Taking From the poor and giving to the ConnectED

By Thomas Hazlett and Scott Wallsten

(This piece was published in The Hill on February 19, 2014)

The White House is touting its plan to upgrade Internet connections to schools, and the Federal Communications Commission – nominally, an independent regulatory agency – has announced a $2 billion "down payment" using cash from "reserve funds."

Why, one might ask, does the FCC have bigger reserves than a Fortune 500 corporation?

The FCC has over a billion dollars, growing fast and burning a hole in its pocket, due to recent "reforms" of the scandal-plagued high-cost portion of the Universal Service Fund (USF). The program is supposed to extend phone service to outlying areas via the "High Cost Fund," recently renamed the "Connect America Fund." It distributes some $4 billion annually to small, inefficient rural phone carriers via subsidies often exceeding an astounding $1000 per telephone line per year. This has no discernible impact on service availability.

By 2011 the program was even running out of things to subsidize. Fixed, mobile and broadband networks had themselves (even forgetting satellites) extended everywhere, consumers were cutting their landline cords, and the program was beginning to shrink. But rather than let the program wither, the FCC continued to collect USF taxes, diverting them to a slush fund. In 2012, $560 million poured into it; in 2013 it collected $700 million more.

Stunning as it may sound, the money comes largely from low-income telephone users who pay a hefty 16.4 percent tax to make long-distance phone calls the old-fashioned (pre-Skype) way. The urban immigrant who dials up his family in El Salvador on weekends – gotcha!

Hey, this is Washington, where old programs never die, their connected beneficiaries just spin new cover stories. What to do with this taxpayer-funded petty cash? Kids? Schools? Computers? Broadband? Bingo!

In his recent State of the Union speech, President Obama laid down his marker. "Last year, I also pledged to connect 99 percent of our students to high-speed broadband over the next four years. Tonight I can announce that with the support of the FCC and companies like Apple, Microsoft, Sprint, and Verizon, we've got a down payment to start connecting more than 15,000 schools and 20 million students over the next two years…"

Well, congratulations, Mr. President, and hats off to these high-minded American firms: we've already hit the target! "In fall 2005," writes the Department of Education, "nearly 100 percent of public schools in the United States had access to the Internet." As of 2008 (the year for which the most recent government data exist), 98 percent of public schools were broadband connected, and 99 percent of high schools. More than 94 percent of all classrooms were wired for broadband. Six years ago.

Some might smile on the knowledge that the $30 billion we've already spent on "E-Rate" since 1998 helps 3rd graders use computers in the classroom and complete their assignments in PowerPoint. But are they learning more? Will they become better, happier, more productive citizens? No study yet has linked technology in schools to better student outcomes.

The president's new version of E-Rate aims to make broadband in schools faster. Yet, those few computer applications that have proven their worth – like the laudable Khan Academy instructional videos – are relatively cheap to produce and easily accessed even on low-bandwidth connections, billions in subsidies not required.

In fact, it is not clear where the $30 billion has gone. The Government Accountability Office has repeatedly criticized E-Rate programs, noting they lack clear goals, transparency, and follow-up evaluation. For instance, in what is hard to square with rules that E-Rate funds are not to be used for computers or other hardware, school districts are using the money to buy fancy “Promethean Boards” to replace white boards. Wealthy Montgomery County, Maryland, is spending some $10.6 million in federal E-Rate funds on the Boards (2013-2017). In New York, a 2013 expose found that over $3 million had flowed to an orthodox Jewish high school where students are forbidden to use computers, smartphones, or any electronic device. Federal authorities could not say where the subsidies went. Curiously, the system of orthodox private schools in New York received over $30 million in total. The monies vanished; no computers appeared.

Regulators finally reacted to such horror stories and a host of criminal prosecutions for corrupt practices – by changing the program’s name. “E-Rate” is now called “ConnectEd.” Proponents of increased spending have not presented a shred of evidence that additional spending on the program is worth the cost, and act as if dreamy stories about “ultra broadband” and “technology in the classroom” justify the mission. Yet, while the asserted results are illusory, the costs are real, and the tax that funds it falls disproportionately on low-income consumers. It’s a “soak the poor” scheme that has no justification in law or policy.

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