<table>
<thead>
<tr>
<th>Title</th>
<th>Telecommunication privatization in the periphery : adjusting the private-public balance.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Author(s)</td>
<td>Mody, Bella M.</td>
</tr>
<tr>
<td>Date</td>
<td>1992</td>
</tr>
<tr>
<td>URL</td>
<td><a href="http://hdl.handle.net/10220/2285">http://hdl.handle.net/10220/2285</a></td>
</tr>
<tr>
<td>Rights</td>
<td></td>
</tr>
</tbody>
</table>
Telecommunication Privatization In The Periphery:
Adjusting The Private-Public Balance

By

Bella M Mody
TELECOMMUNICATION PRIVATIZATION IN THE PERIPHERY: ADJUSTING THE PRIVATE-PUBLIC BALANCE

Bella M. Mody*
Lai-Si Tsui**
Patricia McCormick***

After the market failure of the 1930s and the early successes of the Soviet Union, the conventional wisdom in international lending agencies was that markets were not as free, efficient or reliable as they were made out to be, and that the route to economic development was through state planning. Where private capital did not exist immediately after decolonization, state entrepreneurship was the only alternative. In the mid-1970s, widespread inefficiencies and misallocation of resources led to reassessment of the power of Keynesian interventionism. It was clear the state had over-extended itself, with the collapse of the Soviet system providing the most recent evidence. In the 1990s, states in Asia, Africa, Latin America, the Caribbean, and the former Soviet Republics are being advised by the same donor agencies to now correct government failure through private sector participation in a wide range of economic development activities, including telecommunication. Detailed economic management by the state and import-substitution industrialization are giving way to reform, deregulation, liberalization, private sector management, and export-oriented industrialization. As a result of ultimatums, inducements, jumping on current bandwagons and learning from experience, many countries are merely asking how, and how soon, not why or whether privatization. Poland, Czechoslovakia, and Hungary even have ministries of privatization. The challenge is how to balance private and public investment to avoid the risk of a new era of market failure, followed by the state returning to center stage.

*Associate Professor, Department of Telecommunication, Michigan State University; **Doctoral student, Sociology-Urban Studies, Michigan State University; ***Doctoral student, Mass Media Program, Michigan State University. This paper has benefitted from presentations made by Parthavi Das and Karen Champagnie at the working group on privatization organized by Lai-Si Tsui at Michigan State University in Spring 1992. We would also like to acknowledge the valuable advice received from Pen Hwa Ang of the National University of Singapore.
This chapter focuses on the beginnings of private sector participation in telecommunication in the periphery, the neglect of competition and regulation in the haste to attract private capital, and the need to rebalance the public-private mix for the healthy overall development of a national telecommunication infrastructure that is efficient, equitable and politically autonomous. The paper is divided into three parts. The first part looks at the process, the reasons, and the different patterns of private sector participation. The second part looks at the need for competition. The third part focuses on regulation.

I. PRIVATE SECTOR PARTICIPATION

After World War II, many newly independent former colonies created state-owned enterprises. Telecommunication was generally one such state entity. In the 1960s, Latin American governments took over their private telecommunication entities because they were not meeting the development needs of the country during a wave of nationalistic fervor and import-substitution strategies sweeping the region.

As a linkage sector, telecommunication provides basic infrastructure of strategic economic importance to government efficiency and economic development. Regretfully, the engineer-led state telecommunication monopoly has not provided quantitative expansion of coverage or improvements in the quality of service. Customers with the ability to pay, and those without the ability to pay have both been ignored by the inertial state telecommunication bureaucracy. Neither equity nor efficiency have been achieved. Decades of political interference and state bureaucratic failure as policy maker, regulator, equipment manufacturer and service provider have contributed to the pendulum swing back towards market-based policies in the telecommunications sector too.

