

The European telecom sector has come to a crossroad of inevitable structural changes starting from 1980s. This paper includes a list of drivers that brought about deregulation of the sector across continental Europe and lays out the inescapable challenges that had to be faced in the area, which were controlled by national governments for many decades.

First of all, similar to financial services, telecommunications has a characteristic of being part of technological revolution, which makes free flow of information and capital across borders possible. Its economic size is so big and its strategic importance -for military and intelligence services at the very least- is so critical that governments do not have the luxury of ignoring its importance. The so-called technological revolution was very strong that it bypassed national networks, and made domestic administrations irresistible to innovative changes and national boundaries impractical in terms of business practices, such as the new microwave and satellite transmission technologies which weakened the land-based networks within national boundaries by producing a *de facto* deregulation (Vogel, 1996). Coupled with the rapid improvement in technology, the entry costs fell, new networks were offered, transaction costs were lowered, and shortly, the existence of PTOs (Public Telecommunications Operators) has come under threat by increasing non-domestic competition as can be seen below.

Second, a global deregulation movement, started with the regulatory reform in the United States, especially with the 1984 Bell Settlement, made a big impact on the leading EU countries' publicly-owned telecommunication firms. The British, German, French and Italian PTOs faced a new global climate where the business dynamics changed the generally-accepted thought that such firms should be 'natural monopolies' (Thatcher, 1999). With the new legislation, the American firms were invigorated to hunt for additional international market shares.

Third, the new era of globalization reduced the power of national governments of having controls over industry and consumer behavior. According to Thatcher (1999),

technological advances have increased the mobility of capital, goods, services, and even firms, creating global markets in the place of national ones. With the new climate, the domestic companies were able to escape the regulations of their countries of origin through their foreign operations.

With this new dynamic, national governments decided to utilize the unavoidable changes to produce domestic advantages. Now that the global firms have been able to move their operations and capital to the countries with the most attractive regulations and can engage in *regulatory arbitrage* (Vogel, 1996), national authorities have to compete to keep international competitors inside their borders. The authorities found out that with deregulation and the entry of international service providers, the country can benefit from direct foreign investment -which, in turn, helped those nations reduce their current account deficits- and increasing employment thanks to the booming investments in the sector. Authorities enjoyed the increasing competition since the number of domestic services increased as a result of product differentiation while, at the same time, the prices substantially and continuously decreased. As an additional benefit, this process attracted multinational corporations to locate in the country, which indirectly made a positive impact on the borrowing rates of the country in international financial markets thanks to the increasing confidence of creditors.

Another *force majeure* for inevitable deregulation was that governments faced a challenge of massive investment in telecommunications to meet the needs of demanding users but many PTOs were reluctant to these large-scale capital expenditures. Confronting with such demands by PTOs for modernisation and expansion, public officials became aware of the dissatisfaction with existing telecommunications services from users (Thatcher, 1999).

Last but not least, George Stigler (1971, cited from Vogel, 1996) suggests that a small group with high stakes in a given policy, such as producers, will press their views more effectively than a much larger group with a smaller stake per capita, such as consumers; so,

regulators are “captured” by producer interests. Peltzman (cited from Vogel, 1996) takes it further and includes a wider variety of interests competing for influence over policy. According to Peltzman, while producers do not always prevail, they have an organizational advantage over consumers that helps them win out in many cases. Thus, after all, I argue that interest groups’ expanding effect on policy-makers played the most important role to give way to deregulation, which in almost every case ended with privatization. This is closely related with the concept of nation-state and weakening its role in the new era where supranational corporations start to have a power to dominate or affect -depending on your perspective on the issue- the policies of even the largest states. The diminishing role of nation-state in the new world order has also been supported by various suggestions coming from academia. So, now that the global corporations merging or one makes an acquisition of another, the power of regulators has been replaced with the power of gigantic economic actors, which makes sovereign states become ordinary players of the game. To make the long story short, as Vogel (1996) also suggests, industries benefited from regulation in the past have lobbied for change because regulation no longer served their interests. Finally, my argument is that while it makes every sense that several other factors might have influenced the existence of deregulation, it seems to be, by and large, the triumph of interest groups.

References:

Thatcher, Mark. (1999). *The Europeanisation of Regulation - The Case of Telecommunications*. EUI Working Paper RSC No 99/02.

Vogel, Steven K. (1996). *Freer Markets, More Rules*. Cornell University Press. pp. 9-24.