%, and E-mail access has increased by an explosive 397.1%. Falling through the Net II: New Data on the Digital Divide, July 1998 (available online at <http://www.ntia.doc.gov/ntiahome/net2/falling.html>). See also “Losing Ground Bit by Bit: Low-Income Communities in the Information Age,” June 1998, available online at <http://www.benton.org/Library/Low-Income/>.

²¹ Poverty is measured in schools by using the eligibility for the school lunch program. Libraries’ poverty is measured by using the school lunch eligibility for the local school district(s). Rurality is determined by the Office of Management and Budget’s Metropolitan Statistical Area (MSA) designation, which classifies every county in America as either metropolitan or non-metropolitan. Non-metropolitan counties are eligible for slightly deeper discounts than metropolitan counties. See Report and Order on Universal Service (with errata), FCC 97-157, 6/4/98, Sec. X, ¶504, available online at http://www.fcc.gov/ccb/universal_service/fcc97157/sec10.html.

Rural health care providers are also eligible for discounts. Although it is structured differently, the rural health care program ensures that rural health clinics eligible for discounts will pay rates roughly equivalent of those paid in urban areas. This program will allow the benefits of modern telemedicine to come to rural American communities.

The E-rate program has been a lightning rod for criticism, much of it politically inspired.²² For example, the decision by long distance telephone providers to pass along Universal Service charges to consumers (charges which range wildly from 5% to a flat fee of \$.93, depending on the phone company) were immediately dubbed the “Gore Tax” because of the support of Vice President Al Gore for expanding Universal Service to schools and libraries. This argument conveniently ignores the fact that the amendment creating the E-Rate was supported by both parties, and an overwhelming majority voted for the program. The “Gore Tax” rhetoric has been picked up by talk radio and opponents of the Vice President who have decided to target the program as a way of discrediting Gore. For instance, the National Taxpayers Union characterizes the E-Rate as Gore’s “pet project” and raises the alarmist cry that “the Gore Tax is a multi-faceted economic nightmare that raises frightening questions of Executive authority and bureaucratic growth.”²³ A number of reports have also spread misinformation about what services are eligible for discounts. For instance, several organizations have erroneously said that carpeting, asbestos removal, and other construction services are eligible for discounts.²⁴ This is simply inaccurate.

As a result of these irresponsible campaigns and the political backlash they have wrought, millions of children may be cut off from this critical program. So far, the political wrangling over the program has cut the program roughly in half, and has delayed the funding for the program.²⁵ Controversy created by the “Gore tax” campaign has already led to a substantial cutback in the E-rate program and a loss of expected services for many children. For example, schools in Jackson County, FL, are planning on canceling their distance learning classes because funding for the E-Rate has been delayed by the political posturing. The Poughkeepsie Public Schools, in Poughkeepsie, NY, have said that the

²² In fact, the FCC has made significant revisions to the program in order to meet the legitimate concerns of various critics. Most of these changes are encapsulated in the FCC’s May 1998 Report to Congress (see http://www.fcc.gov/ccb/universal_service/report.html). The program has also been subject to several audits, by both private consulting firms and the Government Accounting Office.

²³ See the National Taxpayers Union’s “The Gore Tax Made Simple,” available online at <http://www.goretax.com/background/simple.html>.

²⁴ See “Gore Reaches Out and Taxes Everyone,” June 8, 1998 (available from the Republican National Committee website at <http://www.rnc.org/news/talking/tp-980608.html>) for one of the first inaccurate reports of services covered by the Schools and Libraries program.