Advances in technology have made it possible to go beyond early notions of telecommunication as a "natural" monopoly. Reductions in the role of the state have been underway in the U.S., U.K., and somewhat less in France since the 1970s. In 1985, Japan privatized its public telecommunication entity, NTT. In the periphery, the organization of telecommunications provision has been changing too: from government department to statutory corporation to a joint stock company that may be publicly or privately owned. The reasons are generally economic, both domestic pulls and international pushes. Domestic pressures include reducing the size of staff per telephone line and hence state telephone budgets, increasing investment in telecommunications infrastructure and consequently improving quality and quantity of service, enhancing domestic capital markets, reducing public deficits, lowering inflation, and rectifying trade imbalances and external debts in response to policy conditions attached to U.S. and multilateral assistance. International forces constituting the expansion of global capitalism include foreign telephone operating companies and equipment manufacturers looking for new unsaturated markets, market equity investors looking for high rates of return from telecommunication, and transnational corporations wanting better international telecommunication infrastructure to manage their global economic activities.
Expansion of the scope of private sector operation and ownership of activities previously part of the state sector is broadly defined as privatization here. The term is used loosely to refer to different aspects of the process in different contexts. In Japan, the "privatization" of NTT refers to its change from a public corporation to a mixed public-private government-controlled company and extended control of the ministry over all telecommunications companies, old and new. In Britain, the "privatization" of BT meant the sale of 51% of shares without a change in managerial control. Examples of ownership modes in telecommunication include private-only monopolies (e.g. Barbados, Cable and Wireless in Jamaica, Entel and CTC in Chile), public-private monopolies in the provision of basic services (e.g. Mexico, Argentina, Venezuela), competitive provision of basic services (Mercury in the U.K.), and competitive provision of packet switching, cellular and satellite bypass systems. Privatization is only one way of restructuring telecommunications. Privatization options range from the minimal mode of leasing, franchising and sub-contracting of management expertise, to the introduction of new competitive basic and enhanced services (cellular, packet-switched data, digital trunk overlays, specialized value-added networks, build and operate and transfer possibilities), to the transfer of part or total ownership of public enterprises.

The first wave of telecommunication privatizations came after World War I when U.S. banks and U.S. corporations began replacing Britain as the leader in world commerce (Sobel, 1982). Sugar broker Sosthenes Behn founded and developed the International Telegraph and Telephone Company with the help of Morgan and National City Bank of New York. "The International System", the international version of AT&T, started in Puerto Rico and Cuba. It then acquired telephone companies in Spain, Mexico, Uruguay, Chile and Argentina in the 1920s and Peru and Turkey in the 1930s. It then added a major cable and telegraph operation, and factories in many European countries. ITT's strategy was to stack the board in each country with its influential citizens. Still, Latin American complaints about ITT's bribery of politicians and the incompetence of the telephone system were widespread (Sampson, 1973). ITT had no incentive to improve the system since many governments insisted on keeping the rates down. A 1950 World Bank report on Cuba was very critical of the ITT system. As the tide of nationalism rose, countries resented the poor operation of their telephone systems by a foreign-owned company. Castro expropriated the rundown system without compensation. In Brazil, ITT was paid a total of $19.5 million. In Peru, they received $17.9 million. By the late 1960s, ITT was operating telephone systems only in Puerto Rico, the Virgin Islands, and Chile (acquired from the British in 1930). During negotiations on nationalization of the Chilean system in the 1970s, ITT used the CIA, to influence an election outcome favorable to it, to induce economic chaos, and instigate a military coup. By the 1970s, the international business of operating telephones as against manufacturing them was in retreat. The first wave of telecommunication privatization had receded.

Telecommunication privatization is big business again. Recent privatizations in the periphery date back to Chile in 1987. In 1990, Booz-Allen and Hamilton estimated that 9 million lines were...
privatized in Argentina, Mexico and New Zealand, followed by 
Venezuela in 1991. Potential privatizations in Latin America alone 
are estimated at $50 billion (O'Neill, 1991). A further 26 
countries with 95 million lines are expected to look for private 
capital in the next two years (Dixon, 1991). While recent Latin 
American sales have received a large number of offers, the fear is 
that the number of foreign telecommunication operators willing to 
co-invest in the future may be limited, making it a buyer's market. 
The 1992 attempt to sell the Puerto Rican telephone company had to 
be aborted: after ITT's decades of mismanagement, it is not 
surprising that there was only one bidder. Thus telecommunication 
firms in the periphery should be wary about prematurely lowering 
the asking price, making the privatization proposition less 
advantageous to them. If developing countries are to close the gap 
between supply and demand for basic services by the year 2000, the 
World Bank and ITU estimate they will need annual investment levels 
for the 1990s of almost $27 billion. Their central exchequers have 
been expropriating the high internal rates of return from 
telecommunication investment to finance less profitable sectors, 
thus bleeding the telecommunication goose (or cash calf) that laid 
the golden eggs at a time when acceptable alternative sources of 
investment such as development assistance on concessionary terms 
have been declining.

