

TELECOMMUNICATIONS AND THE AUSTRALIAN ECONOMY: A VIEW FROM CANADA*

Peter Robinson

Henry Ergas' report is well-presented, easy to read, and interesting — even for those who are not students of the telecommunications industry. The summary at the front gives a quick overview of the report, and should be of interest to all those concerned with the economic development of Australia. The report shows how telecommunications policy is dependent on a number of factors, sometimes with competing objectives. It also emphasises the growing economic role of telecommunications. In short, it is a report well worth reading by all those with an interest in, or concern with, telecommunications in Australia. It will also be of interest to those concerned about Australia's economic future, because of the close link between telecommunications policy and economic performance.

The report's value would have been enhanced had Ergas used his considerable knowledge of the international scene to place the Australian issues and objectives in their broader global context, for it is no longer possible to continue the luxury of developing domestic telecommunications policy in isolation. It would also have been useful to have had a fuller presentation of Ergas' views on future trends, and how he sees Australia fitting into that pattern. Telecommunications is very much an industry of the future, and today's policy must be framed in terms of that future.

I read the report with considerable interest, for it covers topics high on the agenda of industrialised countries, as well as on the agenda of many developing countries. But I read it as a person interested in policy issues, rather than as an individual interested in economics. I was, therefore, surprised that it was not until late in the report — Appendix II — that I was given any inkling as to what the public debate had been in Australia. In my comments on the report, I shall put my remarks in the context of what appear to me to be the issues

* Commentary on Henry Ergas, *Telecommunications and the Australian Economy*, report to the Australian Department of Communications, AGPS, Canberra, 1986. The opinions expressed are those of the author, and are not intended to represent the views of the Canadian Department of Communications, or those of delegates to OECD.

internationally, and in the context of what I would expect to be the issues raised in the Australian national debate.

In dealing with the structure of telecommunications prices, Appendix II lists a number of criteria that the telecommunications authority should meet in its pricing policy. The last of these states that the policy "should be responsive to legislative and social obligations. . ." We are then told that the Australian public debate focussed on this requirement (implicitly suggesting that the other economic criteria were less important, or perhaps even largely ignored, in the debate), with considerable attention on the extent to which prices provide a cross-subsidy to certain classes of users, and on the desirability of such cross-subsidies.

I would have been surprised if this had not been so, with, I suspect, particular concern about the potential for raising charges to the general public in order to compensate for lowering charges to industry. I do not wish to deal with the validity of such a concern here when, as some argue, one takes into consideration the growing use of telecommunications by industry, and the growing revenues that result from this. Nor do I wish to resurrect all the items in what was probably a heated debate. The point is that there are a number of domestic issues that must be tackled in a meaningful manner. Governments can no longer afford to deal with them in isolation from the international context.

Politicians are being faced with a serious dilemma in telecommunications: competitive pressures from abroad versus pressures from a concerned public. If the former are ignored, the very economic health of a country is put at risk: if the latter are ignored, the government in power risks defeat at the next election. Telecommunications has long been regarded as a vehicle for social policy, and as an element of national security. These aspects cannot be ignored in policy development. I am not for a minute suggesting that Ergas has ignored these aspects in reaching his conclusions, but I would have liked to have seen a section of the report devoted to his consideration of them.

At the international level there are two aspects with which I would like to deal very briefly here: the first is trade and the role of telecommunications; and the second is deregulation (competition) versus monopoly. Telecommunications and computing services have become essential to the operations of business and industry. They are now providing essential support to traditional trade, as well as opening up new opportunities for trade in a range of innovative services. They represent, in addition, an area of economic growth in their own right. Any country which ignores these points in an era of growing international competition in telecommunications does so at its peril. "A wave of internationalisation is sweeping across the world

of telecommunications," according to Takayo Ishii, President of the Japanese KDD. Countries which ignore this wave, or are caught unawares by it, will become meaningless eddies in the backwaters.

On the other hand, with the developing focus on international trade in world debate, and on the importance of telecommunications to that trade and to economic growth in general, I have become concerned that the social, cultural and other non-economic objectives served by telecommunications could be forgotten. Indeed, at present there is a worrying communications gap between experts in telecommunications and experts in trade — a gap that must be bridged if effective trade principles are to be developed for trade in services.

I steered the preparation of the text of the OECD *Declaration on Transborder Data Flow*, which gives balance to these types of competing public policy objectives, and which is being increasingly recognised as a first step towards international agreement on trade in services. That *Declaration* also describes the context in which telecommunications policy must be considered. It acknowledges the relative ease with which data and information are now transferred across international borders, and emphasises the growing importance of the social and economic benefits that derive from increasing transborder data flows. An industrialised country like Australia cannot ignore these facts in developing its telecommunications policy.

There has also been a growing international debate on deregulation (competition) versus monopoly. First, it should be pointed out that deregulation and competition are not synonymous. Indeed, as competition in telecommunications increases, there may well be need for different types of regulation: I therefore prefer the term reregulation to deregulation. It should also be recognised that competition will co-exist with monopoly in telecommunications on the global scene for some years to come. Thus, the issue for debate should not be deregulation (competition) versus monopoly, but what type and degree of competition is desirable, and how can this be integrated with services which are still offered on a monopoly basis?

Australia may, perhaps, have been fortunate in the past in that large distances from other countries have tended to isolate it to some extent from other issues that have arisen — the series of issues raised by transborder data flow, for example. But those distances will not protect Australia from the new "wave of internationalisation in telecommunications", and this must be factored into any consideration of Australian telecommunications policy. And that new wave is a competitive wave, quite different from the relative comfort of the co-operation in which international telecommunications has so far developed.

A major question facing many countries is the extent to which growing demands for diversification in a range of new services,

particularly the so-called 'enhanced' telecommunications services, can be met by a single supplier. Will resources tend to be spread too thinly if a wide range of services is attempted? If the demands for diversification are ignored, and resources concentrated on a few services, will some sectors of Australian industry be disadvantaged in relation to foreign competitors? In the light of international developments and growing competitive pressures, I find it difficult to quarrel with the recommendations contained in the Ergas report.

It is important to emphasise a point made in the introductory chapter: "Telecommunications policy decisions are strategic: they determine today the range of choices open tomorrow". Not only that: they will determine the wealth-generating capacity of the Australian private sector. As the report states, those industries which make the greatest use of telecommunications are also those, which, by and large, have above average rates of growth in output and employment.

The thrust of the recommendations is towards increased investment in telecommunications (making up for past shortfalls) to meet the growing need for a greater diversification of service offerings, and to move closer to cost-based pricing so that Australian industry will not be disadvantaged in relation to foreign competitors. It is questionable whether the new services needed by industry can be expected to subsidise domestic household services to the same extent as in the past, without risking damage to Australia's competitiveness in world markets.

Nevertheless, there is a need to recognise the Australian government's commitment to provide an equal standard of telephone service at reasonable cost to all Australians. As pointed out in chapter 2, the wide geographical dispersion of the Australian network has entailed a substantially higher share of expenditures in providing service to remote and rural areas, compared with most other countries. It is unlikely that these services can be offered without some form of cross-subsidisation — probably from urban and business telephone subscribers — if the charges for new services are to be responsive to international competitive pressures. This point might perhaps have been dealt with more fully in the report.

Decisions that are now taken with regard to telecommunications policy in Australia will not only have important immediate and short-term impacts, but will also have longer-term effects that are likely to be of greater significance to the economic growth and well-being of the country in an increasingly competitive world.