

Budget – 25 April 2016
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It seemed like a good idea at the time

It seemed like a good idea at the time. How many individuals, institutions, governments, organizations and businesses have had Ah Hah moments which seemed positively brilliant at the time? Unfortunately, all too often things don't work out as planned. Remember: new Coke; the invasion[s] of Iraq; the Edsel? How about the investment in your friend's idea for glow in the dark underwear?

While there are many possible outcomes from these great moments of undiluted inspiration, they are not always the intended ones. At some time in some place, there must have been political operatives who came up with the idea of an unending series of debates among Presidential candidates. After all they must have thought - everyone will be impressed with the brilliance, erudition and statesmanship of the participants. Can't you imagine the idea men thinking - *What could possibly go wrong?* On that same track, someone has recently invented a gun that looks very much like a cell phone. *No problem, right?*

Somewhere in the Flint, Michigan lead poisoning was someone who had a good idea about a way to save money. That pretty much defines *unintended consequences*.

Today our country's arsenal includes drones and satellites so precise that targeting individuals who are our enemies can be done with surgical precision. And no boots on the ground, no Americans at risk. What a great idea! All problems solved. Except of course when the shelter they are in happens to contain women and children. How do you say *collateral damage?* And of course, assassination becomes routine and it's difficult to figure out where the nation's moral conscience fits in.

There are many instances where other results, far different from the anticipated extraordinary outcomes occur. In fact this may be the modal category. While I sense that millennials think they invented

the term *Whiskey Tango Foxtrot* that is certainly not the case. Despite the recent movie and novel of the same name, this outcome evaluation description, to my personal knowledge was in active use more than a half century ago in the military. In fact I would not be surprised to learn that one of Caesar's generals, and certainly many of his foot soldiers were quoted somewhere saying,[with apologies to our pronunciation experts] "*quod irrumabo*"

I suppose there are great ideas which reach fruition exactly as planned, but they don't get the same attention of those which go awry. Finally, and I think rarely a good idea produces unexpected results which are quite remarkable. The one example which does come to mind is Raymond Tomlinson's invention in 1971 of network based person to person e-mail. This is beyond *Serendipity*.

And now for a short trip through one good idea which has mutated over time from one form to another as more and more good ideas got piled on. Here the lesson turns into: *Be careful what you wish for.*

Can You Hear Me Now?

Some months ago here at the club following one of our many fine papers as I was filling my mouth with an expertly constructed liverwurst sandwich, I heard the member to my right say, "... and you know Obama is giving free cell phone to poor people so they will vote Democratic." I almost choked on my braunschweiger.

"You have got to stop believing all the junk that lands in your inbox which castigates the President. Where do you think he was born? There can't possibly be a Federal program giving away free cell phones and free service." Admittedly I was remembering opening my phone bill which years ago was 30 bucks and now with the addition of cell phone, cable and internet had exploded to seven times that amount. I continued to rant - "Don't you even check out outrageous stuff on 'snopes' or some other verification site? To his credit, he looked at me calmly and suggested I look it up. A week later I walked up to my colleague on the right and admitted that he was not entirely wrong - and in fact somewhat right.

Bearing in mind the thoughts around 'It seemed like a good idea at the time' - as Paul Harvey used to say, "... Now, for the rest of the story."

Once upon a time during the Great Depression Congress passed and President Roosevelt signed the Federal Communications Act of 1934. It was intended to bring some order to the fast growing telephone industry and spur economic growth by extending telephone service to the entire nation. It set as a goal the establishment of universal coverage at a reasonable cost for, "...everyone everywhere" is the exact language. [Too bad these visionaries didn't place a similar emphasis on health care] In order to fund telephone exchanges in rural and underdeveloped areas, the Federal Communications Commission which was established by the Act to oversee the industry, was given the authority to collect a fee from AT & T based on their revenue from interstate calls. Those

funds were then used to subsidize small local telephone operations including many cooperatives.

In the early 1980's, utility deregulation [*another good idea*] became the newest governmental experiment and American Telephone and Telegraph was compelled to break into seven smaller regional systems. This brought about two changes relevant to our discussion. First, with deregulation telephone companies could no longer be compelled to provide services in areas that were not profitable and the Universal Service Funds now had more companies upon which to levy their fees. At the urging of the Reagan Administration, in 1984, the FCC created "Lifeline" programs. Under the "Lifeline" program, people in designated rural areas, Native Americans and low income persons living in urban areas could receive two subsidies. The first was for installation of a new land line phone if necessary, and the second was a monthly subsidy designed to cover basic services. Neither payment went to the recipients. This design, which continues to the present, means that private companies receive a direct per capita payment from the Feds.

The logic behind 'Lifeline' was that all persons should have access to a phone for emergency situations, to call health providers and to carry out essential normal business. This seemed a logical extension of the 'universal access' goal in the legislation. Probably there was little discussion of cell phones, and none of broadband. Just the basics - accordingly, the rates did not cover add-ons such as long distance.

During the Clinton administration, Congress passed and the President signed the Telecommunications Act of 1996, the first comprehensive update of the 1934 law. Among other things it

extended FCC oversight to cable, satellite and wireless operations. It established four principal areas for Universal Services Fund action:

1. The Lifeline program was expanded to include wireline, wireless and broadband services
2. Connect America
3. Direct funds for schools and libraries
4. Support for Rural Health Centers

Although the programs for individuals, especially cell phones has attracted the most attention, support for schools and libraries is having telling effects. Virtually every classroom has a Smart Board. If you have a grandchild younger than 15 it is even odds that he or she has or will have a Google CROME note pad provided by the school. Homework assignments, classroom materials, school announcements are all run through this newest personal computer. Of course to take full advantage of it the student needs a Wi-Fi connection at home. School superintendents nationwide are pushing for broad band service subsidies. The FCC is issuing rules to expand use of the USF funds to low income households. The rallying cry is 'digital divide'

Also, the next time you are on the second floor of the Main library look at the dozens of computers which seem to be in constant use. This program receives just over a quarter of the USF annual allocation.