Private capital has entered the telecommunication entity 
through the development of capital-intensive technologies. The 
academic arguments put forward for the private ownership of 
telecommunication systems are the following: Private investors will 
be willing and able to supply more funds for telecommunication than 
a government with many competing claims on its revenues. Such 
investments will be managed efficiently in response to consumer 
demand, autonomous from political interference in operational 
decisions on staff and equipment. Prices will be based on costs. 
Private ownership and management of telecommunication will free 
government to undertake activities that the private sector will not 
handle (Roth, 1987). While it is true that private investment has 
been forthcoming and that pricing has been cost-based, statements 
of potential apolitical efficiency ignore the active foreign policy 
pursued by ITT (and other transnational corporations) and the 
interpersonal, ethnic and political context in which decisions are 
made in both the public and private sectors. To illustrate: the 
U.S. Justice Department's anti-trust complaint against IT&T in 1946 
describes how the company gave secret support to the Nazis from 
neutral and hostile powers and reinforced the German war machine. 
Few know ITT was associated with Fock-Wulfe bombers or with 
Hitler's SS. Founder Behn protested that he was only acting in the 
interests of his shareholders. In the Argentine nationalization, 
as in many other deals, there were widespread suspicions of graft: 
Behn insisted that no company could do business internationally 
without paying bribes (Sampson, 1973). So much more political 
involvement and bribery by private foreign capital. More recently, 
the creation of the public-private monopoly Syarikat Telekom 
Malaysia effectively transferred wealth to the indigenous Malays 
and economic patronage to the ruling United Malays National 
Organization. Billion dollar contracts for new equipment (e.g., 
cable, digital telephone lines) made by the privatized entity, are
tied to top political figures. Improvements in efficiency and profitability have taken place primarily due to an improved accounting and budgeting system. The misconception in multilateral and bilateral funding agencies is that an infusion of private funds will result in eradication of prior cultural and political decision-making styles, that is, the work cultures of former state telecommunication monopolies and national cultures will be transformed into some technocratic ideal that exists nowhere. It would appear as if private investment is the newest miracle drug in the package of Western ideas intended to "modernize" the Third World. The tragic case of the longest running privatized telecommunication system in the periphery (namely, the Philippines) and the history of ITT is illustrative of the complex realities of panacea exports. In addition to problems associated with the diffusion process, there is a more basic genetic flaw in the idea of privatization that cries out for state policy and regulation.

Private investment earns its profit from those who have the ability to pay for goods and services. In peripheral states where a large proportion who live in poverty also need telecommunication, it is naive to think that this change in the source and quantum of investment capital alone will be a magic wand that will improve telecommunication services for all. Shareholder interests dictate attention to business over residential needs. The typical privatized telecommunication scenario is neglect of rural communities (as in Mexico and Malaysia), price increases for domestic users, price cuts for international clients, and cost-cutting on all fronts: employment reduction, wage freezes, equipment, R&D. Unlike a rising tide that raises all boats, the availability of private capital will selectively promote those applications that will provide high returns to the investor, causing a lopsided growth of the sector if it is financed on the basis of profitability alone. Profits will get converted into assets for the investor and will not trickle down to benefit rural and residential clients. Direction of this private investment in the public interest will depend on the specifics of the public control system or regulatory harness that the power structure of each state will put in place. The nature of the state and the class structure in each country are central determinants of the nature of regulation.

It is inevitable that large domestic capital groups (e.g., Carso in Mexico) and foreign capital (e.g., Telefonica of Spain, France Telecom, STET, GTE, AT&T, the U.S. regional Bell operating companies) will benefit from the new investment opportunities. African and other countries with weak domestic capital markets need to be wary of increased external dependence: the period after 1973, and particularly the early 1980s, saw a setback to the years of rapid growth because the external environment worsened: the two oil shocks, the two recessions in the West, the associated deteriorations in the terms of trade, the rise of world interest rates(Killick, 1986). Some countries with sources of domestic capital have the option of ensuring that control of a security-related sector like telecommunication does not pass into foreign hands. Other nations are specifying which large domestic groups may not participate, in an attempt to restrict the power of their own large conglomerates. To make ownership broadbased, some
privatization plans are also promoting investment by public institutions, pension funds, employees and the general public in what is sometimes called "the people's capitalism".