²⁵ Originally, the program was supposed to be funded at a level of up to \$2.25 billion dollars per year, depending on the amount requested by schools and libraries. The initial round of applications, which was to fund discounts for calendar year 1998, was estimated to demand \$2.02 billion. However, in response to political pressures, the FCC extended the funding year (making it 18 months long, rather than 12 months long) and cut the funding to \$1.275 billion. As a result, many of the applications that were filed will receive less funding than they had originally been promised.

cuts in the program will delay their implementation of technology, stretching it out over at least 5 years and slowing the deployment in all schools. In Tennessee, schools throughout the state have already spent over \$20 million in local and state funds to get ready for the E-Rate; without E-Rate funding, much of that spending will have been for naught.²⁶ The arguments over the program have had real, harmful impacts on the schools and libraries that this program was designed to help.

Critics have also made a number of claims about the value of educational technology. These claims include the suppositions that education technology doesn't have academic value, that technology in classrooms actually widens the racial divide, and, of course, that the market will bring new technologies into our schools without any government assistance. All of these claims are without merit.

Over the past decade integration of technology into the curriculum has been demonstrated to be an important aid to teaching and learning, as well as a gateway to resources that would otherwise be unavailable. Like any tool, technology is dependent upon teachers and students making wise use of it. However, numerous studies have shown that technology can and does make a difference in the classroom.²⁷ Additional studies are underway to determine exactly how technology impacts education, so practitioners can better leverage it in the classroom, but parents and educators agree that integration of technology into the curriculum is an important component of education reform.²⁸ To argue that technology has no role in improving education is akin to arguing that technology has not dramatically changed business in the last 20 years.

The use of computer technology in the classroom has also been shown to help bridge the racial divide in quality of education. Right now, a sharp divide exists along the lines of computer ownership between blacks and whites²⁹ which is also reflected in the classroom. Classrooms with a high percentage of minorities are less than half as likely to

²⁶ See Pulling the Plug on Our Children's Future: The Local Impact of Cuts to E-Rate Funding, A Report from the National Schools Boards Association, July, 1998.

²⁷ See, for example, Drexel University's Center for Employment Futures (as reported in the Philadelphia Inquirer, "Now, Educators Pace the Floor in E-Rate Wait," April 23, 1998); 1995 National Computing Survey conducted by Microsoft and Intelliquest. See also the Software Publishers Association's Report on the Effectiveness of Technology in Schools, 95-96 (executive summary available online at http://www.spa.org/project/edu_pub/summary.htm).

²⁸ See, eg, Milken Exchange on Educational Technology, 1998 survey on public attitudes finding, inter alia, that "compared to other educational needs, 60% of American voters say that providing public schools with access to computers should be one of the top priorities." 78% believe that bringing educational technology into the classroom would make a difference in the quality of education (see National Opinion Poll, June 1998, available online at <http://www.milkenexchange.org/projects/survey.html>).

²⁹ See "Blacks Less Likely to Have Access to Internet, Study Says," New York Times, April 17, 1998.

have Internet access as the national average.³⁰ Minority children will not have access to the skilled job market where an estimated 60% of jobs require technical competence unless they are provided equal opportunities in school to develop competence in the use of information technologies. This is precisely the problem that the expansion of Universal Service to schools and libraries is intended to address.

Finally, the claim that the market, supported by corporate philanthropy, will bring information technology to the classroom is off the mark. While corporate philanthropy has helped to bring new technology to schools, the need is too vast for corporate sponsors to absorb.³¹ Moreover, very few corporate contributors have been willing to help schools and libraries with the extraordinarily high ongoing costs associated with telecommunications services. Indeed, if the market was providing affordable rates or philanthropy was covering these services, then the pent-up demand for advanced telecommunications services (which was so clearly illustrated by the more than 30,000 applications from eligible schools and libraries received by the Schools and Libraries Corporation) would not exist. It is wrong to portray government programs, like the E-rate, and the market to be at cross purposes. Indeed the E-rate has helped build a competitive marketplace for educational technology. It has also enhanced the value of the existing corporate contributions by leveraging scarce community resources and sharpening local technology plans.³²

