

September 25, 1994

## CBO SAYS TELECOM BILL (S. 1822) WILL INCREASE SPENDING AND BUREAUCRACY

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The Communications Act of 1994 (S. 1822) may be considered by the Senate before the close of the 103rd Congress. According to its sponsors, the bill would effectively deregulate the industry and ensure a competitive marketplace.<sup>1</sup> But an analysis of the bill prepared by the Congressional Budget Office (CBO), released last week, warns that the bill will impose costly surcharges on the telecommunications industry, increase federal spending and staffing, and impose new mandates on state and local governments.<sup>2</sup> The CBO found that, if implemented, the bill would:

- ✓ **Create a new tax.** The Universal Service Fund, which collects and distributes funds from carriers to subsidize telephone service, will be significantly expanded under S. 1822. New collections will be required to pay for the many services that legislators want all consumers to have access to, such as on-line home computer services. Although the CBO does not label these changes a tax<sup>3</sup>, these new collections effectively create a new tax since revenues will be generated for a federal government subsidy program through charges on carriers and their customers. Some estimates of the size of this tax are as high as \$20 billion over a few years.<sup>4</sup>
- ✓ **Increase government spending.** Overall federal outlays would increase by \$154 million over a five-year period from 1995-1999. In 1995, the current budget of the Federal Communications Commission (FCC) will increase by roughly 25 percent.

FYI#39 09/94

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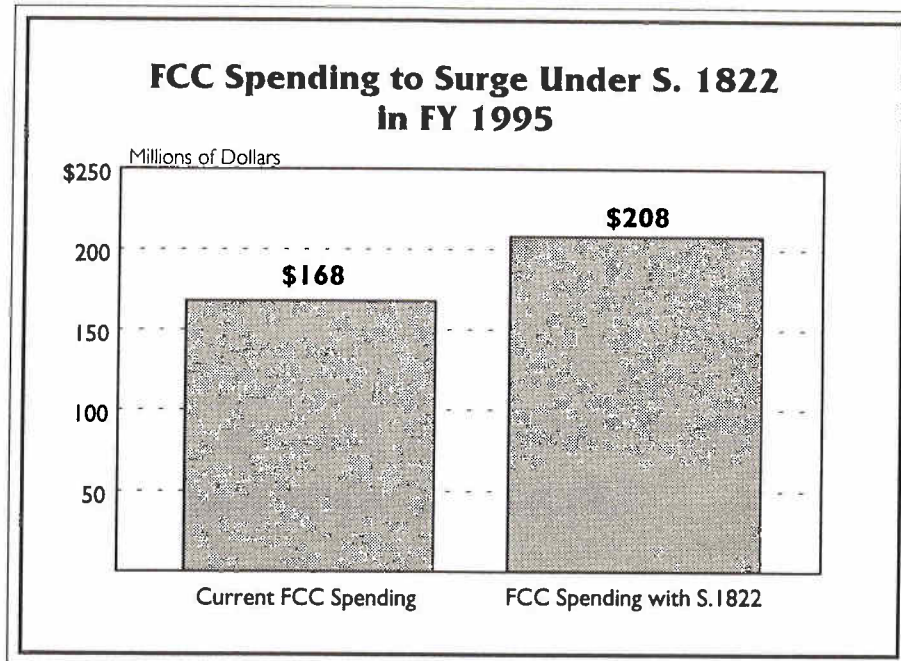
1 See: Adam D. Thierer, "A Guide to Telecommunications Deregulation," Heritage Foundation *Issue Bulletin* No. 191, June 3, 1994; Adam D. Thierer, "Senator Dole's Welcome Proposal for Telecommunications Freedom," Heritage Foundation *Background Update* No. 233, August 24, 1994.

2 Robert D. Reischauer, Letter to Honorable Ernest F. Hollings, Cost Estimate of S. 1822, September 14, 1994.

3 This was due to political pressure from Senator Ernest Hollings and staff members of the Senate Commerce Committee who have been working behind the scenes to ensure the CBO that the bill would not create any new taxes. See "Budget Scoring of Telecommunications Bill Becomes an Issue," *The White House Bulletin*, September 13, 1994, p. 3; Paul Merski, "Telecom's Hidden Tax," *The Wall Street Journal*, September 16, 1994, p. A10; Doug Abrams, "Telecommunications Bill's 'Tax' Problematic," *The Washington Times*, September 14, 1994, p. B8.

4 Merski, *op. cit.*

✓ **Increase regulatory staffing.** This \$154 million would pay for significant staffing increases at the FCC and the Department of Justice. Thomas J. Duesterberg, former Assistant Secretary of the Department of Commerce and current Senior Fellow at the Hudson Institute, estimates these new responsibilities could boost FCC staffing by approximately 40 percent.<sup>5</sup>



✓ **Place expensive new mandates on state and local governments.** The CBO analysis estimates S. 1822 will require between \$25 million and \$50 million more in mandated state and local government spending for 1995 to accommodate new requirements. For example, state and local governments would be forced to expand their staffs to comply with the new universal service provisions. In addition, they will be forced to conduct audits and promulgate new regulations on certain providers. Thus, each state will face an unfunded mandate costing between \$500,000 and \$1 million next year.

**Faulty Criticisms of the CBO Analysis.** Supporters of S. 1822 are likely to claim that the CBO is overstating the costs of the bill while underestimating its beneficial impacts. They are incorrect on both counts.

The costs of the bill actually are likely to be as high if not higher than CBO estimates since S. 1822 contains approximately 50 new policy-making requirements for the FCC. The CBO analysis correctly assumes that the many new policy-making procedures mandated by the bill will require a considerable increase in staffing at the FCC, and therefore, will require an increase in overall government spending to support such initiatives. Additional costs arise from the new staff needed by the Department of Justice to comply with a handful of requirements.

<b>Total New Government Spending Due to S. 1822</b>					
(in millions of dollars)					
1995	1996	1997	1998	1999	5-Year Total
\$45	\$42	\$29	\$19	\$19	\$154 million

For example, the bill establishes new penalties that will require additional spending on enforcement. The bill would make it illegal for the “Baby Bells” to purchase foreign-made components for the telephone equipment they manufacture. If they violate this provision, the Baby Bells could be subject to civil actions in court. In addition, the bill creates a Federal-State Joint Board to administer

<sup>5</sup> Thomas J. Duesterberg, "Obstacles and Toll Booths on the Information Superhighway," *The Washington Times*, September 12, 1994, p. A19.

the costly new universal service goals Congress hopes to establish. Besides increasing the size of the FCC bureaucracy, Thomas Duesterberg also notes that since the bill's method of subsidy collection is effectively a tax, the bill is, "on shaky constitutional grounds." This is because the Senate Commerce Committee, which recently passed the bill, does not have the authority to originate a tax bill.<sup>6</sup>

Finally, the CBO analysis also finds no significant offsetting revenues from the new fees imposed by the bill. For example, broadcasting fees required under S. 1822 for new uses of radio spectrum would bring in little revenue to offset the enormous costs of the bill. Hence, such fees not only fail to generate offsetting revenue, but their presence in the bill discourages innovative and efficient uses of the radio spectrum.

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6 *Ibid.*