Implementation of private sector participation can be expected to bring in capital that the state does not have. This explains the fast pace of privatization of a revenue-earning sector such as telecommunication in debt-driven Latin American countries. Nevertheless, the fact is that such rebalancing of the public-private mix is more than an economic activity. It is a profoundly political process that pits national identity against global corporate expansion. To illustrate: the weakness of domestic capital in most countries in the periphery makes foreign control of a privatized telecommunication entity very likely. Telecommunication represents national infrastructure with state security implications. It is generally difficult for democratic regimes to make such fundamental changes in the ownership and control of the country quickly or on a large scale, involving as it does negotiation of new coalitions of power between political parties, the telecommunication entity, its financiers, the state, its constituent government units, its employee unions, domestic capital and foreign capital. In no country has privatization been carried as far as in Chile after 1975, primarily due to the absolute control of Dictator Pinochet and the political faith of the country's Chicago-trained economists that a decentralized privatized economy integrated into the world system is morally and economically superior to state intervention. Nevertheless, the process took ten years in Chile. The breakneck pace of telecommunication privatization in Argentina, Mexico and Venezuela has been possible because a clear political decision was taken at the highest levels of government. Driven by financial and economic officials, these speedy telecommunication privatizations were meant to signal the country's resolve and effectiveness in handling its debt problems to transnational capital. In the absence of political pressure, the pace of telecommunication privatization in Peru, Panama, Paraguay, Nicaragua, Brazil and Uruguay are uncertain (Wellenius, 1991).

From the experience of other less sensitive sectors, there is reason to suspect that the process of increasing private sector participation in telecommunication will be controversial, ambivalent, three steps forward, two steps backward. Initially, it is being limited to manufacture of equipment (e.g., Brazil, China, India, Indonesia, Pakistan) and provision of enhanced services in distinct new markets without entrenched public sector interests such as packet switching (e.g., Tunisia), satellite communication to very small aperture terminals (e.g., Argentina, Brazil, Columbia, Dominican Republic, China, India, Indonesia, Malaysia, Pakistan, Egypt, Nigeria, Zaire) and cellular radio (e.g., Argentina, Belize, Bolivia, Brazil, Chile, Costa Rica, Guatemala, Mexico, Panama, Uruguay, Indonesia, Malaysia, Pakistan, Philippines, Sri Lanka, Thailand, Czecholovakia, Hungary, Poland, Turkey, Egypt, Kenya, Mauritius).

A 1991 ITU Centre for Telecommunications Development survey found that 77 per cent of its developing country respondents were undergoing some form of restructuring (Westendonk, 1991), other than privatization. Some feel the central question should not be
how to take assets out of the hands of the state, but how to
to control state monopolies, by regulation and by subjecting them to
market controls where they are rewarded for new and efficient ways
of providing services, organizing labor, and relating to customers.
Rather than dismembering the state, the form of restructuring
planned/underway is generally internal reorganization such as
decentralization of massive monolithic bureaucracies, some attempts
at increases in efficiency, and some small measure of financial
autonomy through the creation of public sector undertakings or
corporations autonomous from government, e.g., in Morocco,
Tanzania. The hope is that such "corporatizations" will realize
many of the gains of privatization without a politically risky
change to private ownership that could represent loss of national
economic sovereignty to foreign capital and withdrawal of public
protection against private greed. Internal reforms help avoid
preparation of legal and economic instruments (e.g., taxes,
property laws) that secure and protect property for new owners.
Additionally, civil servants continue to enjoy supervisory power,
opportunities for payments on the side, and rents generated by the
approval process. Internal reorganization may be interpreted as an
tempt to make the government telecommunication monopoly work well
enough to keep private ownership at bay.

Regrettably, government agencies and large public sector
enterprises are least susceptible to the thoroughgoing revamping of
operational, technical and managerial aspects needed to make them
politically and financially viable. Apart from the acknowledgement
of past error, top level civil servants have little incentive to
undertake serious reform, especially when they are near retirement.
The new breed of economist and business manager required lacks the
experience to keep the corporation running, while the civil service
employee who followed orders from politicians and bureaucrats now
has to be retrained to be accountable to customers. The greater
autonomy granted to an inefficient state monopoly thus leads to
less than optimal improvement in financial performance without
providing opportunities for entry to other domestic firms
compatible with national economic and social goals. For the
multilateral lender and finance ministry eager to resolve the
nation's economic crises, these steps are frequently only an
interim attempt to "put the house in order" to make the firm more
attractive to private capital.