"Hidden Taxes:" Pushing the Usual Hot Button

The most vocal series of attacks on the Universal Service program in the last year have been the repeated cries that Universal Service represents a "hidden tax" on Americans. This mindless "hidden tax" mantra has made the rounds in Congress and the media, mostly aimed at drumming up opposition to the school and library fund (the E-Rate).³³ In fact, the Universal Service charges have never been hidden, nor are they a tax. In the 1996 Act, Congress created the broad outlines for the new Universal Service program, and

³⁰ See Statement of Vice President Gore, Vice President Gore Praises Union Efforts To Connect 700 Of The Nation's Poorest Schools To The Internet, April 28, 1998 (available online at <http://www.pub.whitehouse.gov/uri-res/12R?urn:pdi://oma.eop.gov.us/1998/4/28/16.text.1>).

³¹ Quality Education Data estimates that the K-12 education market will spend \$5.2 billion on technology during the 1997-1998 school year. See 1997-98 Technology Purchasing Forecast, Quality Education Data, Denver Colorado (available online from <http://www.qeddata.com>). Similarly, forecasts have predicted that the E-Rate will generate more than \$5 billion per year in ed-tech spending (see "Ingram Leads Way To \$10B Program -- Federal Drive To Connect Schools To Net," Computer Reseller News, April 27, 1998).

³² See the Report and Order on Universal Service (with errata), FCC 97-157, 6/4/98, Sec. X, available online at http://www.fcc.gov/ccb/universal_service/fcc97157/sec10.html.

³³ Many of these reports seem to have used as their base inaccurate releases put out by various organizations. See, for example, "Gore Reaches Out and Taxes Everyone," June 8, 1998 (available from the RNC website at <http://www.rnc.org/news/talking/tp-980608.html>).

mandated that Universal Service fees be “explicit.”³⁴ This was done so that the traditional mechanism of embedding Universal Service charges in rates would be abandoned, on the premise that rates would decline, and competition would be able to flourish because of the level playing field. The telecommunications industry has taken this new mandate to mean that Universal Service charges should be “explicit to the consumer.” Hence, although there is nothing in the law that mandates that Universal Service charges be passed along in the form of a line item on customers’ bills, the long distance carriers have made the business decision to do so, along with an additional surcharge to cover their own expenses. That surcharge can run as high as an additional 50% above the cost of the Universal Service program.³⁵

For telecommunications companies, Universal Service is simply a cost of doing business – no different from insurance or marketing. Universal Service fees have been imbedded in rates for almost 60 years. They are anything but new. In the wake of the Telecommunications Act, access charges (the fees carriers pay to one another to use each others networks) were substantially reduced. Although telecommunications companies have claimed that those savings and more were passed along to consumers, most consumers rates have increased. A recent letter from the Consumers Union and Consumer Federation of America said that, when new line charges are taken into account, long distance carriers have actually increased the cost of phone service to most consumers and have failed to pass along the very substantial savings they were given by the FCC.³⁶

The claim that this is a “hidden” tax is somewhat ironic. Universal Service fees have been embedded (hidden) in rates for quite some time. A structure was put in place after the 1984 divestiture of AT&T to ensure that transfers between companies took place in an equitable, nondiscriminatory way. What has happened in recent months as a result of the 1996 Act is not the creation of a “hidden tax,” as critics have claimed, but rather the excavation of a fee that has been buried in rates for decades. Recent events have been aimed at making these charges explicit (and visible to the consumer as separate from basic rates), rather than keeping them concealed from consumers. In essence, the charges have been part of a shell game, and are now being brought out into the light – but consumers have been paying them all along.

³⁴ See 47 U.S.C. § 254(e). “(e) UNIVERSAL SERVICE SUPPORT- After the date on which Commission regulations implementing this section take effect, only an eligible telecommunications carrier designated under section 214(e) shall be eligible to receive specific Federal Universal Service support. A carrier that receives such support shall use that support only for the provision, maintenance, and upgrading of facilities and services for which the support is intended. Any such support should be explicit and sufficient to achieve the purposes of this section.”

