Where's the breadth of vision in Rudd's broadband plan?

Economics & Deregulation and Media, Telecommunications and IT Unit | Alan Moran
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With the national broadband network (NBN), Kevin Rudd is stepping into the breach to save the Australian economy for the fifth time.

Already we've had two fiscal stimuli of $10 billion and $42 billion, a guarantee of $30 billion to bankroll the shopping centres and the climate change program to force high-cost wind power on the Australian energy user. The guarantee to shopping centres and wind energy programs involves taxpayers bailing out the union super funds' investments.

With the $43 billion allocated to the fibre-to-the-home network, Rudd claims to be saving us from the global financial crisis by boosting demand as well as providing infrastructure for a more productive tomorrow. He likens the NBN to building the railway network for the 21st century. But internationally the 19th-century railway systems were built by private enterprise - Australia was an exception and, ironically, we ended up with three different rail gauges.

The discussion paper on national broadband is little more than a thinly veiled proposal to force Telstra to disgorge its copper network and divest its Foxtel system or to otherwise co-operate with the Government on pain of facing regulatory discipline. Telstra management, seeking to maximise the wealth of the shareholders, as it is obliged to do, has argued vigorously that such divestment is not in those shareholders' interests. If forced to co-operate it will see little reward from investing in maintaining the existing network, knowing that it is to be seized eventually by the Government.

This highlights a major problem with Rudd's understanding of business motivations. The Prime Minister only ever thinks of the immediate issue, and has little comprehension about how the means of fixing this will ricochet on other interests.

Boards of directors are obliged by law to seek to maximise the wealth of shareholders. Any board must be ultra-cautious about investing in a facility that faces subsidised new competition, government hostility and punitive pricing regimes. Telstra's fixed-line investment as a result of these factors has remained low and is falling. This has brought about a deterioration in the Australian service, which is likely to accelerate as a result of the intensified attack by the Government on the main private sector provider.

Communications Minister Stephen Conroy claims that Australia has "some of the slowest broadband in the world". He attributes this to lack of competition. But the real reason is regulatory-induced business caution. Slow network performance is not observed in the unregulated area of mobile phone services. Mobile networks are not subject to regulatory restraint, still less are they subject to expropriation through subsidised over-build or the threat of regulatory seizure as escalated by the Rudd/Conroy plan.

The Government's telecommunications policy envisages developing a government-controlled monopoly that will use the best technology cost effectively. This overlooks the long experience of poor management of government businesses and their need to dilute efficiency by paying off vested political interests.

Also missing in this view of the world is a competitive dimension and any conception that the various players would have a different view of their interests than the Government assigns to them.

The NBN plan is, moreover, founded on an optimism that the best solution is being pursued and that alternatives will not emerge. But $43billion of essentially public funding aside, we must ask, do we place a government business as the arbitrator of where telecom technology is going? Right now we have three wireless networks, the Foxtel links and copper wire as well as the planned fibre system. While one of these might achieve total dominance and become the "natural" monopoly, this is unlikely and, in any event, the existing systems are in place and will surely strive for customers.

It is when some of the details of the proposal are scrutinised that it becomes clear the Government is making things up on the spot. Conroy said, for example, that rather than paying cash for shares in the NBN, companies could tip their fibre assets into the business in return for an equity share. He mentions that the Government might find it attractive if Nextgen were to offer its fibre for 2 or 5 per cent of NBN. Here the arithmetic moves us into the theatre of the absurd. Telstra has perhaps 100 times the fibre of Nextgen and its share would logically be 200 or 500per cent of a business in which the Government has said it will retain 51 per cent. Paradoxically Nextgen is owned by Leightons, the initiators of BrisConn, which is building the road to Brisbane Airport and has shares that have a negative worth; 500 per cent of nothing is still nothing.

With a government business there is a great temptation to shut out competitive solutions - after all, it will be argued, we need critical mass to ensure economies of scale.

This will leave us hostage to a system that might be technologically bypassed but which will be shielded from competition to preserve the government monopoly.

This would lock us into a low-growth economy ill prepared to compete in the 21st-century.

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