II. COMPETITION

Telecommunications in the periphery needs to develop and
extend its network infrastructure to meet unmet demand for basic
and enhanced services in urban and rural areas, in businesses and
residences. The preceding section has discussed privatization as
the method a la mode of capital generation and management
capability acquisition. The popular conception is that private
firms are more efficient and hence offer lower prices. Under what
conditions are they efficient? Research indicates that the
management efficiency of public and private enterprises improves
under conditions of market competition. In fact, gains are more
likely to result from an increase in competition than a change in
ownership(Cook and Kirkpatrick, 1988).
Unfortunately, the characteristics of telecommunication markets are a long way from the classic notion of multiple suppliers offering similar products or services to consumers (Melody, 1991). In telecommunication, where large scale economies continue to exist, large firms win, leading to monopolies or oligopolies as in the U.S. and the U.K. For the public, the lack of accountability over the economic behavior of public monopolies is little different from the economic behavior of monopolies with private sector participation. In fact, to attract private capital, the terms and conditions of recent privatizations in the periphery include monopoly privileges for about 10 years and franchises for at least 20 years. Even this incentive was not enough for Bond to keep the Chilean telecommunication entity longer than three years, hardly enough time to improve CTC's management or technical resources.

In many political settings, it is less threatening to bureaucrats and labor unions to introduce new competitive firms rather than privatize the public monopoly. Thus, competition between public and private ownership is a deliberate policy preference. The ITU Advisory Group on Telecommunication Policy (ITU, 1989) fears that there may not be enough capital and capability to finance and staff directly competitive offerings. Given the pressures for international competitiveness placed on entrepreneurs in public and private enterprises, and their strategic need for telecommunication infrastructure, it is inevitable that alternative networks will be proposed if the entrenched entity is inefficient. Competitiveness and efficiency in telecommunication has become part of industrial policy.

The ITU report points out that some parts of the telecommunication industry are characterized by non-competitive market structures, and are hence more prone to inefficiencies, e.g., the local loop. Efficient basic service is the minimum rock bottom universal need in a country. Before accepting such inefficiency in basic services, it is important to explore new technological options such as cellular mobile and the historical experience of other countries that have used municipal corporations, cooperatives, and small independent firms to expand basic service. The maximum growth in the U.S. occurred after 1893 when the Bell patent monopoly expired. Open competition promoted an annual growth rate of telephone expansion in the U.S. of 27% between 1894 and 1907. During this period of threat from competition, the Bell-AT&T monopoly cut its charges, put more phones in service than it did when it had a monopoly, and took a reduction in profits from 40% to 8%. Life had been easier and more profitable for AT&T under monopoly conditions, so it began to buy up their competition and lobbied for a regulated monopoly. Its propaganda campaign against the duplication and wastefulness of open competition succeeded, the law was passed in 1910, and growth in number of telephones dropped from 26% a year to 8%. After 1914 when AT&T came under regulatory control that assured it a certain rate of return, annual growth dropped further to 4-5% (Roth, 1987).

While many states recognize the importance of competition in firm performance, the fact remains that private capital, will pay a higher price if market protection is offered. To attract investment capital and get a good selling price, many countries are
granting monopoly rights to the privatized entity, e.g., Jamaica, Argentina, Mexico. In Argentina, the ENTEL exclusivity period is seven years initially with a three year extension tied to performance. In Telmex, it is six years if concession agreement requirements are fulfilled. The sale of the goose has resulted in a record harvest of golden eggs for the new owners in Mexico right away: international rates have gone down and domestic rates have gone up, privileging international business for the most part.

States in the periphery would rather not have a sensitive sector dominated by foreign capital if they can help it. Therefore, Argentina sold 50% of its telecommunications entity to foreign operators, Venezuela 40%, and Mexico carefully structured its sale so foreign operators have only 10%. Research has shown that the net impact of foreign investment on domestic economic activity has been negative in some cases and positive in others (Moran, 1988). The striking finding is that the difference between the positive and the negative cases is not related to the foreignness of the investor, but the degree to which the firms are sheltered from competition. Protection from competition led to trade distortions, the use of inappropriate technology, oligopoly profits and the creation of a small privileged labor elite. To illustrate, the evidence shows in addition to inefficiency in allocation of resources in some abstract sense, there is elimination of local producers and local workers who otherwise could have survived and prospered. The evidence also shows that international corporations develop production processes in response to the ratio between capital costs and labor costs in their home markets. The greater the price competition faced by the foreign company in the host country, the more likely it is to modify procedures used in the home country and use labor-intensive operating techniques. Whether foreign investors sought markets exclusivity or host officials offered it, the outcome was uniformly negative for the country.

