



Universal service in Turkey: Recent developments and a critical assessment



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ABSTRACT

The meaning of universal service in telecommunications has changed considerably in the last decade. Technological advances have created the necessity to redefine the legal framework. While the demand for old universal services falls, new and wider services are to be included in the scope of legal obligations such as broadband. In this transformation of public policy toward universal services, political preferences take precedence over economic considerations. Turkey provides a good case in point. In this paper, the authors assess the legal framework of universal services and its institutional structure in Turkey. The tension between enlarging the scope of universal service and pressures on using revenues efficiently is emphasized.

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1. Introduction

Universal service is widely defined as the provision of a baseline level of telecommunications services to every resident of a country at a reasonable charge (Parsons & Bixby, 2010). The definition was well understood when there were only wireline telephony services. The concept of universal service has changed substantially during the last decade, however. Technological advances and changes in pricing and tariff models are combined with the liberalization efforts around the world. The result is the growing uncertainty over the scope of universal service. Its content has also changed substantially. Economic policy empowered and encouraged governments to use the funds more broadly, beyond the boundaries of the telecommunications industries.

Recent literature on universal service emphasizes the need to change the definition of universal service. Alleman, Rappaport, and Banerjee (2010), for example, push for the expansion of the definition to include broadband. Similarly, Xavier (2008) discusses the conditions for a switch to universal access. Among other factors, the decline in the fixed line use and penetration supports the reassessment of universal service obligations (Gideon & Gabel, 2011). Concurrently, technological progress has shifted the demand for communication towards mobile services. The popularity of mobile broadband services is increasing around the world and some countries (such as Austria) redefine their broadband markets by uniting fixed and mobile broadband into one market. In a more recent development, power line communication creates an alternative platform for universal service especially in rural areas. For example, it is supported by the FCC in the United States and increasing in Spain. As a result, the use of the basic universal services such as public phone access and directory assistance has fallen as well.

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All these developments call for a review of the existing legal structure of universal services. In this paper, the authors discuss the Turkish legal structure under the light of these developments. The next section offers a brief discussion of the concept of universal service. The historical roots, economic justification and funding methods are briefly discussed. Then, the paper turns to the Turkish experience. They focus on the Turkish universal service policy and assess its implementation and problems surrounding the use of universal service revenues. The paper concludes with a recapitulation of major points.

2. Recent developments in universal service

The concept of universal service has a historical orientation. The current definition follows the path that started in the early twentieth century. In the beginning, it was based on the fixed-line voice services. It was widely accepted that every house has to have a fixed line telephony service up and working. And, it has to be offered at affordable, that is, lower than market-clearing prices. Issues of social inclusion, the need to provide basic health and safety services and voter preferences all played some role in governments' insistence that the goal of universal service was to provide basic services to the whole society at reasonable prices.

When viewed as redistributive pricing, universal service pricing looks similar to policies involving public provision of private goods or in-kind transfers. A basic feature of these policies is that some essentially private goods like education, child care or health care are provided either free of charges or at (sometimes highly) subsidized prices. This approach is sometimes attributed to James Tobin's specific egalitarianism (Tobin, 1970). Arguments based on the second-best theorem are also widely used by more market-oriented scholars (Madden, 2010).

2.1. A historical orientation

Universal service came to existence as a tool to interconnect networks (Mueller, 1997). Providing basic services to all customers was not the goal of the initiative. A regulated monopoly, namely AT&T, would provide system-wide interconnection. "One system, one policy, universal service" became the motto of monopolization of local telephony services. Interconnection among competing service providers was not a feasible alternative and universal service solved the problem of local communities by establishing a legal monopoly as a universal service provider. In a sense, telephone services were like different computer operating systems. They were in competition, but not compatible. In fact, Vail's call for universal service advocated a single telephone network (namely, AT&T), rather than promoting connectivity to more people (Parsons & Bixby, 2010, p. 124). Instead of allowing competition to sort it out, government intervention became the preferred tool. Universal service was designed as a tool to correct a market failure. The logic has not changed for the last century.

In the United States, the Communications Act of 1934 offered the first modern definition of universal service by referring to "making available, so far as possible, to all the people of the US, rapid, efficient, nationwide and worldwide wire and radio communication services with adequate facilities at reasonable prices" (Madden, 2010, p. 11).¹ The Communications Act is important in a number of respects. Most importantly, the legal framework of universal service has taken its current shape in the wake of this law as a way to provide basic services to society in general. It also locked in the technology of universal service to wired services and enacted the foundation of the Federal Communications Commission. The Telecommunications Act of 1996 emboldened the legal structure of universal service by expanding its domain and creating an independent universal service administration company.

Mueller (1997) argues that the causal relationship between universal service requirements and providing basic services to the society, thus increasing penetration, was the creation of the industry. The industry claimed that a regulated monopoly and a subsidy mechanism was the right approach to increase penetration. Theoretically, a number of other alternatives might have been chosen. For example, subsidizing consumers, rather than producers is an option. Apparently, public choice issues dominated political preferences.

Europe followed a similar path. After the liberalization of telephony companies in the 1990s, a need for universal service obligations system surfaced. The 2002 directive (Directive 2002/22/EC) provided the legal framework. The EU system also took it granted that the fixed telephony lines and subsidiary services such as directory assistance and emergency calling were the basis of universal service obligations. Europe has turned towards broadband in universal services in recent years (Teppayayon & Bohlin, 2010).

In sum, the legal framework of universal service has not changed much since the 1930s in the developed world. However, offered services and the nature of access have been transformed considerably. The present system of universal service obligations originated when both access and services were only available from a single supplier. Basic wired telephony services were the only tool of providing universal service. This understanding can still be read from the relevant legislation of the United States and Europe. For example, the 2002 Universal Service directive of the European Commission's list of universal services are all related to fixed-line services.

¹ Interestingly, the name of universal service was preferred by the Bell system. Bureaucrats and consumers preferred unified service (Mueller, 1997). Mueller argues that universal service was a myth created by the AT&T to protect its monopoly rights.

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