FCC NEWS from the Federal Communications Commission

New Economic Analysis Bolsters Carr's Call for Ending Big Tech's Free Ride

Requiring Big Tech to Contribute a Fair Share into USF Would Reduce Consumers' Costs

WASHINGTON, DC, September 15, 2021—A new study, authored by Ph.D. economist Hal Singer and Ted Tatos, examines whether large technology companies should start contributing to the FCC's Universal Service Fund ("USF")—the agency's $9 billion a year program that supports efforts to bridge the digital divide. Currently, the USF is funded through a ~30% charge that is added to consumers' monthly bills for traditional telecom services.

The newly released economic study compares this current funding method to two alternative approaches. First, it looks at assessing revenues from wireline broadband, which would effectively shift the relevant USF fee from the voice portion of consumers' bills over to the Internet portion of those bills. Second, the study examines the idea of eliminating that charge from consumers' monthly bills entirely and replacing it with a fee that large technology companies would pay based on their digital advertising service revenues.

The study concludes that the current funding method is not economically sustainable, given the sharp decline in traditional telecom revenues. As to the alternative proposals, the analysis finds that **assessing contributions on large technology companies, such as Google and Facebook, based on their digital advertising revenues represents the "best policy option."** The study finds that this approach would significantly reduce consumers' costs, properly align incentives, and unlike assessing wireline broadband revenues, would not raise consumers' monthly bill for Internet services.

The study's key findings include:

- ***Assessing Digital Advertising Platforms Would Eliminate Entirely the Percentage Charge from Consumers' Monthly Bills.*** While consumers currently pay the ~30% USF charge on their monthly bills, that charge would be eliminated entirely by assessing large technology companies like Google and Facebook a fee of just 7% on their digital advertising service revenues.

- ***Fees on Digital Advertising Platforms Cannot be Passed Through Easily to Consumers Like Taxes or Fees on Voice and Broadband.*** The study notes the high likelihood that contributions based on wireline broadband revenues would simply be passed through to consumers, as happens today with the current telecom assessment, and it contrasts that with unique features of the digital advertising service market, including the setting of prices via auctions.

- ***Assessing Fixed Broadband Services, In Contrast, Would Raise the Cost of Internet Service.*** The study finds that assessing fixed broadband services "would have a counterproductive effect by imposing a cost on the target of the subsidy," noting the "abandonment of broadband services by the most price sensitive households offsets increased fee-funded broadband adoption."

- ***Contributions from Digital Advertising Platforms Would be the Most Economical.*** Assessing contributions on large digital advertising platforms offers the lowest proposed contribution factor and the highest expected revenue growth of the options studied, indicating that, holding funding requirements constant, the contribution factor would decrease over time.

- ***Contributions from Large Digital Advertising Platforms Would Align Incentives.*** Google and Facebook account for a large portion of Internet traffic, including by delivering bandwidth intensive video ads. Thus, requiring contributions from their digital advertising revenue would ensure that some of the heaviest bandwidth causers are helping to maintain and extend America's Internet infrastructure. Indeed, USF contributions from these companies would help connect more Americans to the Internet and ultimately benefit those companies, given their digital advertising business model.

Commissioner Carr, who in a May op-ed called for Big Tech to start paying its fair share towards USF, issued the following statement regarding the study:

"For too long, Big Tech has been enjoying a free ride on our Internet infrastructure. The current funding mechanism for the Universal Service Fund—a regressive charge placed on consumers' monthly bills for traditional telephone service—is unfair and unsustainable.

"As this new economic study shows, requiring Big Tech to start paying a fair share could eliminate entirely this 30 percent charge from consumers' bills. Rather than artificially raising the cost of Internet service for Americans, assessing Big Tech would sharply reduce consumers' monthly costs. The study also shows that requiring large technology companies to pay a fee would align incentives given both the bandwidth consumed by digital advertising services and the benefits large technology companies would realize from even greater connectivity."

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