



# Executive Memorandum

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## THE PRESIDENT'S BUDGET PROPOSES A HIGH-TECH PORK BARREL

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President Clinton's recently released fiscal year (FY) 2001 budget contains a veritable high-tech pork barrel of new federal programs and spending initiatives. Among them are plans to spend roughly \$2 billion on a "national crusade" to solve an alleged "digital divide" separating the Internet haves and have-nots. Despite the amazing spread of digital technology and Internet-based services in just a few short years, the Administration believes federal subsidies are needed to complete a job the private sector is largely accomplishing on its own quite effectively. Indeed, if ever an industry did not need federal assistance, it is this high-technology sector characterized by remarkably innovative products, ever-increasing demand, intense competition, rapidly falling prices, high-paying jobs, and overall entrepreneurial energy.

Essentially, the Administration wants to jump on a horse that is already in the lead to claim victory as it crosses the finish line. Its new initiatives are tantamount to establishing a "Digital New Deal" entitlement. Congress should reject the Administration's efforts before the old entitlement mentality infects today's most vibrant and accessible industry.

**Slippery Slope.** The FY 2001 budget proposes the most new spending initiatives within the Department of Commerce, including over \$45 million for the Technology Opportunities Program—an ambiguous, catchall project to increase "tele-mentoring for at-risk youth, and electronic networks [for local communities]—" \$5 million to

make e-commerce applications "more interoperable," and \$19 million in corporate welfare to assist small manufacturers with e-commerce.

The Department of Education seeks massive funding increases for many existing technology-oriented educational programs, including a 100 percent increase over FY 2000 funding for the Preparing Tomorrow's Teachers to Use Technology program and an astounding 208 percent increase over FY 2000 for Community Technology Centers. Other high-technology and Internet-related spending initiatives are included in the following table.

Significantly, this new spending would not include the \$2.25 billion per year "E-rate," or Schools and Libraries program, created by the Federal Communications Commission (FCC) to help wire schools and libraries for advanced communications services. The program is not a direct federal appropriation; rather, it redirects money within the communications sector through various mandates on network providers.

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Table 1

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### New High-Tech and Internet Spending in FY 2001 Budget

|  | FY 2001 Request<br>in Millions of Dollars |
|--|---|
| <b>Department of Education</b>   |   |
| Technology Literacy Challenge Fund   | \$450.0                                   |
| Community Technology Centers   | \$100.0                                   |
| Preparing Tomorrow's Teachers to Use Technology                                | \$150.0                                   |
| Next Generation Technology Innovation  | \$170.0                                   |
| Regional Technology in Education Consortia                                     | \$10.0                                    |
| Technology Leadership Activities   | \$2.0                                     |
| Ready to Learn Digital Television  | \$16.0                                    |
| Technology and Media Services  | \$34.5                                    |
| Assistive Technology   | \$41.1                                    |
| <b>Total, Department of Education</b>  | <b>\$973.6</b>                            |
| <b>Department of Commerce</b>  |   |
| Making E-Commerce More Interoperable   | \$5.0                                     |
| NTIA:  |   |
| Funding for an update to "Falling Through the Net"                             | \$0.4                                     |
| Home Internet Access Initiative  | \$50.0                                    |
| Technology Opportunities Program   | \$45.1                                    |
| Internet Research  | \$2.0                                     |
| EDA: Grants for Internet Access in Distressed Areas                            | \$23.0                                    |
| NIST and ITA:  |   |
| Initiative to Help Manufacturing Firms With E-Commerce                         | \$19.0                                    |
| MBDA: E-Commerce Matching Funds  | \$0.5                                     |
| ITA: Funds to Assist Businesses with E-Commerce<br>in the Global Market        | \$1.6                                     |
| ESA: Funds to Ensure That E-Commerce is<br>Appropriately Measured              | \$13.0                                    |
| <b>Total, Department of Commerce</b>   | <b>\$159.6</b>                            |
| <b>National Science Foundation</b>   |   |
| Digital Opportunity for Native Americans                                       | \$10.0                                    |
| Corporation for Public Broadcasting / NTIA<br>Transition to Digital Television | \$393.0*                                  |
| <b>Department of Agriculture</b>   |   |
| Rural Development:   |   |
| Pilot Program to Finance Internet Service                                      | \$102.0                                   |
| Distance Learning and Telemedicine   | \$325.0                                   |
| <b>Total, Department of Agriculture</b>  | <b>\$427.0</b>                            |
| <b>Grand Total</b>   | <b>\$1,963.2</b>                          |

Note: \* Funding is for the years 2001 through 2003.

Source: Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2001*.

regulates the communications industry and Internet sector. Its policies often inhibit the development and diffusion of new services and technologies to the public. Another funding increase would signal regulators that they could continue those policies.

#### Trickle Before the Flood.

The Administration is likely to claim that its proposals are modest compared with other federal spending, but history shows that what begins as a relatively minor spending initiative can grow all too quickly to become an interminable and expensive entitlement. Beyond lacking any constitutional authority for federal activity on this front, the Administration's programs could invite increased scrutiny and regulation of the Internet sector, since most subsidized industries typically face greater federal oversight.

The Administration's call to create a high-tech pork barrel is wasteful and wrong. A better way to finish connecting America to the Internet would be for Congress to remove the burdensome regulations and taxes that inhibit the private sector, which is in a better position to do the job in the first place.

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Finally, the budget contains an 11 percent increase in the FCC's budget, which would rise to \$237.2 million from \$210 million. The FCC