³⁵ The Houston Business Journal reports that interexchange carriers are charging administrative fees that increase the cost to consumers by up to 50%. See Lee, Mie-Yun, “Hold the phone: More fees appearing on those long-distance bills,” Houston Business Journal, 7/13/1998. Available online at <http://www.amcity.com:80/houston/stories/071398/smallb4.html>.

³⁶ See “Kimmelman, Cooper Press FCC for Investigation,” Washington Telecom Week, Aug. 21, 1998, p.6.

The enactment of the Universal Service Order in May 1997 followed substantial debate in the Congress on the telecommunications law, and one of the most publicly debated FCC proceedings in history, with more than 50,000 pages of comments filed by hundreds of parties. The debate clearly took place in the public eye, where citizens and Congress alike were able to follow and comment on developments. To claim now that Universal Service in general or the E-rate in particular was a secret borders on the absurd.³⁷

These charges, moreover, are not “taxes.” They are the *quid pro quo* that the carriers have agreed to in exchange for favorable new provisions in the 1996 telecommunications law that open up new markets and new opportunities for profit. Universal Service obligations are, for the telecommunications industry, simply a cost of doing business. As Sen. Kerrey made clear in a letter to the long distance industry, “I am gravely disappointed in the long distance companies' behavior. Congress passed a law that opened vast new opportunities for profit to you, and you are now complaining about sharing a small piece of a growing pie with school children and rural and high-cost areas.”³⁸ Furthermore, the Universal Service social compact is not new. Instead, this program has been a cornerstone of telecommunications policy in the United States for the last 60 years. Until the divestiture of AT&T, funds were simply passed from one part of the company to another. More recently, carriers have been required to explicitly fund the Universal Service program since the original high cost and low income programs went into effect in the early 1980s. Indeed, contrary to much of the recent coverage in the press, much of the charge that consumers are seeing on their bills today is to pay for these longstanding Universal Service program rather than the new schools, libraries, and rural health care programs.³⁹ When Congress wrote the Telecommunications Act, it was clear that existing programs would be expanded and new programs would be brought into effect. At the time, none of the major telecommunications companies argued that Universal Service constituted an unconstitutional tax, and none of them said that they would force their historical obligation explicitly onto consumers. After the passage of the Act, Congress left it to the FCC to fulfill the requirements of the law, with the understanding that the Agency would use the same Universal Service mechanisms to fund all of these programs.

³⁷ Several telecommunications companies have contested that interpretation, and the case is currently in the Fifth Circuit Court. Regardless of that ruling, it is likely to be appealed by one side or the other.

³⁸ See letter from Sen. J. Robert Kerrey to Bert Roberts, CEO of MCI, June 4, 1998 (available online at <http://www.senate.gov/~kerrey/legis/erate/ceosrek.html>).

³⁹ In a July 9, 1998 meeting with representatives of education organizations, representatives of AT&T said that the actual cost of the schools and libraries program was actually only \$.19 per line per month.

Education

In the Fifth Order on Reconsideration of its Universal Service order, the FCC explicitly addressed the question of whether the Universal Service fees constituted a tax. The decision clearly held that the fees imposed under the Telecommunications Act of 1996 were no more a tax than the fees for Universal Service which had stemmed out of the 1984 divestiture. As the FCC noted,

The contention in one of the dissents that Universal Service contributions, at least to the extent used to provide support for non-telecommunications services, constitute an unlawful tax is neither new nor correct. As the Commission has found previously, contributions to the Universal Service mechanisms do not represent taxes enacted under Congress's taxing authority. Rather, they constitute fees enacted pursuant to Congress's Commerce power. We noted previously that the contribution requirements do not violate the Origination Clause of the Constitution because "Universal Service contributions are not commingled with government revenues raised through taxes," and Universal Service support mechanisms therefore are not a "general welfare scheme" of the type found by courts to be taxes.⁴⁰

