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**STATEMENT OF KATHRYN C. BROWN
ASSOCIATE ADMINISTRATOR, OFFICE OF POLICY ANALYSIS AND
DEVELOPMENT, NATIONAL TELECOMMUNICATIONS AND INFORMATION
ADMINISTRATION, DEPARTMENT OF COMMERCE**

FEDERAL COMMUNICATIONS COMMISSION
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BEFORE

**THE FEDERAL-STATE JOINT BOARD ON UNIVERSAL SERVICE
FEDERAL COMMUNICATIONS COMMISSION**

APRIL 12, 1996

Good Morning Mr. Chairman, Members of the Joint Board. On behalf of Assistant Secretary Larry Irving, I thank you for the opportunity to testify before you today on your pressing work in ensuring Universal Service for all Americans. The National Telecommunications and Information Administration (NTIA) is part of the Department of Commerce and is the principal adviser to the President, the Vice President and the Secretary of Commerce on domestic and international telecommunication matters. I head NTIA's domestic policy office and am pleased to be here today to present the views of the Administration.

It has been a sad week for us at Commerce, as it has been for all of government. Secretary Ron Brown stood for many things of which President Clinton and others have spoken so eloquently. But the core of his mission at Commerce was to unleash the power of the American free enterprise system to foster economic development and to create jobs and educational opportunities for all people in our global society. Both here and abroad, the Secretary sought to sow the seeds of economic and human development by advancing the initiative, investment and innovation of American business. He particularly understood the great promise of telecommunications and information technologies to build communities and nations and to empower ordinary people to achieve their full potential. He testified many times on the need for telecom reform and stood squarely for the central, dual tenets of the law which we must now implement -- robust competition and universal service for all Americans.

Although some have argued that these two notions--competition and universal service--are incompatible, they are instead, the fundamental, inextricably intertwined concepts on which our public policy must be built. The primary objectives of the Telecommunications Act of 1996 are to stimulate new telecommunication and information services, to provide greater consumer choice and to better align price with value --to substitute the discipline of the market for the regulatory tools that served us well in a monopoly environment but which are becoming less necessary as competition develops. The challenge is to ensure that the market works for everyone-- all segments of our country and of our people-- including those whose incomes support only the bare essentials of life. And where the market does not deliver the intended benefits of the law, either in the interim or in the long term, it remains the role of government to ensure that those for whom the telecommunication and information age holds the most promise

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are not left behind. At stake are two necessities for quality of life in the 21st century -- connection to our ever-expanding public switched telecommunications network and access to the information and community networks that are its offspring. These "essentials," in our view, hold the key to increased opportunities for education, jobs, health and human services and community cohesion for millions of low-income Americans.

What do we mean by the term "Universal Service"? How do we define it? And how do we ensure that all Americans are its beneficiaries?

Universal Service: Connecting All Americans

Universal Service has historically meant --and still means today--ubiquity. Congress in 1934 declared as its purpose in passing the first Telecommunications Act, that all Americans should have access to a national telecommunications network. The Congress of 1996 reiterated the same imperative. Telephone penetration in the United States is the envy of the world. On average, almost 94% of households are connected, with penetration rates of 99% among those of us who have achieved the American Dream. And yet today, six million American households do not have a telephone.

As detailed in NTIA's 1995 report, Falling Through the Net, households without telephones are found disproportionately among the poor and minorities and, within these groups, in rural areas and central cities in particular. As measured against the national average of 93.9% telephone penetration, the very poor in central cities trail by 14 percentage points and those in rural areas are more than a dozen points behind. Even rural and central city households with earnings in excess of \$20,000 fall below the national average and well below the average of 99% for Americans earning \$50,000 or more.

When the profile is developed by race/ethnic origin and area, the data reveal that several groups are significantly disadvantaged. In rural areas, almost one-quarter of American Indians, Aleuts and Eskimos are not connected, and approximately one-fifth of Hispanics and Black non-Hispanics are without telephones. And their central city counterparts also fall well-below the national average. Using age as a metric, the single most advantaged group consist of the youngest households (under 25 years) particularly in rural areas. Across all demographic data, the determining factor is overwhelmingly income.

These discrepancies in telephone subscribership threaten more than ever the economic, cultural and educational cohesiveness of the nation. Not only do many of our fellow Americans lack a telephone for basic needs such as 911 access to emergency services, access to the workplace, commerce and each other, they are increasingly in danger of being cut off from the numerous social and economic benefits available through access to the Information Superhighway.