Creating a more competitive environment is not easy. Three general suggestions follow. One is removal of market entry restrictions along with addition of new regulations to control anti-competitive behavior by dominant domestic and foreign firms. It is common for the bigger firm to reduce prices below cost. It is also common for it to buy up competitive rivals, necessitating strong anti-trust laws that guard against industrial concentration and restrictive trade practices. A second suggestion is selective government intervention through market protection or government subsidies to correct for market failure associated with externalities when trying to achieve long term dynamic gains from the creation of domestic technical capability. This has been an important factor in the success of the East Asian newly industrialized countries. A third suggestion is careful sequencing of the steps toward introduction of competition to ensure optimal integration. Lack of a plan to meet the genuine fears of labor unions and the state bureaucracy has stunted or aborted several such programs.

The characteristics of telecommunication markets are a long way from the classic notion of multiple suppliers offering similar products or services (Melody, 1991). In telecommunication, as in every important sector, we witness a process in which a multitude
of small firms emerge in the early stages, only to be displaced through time by one or a few which manage to capture the commanding heights. This tendency towards market concentration could result in market failure, hence the need for regulation to protect infant industries, control private monopoly power, offset the tendency to concentration, protect employment, and achieve macro-balance.

III. POLICY AND REGULATION

The state bureaucracy and the political coalitions around telecommunication did not mobilize to design policy and regulations in the public interest during the 40-60 years of state monopoly. The paternalistic assumption was that the state as service provider represented the national interest. Whether such policy formulation will take place now, when the state is wooing private investment that is not expected to represent other than shareholder interests, will depend on the interests that control the national power structure at this juncture.

Apparently economic decisions like ownership and competition in telecommunication systems flow from prior national political, economic, and cultural decisions about identity, goals, and priorities between regions, classes, sectors, growth, and income distribution. Telecommunication sector policy is a subset of national economic and social policy, and hence reflects national priorities. Regulations may be seen as rules that operationalize sectoral policy and as such, control the conduct and performance of individual firms.

The foregoing conceptualization makes it clear that the role of policy maker, regulator, and owner-operator are distinct. When the peripheral state became the dominant owner-operator, soon after decolonization, pragmatics probably caused the same limited human resource capability to be policy maker, service provider and regulator. This meant objective monitoring of the service provider's performance against sectoral goals (the job of the regulator) did not take place since the three distinct roles were collapsed into one. The misconception was that the post-colonial state as telecommunication provider would naturally be operating in the public interest and that there was no need to evaluate its performance in light of sectoral goals or public demand. As public demand has become more outspoken and distinctly segmented in terms of business-residential, domestic-international, and urban-rural needs, and a variety of foreign and domestic suppliers have emerged to meet these demands, it becomes essential to establish a separate state regulatory agency to ensure fair play between competing providers. Figure I adapted from William H. Melody (1991) illustrates the essential relationships.

The historical blurring of the three roles of policy unit, service provider and regulator in most telecommunication sectors in the periphery has made consideration of private ownership and management of service provision mistakenly appear as if the state would be reducing its role in all three areas. When the state reduces its role as service provider by either selling all or part of its assets and/or allowing competitive service suppliers, its policy-making role begins to need better articulation and its regulatory role becomes larger. A clearly identifiable objective
regulatory body has to be created (e.g., a Telecommunication Commission) that will design and publicize rules, monitoring systems, arbitration devices and punitive mechanisms before sector reforms such a privatization and competition are implemented. To illustrate, the policy goal of universal service in a telecommunication system with private sector participation must have explicit regulatory mechanisms on how revenues will be recovered (e.g., by taxation) from profitable service applications (e.g., business, long distance, international services) and then used to finance relatively less profitable residential and rural services, so potential new entrants in the market are fully cognizant of the implications. Failing this, the present pattern of resource use to cover the costs of new technologies for business applications will continue, neglecting intra- and inter-rural applications (Sussman, 1988).

