

Beyond the Safety Net: A view from Outside

A Strategic Review of the
Universal Service Obligation

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LateraEconomics

Objective

Identifying Strategies To Deliver
Better 'Equity For The Bush' in a
more efficient way



Bangladesh. . . is a telephone desert: there is only one fixed-line phone for every 275 people . . . and about 90% of the country's 68,000 villages have no access to a phone. But the country is now seeing the birth of a new breed of entrepreneur: 'phone ladies' who make their living out of connecting the poor to the rest of the world. They buy expensive state-of-the art cellphones, using loans made available by the Grameen Bank. . . . Grameen Telecom, in the past two years has supplied 300 villages with phones. The company hopes that in five years time everybody in the country will be within two kilometres of a cellular phone.

The Economist, 9 October 1999



There is evidence of a strong latent demand for services in remote areas. Real needs such as access to education, access to the job market, social and economic development, access to government information and services, health, security, EFTPOS and financial services that could be satisfied by telecommunications have not yet been translated into a coherent and articulated demand. If this latent demand could be realised and developed it would . . . drastically shrink, if not eliminate, the areas of Australia that are now unattractively marginal or net loss areas (2000).

**Office of Communications, Science and Advanced
Technology in the Northern Territory**



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Two Strategies Exist

- Forcing provision of equal services to non-economic customers using cross subsidies
- more strategic use of funds to address key Equity issues identified by remote communities as being of priority importance



USOs - 'One size Fits All'

USOs Generate Substantial Inefficiencies

- Not means tested, so may advantage those who don't need them.
- Suppress market signals and so market development
- 'One size fits all' is wasteful - people having differing preferences.
- Various USOs uncoordinated between themselves
- problems with 'one size fits all' grow as 'sizes' proliferate



An Enabling, Opportunities Focus

- **Direct subsidies to where communities identify greatest need**

- Expanding NTN model
- Contestability of USO supply
- Less suppression of market development
- Subsidies come from general revenue
- Politically popular
- Better relations between communities and suppliers

