

The NBN needs subsidies if we all want to benefit from it

Written by Troy S Barry, PhD Candidate in Economics, University of Western Australia

Half of all Australians are now [able to connect to the NBN](#) . But [around 40%](#) of eligible households have chosen not to connect to the network.

[Our modelling](#)

shows that subsidising the NBN is key to encouraging more Australians to connect. This would benefit the economy as a whole, but hurt the government's plans to privatise the network.

The [government is currently counting](#) both on receiving ongoing revenue from the NBN, as well as the proceeds from its eventual privatisation. To achieve both goals, the NBN charges for access to the network.

Switching from a pricing model that charges for access to the network to one that subsidises access will mean the government won't get a [return on its investment](#) .

Read more: [The NBN: how a national infrastructure dream fell short](#)

The NBN's pricing model

The NBN currently [charges internet service providers](#) , such as Telstra, for access to the network. The internet service providers then

[sell the service on](#)

to consumers - businesses and households.

Our model tried to find an NBN access price that would generate the greatest benefit to consumers, internet service providers and the network. We set our model in the future - when the NBN has been fully constructed, the cost of construction has been paid, and the government is preparing to privatise it.

In order to maximise the shared economic benefit from the network, [we found](#) that the access

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price has to be less than zero - a subsidy. The network shouldn't be charging internet service providers to access the network, it should instead pay them to connect.

The internet market in Australia is dominated by four large internet service providers (Telstra, Optus, TPG and Vocus) so we can't expect the subsidy to be fully passed on. But competition means consumer prices would drop, and the number of customers connecting to the network would increase by as much as 25%. The benefit to the economy as a whole would outweigh the costs, but the cost falls entirely on the NBN, which would have to run at a loss.

The NBN as a public service

We know that [regulators want the NBN to benefit the whole economy](#). This requires more customers to connect to the network. Our model shows that means prices need to be reduced.

This will weigh on the plans to privatise the NBN. There was a similar issue over access to Telstra's copper network, which was marked by [repeated litigation](#) and public wrangling between Telstra and the Australian Competition and Consumer Commission over access pricing.

Private companies won't invest in infrastructure such as the NBN unless they can earn a profit in return. In fact, neither [Telstra](#) nor [its competitors](#) managed to build a fibre network themselves precisely because they couldn't agree with the ACCC on how much profit they would be allowed to make from it.

But the NBN is financed and currently owned by the government. This means it doesn't necessarily have to run at a profit.

Our model shows the NBN should be treated like other services the government provides - roads, education and doctors visits. All of these services can theoretically be provided by the private sector but are subsidised because the benefits of broad access outweigh the costs.

Any guarantee of a profitable NBN also means that the benefit to consumers and the economy

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will be suboptimal. With the nbn Co. due to finish construction and be polished up ready for privatisation in [less than four years](#) , it's time for our politicians and regulators to start transparent conversations with the public, investors and broadband businesses about how many consumers will be connected to Australia's broadband future.

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Read more <http://theconversation.com/the-nbn-needs-subsidies-if-we-all-want-to-benefit-from-it-81562>