# Subsidizing Universal Broadband through a Digital Advertising Services Fee

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# Elevator Pitch

- Fast-growing base of digital advertising revenues would temper the "contribution factor" or tax rate (7.4% v. 14.7%)
- Likelihood that a fee on digital advertising platforms is passed through to consumers (via advertisers) is small.
  - Prices for digital advertisements are set via auction and thus are not under direct control of the advertising platforms, which could frustrate attempts to raise prices to advertisers.
  - Even with some pass-through, advertisers would not raise final product prices to their customers to the extent they perceive advertising expenses to be a fixed cost.
- In contrast, we found that the likelihood that a fee on wireline broadband service providers is passed through to broadband users is high, which would undermine the objective of subsidizing broadband.

# Other Benefits

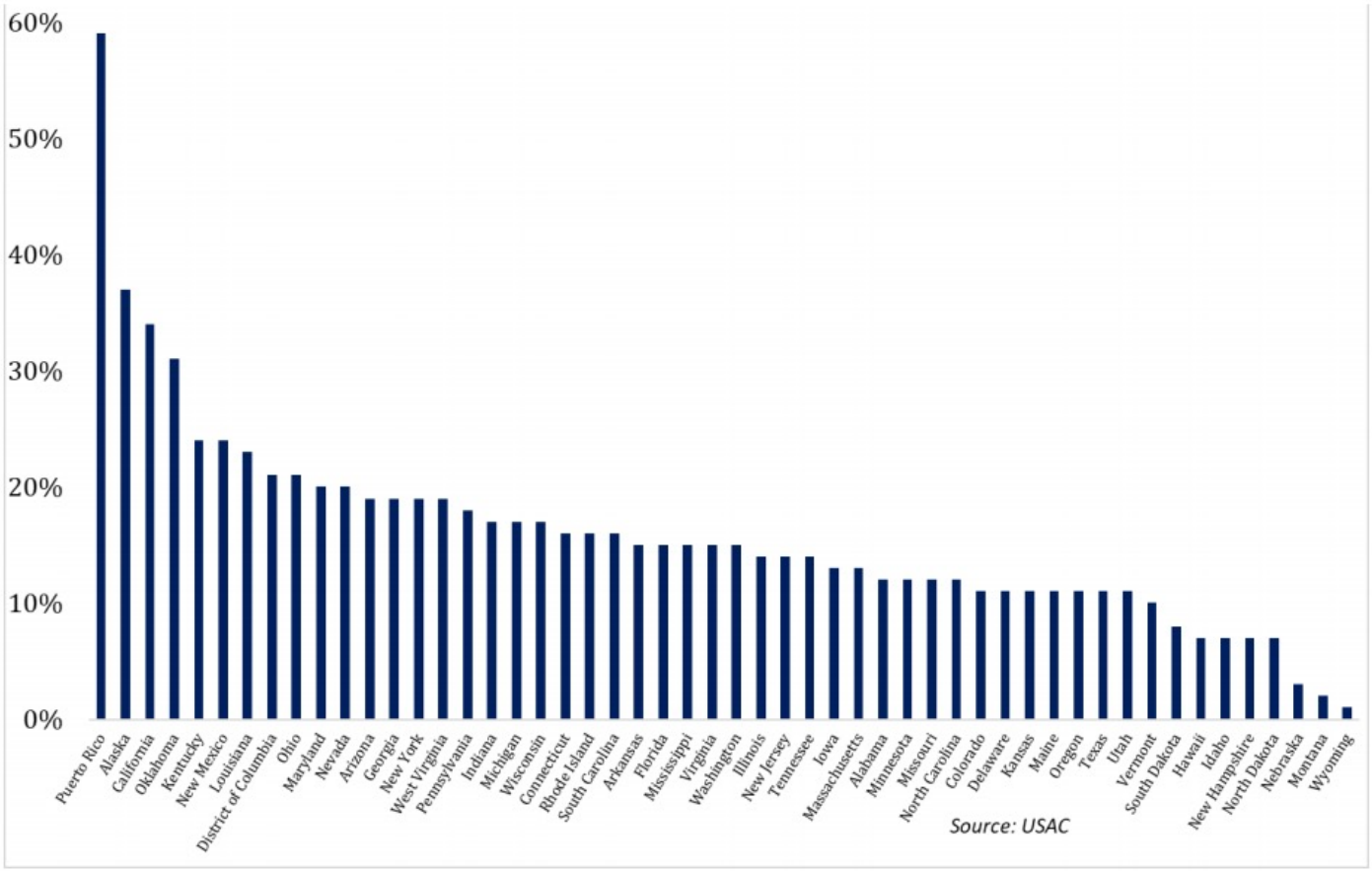
- Aligns interests of payor and beneficiary
  - Enlarges the user base for publisher content that draws ad revenues for leading digital ad networks
- Levies the fee on contributors to internet traffic load
  - Sandvine: Google and Facebook alone account for 20% of Internet traffic

# Taxing Broadband Is Bad Public Policy

- It is bad public policy to surcharge the very service you wish to promote.
  - No one would argue that general R&D is a public good, under-provided by the private sector, and thus we should correct the market failure via a tax on general R&D
- BIAS does have a nonzero price elasticity of demand, and surcharges will repress its demand.
- Further, these repressions will be most significant for lower-middle income households that are neither wealthy, nor poor enough to be eligible for the Affordable Connectivity Program (ACP).