For these reasons, NTIA urged in its subscribership filing to the Commission, that the first order of business should be to establish a National Subscribership Goal. We recommend that by the end of the year 2000, in each state, the average level of telephone penetration for all groups of people be at the national average. In our view, this "National Subscribership Goal" would provide a lodestar for the Joint Board as it develops Universal Service policies to ensure that all Americans are connected and would lend urgency to that task. As importantly, such a goal will establish a well-defined benchmark for assessing the success of the Board's initiatives to achieve the intended objectives.

In NTIA's subscribership filing, we recommend that the Board critically assess the adoption of at least two strategies that have proven effective in increasing telephone penetration: barring companies from disconnecting local service for the non-payment of toll and more frequent availability of Link-up discounts to aid the highly mobile members of the low-income community. Moreover, the States have had extensive experience in devising programs and strategies to increase subscribership. We recommend that the Board study these to determine whether these can and should be replicated across the nation.

Basic Telephone Service Should be Available, Accessible and Affordable for All

The Joint Board faces a complex and sensitive task in assuring that our Universal Service goals and mechanisms are consistent with competition while being closely coordinated with the reformation of our costing and pricing policies. The inevitable shift in the way telecommunication services are priced in a competitive environment must not result in rate shock for residential consumers --who have been promised better service and lower prices; nor should it result in hardship for those for whom even a "reasonable" rate is not affordable. Care must be taken to safeguard the basket of basic telephone service from the vagaries of what is bound to be a dynamic but potentially tumultuous market. Routes that are less profitable -- particularly those to the rural and urban poor -- must continue to be served at affordable levels; and the commitment to maintaining ubiquitous, affordable basic service must be steadfast.

Many would agree with including the following elements in the definition of basic service today:

- o dial tone with touch tone service
- o access to local/toll calling
- o access to emergency services
- o access to directory assistance, operator assistance and repair
- o access to statewide relay services
- o directory listings
- o blocking options for privacy protection.

Implicit in this definition is a minimum acceptable level of service quality, as determined by the respective state jurisdictions.

We would also urge that some level of local usage be included in the definition to ensure that, in particular, low income customers have the ability to reach essential services for an established price.

Finally, I want to emphasize that the notion of accessibility should be included in any definition of universal service. While both the Commission and the Access Board are focusing on issues of universal design to improve access to persons with disabilities to network services, the Board should reiterate the urgency of this undertaking. Again, for persons who are both disabled and poor, telecommunication and information services open new avenues for work, education, health and social well-being. We urge the Board to highlight this concern.

The Definition of Basic Service Should be Dynamic

While we have initially focused on "plain old telephone service" in proposing a definition of basic service, our vision is one of a flexible and evolving definition which keeps pace with the dynamic changes in technology. The statute lays out four criteria against which to determine the definition of universal service. Using these criteria, one can easily conclude, for example, that touch tone service should be considered basic today. Less obvious, perhaps, but surely worthy of vigorous discussion, is whether and how soon, high speed, broadband access might be considered part of the basic service package.

The network is evolving at an exponential rate. We continue to envision a high capacity, information rich Superhighway that will advance the efficiency of American business, the capabilities of our social institutions to deliver services cheaper, faster and more tailor-made for our citizens and the ability of all Americans to have direct access to the benefits of the Information Age through their telephone line. As our cultural, educational and technical environment changes and more and more customers are demanding access to information networks, we may find that this "advanced service" meets these criteria. Ideally, the market will drive price down and availability up. However, with technology and consumer expectations changing so rapidly, and business and social institutions following suit, it is critical that the Joint Board provide for ongoing evaluation of the concept of universal service to ensure that the opportunity to participate in the Information Age is realized for all and not denied to a large segment of our country.

The Joint Board Should Explore Policies to Stimulate Market Solutions to Address the Needs of the Low-Income Community

The best outcome for all citizens, whatever their financial means, is a robust, competitive market that provides options for consumers that best meet their individual needs at prices they can afford. The Joint Board should assess in its deliberations whether the incentives that are built into any deregulatory scheme align with the interests of the community. One question is whether the incentives are in place to encourage investment in infrastructure and innovative

service offerings in low income communities. Another is whether pricing policies which, for instance, are available to high volume business customers, couldn't be made available to cooperatives to allow communities to use market forces to their benefit.

Public-private partnerships should be encouraged and rewarded where these partnerships can bring advanced technologies to communities. The TIAAP grants administered by NTIA have demonstrated again and again the power of leveraging private investment with public money in establishing community networks that allow individuals who would not otherwise have access to information networks to gain access. "Community access centers" show enormous potential in connecting low-income communities to vital social, health and job services. At the same time, private enterprise is discovering and developing markets they hadn't conceived of before. The proper regulatory signals can fuel more of this responsible, civic corporate behavior.

