Disconnecting Bell: The Impact of The AT&T Divestiture.

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nanced by nonrecourse loans with completion guarantees, the lenders are, nevertheless, likely to incur large losses as a consequence of the low net profits of the completed project (see Raymond F. Mikesell, Foreign Investment in Mining Projects, Cambridge, MA: Oelgeschlager, Gunn and Hain, 1983).

Two chapters are devoted to the risks to customers for large-scale fuel projects—LNG in international trade, and coal and uranium for U.S. electric utilities—while the final chapter examines the problems of exploiting international common property resources, with special attention to seabed mining and the Law of the Sea Convention.

Although the chapters are well written, they cover a large number of complex problems somewhat superficially, and are only loosely related by an emphasis on risk and uncertainty. This common emphasis does not yield an integrated analysis of handling risk, which is an element of every form of investment and contractual arrangement. Readers may be interested in individual chapters that deal with aspects of particular resource industries, but they will not find a systematic, comprehensive treatment of the economics of risk and the measures for dealing with it. This is a problem with nearly all compendiums of conference papers. However, this one is better than most I have read in recent years.

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600 Industrial Organization; Technological Change; Industry Studies

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The book is a collection of essays presented at a 1983 conference by an all-star cast from academia, government and the private sector. Together they have produced a strong set of essays, even though the book as an entity suffers from low-energy editing: there are no attempts at an introductory or summarizing chapter, and the references are minimal. Nevertheless, the book should not be dismissed as a reference source. The chapters by Richard Wiley, a former chairman of the FCC, and by Shooshan himself provide excellent historical summaries of the events leading to the AT&T divestiture, and supplement the insider’s account by AT&T’s chairman, Charles Brown. They are nice factual summaries written by participants in many of the events described.

Other articles are similarly useful: Charles Jackson writes on the changing technology and its implications for depreciation policy, an issue of importance in rate setting. He relays a statement by the Bell Labs scientists which would bode ill for AT&T if it were widely accepted: “A good product can find its way without marketing; indeed, it may be better for having no marketing concerns to drive it” (p. 74).

Henry Geller contributes his encyclopedic knowledge to a thoughtful essay on the highly complex entanglement of divestiture, FCC policies, congressional legislative initiatives, and various public policy goals. Charles Zielinski, former chairman of New York’s Public Service Commission, carries this theme into the realm of state regulation.

Particularly interesting for economists is the essay by Robert Crandall and Bruce Owen, who explore the theory underlying the divestiture and its applicability to other situations such as the GTE/Sprint merger and the gatekeeper potential of a cable television operator.

Linda Grant, correspondent for the Los Angeles Times, collects a wide array of insights from telecommunications experts across the country, leading her to conclude that the future, after a decade of transition, is bright indeed.

These are all useful contributions. But the book, by its own admission, aspires to more than historical accounts and analyses of recent transitional issues. As the editor writes, “Most importantly, the book assesses the future. How will the breakup of Bell change the economy, the nature of regulation, the services available to consumers, and the position of the United States in the world telecommunications marketplace?” (pp. 8–9). These self-imposed goals are ambitious, and the book, not surprisingly,
reaches them only occasionally. While it succeeds in enlightening the present, it ventures only rarely into the future. More audacious than anyone is Ithiel de Sola Pool, to whose memory the book is dedicated. Pool’s essay confirms the magnitude of the loss of this scholar, whose grasp included the politics, economics, technology, and social impact of telecommunications. Pool is one of the observers who recognized the inconsistency in holding AT&T’s monopolistic local-exchange business to be a potential source for cross-subsidization of its competitive businesses, while simultaneously viewing AT&T as having made a brilliant move in disposing of its slow-moving and subsidized monopoly business, a view that seems to be the prevailing wisdom.

Pool also recognizes the fleeting nature of a structural separation based on quick-freezing the technological and economic realities of 1982. As competition emerges in other areas, such as in local data transmission, the 1982 separation will need modification. Indeed, right from the beginning Judge Greene adjusted the conceptual neatness of the consent decree in the case of equipment marketing and Yellow Pages in a largely pragmatic fashion. He has since become, it appears, the permanent overseer of the telecommunications industry, and has established elaborate but purely ad hoc rules on the Bell-successor companies’ nontraditional activities. The consequences for the regulatory process of such court-supervised rules—e.g., that regional companies’ revenues in competitive fields may not exceed 10 percent of total revenues—have barely been recognized.

Are those only transitory problems? Pool, for one, does not believe so. To him, the fundamental problems of telecommunications policy have hardly been touched yet; there may be other tunnels at the end of the divestiture tunnel. It is a fantasy to expect a workable and stable long-term structural solution in the midst of dynamic changes in technology, in an industry composed of regulated and unregulated segments, and which serves various social goals. The AT&T divestiture is only one step, though of dramatic size, in a long and ongoing process.

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630  INDUSTRY STUDIES


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This book deals with capital goods production in a number of Third World countries, in particular a few newly industrializing countries—Brazil, India, Korea and China—although attention is also paid to countries in an earlier phase of development. Industrialization is a major phase in economic development and the domestic production of capital goods is an important step in the maturing of the economy. Little systematic research has been published on this subject and this is, therefore, a most welcome and worthwhile source of information. The book is very factual, based for a considerable part on information collected by means of firm interviews in these countries. Interview data are an important source of information and if the interviews are well prepared and analyzed, they may yield valuable insights. This information needs to be checked and complemented with other data, for example, interviews of branch institutes, government officials, policymakers and national and international statistics. This is the only way to obtain a fair and comprehensive picture of something as complicated as the transformation of a particular segment of a developing society. This method, by now more or less accepted, is followed in the work.

The book consists of five chapters preceded by a lucid Foreword by Surendra Patel. In the introductory chapter the main features of capital goods industries are explored. The subject matter is restricted to capital goods, such as machinery and transport equipment, which are produced by the metalworking or engineering industries. Indeed, a capital goods industry in that sense is the backbone of any national industrialization process. However, that does not mean that every country which fosters industrialization should have a full-fledged capital goods industry. The size and completeness of this fundamental industry depends also on the internal size of the market,