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A conceptual framework for public-private interplay in the telecommunications sector

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ABSTRACT

Public activity in the telecommunications industry has experienced important transformations in the last decade: "reinvolvement" in infrastructure deployment, "innovative" boosting measures, and decentralisation of some decisions. Conceptually, even more important than the measures themselves is the fact that private agents often participate in their realisation and execution. This paper reviews how justifications for public action that would apply to any economic activity area have modelled the public-private relationship in the telecommunications sector. Subsequently, it focuses on the analysis of the new spaces for public-private collaboration that are currently opening up.

1. Introduction

The economic crisis that took hold in a great number of countries during the second half of 2008 has led to the revival of the debate on some concepts or criteria that had remained almost unchanged for the last few decades. The most important of these discussions is probably the one that attempts to redefine the relationship between the free operation of the market and public intervention in economic activity, and the limits to each.

Times of crisis are times of change and the outcome could be a somewhat reformed general economic framework which could also affect the telecommunications industry. In any case, analysis of the not always easy public-private settlement in this sector had been needed long before the general debate reappeared.

Leaving out the use of certain fashionable grandiloquent terms, such as "reformulation" or "relaunching", the truth is that public activity in the telecommunications sector in the 21st century has experienced reorientations of certain importance (transformations?), when compared with what was considered the norm at the end of the previous century. New hopes ("the benefits that the information society will bring"), new slogans ("bridge the digital divide"), have encouraged a stepping up of involvement of the public sector in the telecommunication services markets.

The most striking feature of this phenomenon is the public support for the deployment (or the deployment itself) of networks and infrastructures. However, it has also become evident in many other ways. Policies for the inclusion of citizens and regions in the new socioeconomic paradigm represented by the knowledge society often include "unorthodox" actions (in comparison with what had become the rule for this industry) from demand aggregation to project subsidisation.

More important from a conceptual point of view, this catalogue of actions is not being carried out by public administrations alone; indeed, private sector collaboration is being sought. This collaboration will not be limited to establishing formal contracts but will be articulated in quite diverse ways. Additionally, a novelty has been introduced: prominence is

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not reserved to central governments. Regional and local administrations are also adopting decisions and leading many of these initiatives.

All these facts are sufficiently important to make a re-analysis of the situation of the different actors participating in the telecommunication service markets. In the next four sections, this paper will aim to clarify the not thoroughly studied relationship between the public and private spheres in the telecommunications sector and, more specifically, to analyse what opportunities public-private agreements offer and how appropriate they are. Section 2 establishes the theoretical foundations for public activity, whatever form it takes. For mainstream economic theory, the existence of market failures is the reason that justifies government intervention in a particular market. Section 3 applies this framework to the evolution of the industry over the last fifty years. With this perspective, Section 4 focuses on analysing the new relationships between the public and private sectors. Subsidiarity and pragmatism are giving a new shape to the relationship between the private and public sectors, previously based on pitting both sectors against each other (substitution or split theory). This fact permits the extension of the catalogue of possible public-private collaborations in the telecommunications industry. Finally, a discussion on what this means for policy evolution is offered. Few general rules can be drawn up as a single model will probably not work in every case. In spite of this conclusion, public-private interplay will be a long-term issue for the sector and, therefore, it deserves to be examined.

2. A rationale for public activity in the telecommunications sector

Tracing the boundaries between public and private has been a universal preoccupation in human thought since ancient times. Not only is there no univocal definition of either term but this difficulty is exacerbated also by the fact that language in public and private settings is used in such a variety of quite different ways (see Steinberger, 1999; Weintraub, 1997). The organisation of the economic system is one of the contexts in which the public/private distinction becomes essential. What role should be played by government in the economy is a question that every economist cannot leave without an answer.

The judgement on what should be left to the private sector and what to the public sector has varied over time. In the past, it was assumed that private-sector organisations were less committed and that they did not do as good a job (Linder & Rosenau, 2000). Nowadays, the assumptions of neoclassical economic thought tend to dominate, establishing a sharp dichotomy between "governmental" and "nongovernmental", and a clear preference for a privately-driven economy.

This neoclassical-synthesis paradigm leads government activities in any particular economic sector to be seen as "interventions", justified only when private markets fail. Most modern schools of economic thought have embraced this view[1] and, therefore, there is mainstream consensus about the existence of a finite set of causes ("market failures") that *could* justify State intervention. A very different question is the exact meaning given to market failures and, particularly, the form and magnitude of the consistent public intervention.

In his analysis of these causes, Stiglitz (1988) identifies up to eight (which are neither mutually exclusive nor independent). They can be regrouped into four major categories: those causes that are inherent to the characteristics of the good itself (public goods, merit goods and externalities), those that refer to the market situation (imperfect competition, which includes information failures and incomplete markets), those driven by equity reasons, and finally macroeconomic arguments (influence in economic development). The inclusion of these two last categories ("legitimate policy objectives") makes the list long enough to be acceptable by Keynesian standards.

Using this classification, Gómez-Barroso and Pérez-Martínez (2005) analyse the presence of market failures in telecommunication services, and more specifically, in the new convergent ones, concluding that almost all arguments are useable, to different extents:

- strictly speaking, telecommunications cannot be considered as a public good, although it may be considered as a "mixed" good,
- there is no doubt that it provides positive externalities,
- there are sufficient arguments to include it in the merit goods group,
- it is not clear whether the market develops conditions for competition, or whether it can reach everyone, at least in the short term,
- it is taking on an important and growing role in economic development,
- its importance seems to be sufficient to reach everyone based on an equity criterion.

Therefore, the decision to intervene in telecommunication services markets (or in the infrastructures required to provide them) is supported by mainstream economic theory. However, once this has been established, there is no criterion for classifying market failures and it is even more difficult to deduce any specific measures. In fact, we cannot even declare that a need for action is required: *finding coverage* for the intervention does not imply *having* to intervene. As said before,

[1] The most prominent exception is the Austrian School. They point out that it is impossible to know whether or not the market is failing without an independent test, of which there is none outside the actions of individuals. On the other extreme, Marxists would say that *all* markets have inefficient and democratically-unwanted outcomes.