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The Washington Times

WILLIAMS: Tax zombie that refuses to die

New Deal levy for rural phones has outlived its purpose

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Washington is famous for budget trickery, and the practice of base-line budgeting is one of its most cynical traditions. Base-line budgeting makes an increase in funding appear as a cut. For example, according to Dan Mitchell at the Cato Institute, "The 'cuts' in the [debt ceiling] deal are only cuts from the [Congressional Budget Office's] 'baseline,' which is a Washington construct of ever-rising spending. And even these 'cuts' from the baseline include \$156 billion of interest savings, which are imaginary because the underlying cuts are imaginary." An egregious example of such base-line budgeting is the Federal Communications Commission's (FCC) Universal Service Fund (USF).

The USF is a program that brings telephone service to mainly rural areas and can be traced back in one form or another to the New Deal. The current cost of the program is \$8 billion and is funded by taxes levied on Americans' phone bills.

The FCC is in the process of reforming the USF, and instead of continuing to run the fund as an open-ended entitlement program basing costs on last year's base-line, the program should be reformed to operate on a zero-based budgeting model. Under this scenario, those companies and organizations that receive federal dollars should have to present their case before Congress annually or whenever reauthorization comes around, requesting specific support and documenting their community's need.

Like most government entitlement and subsidy programs, the USF has its roots in decades-old laws that aimed to solve a problem that no longer exists. The Telecommunications Act of 1934 - yes, 1934 - aimed to subsidize the expansion of telephone service into rural America.

The fund's new goal is to shift the focus of universal service from telephone to Internet service. But Americans should be careful not to assume that refocusing a New Deal program on modern technology will promote innovation or efficiency. Unless we are careful, it might do little more than perpetuate an aging entitlement program by giving it a high-tech paint job.

The commission is at a crossroads: It can embrace a 21st-century communications model that relies on private markets and competition whenever and wherever it can, or it can continue to fund a 1930s government-led subsidy program like an entitlement, yielding little if anything in the way of innovation or benefits to consumers.

Today nearly every home in America has access to telephone service, yet many rural phone companies and cooperatives continue to demand government subsidies and operate on a "cost-plus" monopoly regulatory model that tends to reward higher costs and punish efficiencies.

Recognizing that neither the FCC nor Congress has the political support to eliminate the USF and start from scratch, the least they could do is move aggressively to a zero-based budgeting regime and drive costs down every year.

The FCC should reject any proposal that increases USF funding or does not reward efficiency and innovation by funding communications connectivity on a technology-neutral basis.

The private sector has been very successful in bringing a diverse offering of high-speed Internet services to American businesses and households. Government should do nothing in the way of taxing or regulating Internet providers or consumers that stymies the technology sector's unprecedented innovation and growth. If the USF aims to increase the public's access to modern communications systems, then the fund should tax customers at the lowest level possible and should not have a bias toward one technology over another.

With the vast competition in the communications sector meaning more choices for today's consumers, increasing USF funding is needless and wasteful. The FCC should take this opportunity to begin reducing and even eliminating the arcane USF high-cost fund. Requiring that the USF be funded on zero-based budgeting would be a victory for taxpayers.

David Williams is president of Taxpayers Protection Alliance (protectingtaxpayers.org).

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