Hanging up the DOGMA

August saw the Left dig in around the ALP platform in the Telecom debate. Yet most ALP senior Left figures are at odds with their own faction. David Burchell looks at why.

The Telecom debate which raged through July and August will reach a climax at the end of this month with the ALP special conference devoted to the issues of telecommunications and the airlines funding. It is becoming clear that this has been a vital debate, possibly the vital debate, over the course of ‘micro-economic reform’ in the Hawke government’s fourth term.

In the process, the simple anti-competition, anti-‘privatisation’ case with which the Left entered the debate has taken a considerable beating. The official ALP Left will go into the special party conference with its no-compromise position unchanged. Yet most senior figures within the ALP Left now concede that a simple oppositional posture in the debate is not sufficient, and the tacit assumption is that a variation on the Kim Beazley’s ‘Megacom’ option may be the preferred outcome for a pragmatically-minded Left. This is a shift of considerable proportions. Obviously on one level it has been prompted by the political imperative to avoid open warfare in the ALP and the consequent downfall of the government. Nevertheless, there is a clear sense in which the Left’s theoretical position has been found wanting in the debate, and this has contributed in no mean manner to the discomfort of senior members of the ALP Left.

To understand how this happened, it’s probably worth starting by outlining the positions. The government, of course, is torn between the options of Kim Beazley, who wanted Telecom and OTC combined into a ‘megacom’ and ranged against a foreign-dominated competitor, and Paul Keating, who wanted Telecom ranged against a consortium of which OTC was to be the majority partner. Keating’s argument was that Telecom and OTC in combination would snuff out any competitor, foreign or otherwise. The common element in the two proposals was the prima facie benefit of exposing telecommunications to private sector competition.

The Left, both inside and outside the ALP, was initially united in its opposition to both the Beazley and Keating options. There were several elements to the Left’s case. First, either of the government’s options could be interpreted as implying some degree of privatisation, and furthermore as ‘opening the door’ to further privatisation thereafter. In Beazley’s case, Aussat was to be sold off to the private competitor (assuming it could be persuaded to buy an enterprise with accumulated debts in the order of $900 million). In Keating’s case, up to 49% of OTC would be available to private investors. And of
course the very division of the market by the introduction of competition would cut the market share of Telecom, and thus its value to the public, by a very considerable amount. And since the Left is officially opposed to any form of privatisation, this alone was enough to condemn the proposals in many people’s eyes.

The second argument stemmed from a social, rather than a more narrowly ideological, concern. Cross-subsidisation of domestic and rural users by business users is an important element in affordable telephone services for households. Competition, it is argued, by cutting the market share of each competitor and by encouraging ‘cream-skimming’ of the profitable bits by competitors, would reduce the ability of Telecom (or anyone else for that matter) to keep domestic telephone charges affordable to poor and country people. Indeed, the existence of cross-subsidies is more or less what business means when it decries the inefficiency of our phones. However, it’s worthy of note that Kim Beazley has given public assurances that ‘megacom’ and its competitor would be regulated to maintain Telecom’s ‘community service obligation’.

The third element in the Left case was essentially economic, and thus the most easily defensible in the current political climate. The theoretical rationale for introducing competition into telecommunications is the orthodox neoclassical belief in the ability of competitive markets to produce optimum outcomes in economic affairs. The more competition, in other words, the more ‘efficiency’.

Yet this is clearly not an adequate account of the dynamics of the modern capitalist economy. Most markets are not ‘free’, most do not ‘clear’, and most playing fields are not - nor are ever likely to be - level. Not to mention the fact that we live in a complex mixed economy with a plurality of economic interests and pulls (the arbitration system, the Accord, tariffs and quotas and so on), none of which is reducible to a pure market logic.

In short, then, competition does not always (or even often) produce ‘free markets’, and markets often work in particular situations to clear out competition. The Financial Review remarkably conceded recently, for instance, that deregulation of the domestic airways may lead in time to a monopoly carrier replacing the regulated duopoly of yore.

Moreover, telecommunications has always been regarded in the past as an obvious ‘natural monopoly’. In other words, the structure of telecommunications (the enormous network of cables, the universality of need) is such as to suggest that competing firms with competing networks would tend to be a less efficient use of our national resources than a monopoly provider, public or private. To this way of thinking, then, the most likely outcome of competition in the longer term would be a single private utility, or a cartel of private utilities, whose regulatory regime would be totally up to the ideological predilections of the government of the day. Thus competition would not succeed in its own aims, let alone those of the Left.