The controversy over the secret tax charge has left members of Congress scrambling to find other sources of funding for the E-Rate. Recently, Sen. Conrad Burns (R-MT) and Rep. Billy Tauzin (R-LA) offered legislation (H.R. 4324) to remove the schools and libraries charges from Universal Service and instead fund those services out of an existing federal telephone excise tax. Although it is clear that the program must be funded, the schools and libraries program should not be separated from the rest of Universal Service. Doing so would hurt both the schools and libraries program and the rest of Universal Service. If policy makers accept the notion that the advanced services provided by the E-Rate are "outside" of what ought to be subsidized by Universal Service, it will set a precedent that will make it difficult to move beyond plain old telephone service to meet twenty first century needs. In essence, such a move would cripple Universal Service, preventing the support of new information technologies at the dawn of the information age. What's more, even if the E-Rate moved to general revenues, it will not substantially reduce the Universal Service charges being passed through on consumer phone bills since most of that charge goes to pay for the high cost support and lifeline programs.

Competition: Still Waiting for the Dial Tone

The central premise of the criticisms of the Universal Service program is that deregulation and the resulting competition will cure all social inequities in access to telecommunications services. That criticism fails to acknowledge that competition anticipated by the Telecommunications Act of 1996 has yet to materialize. Although lawmakers touted the law as ushering in a new era of competition where local phone companies, long distance, cellular, cable, and satellite providers would all seek to compete and provide a wide range of services to consumers, two and a half years later, the signs are

⁴⁰ See Fifth Order on Reconsideration and Fourth Report and Order, FCC 98-120, June 22, 1998 (available online at http://www.fcc.gov/Bureaus/Common_Carrier/Orders/1998/fcc98120.pdf).

not encouraging. Not a single regional Bell is offering long distance service. None of the long distance companies are offering local phone service (outside of a few small trials). Cable companies are backing away from earlier plans to offer telephone service. And although some competitive local exchange carriers (CLECs) are beginning to offer service, these services are largely available only in urban areas and only to business customers.⁴¹ Instead of competition, the industry is undergoing a period of consolidation. Where there were seven mammoth regional Bell phone companies in 1996, there are now five titanic regional Bells.⁴²

In recent history, telecommunications deregulation has not served consumers well, nor has it led to promised competition. Rhetoric much like what we've heard about the telecommunications industry surrounded the deregulation of the cable television industry in 1992. Satellite based services (such as Echostar and DirecTV), as well as video services provided by local telephone companies, were going to bring a period of intense competition to the cable industry, which would lower prices, raise the quality of services, and make a whole host of new and innovative services available to cable subscribers. Today, many of those new service providers have been acquired by the cable companies themselves and rates have continued to soar.⁴³

The political and social benefits of the Telecommunications Act (competition, lower prices for consumers, higher quality of service, etc.) continue to be delayed. As the political and industry battles are being fought (between local and long distance phone companies, between phone companies and cable companies, between wireline companies and wireless companies, and between traditional telecommunications companies and Internet companies) over the details of cost proxy models and the like, the American people and, in particular, America's children, have been left on hold.

⁴¹ CLECs have almost exclusively targeted business customers in dense areas because of the higher profits available from serving businesses. See "What Happened to the Telecom Act," Red Herring, October, 1998 (p.80) (available online at <http://www.herring.com:80/mag/issue59/telecom.html>). All of the different competitors are accusing their opponents of cherry picking. See, for example, "Long Distance Companies' Role in the Delay" (available online at <http://198.5.6.250/comp/role.html>).

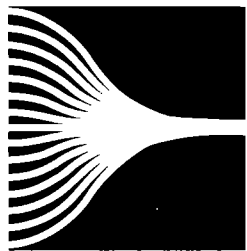
⁴² Perhaps soon to be four, if SBC's acquisition of Ameritech is approved. Since 1996, SBC has purchased Pacific Bell, and Bell Atlantic merged with NYNEX. In addition, SBC has also purchased Southern New England Telephone (SNET). Most recently, Bell Atlantic and GTE have announced plans to merge.

