

## Broad ideas

Friday, March 30, 2007

Ian McAuley

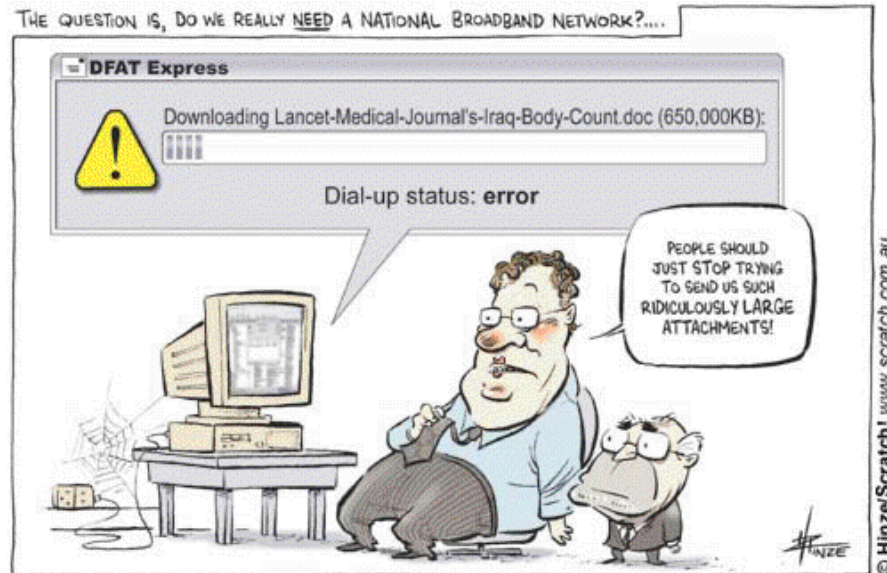
At last a bold initiative from Labor – [its broadband plan](#).

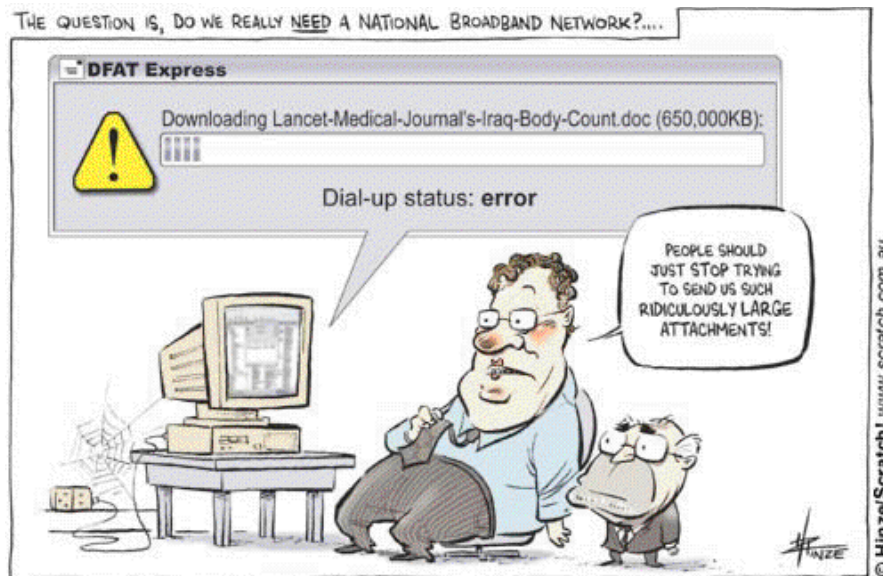
With a price tag of \$4.7 billion it may look extravagant. It's about \$500 a household, spread over several years. To put that figure into perspective, Australian households already spend \$1300 a year on computers, internet subscriptions, pay

television, software and electronic entertainment, and another \$1500 on telephone services. It's only twice the amount the present government has committed to a nine kilometer road in the politically sensitive Brisbane region – a project which may have local merit, but will not have the national benefits of a coast-to-coast broadband.

One criticism relates to the proposal to fund part of this outlay from the Future Fund, linking that contribution to the proceeds from the Telstra sale. The argument is that the Future Fund should be quarantined to meet future Commonwealth liabilities. But those who mount such arguments are taking a narrow, bookkeeper's notion of what constitutes a 'liability'. A responsible government has an obligation to provide economically useful goods where the private sector, because of market failure, falls short. In our internet infrastructure we have fallen far behind other developed countries. That's a liability.

In any event, Rudd would be betting that in the coming budget the Government will be spending down the surplus, in an attempt to buy electoral support and to close off options for Labor proposals. (For all its claims of 'economic responsibility', the Howard Government has never let economic management get in the way of directing spending at politically sensitive constituencies.)





Melbourne Business School Professor [Joshua Gans](#) has been quick to condemn the proposal on the basis that Australia does not have the population density of countries like Korea, where a geographically concentrated population has helped that country become the world leader in broadband capacity. But one could equally argue that it's because of our distances between population centres, and our need to take population pressure off major centres (where existing broadband services are concentrated) that we need to expand our coverage.

He also said that many people are [satisfied with their present services](#). (Perhaps he has not struggled with the primitive 7 kb dialup connections which are still the lot of many Australian farmers.) It's easy to satisfy people if they are unaware of wider possibilities. East Germans, for example, were very happy with their notoriously unreliable Trabant motor vehicles, until the Wall fell and they were exposed to Volkswagens and Audis. There are times when nations sensibly invest in infrastructure ahead of, rather than in response to, demand; the Eisenhower Government's Interstate Highway program is a case in point.

From a competition perspective, it is notable that Labor plans to provide high speed connections to 98 percent of the population. This is the same reach as Telstra's much-publicised 'Next G' mobile network, but Telstra's network, while suitable for voice and some simple internet services, is prohibitively expensive for any serious business (or entertainment) applications.

If Labor is careful about how it allocates capacity it could bring the benefits of considerable competitive pressure on existing broadband prices. It could compensate for the present government's failures in telecommunications, particularly its failure to implement '[structural separation](#)'. That is, the isolation of natural monopoly aspects of Telstra's assets, such as exchanges and cables, into a separate public enterprise or regulated private entity.

One could claim that Labor's plan is politically opportunistic, that it's yielding to Rupert Murdoch's pressure to open up new channels for entertainment. It is also possible that this initiative is a response to research revealing that voters in the 18 to 30 age group are politically disengaged; access to fast internet would be very attractive to that group. The criticism is valid, but idealistic. It would indeed be wonderful if all policies were guided solely by rigorous cost-benefit studies. We wouldn't have subsidies for private health insurance, 'roads to recovery', and ever-expanding middle class welfare. But, what sets Labor's broadband proposals apart is that even without its political appeal it looks like a sensible investment in our future, in a nation suffering from ten years of neglect of infrastructure investment.

---

### **About the author**

**Ian McAuley** lectures in Public Sector Finance at the University of Canberra and is a Centre for Policy Development Fellow.

---