Of these three arguments, the first is mostly of internal concern to Left theology, but both the second (social) and the third (economic) are serious objections to both the government’s preferred options in telecommunications policy. Why then was the Left’s case so easily marginalised in the public debate?

Cynics would reply that the simple answer is that both the government and the media are in the pockets of big business, and all viewpoints other than those of big business are never going to make it on to the agenda. A more sophisticated version of this argument might be that the government has staked its business credibility on ‘micro-economic reform’ and its associated definition of ‘efficiency’, and that this allows it no option other than the competition micro-economic reform is alleged to require. (A more succinct definition was provided by Max Walsh in the Sydney Herald recently: ‘micro-economic reform’, he opined, ‘is really about changing work practices’.)

There’s clearly a degree of truth in at least the latter version of this argument. But ultimately it’s more of an
alibi than an explanation. After all, if the Left's arguments really are commanding, and the case for competition really is irrational, surely it's not in the government's interest to pursue a policy which, even if it appeases business interests in the short run, is going to lead it into an economic cul-de-sac in the longer term?

Here it makes sense to look a little more closely at some of the key terms in the debate mentioned earlier: privatisation, deregulation and competition. Privatisation is easily the biggest boogy in the current lexicon of the hard Left. The Telecom unions in particular have staked a lot on the defence of the public ownership of Aussat: indeed, they threatened that if Aussat were privatised, they would recommend to their members disaffiliation from the ALP. The first question here is why on earth a large part of the Left has allowed itself to get so hung up on Aussat. As Kitty Eggerking argues below, Aussat is not only a lemon now, it has always been a lemon: and furthermore it only owes existence to the commercial imperatives of certain players in the telecommunications industry (notably Kerry Packer) rather than the national interest or economic strategy. Moreover, it is surely stretching the logic of anti-privatisation to argue that ridding the public of a debt-ridden and loss-making enterprise is actually weakening the public sector. Surely, on the contrary, its consequence would be to strengthen the public sector by freeing more assets from the unproductive task of debt-servicing to productive use by the sector as a whole?

The wider problem here is the trench-warfare posture of the Left on privatisation. The pervasive Left imagery is of two sides - 'privatisers and deregulators' on the one hand, and their opponents on the other - arrayed on the battlefield, fighting over the terrain of the public sector. Trench raids are followed by counter-attacks; preparatory ideological gunfire is aimed across the 'no-man's-land'; the defenders prepare constantly for the final assault. On the face of it, this frame of mind is perfectly understandable. After all, there are strong social forces with a powerful interest in divesting the public sector of enterprises which do, or could plausibly have, some useful role in government social and economic policy. Even the airlines, which on the face of it have no 'marketing correcting' or social equity function whatever, do bring resources into government coffers which would otherwise have to be raised by taxation.

Nevertheless, understandable though it may be, the trench-warfare approach costs the Left dearly in the public debate. Not least in the case of Telecom because it obscures the real issues. As I suggested above, privatisation (or simple dumping) of Aussat by the public would not necessarily weaken the public sector one iota. On the other hand, the public stake in telecommunications could be significantly weakened without so much as a whiff of privatisation. In Beazley's option, for instance, the existence of a private competitor, to the extent that it succeeds, would weaken the market share and thus the value to the public of Telecom and OTC - without any public enterprise actually being sold.

Nor does privatisation as a concept have much to say about social equity questions such as cross-subsidies. After all, a properly regulated private monopoly or duopoly could just as easily be required to cross-subsidise as a public monopoly: all that is required is the political will on the part of government. This suggests that, public or private, monopoly or duopoly, what should concern the Left most from a social justice standpoint is the regulatory regime of telecommunications, and the political decisions associated with it. By the same token, deregulation and privatisation don't necessarily run on parallel tracks: indeed, the British experience suggests that a private duopoly might require more, not less, regulation than a public monopoly.

