The Economic Impact of the E-Rate Program

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Executive Summary

The Federal Communications Commission is considering eliminating or significantly reducing E-Rate support ($2.6 billion in 2025) for broadband connectivity and related services provided to schools and libraries. While eliminating the program would reduce Universal Service Fund expenditures, it would also increase the effective cost of broadband services for public and private K-12 schools and libraries that increasingly rely on digital connectivity to support teaching, learning, school operations and security, cybersecurity, internal and external communications, and access to online educational and informational resources. Nearly every critical function in schools and libraries now relies on the network, including door locks and access controls, security cameras, bus scheduling and transportation systems, cafeteria payment systems, payroll, student information systems, attendance and grading platforms, and communications with students, staff, and families. Because broadband has become an essential educational input rather than a discretionary expenditure, schools and libraries cannot simply replace connectivity with teachers, books, buildings, or other educational resources. Paying more for connectivity therefore leaves less money available for the other goods and services needed to provide education and library services.

We use Brattle's BEYOND computable general equilibrium ("CGE") model to estimate the economy-wide contribution of E-Rate. Our primary counterfactual eliminates the program while recognizing that broadband and internal network infrastructure remain necessary inputs. The results indicate that eliminating approximately $2.6 billion in annual E-Rate support would reduce real GDP by approximately $4.2 billion annually, real wages by $2.8 billion, and tax revenues by approximately $1.5 billion. Thus, each dollar of E-Rate support is associated with approximately $1.60 in GDP. The measured economic loss exceeds the amount of federal support removed because without E-Rate, schools and libraries must devote more of their own budgets to connectivity, leaving less available to support the overall level of education and library services. As school spending generates greater follow-on economic activity than broadband spending, institutions purchase fewer non-broadband goods and services from other suppliers and use less labor, and those reductions propagate through household income, spending, and tax revenues.

Eliminating just support for connectivity infrastructure (Category 2), including routers, switches, Wi-Fi access points, cabling, managed internal broadband, and related infrastructure needed to

distribute connectivity within schools and libraries, would also have substantial effects. Eliminating Category 2 alone (approximately $1.2 billion in annual support) produces an estimated $2.5 billion decline in GDP, $1.6 billion reduction in real wages, and $0.9 billion reduction in tax revenues.

Finally, we find that even unsubstantiated concerns about waste, fraud, inefficient procurement, or otherwise unproductive expenditures do not materially change these conclusions. Even under a deliberately conservative assumption that 2.5% of E-Rate support generates no intended economic benefit given that the improper payment level has already been found to be lower than 1.5%,[1] the associated GDP loss is approximately $113.9 million, or only about 2.7% of the GDP loss from eliminating E-Rate altogether. The results demonstrate that eliminating a productive program to prevent a comparatively small amount of ineffective spending can impose economic costs substantially greater than the inefficiency being addressed.

The FCC's review should therefore distinguish between monetary savings and economic benefits. The fact that most schools and libraries are now connected does not eliminate the market failure E-Rate addresses. Availability of broadband is different from the ability to finance the level of connectivity and internal infrastructure required for modern education. Our results indicate that E-Rate generates economic benefits substantially exceeding its cost and that significant reductions in the program would impose costs on schools, libraries, workers, taxpayers, and the broader U.S. economy.

Importantly, reducing E-Rate expenditures should not be equated with an equivalent saving to taxpayers. Because E-Rate is financed through USF contributions rather than general federal revenues, reducing the program lowers the amount collected through the USF mechanism. Concerns about whether the existing USF contribution base remains efficient and sustainable are important, but they are analytically distinct from whether E-Rate itself generates economic value.

There may be broader market failures in education that lead to underinvestment in educational resources generally. The FCC, however, is charged with communications policy rather than education policy. Within that mandate, E-Rate allows the FCC to address one specific dimension of the broader underinvestment problem – inadequate investment in communications and broadband infrastructure. Thus, even if E-Rate cannot correct all of the market failures affecting

[1] *See*, IG finding on improper payment threshold. FCC, "Inspector General's Top Management and Performance Challenges for FY 2025 for the Federal Communications Commission," October 29, 2024, https://www.fcc.gov/sites/default/files/fy25_fcc_tmpc_mngt-response_10292024.pdf.

educational investment, it can help ensure that underinvestment in connectivity does not further constrain the production of educational services.

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