# Adoption Depends on the Subsidy

FIGURE 1: ESTIMATED 2021 LIFELINE PARTICIPATION RATE, SELECTED STATES




- Only 6.2M of 33.2M Lifeline-eligible households avail themselves of the plan, an 18.7% adoption rate for Lifeline
- Adoption rate depends on the size of the subsidy, which will be greater for $30 or $50 compared to Lifeline's $9.25

# Demand Effects from Broadband Surcharge

TABLE 17: NET SUBSCRIBER GAIN AFTER PASS-THROUGH PRICE INCREASE

| | Current | ISPs Pass Along Fees to Subscribers |
|---|---|---|
| **Fixed Broadband Subscribers** | 105.82M | 105.82M |
| **Annual Subsidy** | | $17.5B |
| **ISP Total Revenues, 2020** | $117.9B | $135.4B |
| **Monthly Subscriber Cost** | $93 | $107 |
| **Price Increase** | | 14.824% |
| **Price Elasticity** | | -0.62 |
| **% Change in Subscribers** | | -9.2% |
| **Total Subscriber Loss** | | -9.73M |
| **Additional Subscribers Gained** | | 36.12M |
| **Percentage Gain Offset** | | -26.9% |
| **Net Subscribers Gained** | | 26.39M |

Assuming 100% pass-through, the price increase would result in nearly ten million lost broadband subscribers!

# Taxing Digital Advertising Results in a Smaller Contribution Factor

TABLE 12: ESTIMATED 2029 DIGITAL ADVERTISING CONTRIBUTION FACTORS - LIFELINE + RURAL HEALTHCARE + SCHOOLS/LIBRARIES

| | | Monthly Subsidy Per Household | | |
|---|---|---|---|---|
| | | **$30** | **$40** | **$50** |
| **Participation Rate** | 30% | 2.6% | 3.1% | 3.6% |
| | 40% | 3.1% | 3.7% | 4.4% |
| | 50% | 3.6% | 4.4% | 5.2% |
| | 60% | 4.1% | 5.1% | 6.1% |
| | 75% | 4.8% | 6.1% | **7.3%** |
| | 90% | 5.6% | 7.1% | 8.6% |

TABLE 15: ESTIMATED 2029 LANDLINE ISP CONTRIBUTION FACTORS - LIFELINE + RURAL HEALTHCARE + SCHOOLS/LIBRARIES

| | | Monthly Subsidy Per Household | | |
|---|---|---|---|---|
| | | $30 | $40 | $50 |
| **Participation Rate** | 30% | 5.1% | 6.1% | 7.1% |
| | 40% | 6.1% | 7.4% | 8.8% |
| | 50% | 7.1% | 8.8% | 10.4% |
| | 60% | 8.1% | 10.1% | 12.1% |
| | 75% | 9.6% | 12.1% | **14.6%** |
| | 90% | 11.1% | 14.1% | 17.0% |

# Best objection in Mattey Report

- FCC lacks authority to apply the USF to digital ad revenues
- While true, furthering the social welfare is a central function of the government, not the FCC. If levying a service fee on digital advertising revenues is the best public policy, as we have demonstrated, then Congress should authorize the FCC to aim the USF fee at digital advertising revenues.
- Good governance often requires Congressional intervention
  - Title II debate for net neutrality

# Other problems with Mattey Report

- The sub-4% contribution projection assumes that all BIAS lines will be surcharged.
- Lines receiving Lifeline support have never been allowed to be surcharged for USF in the past, and it is likely that both Lifeline and Emergency Broadband Benefit/ACP-supported BIAS lines will not be allowed to be surcharged in the future.
- Because USF surcharges will only be allowed to be placed on nonsubsidized BIAS lines, the percent surcharge on these lines will need to be far above 4%.

# Other problems with Mattey Report

- The sub-4% contribution projection assumes that BIAS revenues will grow in concert with USF program demand.
- Indeed, the Mattey Report's illustration assumes that BIAS revenues will grow at 5%/year, indefinitely.
- This is contrary to recent experience:
  - Fixed broadband prices are flat.
  - Because the market for fixed broadband is close to saturation (i.e., households only need one fixed line for the entire household and take-up already exceeds 80%), not clear where growth comes from.
  - Mobile service revenues peaked several years ago and are now flat to falling.

# Other problems with Mattey Report

- The sub-4% contribution projection also relies on an assumption that USF program costs will be static at $8 billion/year.
- This figure is below recent experience, and would permit no expansion in USF program costs.
- Indeed, once Congressional funding for the ACP runs out (likely to occur within 3 years), if the USF must assume its cost, the fund could easily double in size to above $16 billion/year. This, of course, would double or more the required funding surcharge.