Flying well below public scrutiny is the Connect America program. Beginning with the 1934 legislation funds were directed to so called 'High Cost' area service providers. With the 1996 legislation and subsequent administrative changes approved by Congress, the high cost program was folded into Connect America which is largely targeted at expanding broadband coverage and is directed in general to the largest service providers. Congress further determined that \$4.5 billion annually should go to this program. Over 50% of the Universal Service Funds distributed go to communications companies for Connect America.

Not surprisingly, the Rural health network centers are the poor stepchild in this equation. They receive about 2% of the total.

What about the Lifeline cell phone program? It began in the summer of 2008 during the Bush administration. Now popularly called 'Obama phone', the attribution is far less apt than Obama Care. Private companies do receive about 20% of the USF dollars to push for universal coverage. The land line Link up program to pay initial connection costs has been eliminated. The monthly \$9.25 land line service subsidy has been continued. The major growth, not surprisingly is in cell phones. Eligibility standards are pretty straightforward:

- One phone or landline per household
- The household must be at 135% of poverty which equals
 - \$16,000 for one person
 - 21,650 for 2
 - 32,800 for household of 4

The eligibility is simplified by permitting applicants to show proof of other government assistance. Section 8 housing; free school lunch; Children's Health Insurance; food stamps and Medicaid are qualifiers.

There are hundreds of companies offering the program. That is why free phones are standard although that is not subsidized by the government. Also, although 70 minutes of free air time is the government standard, many companies offer 5 times that and free texting with very high or no limits. What we have here is the perfect intersection of public policy goals and free enterprise.

How does this work in practice? If you look closely on certain downtown street corners in good weather you might notice small open tent-like kiosks. Two places where they have appeared recently are the northwest corner of Main and Central Parkway just across from the Hamilton County Jobs and Family Services offices and the south east corner of Ninth and Vine by the library. Both spots are very close to bus stops.

Shaded from the sun are two young people, a fold up table and chairs. The edge of the tent/awning says "AccessWireless" with a .com address. On the table sit 6-10 boxes with new phones. The sign next to them says **FREE SMARTPHONES !** What it doesn't say is that the phones were introduced in 2011 which makes them almost obsolete in a world where Apple has introduced umpteen new versions of the iPhone since then. It also doesn't mention that it won't function as a smartphone until the owner goes to Kroger and buys a phone card, available in 25, 35 and 50 dollar denominations.

To sign up a person must show ID, some proof of qualifying and give an address. The phone team is equipped with a tablet which can access a data base of phone holders by address. This is intended to meet the eligibility and one phone per household requirements. If the tablet shows that a phone has been issued to someone at that address, they will work with the applicant since, 'people move.' If everything checks out the phone is activated and off you go. No money changes hands. The phone team works on straight commission. When questions are raised as to why people would take a free phone when they might not need it, I am reminded of Donald Trump's proud boast about taking every tax break he can find.

Why you might ask is something so straightforward- such a good idea - the topic of vitriolic vituperation on the internet and talk radio? Probably the strongest reason is human nature. Seeing someone get something for free after paying \$600 for the latest Apple or Samsung and signing up for two years of unlimited everything for yourself, your wife, your children and grandchildren [it helps them stay in touch, Dear] and your dog [at no extra cost] can be stressful. Never mind that even your dog wouldn't take the phone being offered. Those people don't deserve free things. Forget about emergency use and think about the economic aspects. Whether it's the lawn guy, the cleaning service or the dog sitter, we expect everybody to be reachable immediately. A related exercise has to do with trying to find a pay phone. A vestigial reminder of a previous age.

Another reason is the certainty that waste and fraud are baked into the program. Certainly there are people with phones who should not have them. The consensus is that recent procedure changes and improved data bases have significantly reduced this. Bear in mind that the consumer receives no money from the program. Probably someone has figured a way to sell their low end phone and make a few bucks. The only real winners in a fraud scheme are the companies which game the system. One CEO has gone to jail in Oklahoma which seems proud of its status as the epicenter of cell phone fraud. One of the FCC rules approved by Congress is the payment of an additional \$25 stipend when the recipient is a native American or Alaskan native. Since almost the entire state of Oklahoma is classified as former Indian lands, over 90% of lifeline program participants were qualified by phone companies for the additional reimbursement from the Universal Service Fund!

Universal service at an affordable rate for everyone everywhere was a good idea at the time – and still is. However our itch to tinker and make things better does not always serve us well.

And if anyone asks you about Obama phones, now you know.

- The phones are free, but provided by the companies as a marketing inducement
- Only one phone per household
- Basic service for talk and text is free. The cost is covered by a \$9.25 payment by the Universal Service Administration Company which is a non-profit corporation administering the Universal Service Fund
- The President's involvement is limited to the appointment of FCC members – with the approval of the Senate.
- Eligibility is set at 135% of poverty
- All Lifeline consumers do not vote for Democrats.

So what's your call? *Still a good idea or Whiskey Tango Foxtrot?*