The main elements of telecommunication policy, matching legislation, and subsequent regulation that need to be addressed by each state are appended in the ITU Report of the Advisory Group on Telecommunication Policy mentioned earlier. Country-specific policy and regulations on each element need to be designed in keeping with the nature of the state, its politics, pressure groups, economic class structures, and technological capability. Peripheral states considering privatization are thrashing around for guidelines on laws and regulations, hoping to borrow models from the U.S., the U.K., and Japan. What is essential is political and public education and debate on telecommunication policy alternatives within each country, followed by consultations with international and national specialists on law, business policy and industrial organization to design matching regulatory controls suited to the present day cultural, political, and economic context of the country. In one country, desperate bureaucrats merely updated their more than 50 year old law which sanctioned private operators. The nature of the inherited system and the power structure are distinct in the U.S., U.K., and Japan and hence the nature of privatization and regulation are different (Hills, 1989). The U.K.'s liberal rules allowed its privatized dominant entity to make big profits out of its 95% share of the domestic market. In Japan, the Ministry of Posts and Telecommunication (MPT) have treated the three new competitors more kindly than the U.K. has, bringing the market share of NTT (its dominant service provider) down to 74%. Due to Japanese employment traditions and tough union laws, NTT did not terminate the tens of thousands of employees British Telecom did. MPT refused to let NTT raise local rates (unlike the U.S. and Mexico after privatization) to make up for lowered long distance rates. Thus, NTT's profits and share prices have been falling, and the Japanese consumer has been the beneficiary.

Ideally, regulatory rules should interpret the national policy and the law. They should specify what is public and what is private. They should list rules for entry. They should outline extent of competition permissible and ensure interconnection between new and previous service providers. They should list equipment approval procedures. They should connect pricing to cost to quality of service. They should set up clear subsidy arrangements. They should describe exit guarantees. They should...
establish clear procedures for conflict resolution. And most important, they should conduct continuous monitoring and surveillance to ensure that rules are followed.

The regulatory ideal and its practical implementation in the periphery is very different. Economic regulation has the potential to make the market work better by controlling monopoly pricing; in practice it has worked to the benefit of producers and bureaucrats as in the U.S. The responsibility to choose between new competitive firms, technologies, and managements could lead to clientelism with specific companies and individuals, given widespread individual and corporate bribery and corruption. It is conceivable that the strong license-raj tradition in the state bureaucracy of India will predispose its yet-to-be-established regulatory agency to behave in accordance with the scenario just described.

Firm breaks with the past such as an independent regulatory agency rather than one in the ministry could mitigate against state bureaucrats looking to expend their own powerful interests as in MPT. An empire-building regulatory agency could counteract privatization's promise of entity autonomy and efficiency. The conflation of service provision and regulation in previous state-run telecommunication systems has not given peripheral states the opportunity to develop cultural, technical and managerial capability in the design and conduct of independent fair regulatory regimes. Other than removing regulations that restrict the entry of private capital, deregulation is not a major issue in the periphery since there is no regulatory precedent. While implementation of privatization motivated by the need for capital is pushing ahead/being pushed ahead by donors, prerequisite steps in the direction of setting up a regulatory regime are slow. Without effective monitoring and control, the dominant entity under threat from competition will most likely indulge in predatory pricing and anti-competitive behavior. Personnel in the dominant entity who have the technical ability to staff a policy unit and a regulatory body are presently consumed with fighting off measures that will introduce competition; they have given little thought to playing an independent role without operational responsibility.

It would appear that the only constituency in favor of regulation would be private capital and their supporters in the IMF, the World Bank, and U.S. government agencies like NTIA and USAID. This is not because they are supporters of the public interest in the peripheral state, but because they see the need for clarity on ground rules and the assurance of reduction of government controls over business before domestic and foreign private investment can be expected. Peripheral states seem to have no disinterested nongovernmental organization that is savvy about telecommunication technology who has also given thought to the social objectives of regulation that would safeguard those interests which private profit will not meet. Without adequate regulatory intervention to ensure accountability to the general public, market forces that respond to those groups with purchasing power are bound to generate unequal development. Whether a state that is open to private enterprise has any political interest in socially-oriented legislation and regulation to ensure public service applications like universal service for the disenfranchised...
majority will depend on configurations of power in each state at this particular juncture. Some see privatization as a gross betrayal of the public interest; without appropriate regulation, this may well be the case. However, it is worth pondering over whether the public was not already betrayed by the decades-long failure of government-run telecommunication systems.