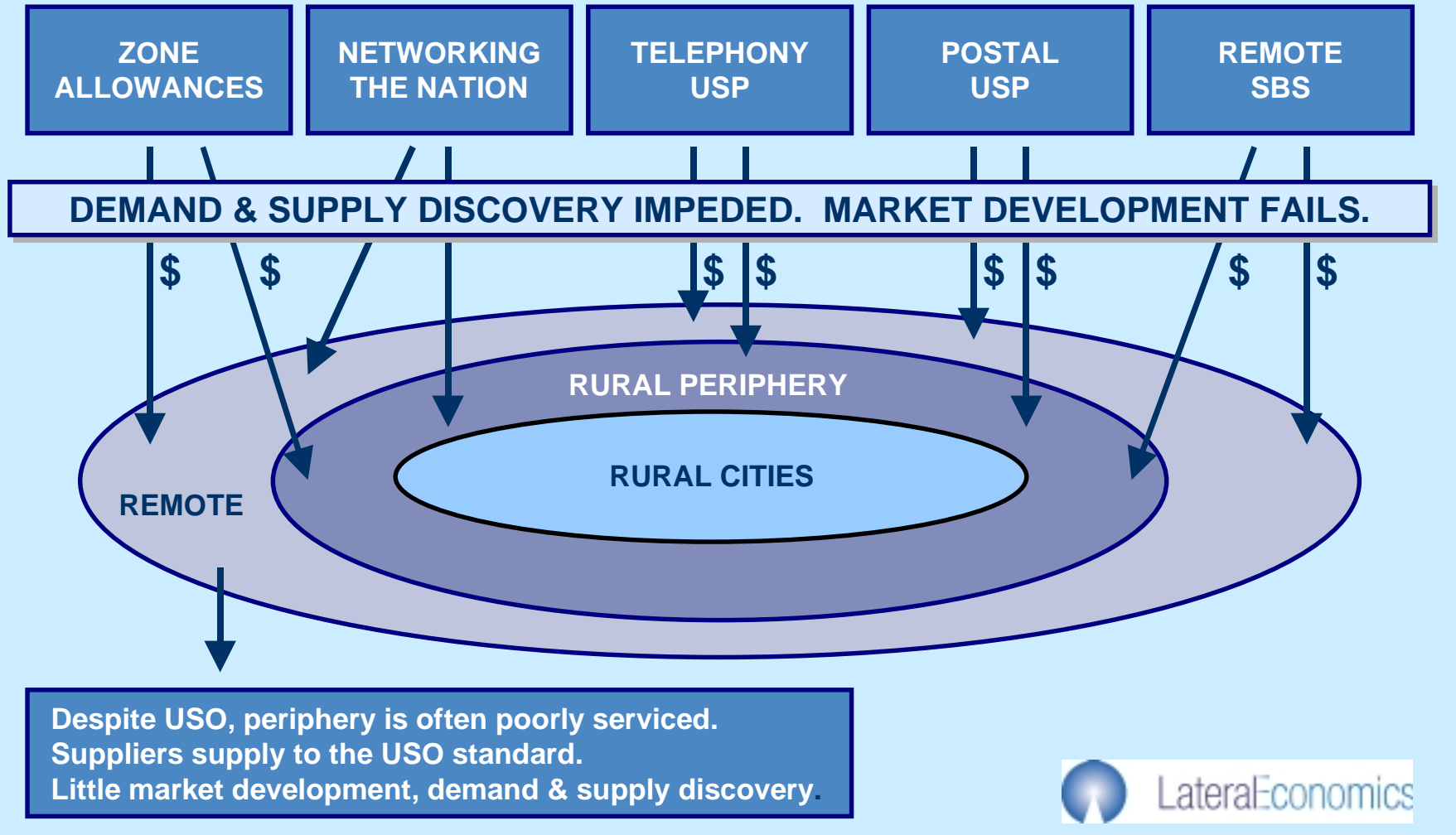


An Enabling, Opportunities Focus

- However NTN lacks many market disciplines
 - to discover true level of demand one must discover what people are willing to give up...



Figure Five: Rural equity through the 'silos'



The bounty to the white herring fishery is a tonnage bounty; and is proportioned to the burden of the ship, not to her diligence or success in the fishery; and it has, I am afraid, been too common for vessels to fit out for the sole purpose of catching, not the fish, but the bounty.

Adam Smith 1776



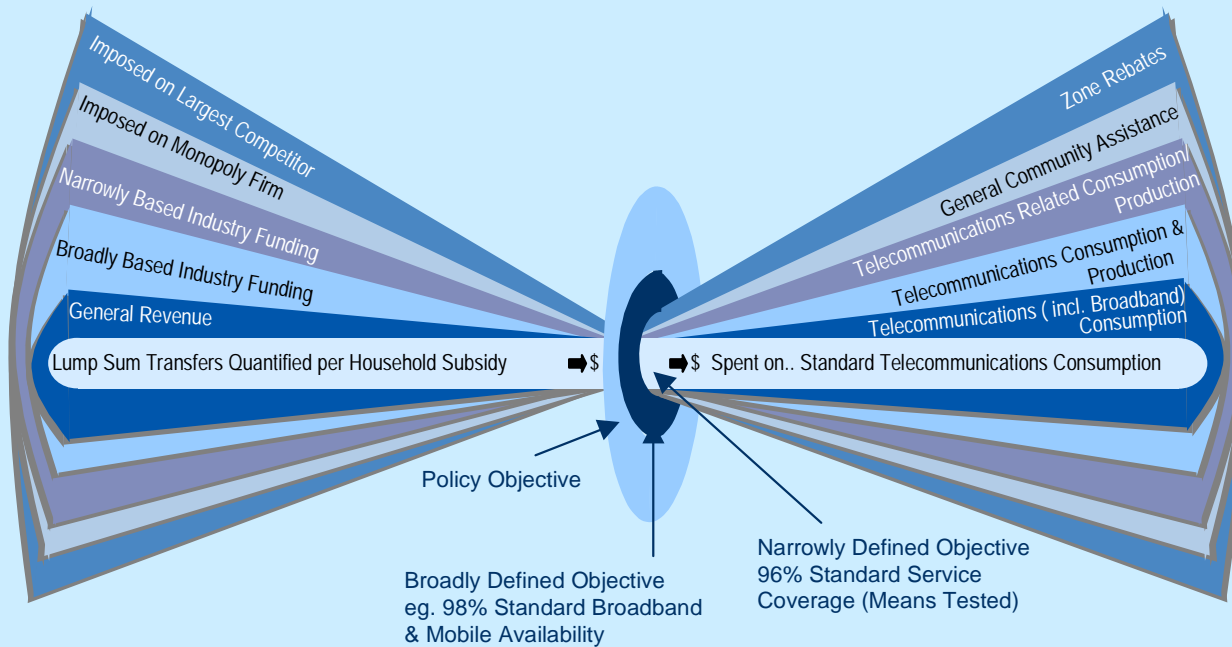
Figure Three: An heuristic representation of the efficiency of a USO