The Universal Service Fund for Schools and Libraries Must Serve All Communities

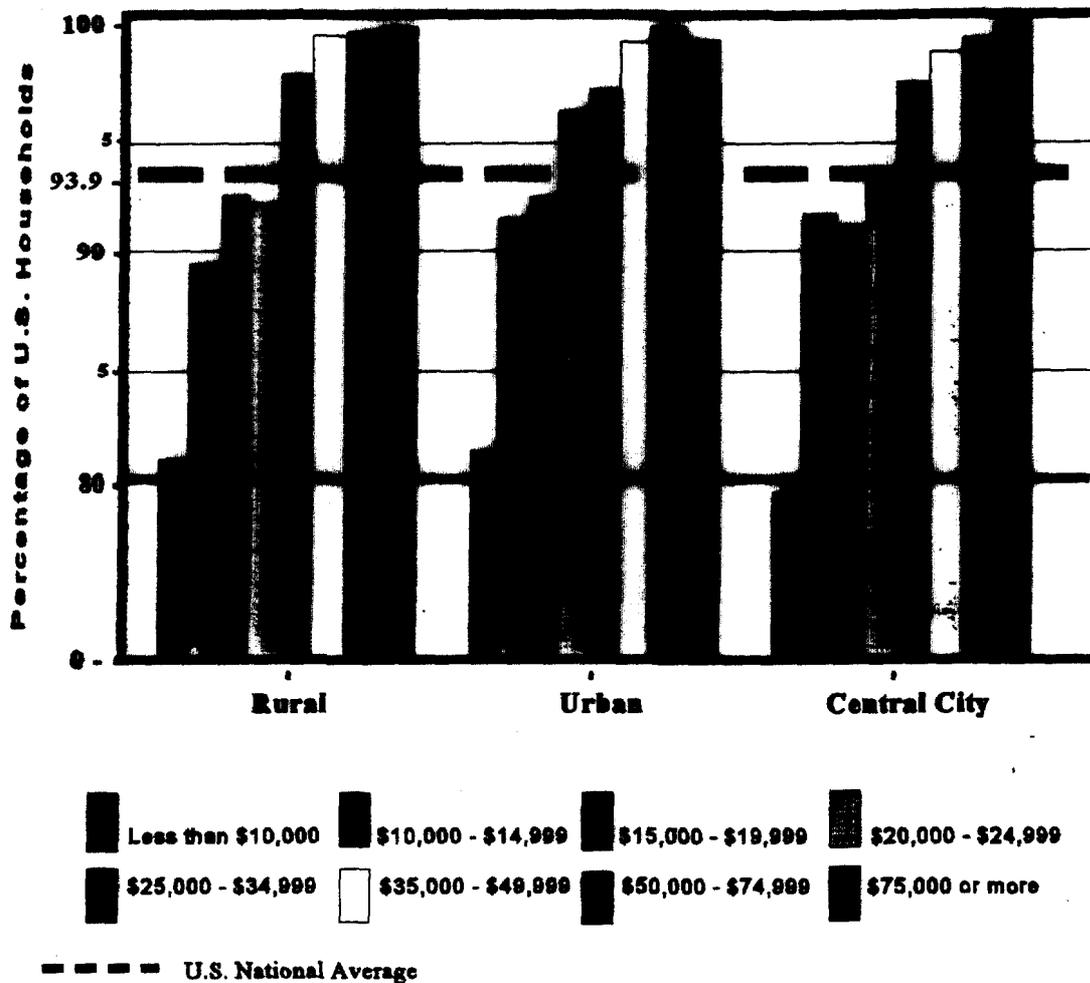
The Telecommunications Act of 1996 provides, for the first time, that universal service support be provided for schools, libraries and rural health clinics. We applaud the Board for opening the dialogue today on how to define and fund this undertaking. We are intrigued by the joint comments of the National School Boards Association, the American Library Association and the National Education Association, *et. al.*, on how such a fund might be set up and we look forward to Secretary Riley's statement and that of the other distinguished panelists today to begin the discussion.

I would like to say a word with respect to schools and libraries in low income areas. President Clinton and Vice President Gore have forcefully advanced the imperative, understood by our best educators and parents all over the country, that our children must have access to the world through information systems that are improving every day and that they must become computer literate so that they can compete and succeed in the working world of the next century. We will do our country and our children lasting harm if we create a society where children who live in well-funded school districts are given the tools to thrive and succeed in their adult years and children whose parents do not now have the means to live in those districts are left by the roadside. There must be room on the Superhighway for everyone. Our universal service policy must be fair, equitable and forward looking. Creating a society of information haves and have-nots is not in our national interest.

