CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

March 30, 1998

S. 1482
A bill to amend section 223 of the Communications Act of 1934 to establish a prohibition on commercial distribution on the World Wide Web of material that is harmful to minors, and for other purposes

As ordered reported by the Senate Committee on Commerce, Science, and Transportation on March 12, 1998

SUMMARY

CBO estimates that enacting this bill would have no significant effect on the federal budget. Because the bill would establish new criminal penalties and thus could affect receipts, pay-as-you-go procedures would apply. S. 1482 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act of 1995 (UMRA) and would not affect the budgets of state, local, or tribal governments. S. 1482 would impose a new private-sector mandate, but CBO estimates that the direct cost to industry of complying with the bill would fall well below the statutory threshold for private-sector mandates.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

S. 1482 would amend the Communications Act of 1934 to require persons engaged in interstate or foreign commerce in the commercial distribution of material that is harmful to minors in or through the World Wide Web to restrict access to such material by persons under 17 years old. CBO expects that the Federal Communications Commission (FCC) would issue a regulation to prescribe procedures to be used to restrict access to this material. Based on information from the FCC, we estimate that this regulation would cost less than $500,000 to promulgate, assuming appropriation of the necessary amounts. Furthermore, under current law the FCC is authorized to collect fees from the telecommunications industry sufficient to offset the cost of its regulatory program. Therefore, CBO estimates that this provision would have no net cost to the government.

The bill also would amend the Communications Act of 1934 to impose criminal and civil penalties on any person who violates this requirement to restrict access to material that is harmful to minors. Enacting this bill could increase governmental receipts from the collection of fines, but we estimate that any such increase would be less than $500,000 annually. Criminal fines are deposited in the Crime Victims Fund and are spent in the following year. Thus, any change in direct spending from the fund would also amount to less than $500,000 annually.

PAY-AS-YOU-GO CONSIDERATIONS

Section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985 sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. CBO estimates that any increases in governmental receipts and direct spending (from new receipts) would each total less than $500,000 a year.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

S. 1482 contains no intergovernmental mandates as defined in UMRA, and would not affect the budgets of state, local, or tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

S. 1482 would impose a new private-sector mandate, as defined by UMRA, by requiring interstate or foreign commercial distributors of material that is harmful to minors in or through the World Wide Web to restrict access to such material to persons under age 17. Such material is defined in section 1(a)(7)(A). The bill establishes that requiring a verified credit card, debit account, adult access code, or adult personal identification number or following other procedures prescribed by the FCC would constitute compliance. CBO estimates that the direct cost to commercial distributors of proscribed material to comply with S. 1482 would be minimal.

Estimates of World Wide Web sites that contain proscribed material vary from 10,000 to 100,000. An individual may own more than one site, and most are considered to have a commercial purpose. Most commercial sites are known as “pay” sites and offer the use of a credit card for membership or subscription payment. Some also use assigned passwords as a method of age verification. The remaining sites are considered “free” sites since they do not require any payment. Owners of “free” sites receive revenues from advertisers' banners either at a fixed amount or when a viewer “clicks” on a banner. “Free” sites may also sell videos, other merchandise, or advertising.

Assuming that the use of a credit card satisfies the requirement in this bill, owners of "pay" sites would not incur any additional costs. Moreover, owners of some "free" sites could easily establish a credit card system without significant additional costs, either because they currently use credit cards to sell merchandise or because they are owned by an individual who also owns a "pay" site that already accepts credit cards. Alternatively, a "free" site could use one of several age-verification systems (AVS) to screen out minors at no cost to the Web site owner. AVS providers typically charge the user for an identification code that allows access to sites using the AVS service. The AVS provider verifies the consumer's credit card or accepts payment by check or money order upon presentation of an official identification and a signed form swearing the consumer is over age 18. Not only would the owner of the "free" site avoid costs, but the AVS provider typically pays site owners a referral rebate.

Nevertheless, to the extent that users avoid accessing "free" sites because of the need for identification, owners of "free" sites would be negatively affected. Those "free" sites that are linked to "pay" sites could lose some customers who would access the "pay" site through the "free" site. Other "pay" sites that operate independently could lose some advertising revenues. In either case, CBO estimates that such losses would be small.

ESTIMATE PREPARED BY:

Federal Costs: Kim Cawley
Federal Revenues: Alyssa Trzeszkowski
Impact on the Private Sector: Jean Wooster

ESTIMATE APPROVED BY:

Robert A. Sunshine
Deputy Assistant Director for Budget Analysis