Funding The Equity Objective

The further from the centre (optimal) solution, the greater efficiency loss

Utility Purchased Per \$ Spent

The further from the centre (worst) solution, the greater utility per \$ spent



Objectives for USOs

- Broadening USO Funding Base
 - Economic efficiency requires broadest base possible
 - USO payments should be imposed upon pay TV services
 - Ideally on general revenue
- Integration of USO for Post and Telephony ?
 - And/or 'cashing out' delivery of Telephony and Postal USOs



USOs : Cashing Out and Up

- High value telecommunications can substitute for postal services
- Also ease of self provision for post...
- Trading would probably transfer resources from postal to telephony USO
- BUT by choice....
- ...therefore improving equity for the bush!



Objectives for USOs

- Transparency
 - Itemising USO as cost or subsidy on phone bill
- Equity
 - Itemisation on individual accounts could generate information required to target USO more tightly, making it subject to means testing...



Tax Concessions ?

- Political Opposition
- Assist different companies differently
 - Depends on tax circumstances
 - Ownership structures
- Refundable Tax Credits
 - Equal assistance regardless of tax status
 - Dividend Imputation = dilutes value of concessions in hands of shareholders
 - Degree of ‘fine tuning’ required makes this option less attractive



Objectives for USOs

- Running delivery of USO through tax system for individuals has substantial merit.
 - Rural equity rebates already administered by tax system (Zone Allowances)
 - Would pave the way for means testing...
 - ...And funding from general revenue



Objectives for USOs

- Rationalisation of existing ‘equity for the bush’ programs could be politically attractive
- Idea : tax credit for the bush to closely offset rising prices from lifting USO price cap



Objectives for ‘opportunity based’ funding

- Integration of Govt services → better meet needs of people
 - Range of rural equity schemes (health, education, telecommunications) administered through tax system..
 - ...But communities under little pressure to choose between alternative uses of their subsidies



Objectives for ‘opportunity’ based funding

- Integration of centrally funded schemes
- Then discipline through ‘tradability’ of entitlements under schemes and
- Even ‘cashing out’
- Idea: General entitlement funded from general revenue - communities decide (cash or assistance for project)



USOs : Cashing Out and Up

- USOs subjected to competition for delivery (Supply Side)
- Possible to subject USOs to Demand Side competition - by allowing beneficiaries to ‘cash -out’

