

Three words: structure, structure and structure

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Joshua Gans

Last year, 'T3' meant the much anticipated third installment in the time-traveling, action-packed, Terminator series. In that movie, having delayed Judgment Day, the protagonist John Connor - protected by Arnold Schwarzenegger's reformed robot character - faced the inevitable destruction of the world and the rise of machine rule. He had to face past inaction that left the future intact. The irony was that the fact that Connor was still around at all, despite machine attempts to change history by removing him from it (in previous movies), left him with the power to resist the changes that were to come. The structure of time was essentially unchanged.

This year, 'T3' means the much anticipated third tranche of the Telstra sale. In this round, having delayed Privatisation Day, Kim Beazley faces the inevitable divestiture and the rise of private rule. Now he must face his past inaction which left Telstra intact. The irony is that the fact that Beazley is still around at all, despite attempts to re-write history, have left him powerless to resist the changes that will come. The structure of the industry is essentially unchanged.

Our current woes with Telstra begin not with the Howard Government but with Labor. In 1989, Kim Beazley, as Minister of Finance, corporatised the then Telecom Australia leaving it with a monopoly over key pieces of infrastructure - notably the local loop - relying on regulation to mould the future course of telecommunications competition.

But let's go back in time, Terminator style, and imagine what the world would be like today if a different decision had been taken. What if Australia had done as the US had done in the early 1980s and split the monopoly elements of telecommunications from the competitive elements? Telecom would have been split into two companies; one governing the local network and the other long distance and international calls. Indeed, it may have also been split along rural and city lines to separate out the intrinsically unprofitable from the profitable. Finally, when new developments came along such as mobile telephony and cable, the Telecom Local would have been prevented from investing in those technologies leaving it to Telecom Distance and its rivals to fight it out. Telecom Local would have remained regulated, public and taxpayer subsidised. Telecom Distance would have eventually been unregulated and engaged in level playing field competition with others.

Today, we would have a situation where Telecom Local would be a marginalised commodity - engaged in simple management of the old copper-pairs into people's home. It would be a simple business and

therefore simple to regulate. New services such as Internet dial-up and ADSL would have been pushed hard by Telecom Distance in competition with others and not resisted as a potential threat to the local loop. People would have forgotten that Telecom Distance was in public hands and privatisation could have occurred easily a decade earlier.

Instead, we have Telstra whose strategy is to do everything to protect an intrinsically marginalised commodity - the local loop - from competition. It is a complex business and therefore difficult to regulate. New services are resisted as a threat to the local loop. How long did it take for Telstra to embrace ADSL and home networking (both of which will eventually make IP telephony real)? They resisted for years and when they got serious last year forgot their regulatory responsibilities. Fortunately, that commercial misjudgment assisted consumers, but one wonders if it only served to bolster conservatism within Telstra.

Sadly, during one of the most dynamic eras in any industry, Australia has had a publicly controlled, regulated monopoly to manage the changes in telecommunication. Despite continual forecasts of doom at the hands of regulators Telstra remains the dominant provider in also every area of the industry. It is mistrusted and it has been largely responsible for the telecom industry moving to first place in the most complaints received at the ACCC (displacing petrol and the banks). Not surprisingly, even with a majority in the Senate, the Coalition can't manage to complete privatisation without compromise.

Kim Beazley can no longer do anything about it, but all policy-makers since him are complicit in continuing to avoid the structural issues in telecommunications. Telstra needed and still needs to be broken up. The alternative is a mess. More regulation and ironically a lower market value than anyone envisaged. How can it be that in an industry with this much growth that Telstra's market value could decline so much? The answer is that past inaction on structure has left Telstra with an old-style integrated monopoly culture rather than a shake up that may have made it a leader rather than a follower. The fall in its value is indicative of a decline in an industry that investors expect to be slow and unresponsive for years to come.

The right thing to do would be to delay Privatisation Day once more and break Telstra up. Separate off the local loop from cable and wireless. Divide the local loop into Rural and City. Cast off all regulations and then privatise all but Rural leaving that to be publicly managed as it should be; it is providing a public good after all that everyone admits the market will not otherwise sustain. The irony of this is not only will this leave a more competitive and healthy structure in telecommunications but it will raise far more revenue from the privatisation - billions more in fact - as investors are not forced to be shackled with the loss-making elements of Telstra or the on-going uncertain regulatory environment. Get structure right and the rest will follow. Talk about a 'no brainer' in public policy.

I hold no great hopes for that outcome. But there is a glimmer on the horizon. Operational separation will prove very difficult for Telstra to manage. As its CEO said last week it may choose to break itself up rather than deal with it all. So maybe that is the future regardless of efforts of those who have long tried to resist it. We can say 'Hasta la vista integrated monopoly' and may well look upon this past two decades of Australian economic history and wonder what the fuss was all about.

About the author

Joshua Gans is a Professor of Management (Information Economics) at the University of Melbourne. He has published extensively on competition and regulation issues and is Managing Director of Core Research, an economics consultancy. You can read his work in this area at www.economics.com.au.

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