⁴³ The FCC reports that cable rates rose at four times the rate of inflation, direct broadcast competition is slowing (with an expected penetration of only 14% by 2002), industry concentration of ownership has increased 50% since 1992, and that in the few areas where there is a competitor for cable, prices have fallen and/or service quality has increased without an increase in prices. See Fourth Annual Report on Competition in Markets for the Delivery of Video Programming, January 1998 (available online from <http://www.fcc.gov/Bureaus/Cable/Reports/fcc97423.html>).

Conclusion

The Universal Service program is important for a number of reasons. First and foremost, it is the only program which will assure that all Americans, regardless of income or ethnicity, can be connected to the future. Unfortunately, critics of the program have disagreed with this goal, claiming that competition or philanthropy will solve the problem, that the program actually heightens race and class divisions, and that the program is an illegal tax which needs to be quashed, or that the program is simply too expensive and America cannot afford it. These arguments are clearly untrue and unfair, and represent (at best) a slanted, partisan view of reality. Universal Service has been the cornerstone of telecommunications policy in the United States, and should remain so, growing and changing to meet the needs of the new Information Age. The current petty, political bickering needs to be put aside.

That is not to suggest that there are not meaningful issues that need to be examined. There are a number of important questions which will need to be answered in the coming months. How will Universal Service grow to meet the expanding telecommunications needs of an increasingly wired populace? What services need to be supported? How should the program be continued in a technology-neutral fashion? Who should contribute to Universal Service? These questions need to be examined seriously. The pedantic ideological rhetoric should be put aside and the real, meaningful debate on the future of Universal Service – a debate which very much needs to happen – should begin.



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Dear Colleague,

Enclosed is a complimentary copy of the *The E-Rate in America: A Tale of Four Cities*. Funded by the Chicago-based Joyce Foundation, and produced by the Benton Foundation's Communications Policy and Practice program in conjunction with the EDC/Center for Children and Technology, *The E-Rate in America* is one of the first studies to explore how the federal E-Rate program has been implemented. The report sheds light on the history, policy implications and impact of the E-Rate on four urban school systems.

Since the advent of the program in 1997, the E-Rate has helped connect over one million K-12 classrooms and 10,000 libraries to the Internet. But how has E-Rate funding really affected school districts? What benefits and obstacles have arisen from it?

The E-Rate in America tackles these questions by analyzing the E-Rate's impact on four urban school districts in the Midwest: Chicago, IL; Cleveland, OH; Detroit, MI and Milwaukee, WI. The report explores the E-Rate's influence on technology planning, professional development, instruction and administrative strategies. The E-Rate has truly changed the way school districts do business when it comes to information technology in the classroom, and the lessons learned will prove useful as implementation of a new round of E-rate applications begins.

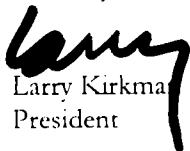
The E-Rate in America examines the larger policy context by exploring such issues as—how did the E-Rate come about? How did politics affect the development of the program? And why is universal access to both education and telecommunications essential in a democratic society?

Finally, the report offers a toolkit that provides a framework to technology coordinators to explain how the E-Rate has benefited schools and what next steps are required to fully exploit the information technology investment. The toolkit was designed to assist technology coordinators who must demonstrate the affects of E-rate implementation

The E-Rate in America is an important step in analyzing our nation's ongoing commitment to information access for all teachers and students. To further explore these issues, or for a free online version of the report, we invite you to log on to our Web site, benton.org. Additional hardcopies may be purchased at shopbenton.org.

We hope you enjoy the publication.

Sincerely,


Larry Kirkman
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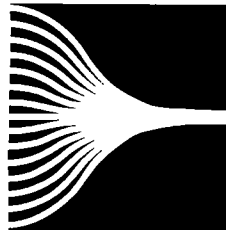
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