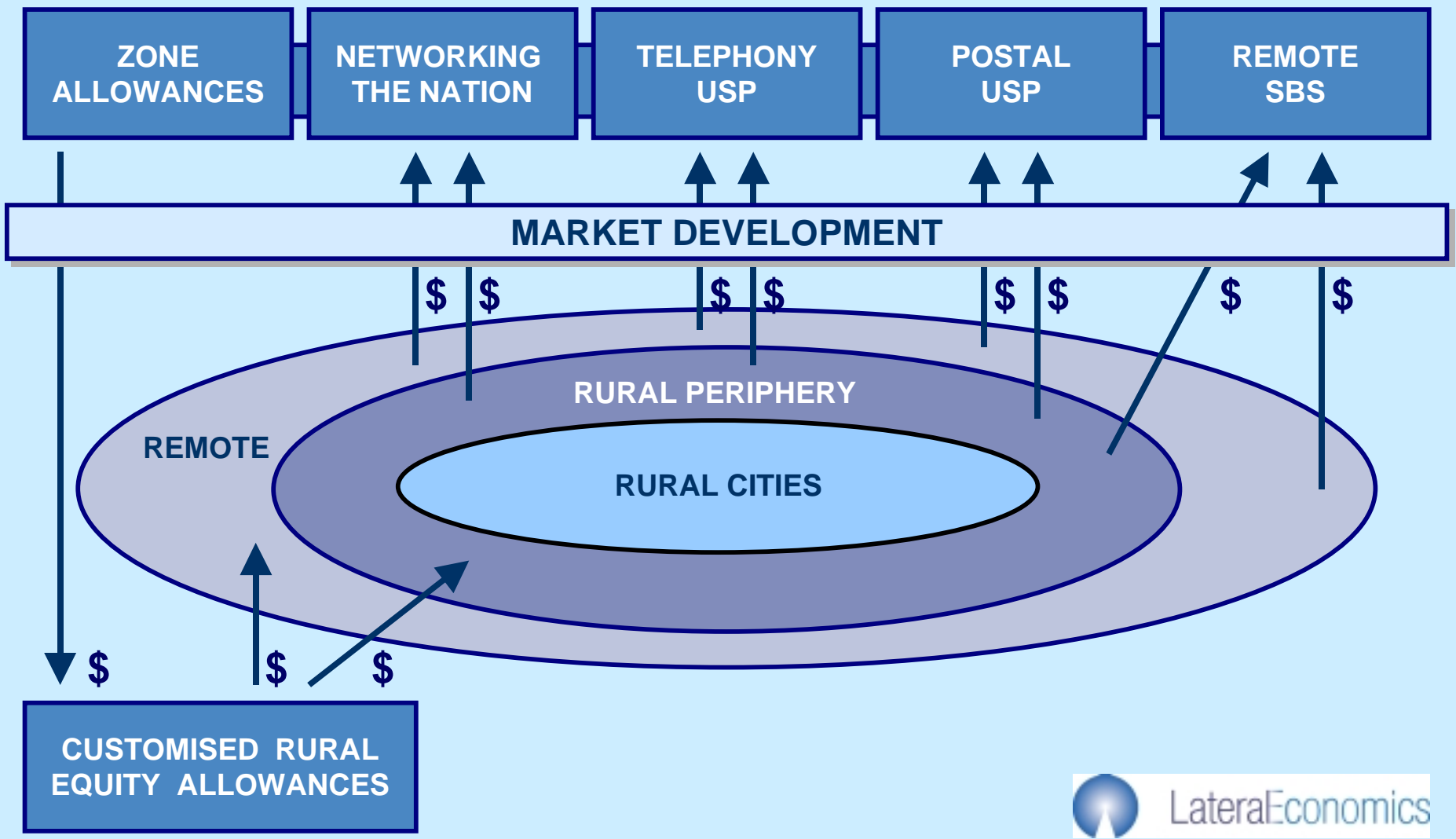


USOs : Cashing Out and Up

- Requires : Cost be identified & mechanism to facilitate cashing out
- Should be individual cashing out without interdependencies and group cashing out otherwise
- Much rural post has cost interdependencies



Figure Six: A Utopian transformation of rural equity programs



Findings

- Forcing provision of equal services to non-economic customers using cross-subsidies
- More strategic use of funds to address key equity issues identified by remote communities as being of priority
- Both strategies can be improved and coordinated by pursuing greater choice and tradability of entitlements