In whose interest will regulation function? Regulatory controls may constitute sponsorship, restrictions, or arbitration (Mulgan, 1991), but often have elements of all three. Government sponsorship types of control was crucial to the success of AT&T, the European PT&Ts, and Japanese companies like Fujitsu, NEC, Hitachi, and Toshiba. Restrictive controls are anti-trust laws, rules on rates on profits, pricing and market entry usually associated with powerful institutions that need restraint or the public interest that needs protection from disruptive competition. Arbitration is when the state oversees the interaction between independent firms responding to the market in their own way, rather than planning a national direction they should take. In the present age of privatization, it appears pressures are encouraging the development of state regulation and control that is increasingly focussed on constructing the most congenial competitive environment for the world's leading economic powers.

IV. CONCLUDING REMARKS

On the one hand is naive faith in the competence and representativeness of the state, and on the other is the equally naive belief in the market. Promoters of telecommunication privatization cannot afford to ignore the experience of the Philippines (Sussman, 1991) or the history of ITT. The question of national development and telecommunication sector development depends on constantly adjusting the blend of state intervention and private investment, import-substitution sectors and export-promotion niches to meet the unique needs of each state, rather than swing between public or private domination in a state-market-state-market cyclical trap. The logic of the market place should not be the exclusive criterion of rationality since it is characterized by unequal development and increasing polarizations of wealth and power. Such development is based on the ability to pay to participate -- it has a class character. The constructive dynamic of the capitalist mode of production must be accompanied by acknowledgement of the stagnation and decline that goes with it. The need for private capital should not imply subordination of the plans of all states to conditions that will support the worldwide expansion of multinational corporations. Such subordination took place in the eighteenth century when the Industrial Revolution enabled the domination of Asia and Africa. Will privatized telecommunication be exclusively another tool to speed up the global expansion of the market place or will individual states also actively direct its use for overall socially balanced development to redress increasing inequalities in growth and income distribution? Each state's readiness to adjust to the worldwide expansion of capital must reflect its own expanding needs and not the needs of capital alone. The state must act on the fact that the market is a sub-system of the state. ITT-owned telephone
companies were taken over by Latin American states not only because of national fervor, but primarily because they were unwilling to invest in meeting the expanding needs of the country. Instead of a reduction in state planning, this calls for a different mix of state and market than the classical interventionist model, one that critically evaluates the appropriateness of Korea and Taiwan's system of administrative guidance for a managed mixed economy, and the successes of a state telecommunication agency as in Singapore. Along with Samir Amin (1985), we maintain that reciprocal adjustment is the only possible humanist discourse of our time.

Just as much as it is acknowledged that there is no right path to national development in the periphery that encompasses the diversity of individual states, similarly a single-method solution (public or private rather than a mixed economy approach) to financing telecommunication development is simple-minded. Permission to private investors to offer basic and enhanced telecommunication services in competition with present state entities is a middle path some states are exploring. The mixes can be a lot more complicated, given the different sources of private capital, the range of investment terms, and the different areas of investment in telecommunication. The promise of new technologies, expertise, and efficiency associated with private and particularly foreign investment needs to be tempered by state policy and regulations to ensure domestic infant industries are not handicapped and the emergence of national providers is not secondary to foreign capital in the long run.

Marx argued that private capital played a progressive role in the transformation from feudalism to capitalism. Will capitalism, as primary beneficiary of privatization, have a historical role to pay in bringing economic development to the periphery? Each state needs to configure the particular form, conditions and content of telecommunications privatization that will meet its own needs in light of external and domestic pressures. Whether the peripheral state can forecast the contradictions that could result from the new mix of market and non-market forces proposed so there are policies and regulations in place to resolve them in the public interest will depend on how it relates historical knowledge of previous such attempts to the needs of its domestic clients, business and residential, urban and rural.
NOTES

1. This was where the idea of ITT was born. In 1905-1906, the Behen brothers accepted the South Porto Rico Telephone Company in lieu of a debt payment. They then successfully merged this small firm with the major telephone company on the island and assumed leadership of the new Porto Rico Telephone Company. Gross revenues rose by almost 50% from 1915 to 1917, while service steadily deteriorated. In spite of high level complaints about the service, public relations campaigns and a judicious use of bribes succeeded in getting rate increases for ITT.

2. The role of the state and domestic capital are developed in a forthcoming book on telecommunication privatization in the periphery.

3. Judith O'Neill's paper provides an appendix reviewing regulatory systems in Argentina, Mexico, Chile, Japan, the U.S. and the U.K. The papers from this seminar are being prepared for publication by the World Bank.
REFERENCES


FIGURE 1

National Economic and Social Policy

Telecom Sector Policies

drafted by Policy Unit

Independent Regulatory Body

Public and Private Operators

Market