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Toward a More Efficient and Effective Lifeline Program

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Preface

In June 2015, the Federal Communications Commission (FCC) issued a notice of proposed rulemaking, Lifeline and Link Up Reform and Modernization, WC Docket No. 11-42, that stated in part

> "For nearly 30 years, the Lifeline program has ensured that qualifying low-income Americans have the opportunities and security that voice service brings, including being able to find jobs, access health care, and connect with family.[1] As the Commission explained at the program's inception, "[i]n many cases, particularly for the elderly, poor, and disabled, the telephone [has] truly [been] a lifeline to the outside world."[2] Thus, "[a]ccess to telephone service has [been] crucial to full participation in our society and economy which are increasingly dependent upon the rapid exchange of information."[3] In 1996, Congress recognized the importance and success of the program and enshrined its mission into the Telecommunications Act of 1996 (1996 Act).[4] Over time, the Lifeline program has evolved from a wireline-only program, to one that supports both wireless and wireline voice communications.[5] Consistent with our statutory mandate to provide consumers in all regions of the nation, including low-income consumers, with access to telecommunications and information services,[6] the program must continue to evolve to reflect the realities of the 21st Century communications marketplace in a way that ensures both the beneficiaries of the program, as well as those who pay into the universal service fund (USF or Fund), are receiving good value for the dollars invested. The purpose of the Lifeline program is to provide a hand up, not a hand out, to those low-income consumers who truly need assistance connecting to and remaining connected to telecommunications and information services. The program's real success will be evident by the stories of Lifeline beneficiaries who move off of Lifeline because they have used the program as a stepping stone to improve their economic stability."

As longtime students of the Lifeline program, we are keenly interested in the FCC's rulemaking and in response to the notice offered formal comments to the Commission. The substance of these comments follow presented as an *Economic Policy Vignette*.

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[1] The Lifeline program was originally established in 1985 to ensure that low-income consumers had access to affordable, landline telephone service in the wake of the divestiture of AT&T. *See MTS and WATS Market Structure, and Amendment of Parts 67 & 69 of the Commission's Rules and Establishment of a Joint Board*, Report and Order, 50 Fed. Reg. 939 (Jan. 8, 1985) (*MTS and WATS Market Structure Report and Order*).

[2] *Id*. at 941, para. 9.

[3] *Id*.

[4] *See* 47 U.S.C. § 254(b)(1)(3).

[5] Changes to the Lifeline program were based upon Congress's direction in the statute and recommendations provided by the Federal-State Joint Board on Universal Service (Joint Board). *See Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, 12 FCC Rcd 8776, 8952, paras. 326-28 (1997) (*Universal Service First Report and Order*). The Joint Board is comprised of Federal Communications Commission (FCC) commissioners, state utility commissioners, and a consumer advocate representative. *See* 47 U.S.C. §§ 254(a)(1), 410(c).

[6] *See* 47 U.S.C. § 254 (b)(1),(3). *See also* 47 U.S.C. § 151.

Introduction

The Lifeline universal service program has subsidized telephone subscriptions for low-income households for the past three decades. Economic research finds that the program has increased low-income access telephone service, but at a high cost – subsidies flow to many consumers who would have subscribed even without a subsidy.[7] Now, proposed reforms would allow Lifeline subsidies to be used for broadband service. Given the increasing importance of broadband as a primary conduit of communications, applying Lifeline to broadband has great appeal. The proposed reforms to the Lifeline program also present great opportunity to improve dramatically the efficiency and effectiveness of the program. Here we suggest five program improvements:

1. understanding consumer demand and better targeting those who would not have service without a subsidy;
2. providing subsidies directly to consumers and allowing use with any broadband provider and service plan;
3. imposing a program budget;
4. learning from private sector initiatives; and
5. setting program goals and incorporating program evaluation.

1. Study Consumer Demand and Identify Consumers who would Not Subscribe without a Subsidy

The introduction to the notice of proposed rulemaking to reform the Lifeline program explains that the Lifeline program was designed to benefit "low-income consumers who truly need assistance connecting to and remaining connected to telecommunications and information services." In other words, the program is intended to target people who would not subscribe to a broadband network without a subsidy. To date, Lifeline has not performed well on this metric. Reforms provide an opportunity to better focus on those who truly require a subsidy.

In Lifeline's early days, to be eligible at least one household member had to participate either in food stamps (now SNAP) or Medicaid.[8] Later, the FCC expanded the eligibility criteria to include seven federal welfare programs and an income criterion.[9] Today, a household is eligible if one household member participates in at least one of eleven welfare federal programs, in one of several state welfare programs (where applicable),[10] or meets an income criterion. In 2005, the FCC expanded the subsidy to include prepaid wireless service in addition to landline service and wireless service with contracts.