More broadly, as Peter Baldwin argued recently (ALR 120, August), the fundamental questions with public sector enterprises are: what function they perform and what structures and institutional environment are appropriate to that function. For 'market conforming' enterprises competition may be a perfectly appropriate means of enhancing efficiency, just as it can be in the private sector. 'Market diverging' enterprises, however, need to carry out a social function and thus may need protection from the harsh logic of the price mechanism. Seen in this light, the debate over Telecom is partly a debate over whether it should be viewed chiefly as a 'market conforming' or a 'market diverging' enterprise. Mr Beazley's position appears to be a compromise between the two conceptions. And his public assurances that cross-subsidies would be protected by regulation under the proposed duopoly would seem to suggest that he is aware of the tension between the two roles.

This brings us to the question of competition. And here we encounter a paradox. The Left's criticisms of the applicability of the neoclassical ideal of competitive markets to the telecommunications industry are quite impressive, and have rarely been satisfactorily answered by their protagonists. Yet there is a much broader sense in which an inflexible hostility to competition has been the Achilles heel of the Left in the Telecom debate. The distinction worth making here is between competition as an ideological dogma and as a fact of economic and social life.

There is something rather odd about the analysis of competition in Left debates around the public sector at present. After all, it has been a virtual consensus on the Left in recent years that the command system is no longer a tenable model for socialist economies or economists, and that markets are a necessary and permanent fact of economic life. Markets, in turn, tend to require competitive tensions. Yet in debate around the public sector the logic of this is rarely thought through. It is perfectly true that there is little reason to expect that
a 'competitive market' of the neoclassical ideal will ever be established in telecommunications, or that it would necessarily be commandingly 'efficient' if it were. But this is not to disprove the useful role which competitive behaviour can play in economic life in the rough practical world. Rather, it is an argument for the 'imperfectness' of competition in the theoretical sense, and for a practical case by case assessment of its appropriate role within particular public enterprises. There is a strong case for the belief that unregulated open competition over the basic phone network would actually create inefficiency by removing economies of scale and leading to unnecessary duplication. But that is not sufficient argument against competitive forces themselves.

There is another sense in which competition has been the undoing of the Left in the Telecom debate. And that is that in its inflexible opposition to competition as a general principle the Left fails to engage with the very powerful force of commonsense behind the idea of competition, and by corollary its own perceived support for government monopoly, bureaucracy, and the status quo.

An extremely small number of Australians have any real conception of the byzantine complexity of the telecommunications debate. At the policy level it's purely a debate among the mandarins and a small group of policy analysts and union research officers. But everyone understands concepts like governmental bureaucracy, the tyranny of monopoly, and the frustrations of dealing with public utilities which can frequently appear to have little or no regard for their customers. And most people also, in their private lives, think of competition (at the supermarket, the shopping centre, the petrol station) as providing them not only with 'freedom of choice', but also a means of combating the tyranny of petty officialdom and bureaucracy. If they're rude to you at one shop, you can always go to another. Public opinion polls consistently show that the services people are most satisfied with tend also to be those where there are a multiplicity of options of service providers.

Of course, in itself this perception might seem to have little to offer in the telecommunications debate. Unregulated competition there could easily lead to higher rather than lower prices, and in any case such 'competition' would be in the order of a cosy duopoly where the players could quite happily appoint themselves a comfortable market share, and then sit back and protect it. A private sector competitor to Telecom, were it actually to devote itself to customer service, would undoubtedly focus its attentions on business rather than private customers. It's hardly the image of competition the average consumer carries with them from the experience of the shopping centre.

Nevertheless, the image remains a potent one. And more potent still, especially in the era AB (After the Berlin Wall) is the image of the Left as standing for monopoly, bureaucracy and the 'dead hand' of central planning. So when the Left appears to come out in opposition to competition, and in tacit support of a bureaucratic status quo, alarm bells start ringing in people's heads.

This isn't entirely fair to Telecom, of course. Whoever provides telecommunications services in Australia, they will probably always be somewhat lumbering and unwieldy, if only because of the nature of the industry. And Telecom, as the Evatt Foundation recently argued quite strongly, does as good a job as most. Yet, at the same time, is the popular commonsense entirely misplaced? Public or private, large unaccountable bureaucracies are a problem, and competition can be a useful way of providing additional checks and balances against misuse of monopoly powers to those of regulatory authorities, given the latter's proneness to 'capture' by the regulatees.

