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# Telstra: should it be privatised?

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# Why is it public?

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## HISTORY

Large capital requirement.

Poorly developed private capital markets.

Perceived 'development' needs - essential service concept

Government with capacity to raise capital, bear risk, and political demand for service

# What are the issues?

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## FOR PRIVATISATION

Private firms appear more effective.

Private sector better at bearing risk in mature capital market.

Regulation as effective as ownership in producing efficient outcomes.

## BUT

Inevitably difficult to regulate.

Hard transitional/equity issues.

The investment/divestment issue.

# Is regulation important?

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YES

Limited number of providers.

Widely used input to production and consumption.

Potential impact on related markets.

BUT

These derive from technology not ownership.

# Take-out

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Privatisation is likely to increase both effectiveness and efficiency.

Regulatory concerns are 'irrelevant' in terms of debate over privatisation.

Equity and transitional problems are likely to be important

# Moving to privatise

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## STATUS QUO ISSUES

Quality of service - especially rural.

Influence over regulatory process - price caps.

## INFLUENCE ISSUES

Importance of National Party.

Role of Senate.

## PRAGMATICS

When and how to sell.

# Politics and regulation

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The way the politics is likely to be approached will involve regulatory issues.

Central to the sale price will be treatment of regulation.

Thus regulatory approaches get in through the back door.

# Fixing the regulation

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Australia has an unusual price cap model - broad cap covering many items and high value for X.

While politics will play towards low prices, sale price easier if prices are high. Can they be reconciled?

Yes:

focus price controls narrowly on the customer access network, give Telstra some upside

with specific licence restrictions to deal with quality concerns (to solve much of the politics)



# Answering the question

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It seems quite straightforward that Telstra should be privatised.

The political problems can be solved.

Care in redesigning regulations will be central to the political economy of getting there.

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