On the one hand, increasing the range of eligible services and the number of ways a household can demonstrate its financial hardships made it more likely that any household that truly needs a subsidy would be able to get one. On the other hand, these changes also made it more likely that subsidies

[7] See Ross C. Eriksson, David L. Kaserman, and John W. Mayo, "Targeted and Untargeted Subsidy Schemes: Evidence from Postdivestiture Efforts to Promote Universal Telephone Service*," *The Journal of Law and Economics* 41, no. 2 (October 1998): 477–502, doi:10.1086/467398; Christopher Garbacz and Herbert G. Thompson, "Estimating Telephone Demand with State Decennial Census Data from 1970-1990," *Journal of Regulatory Economics* 21, no. 3 (May 2002): 317–29; Olga Ukhaneva, "Universal Service in a Wireless World" Working Paper (2015); Daniel A. Ackerberg et al., "Low-Income Demand for Local Telephone Service: The Effects of Lifeline and Linkup," *International Journal of Industrial Organization*, no. 37 (2014): 84–98.
[8] See Federal Communications Commission, "Universal Service Monitoring Report, CC Docket No. 98-202," December 1998.
[9] See Federal Communications Commission, "Universal Service Monitoring Report, CC Docket No. 98-202," May 2005.
[10] About half of states and territories have additional state-level eligibility criteria. This information was gathered from the Lifeline applications posted on Eligible Telecommunications Carriers' web sites, for example, see http://www.verizon.com/support/consumer/consumer-education/lifeline?CMP=DMC-CVZ_ZZ_ZZ_Z_DO_N_X00363.

would flow to people who would subscribe anyway (i.e., "inframarginal" subscribers). And, indeed, research suggests that the program subsidizes a large number of inframarginal subscribers. [11]

A reformed Lifeline program should focus on better targeting consumers that would not subscribe to voice/broadband without a subsidy, thereby increasing its cost effectiveness. A perfect targeting mechanism is unrealistic – we cannot know every consumer's preferences -- but it should be possible to understand demand well enough that we can improve on the current low level of cost effectiveness.

Continue Pilot Projects and Study Consumer Demand. The FCC can employ several tools to achieve this goal. First, the FCC should continue its use of experiments and pilot projects to test the effectiveness of different approaches. The FCC is to be commended for facilitating 14 pilot broadband subsidy programs in 2012.[12] These pilots yielded some important lessons discussed below. However, because they explicitly targeted people without connections they were not designed to help identify the marginal subscriber. Additional experiments could shed light on that issue.

Second, the FCC should consider conducting studies of consumer demand to help determine how much different people are willing to pay for different types of services and better identify consumers on the margin. Some of the necessary data may already exist, or could exist with a little effort.

For example, the National Health Interview Survey (NHIS), administered by the Centers for Disease Control and Prevention, annually collects data on households and their members. Though not intended for this purpose, the NHIS has become the definitive source for information about wireless-only households and has demonstrated the importance of wireless communications to poor households. It includes questions on telephone ownership, Internet usage, and participation in the major federal welfare programs (SSI, SNAP, and Medicaid) that have served as the main portals through which most consumers qualify as eligible for Lifeline. Adding just a single question—"Do you receive Lifeline subsidies"—to the survey might help find mechanisms that can better identify Lifeline eligibility.

For (an overly simplistic) example, observing that households that satisfy certain eligibility criteria have telephone service but are not enrolled in Lifeline could indicate that the particular eligibility criterion is not suitable for identifying eligible Lifeline recipients.

As another example, existing datasets should make it possible to identify geographic areas such as census blocks or block groups that have particularly low broadband adoption. People who live in these areas and meet other need-based criteria may be more likely to require subsidies to subscribe than otherwise identical people who live in areas with higher adoption rates. Such a hypothesis could be tested as a pilot before the approach is implemented nationally.

Pilot Projects Show the Difficulties of Encouraging the Not-connected to Subscribe. Although the FCC Staff Report is hesitant to draw many conclusions from the pilot projects, it is possible to make some generalizations that the FCC should take into account. Perhaps most importantly, the pilots show how difficult it remains to induce people without broadband connections to subscribe.

The pilots tell us that we still do not truly understand why many people choose not to subscribe and, importantly, how to induce them to subscribe. While surveys tell us that the cost of service is important, it turns out to be difficult to convince people who are not connected to subscribe even when offering them a subsidy. In other words, a subsidy was not sufficient to induce many not-connected people to subscribe.