Conclusion

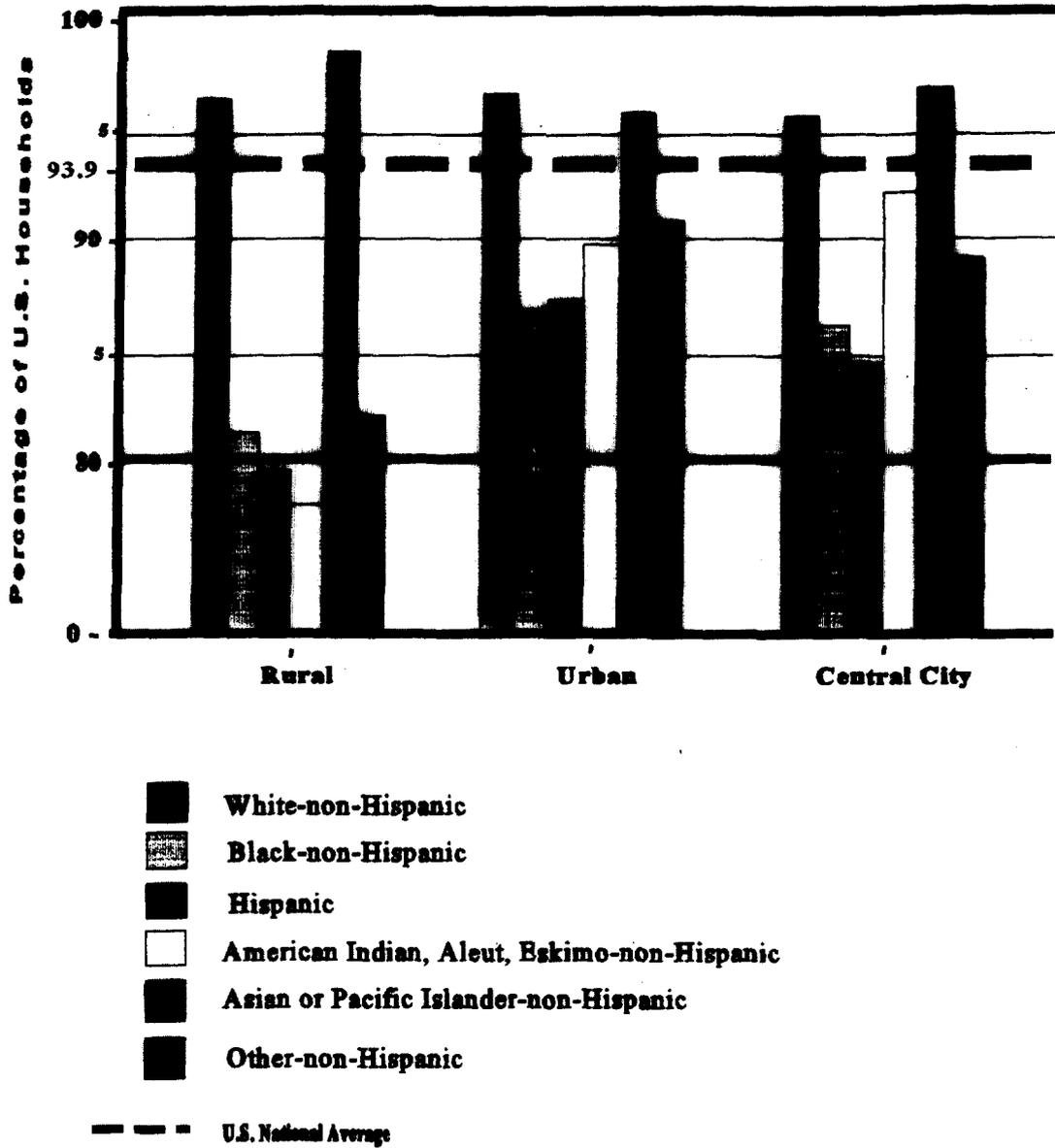
In conclusion, let me again thank you for this opportunity to address the Joint Board. NTIA looks forward to working with the Board to accomplish the urgent mandate of the statute with respect to Universal Service.

**Percentage of U.S. Households with a Telephone BY INCOME
By Rural, Urban, and Central City Areas**



Source: National Telecommunications and Information Administration and U.S. Census Bureau, U.S. Department of Commerce
Based on November 1994 Current Population Survey and Computer Ownership/Usage Supplement

Percentage of U.S. Households with a Telephone BY RACE/ORIGIN
By Rural, Urban, and Central City Areas



Source: National Telecommunications and Information Administration and U.S. Census Bureau, U.S. Department of Commerce
 Based on November 1994 Current Population Survey and Computer Ownership/Usage Supplement