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Telecom

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It seems to be the destiny of great leaders to confront similar problems. Messrs Hawke and Gorbachev are both struggling with their own political parties, whose lesser lights seem to believe that there is yet life in the old carcass of socialism. The leaders want to modify their respective parties' traditionally-socialist predilection for the public ownership and control of the means of production, distribution and exchange. And both are being frustrated by arch-conservatives and greedy, mean-minded little apparatchik who wish to preserve privileges that only state-backed monopolise offer such people.

Telecom is undoubtedly Australia's biggest state-backed monopoly, and Telecommunications is a \$10 billion-a-year industry. The Australian Telecommunications Users Group (ATUG) and their consultants, ACIL, tell us this industry's reform is as important as that of the waterfront or road transport. Intuitively, that must be so. If the Government does not introduce Telecom to market discipline it cannot claim to be serious about micro-economic reform. But, are the economic rationalists in Cabinet winning? Is a Hawke, perhaps, like a Peacock: more feathers than meat? (Not that the Opposition is in a good position to criticise after its cowardly opportunism over the timed local-calls issue.)

Telecom's problems are not trivial. The Government admits Telecom has 60% more employees per unit of services than 12 other major overseas telephone enterprises. Telecom is not only an economic burden but also a political embarrassment. The Industries Assistance Commission (IAC) estimates that competitive reforms would save users at least 15% of their current costs, or \$1,050 million per year. ATUG/ACIL go further to point out that the IAC methodology produced an underestimate, and experience overseas shows that we can expect even greater benefits from deregulation. In spite of the \$28 million dollars that Telecom spent last year advertising itself, the IAC tells us that Telecom is ranked by businessmen as the worst public utility in terms of repairs, performance and responsiveness to customer.

As long ago as May 1988, the Government issued a somewhat politicised blueprint for reform. However, it recommended that

the major monopoly areas intact. Indeed, the statement claimed that the monopolies were necessary to cross-subsidise Telecom's community service obligations (CSOs)---many of which had been inherited from Country Party Ministers and were once roundly criticised by Labor. In any case, the CSOs are small beside Telecom's profit. Even if the CSOs were themselves justified, alone they could not justify Telecom's monopoly. It is not community service obligations but sloth that the Telecom monopolies are mostly subsidising.

Those local equipment manufacturers who enjoy Telecom's favour also benefit from a carrier that does not have to watch its costs. Perhaps not surprisingly, they have become a source of political support for Telecom's monopoly. The whole situation is, thus, not only grossly inefficient in a nation that can ill-afford such inefficiency, but is an open invitation to wholesale corruption. Indeed, the situation itself is a form of political corruption. What, then, is to be done about it?

Since the 1988 statement, AUSSAT has arrived at the edge of bankruptcy and this, more than anything else, has forced the government to look again at the telecommunications industry. There are currently proposals for combining Telecom, the Overseas Telecommunications Corporation (OTC), and AUSSAT---the so-called "Megacom" proposal---or for combining OTC and AUSSAT---dubbed "Instant Duopoly" because it would be rather like the now-discredited Two Airline duopoly. Either proposal would preserve the absence of competition, but allow AUSSAT's services to be cross-subsidised. AUSSAT's management, on the other hand, claims that it would be viable if only it were not excluded from the trunk routes. These amalgamations are not the way to go.

Open competition is the absence of regulatory encouragements or barriers to entry---in other words, anyone else has the right to supply, and whenever a service is unduly costly or poor someone is likely to do so.

One of the more common, but least rational, reasons advanced for not allowing alternate sources of supply is that Telecom is a natural monopoly. It is said that, because there is a possibility that telecommunications will develop into a monopoly, the government should enforce one. As Brendon Behan once remarked: "It's a quare world."

In the interests of management efficiency, Telecom, OTC and AUSSAT should all be privatised. But, first, while they are still in Government ownership, they should be made to compete. This procedure is recommended just in case Telecom is something of a natural monopoly, and in case the new private telecommunications owners, like TV station owners before them, should gang up on weak politicians demanding that the favoured environment into which they bought should continue indefinitely. New Zealand has already shown one way that a break can be instituted.

Getting to a new and better situation is often more difficult than identifying it. Initially Telecom and OTC might be restricted to their existing line of business, and they should not be merged with each other or with AUSSAT. Economies of scale (critical mass) arguments are nonsense---Telecom is already far larger than some of the most successful international companies such as Cable and Wireless. Megacom would make competition even more difficult to introduce, and further disguise the cross-subsidies.

AUSSAT's economic problems have to be addressed. The Government has guaranteed its loans and the money must be found somewhere. The best place to find it is a profitable AUSSAT and the management says AUSSAT could be profitable, if only it were permitted to compete. Burying AUSSAT in either the OTC or Megacom is only a means of making the buyers of telecommunication services cross-subsidise AUSSAT losses---a politically smart but dishonest and economically disastrous tactic. Telecommunications markets should be opened up to new entrants (except for Telecom and the OTC in each other's patch) including AUSSAT. AUSSAT should be privatised as soon as that is possible.

Telecom should be broken up, something along the lines that New Zealand Telecom has been divided into regional Telecoms, a trunk carrier, and a cellular mobile telephone provider. The ultimate goal is competition, because only competition gives the poor bloody user an alternative when the service proves lousy.

The principle difficulty is not economic but political. Telecom has 85,000 employees---almost the number of employed persons to be found in two Federal electorates.

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