[11] Ukhaneva, "Universal Service in a Wireless World," Working Paper, 2015.

[12] Federal Communications Commission, "In the Matter of Lifeline and Link Up Reform and Modernization | Telecommunications Carriers Eligible for Universal Service Support | Connect America Fund," June 22, 2015, para. 30–31, https://apps.fcc.gov/edocs_public/attachmatch/FCC-15-71A1.pdf.

These low take-up rates will further reduce the cost effectiveness of any program that does not adequately target subscribers on the margin. Surely anyone who already subscribes and is offered a subsidy will accept it, while a fairly small share of eligible people who do not subscribe will. As a result, a program that does not accurately target the marginal subscriber will largely subsidize those who already have service and, therefore, have little effect on broadband adoption.

Why Focusing on the Marginal Subscriber is Important. Some contend that the focus on identifying the marginal consumer is misplaced because Lifeline subsidies benefit low-income people who receive them regardless of whether the subsidy affects their communications decisions. We are not unsympathetic to this claim. After all, money is fungible, and an extra $10 per month can be meaningful to low-income people. Nevertheless, the FCC is not supposed to operate general welfare programs.

Others argue that the focus on cost effectiveness and identifying the marginal consumer is misplaced because consumers that have service might interrupt it due to financial hardship. According to a survey by the Pew Internet and American Life Project, nearly half (48%) of U.S. smartphone owners had to cancel or shut off their cell phone for a period of time because they could not afford to pay the cost. This phenomenon, however, is not an argument against focusing on the marginal consumer. Such people reflect the very definition of the marginal consumer, and effective targeting mechanisms should include such people as those who require subsidies.

Finally, the subsidies are not costless. Providing the subsidies requires collecting revenues, and currently the collection mechanism – taxes on long-distance and wireless services – fall heavily on low-income people. Additionally, any tax collection causes economic losses. Collecting more funds than are truly needed is economically harmful and the burden falls disproportionately on low-income people.

2. Provide the Lifeline Subsidy Directly to Consumers and Allow Use of the Subsidy with Any Communications/Broadband Provider and Plan

In 2012, the FCC implemented reforms that aimed to eliminate fraud and abuse in the program.[13] There were two major causes of waste of program funds. First, no good mechanism was in place that would allow carriers to verify eligibility of the customers willing to enroll in the program. Second, multiple members of the same household were able to enroll in the subsidy despite the one subsidy per household rule -- sometimes the same individual received the subsidy from multiple carriers.

To eliminate multiple subscriptions and enforce the one subsidy per household rule, the FCC created the National Lifeline Accountability Database (NLAD). However, if consumers, instead of carriers, were to receive the subsidy directly that would eliminate the need for NLAD, because each consumer would be able to arrange only one subsidy. Second, it could help reduce fraud by eliminating the incentive of providers to enroll as many consumers as possible.

Basic economic logic indicates that people derive the highest value from cash transfers, because they can be used for any good or service. As a society, however, we have decided to limit cash transfers and instead help eligible people purchase approved goods and services—food through SNAP, housing through Section 8 vouchers, and, in this case, communications service through Lifeline.

The economic concept that the value of the subsidy grows with its flexibility, however, remains true. Eligible recipients should have the option of spending their subsidies with as many providers as possible, not with just a select group. Providing eligible consumers with a voucher that can be used to subsidize

[13] See Federal Communications Commission, "Report and Order and Further Notice of Proposed Rulemaking," February 6, 2012, https://apps.fcc.gov/edocs_public/attachmatch/FCC-12-11A1.pdf.

service from any broadband provider has several advantages. For example, this reform would enhance consumer surplus by allowing recipients to choose the type of broadband connectivity with the highest value to them. Also, by increasing the number of people shopping among providers and plans such a program could increase competition.

Finally, once a consumer has chosen a carrier, the consumer should be unrestricted in the broadband plan to which the subsidy would apply. Economic research on the willingness of eligible consumers to take the "hand up" offered by Lifeline indicates that the imposition of restrictions on the services for which the Lifeline program subsidy is permitted acts to discourage program participation.[14]

3. Impose a Program Budget

Most government programs operate within a budget, and Lifeline should be bounded, as well. A budget creates a powerful incentive to focus on cost effectiveness. The lack of a budget creates the illusion of unlimited and costless funding.

