Subsidizing Universal Broadband through a Digital Advertising Services Fee

Hal Singer and Ted Tatos
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

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

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**

<table>
<thead>
<tr>
<th>Monthly Subsidy Per Household</th>
<th>$30</th>
<th>$40</th>
<th>$50</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participation Rate</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>30%</td>
<td>2.6%</td>
<td>3.1%</td>
<td>3.6%</td>
</tr>
<tr>
<td>40%</td>
<td>3.1%</td>
<td>3.7%</td>
<td>4.4%</td>
</tr>
<tr>
<td>50%</td>
<td>3.6%</td>
<td>4.4%</td>
<td>5.2%</td>
</tr>
<tr>
<td>60%</td>
<td>4.1%</td>
<td>5.1%</td>
<td>6.1%</td>
</tr>
<tr>
<td>75%</td>
<td>4.8%</td>
<td>6.1%</td>
<td>7.3%</td>
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<tr>
<td>90%</td>
<td>5.6%</td>
<td>7.1%</td>
<td>8.6%</td>
</tr>
</tbody>
</table>

**Table 15: Estimated 2029 Landline ISP Contribution Factors - Lifeline + Rural Healthcare + Schools/Libraries**

<table>
<thead>
<tr>
<th>Monthly Subsidy Per Household</th>
<th>$30</th>
<th>$40</th>
<th>$50</th>
</tr>
</thead>
<tbody>
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<td>6.1%</td>
<td>7.4%</td>
<td>8.8%</td>
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<td>50%</td>
<td>7.1%</td>
<td>8.8%</td>
<td>10.4%</td>
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<td>60%</td>
<td>8.1%</td>
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<td>12.1%</td>
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<td>9.6%</td>
<td>12.1%</td>
<td>14.6%</td>
</tr>
<tr>
<td>90%</td>
<td>11.1%</td>
<td>14.1%</td>
<td>17.0%</td>
</tr>
</tbody>
</table>
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.