"Deregulation and privatisation don't necessarily run on parallel tracks"

Some economists have argued, for instance, that a healthy model for a more responsive public sector would be to have public enterprises competing against one another - on artificially levelled playing fields, as it were - to provide specific services. Another option might be to have smaller autonomous public corporations competing over different areas of the same industry - like OTC competing for telephone installation, for instance. One British author, discussing the future of the privatised British Telecom (BT) under a future Labour government, has proposed an even more daring model. BT would be broken up into a series of regional or district companies, which would be superimposed on the publicly-owned network. The network, or an industry authority, would set standards of service and price, while the local companies would be accountable to local communities and be subject to five-yearly reviews of their franchises.

Probably criticisms could be made of all of these models on the grounds either of duplication or 'inefficiency' (though it would be nice to see them discussed). In any case, the choice of model is not important for our purposes here. Ultimately what is important is for the Left to have something to say to the concerns which lead ordinary people - not just conservative ideologues - to view competition as inherently liberatory, much in the same way as eastern and central European citizens tend...
at the moment to see markets purely and simply as tools of liberation. And in the final analysis that goes further than the idea of competition itself. As Mark Latham argues elsewhere in this issue, the public sector would have a better reputation and a stronger support base if it were actually just a little more public. Too often the public sector and its Left supporters are perceived as a producers’ monopoly against consumers, and this weakens the social legitimacy of both. For instance, the close identification of the anti-competition case with the Telecom unions in the present controversy probably didn’t help the former in the public mind.

The most probable outcome of the Telecom debate now may well be a modified version of the Beazley proposal, with appropriate guarantees of protection for Telecom’s ‘community service obligation’ (CSO). This is a far from perfect outcome for the Left, not least because Telecom itself now appears to see the CSO as an irksome constraint on its competitiveness. Nevertheless, it leaves open to the Left the task of defining just how it is to cope with the genie of competition in the following instalments of the debate over ‘micro-economic reform’.

Notes:

DAVID BURCHELL is ALR’s Managing Editor.

Lost in SPACE

In the furore over the future of Australia’s telecommunications the Left seems set to fend off privatisation at any cost. That may include being forced into defending Aussat, whose establishment it bitterly opposed from the start. Kitty Eggerking traces Aussat’s history and some of the options for its disposal.

The idea of an Australian satellite in the 1970s meant different things to different people. For the boffins the satellite was state-of-the-art technology; for political boffins it was not only a gee-whizz space toy but it also held out the promise of a new structure for Australia’s concentrated media; for media owners it presented an alternative to the then two-televison-station rule and an alternate carrier to Telecom. Some groups believed that a satellite would break Telecom’s monopoly on Australian communications; others predicted miracles for remote education; still others simply wanted to restrain the power of the Australian Telecommunications Employees Association (ATEA), while others saw a satellite as a boon for Australian business.

By 1990 very few of the promises have been delivered, and very few of the players have become winners. One exception is Kerry Packer, who persuaded Prime Minister Malcolm Fraser in 1976 of the need for an Australian satellite and who is one of the few to have profited indirectly from Aussat.

(The satellite did lead to the undermining of the legislation controlling the ownership of television stations, which was eventually replaced by the ponderous ‘audience reach’ rules for media ownership, and, in the sellers market at the start of the new rules, Packer and Rupert Murdoch made $1.8 billion between them on a total of four TV stations, valued at a maximum of $800m.)

Although Fraser envisaged 49% private ownership for Aussat, under Labor Aussat is entirely publicly-owned. Telecom, which consistently advised against a satellite, was forced to take a 25% stake in Aussat, even though it saw the future of Australian communications in fibre optics. In all the policy documents floated between government departments over almost ten years before the first of Aussat’s three satellites was launched in 1985, the financial viability of the satellite was never seriously assessed. Some guessimates were produced, but after the first three years of operation Aussat’s income was $100m below the estimated $289.4m.

The satellite has proved prohibitively expensive for distance education; for broadcasters its costs outweigh its benefits; it has proved extremely costly for the commercial networks; and has led to no discernible stimulus for Australian industry.

The working life of two of the satellites will expire in 1993, and these are due to be replaced by two second generation satellites in the early 1990s. While the existing satellites have transponders of 12 and 30 watts, the second generation satellites will have 50 and 150 watt transponders, and current users believe the new transponders are too powerful for their needs.

The total cost for purchasing and launching three first generation satellites was $283m; the second generation satellites are expected to cost $480m.