Comment

The Executives' Summary

The Australian Communications Authority's (ACA) Digital Data Inquiry report has two faces. If you read it from the front, through the Executive Summary, it tells you that the costs of upgrading the statutory universal service obligation from its current level - voice telephony - to a digital data capability (at 64, 28.8 or 14.4 kbits/sec) would outweigh the benefits.

But if you start at the back, you could be mistaken for thinking you'd dropped in on a different report. This is the last sentence of the last Appendix, discussing a digital data capability of 28.8 kbits/sec:

"Although the statistical data available at the time of writing are not comprehensive, in view of the likelihood of increased household expenditures on the Internet and other online services, and the downward trend in technology costs, it seems likely that the incremental benefits will reach the same levels of incremental costs".

The Appendix was written by the Allen Consulting Group (ACG) and "edited" by the ACA. Somehow, the conclusion got reworked by the ACA into its Executive Summary as:

"The costs of making a 28.8 kbits/sec or 14.4 kbits/sec data rate service universally available under the USO or any other mechanism currently outweigh the consumer benefits of this availability...The information provided in this report will become outdated very quickly because of the rapid rate of change that is occurring - both in the supply of data rate capability and the demand for, and use of it".

So quickly, in fact, that it will be out of date by the time you've finished reading the whole report.

Minister Richard Alston preferred the ACA's version. He said the ACA had included among its findings:

* "the costs of mandating an ISDN service providing a 64kbits/sec digital data channel as part of the Universal Service Obligation would outweigh the benefits;

* "government intervention in relation to the provision of a 28.8 or 14.4 kbits/sec digital data service is not economically necessary or justifiable".

No qualifications in sight.

It is no statistical trifle. This analysis of the costs and benefits of different policy actions is the cornerstone of the report. And yet the ACA, in its Executive Summary, and the Minister, in his media release, surgically removed the crucial qualifications to the consultant's findings.

ACG conducted a fairly conventional form of economic cost/benefit analysis using the concept of "consumer surplus". Benefits to consumers are measured as the difference (surplus) between the amount consumers would be prepared to pay for services and the amount they do pay. ACG made a series of assumptions, particularly about the "elasticity" (responsiveness to changes in price) of spending on "Internet" services and about the cost of providing enhanced "digital data" services. Given the uncertainties of price elasticities for new services, ACG used a range of scenarios.

ACG focused on the provision of a digital data capability at 28.8 kbits/sec, rather than the higher level ISDN functionality (64 kbits/sec) referred to as constituting "digital data capability" in the Telecommunications Act 1997.

For the benefits of an upgrade to 28.8 kbits/sec to match costs, says ACG, current expenditure on "Internet services" would need to increase by 80 per cent in metropolitan areas, at currently assumed elasticities. But the consultant thinks "this growth should be attainable...with Internet usage growing rapidly". The required growth rate is large but the absolute amounts of consumer expenditure "are small enough to make this task quite achievable".

Bigger expenditure growth rates would be necessary if elasticities were assumed to be higher (i.e., expenditure more sensitive to price changes). Bigger growth rates would also be necessary in rural areas, where the costs of providing enhanced services, and hence the benefits required to outweigh those costs, would be much higher. Technologicial improvements "which drive down costs will possibly reduce the amount by which expenditures need to increase (though not if demand for demand data services is very responsive to price changes)".

Given the consultant's conclusions and the sensitivity to changes in key variables, one might have expected the ACA to support ongoing analysis of the elasticity of demand for digital data services and to propose more analysis of the costs of alternate methods of providing digital data services, particularly those at less than 64 kbits/sec. Or even to draw more prominent attention to the uncertainties.

But, given the trends identified by the ACA's consultant, that might reveal that the benefits of upgrading basic levels of telecommunications service, at some point in the not-too-distant future, might outweigh the costs. That is, further government intervention in the telecommunications market might prove to be justified by the very same kind of routine cost-benefit analysis on which the whole liberalisation and privatisation agenda has been based.

No wonder the Executives of the new regime want us to look no further than their Summary.

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