4. Learn from Private Sector Initiatives

The private sector has initiated several programs that provide discounts to low-income households for Internet service. Perhaps the most prominent example is Comcast's Internet Essentials. This program provides low-cost broadband service for $9.95 a month for families with at least one child who qualifies for the National School Lunch Program. Recently Comcast announced plans to conduct a pilot program for low-income senior citizens in San Francisco.[15]

Since Internet Essentials' establishment in 2011, Comcast notes more than 500,000 families have connected to the Internet through Internet Essentials.[16] These numbers suggest far more success than the FCC had with its Lifeline broadband pilot programs, which, according to the GAO, enrolled only 7,425 consumers rather than the expected 74,000.[17] The pilots and Internet Essentials both made major efforts to target consumers on the margin by making their programs available only to those who did not currently have broadband or had it in the recent past. Yet Comcast appears to have succeeded where the pilots generally did not.

5. Set Program Goals and Incorporate Program Evaluation

To date, the FCC has not established clear goals or efficiency measures for the Lifeline program even after spending more than $16.6 billion since 1988.[18,19] In the absence of goals or efficiency measures, it

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[14] See Mark L. Burton, Jeffrey T. Macher and John W. Mayo "Understanding Participation in Social Programs: Why Don't Households Pick up the Lifeline? *The B.E. Journal of Economic Analysis & Policy*, Volume 7, Issue 1 (Topics), 2007.
[15] http://corporate.comcast.com/news-information/news-feed/comcast-extends-internet-essentials-to-low-income-senior-citizens-in-san-francisco.
[16] See Comcast "Internet Essentials Launch Report," January 2012, p. 46. https://www.internetessentials.com/sites/default/files/reports/launchreport.pdf.
[17] United States Government Accountability Office, "FCC Should Evaluate the Efficiency and Effectiveness of the Lifeline Program," Report to the Chairman, Committee on Commerce, Science and Transportation, U.S. Senate (Washington, DC, March 2015), 33, http://www.gao.gov/assets/670/669209.pdf.
[18] See Federal Communications Commission, "Universal Service Monitoring Report, CC Docket No. 96-45," 2014, Table 2.2, https://apps.fcc.gov/edocs_public/attachmatch/DOC-330829A1.pdf.
[19] Others have also pointed out that the FCC has not rigorously compared the effectiveness of universal service support mechanisms (e.g., see Scott J. Wallsten, "How to Create a More Efficient Broadband Universal Service Program by Incorporating

is not surprising that the FCC does not conduct program evaluations of Lifeline. In two recent reports the GAO has recommended that the FCC develop program goals and incorporate program evaluation,[20] as the FCC itself acknowledged in the current NPRM. [21]

The reforms, therefore, should not just establish performance goals, but the reforms should also explain how goals will be measured and evaluated to demonstrate causality.

As discussed above, the FCC could leverage existing data sources over time to try to evaluate the effectiveness of the program. Additionally, the FCC could take more seriously independent evaluations, such as those done by the GAO. Self-evaluations are inherently difficult, especially when also subject to pressure to operate the program in particular ways and reach particular conclusions from evaluations.[22] The National Academy of Sciences is another candidate to conduct an evaluation.

Conclusion

The proposed reforms to the Lifeline program present an opportunity to improve dramatically the efficiency and effectiveness of the program. We believe the program can be improved by targeting consumers on the margin, allowing eligible consumers to use their subsidies flexibly and for any available broadband service and plan, continuing pilot programs and experiments, imposing a budget, and building evaluation into the program.

Demand and Cost-Effectiveness Analysis," *Technology Policy Institute Working Paper*, 2011).

[20] See United States Government Accountability Office, "Improved Management Can Enhanced FCC Decision Making for the Universal Service Fund Low-Income Program," October 2010, http://www.gao.gov/assets/320/312708.pdf. and United States Government Accountability Office, "FCC Should Evaluate the Efficiency and Effectiveness of the Lifeline Program," March 2015, http://www.gao.gov/assets/670/669209.pdf.

[21] Federal Communications Commission, "In the Matter of Lifeline and Link Up Reform and Modernization | Telecommunications Carriers Eligible for Universal Service Support | Connect America Fund," June 22, 2015, para. 157.

[22] As David Walker, U.S. Comptroller General from 1998 to 2008 wrote (somewhat ironically) about the Government Accountability Office, "In a city full of interest groups with competing agendas, GAO's strength is its ability to provide Congress with professional, objective, fact-based, nonpartisan, and nonideological information when it is needed." David M. Walker, "GAO Answers the Question: What's in a Name?", July 19, 2004, http://www.gao.gov/about/rollcall07192004.pdf.