The Fall of the Bell System: A Study in Prices and Politics.

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notion to topics in international trade and international technology transfer. They argue that technology cannot be reduced to freely available information or a set of blueprints: on the contrary, each “technological paradigm” with its forms of specific knowledge yields relatively ordered cumulative and irreversible patterns of technical change, which are also country-specific.” (p. 418)

This starting point, and the resulting insights about the patterns of trade, differ from traditional analyses which emphasize factor endowments.

A few essays provide well-written reviews of accepted approaches to their areas. Dosi (Ch. 10) succinctly summarizes the major themes in recent thinking about the innovative process. He emphasizes the important distinction between tacit and articulated knowledge, the irreversibilities that result from the accumulation of knowledge, and the relevance of appropriability conditions. J. S. Metcalfe’s summary of the economics of diffusion processes (Ch. 25) respects the long literature on the topic, though space constraints severely limit him. He contrasts organizational frameworks built around equilibrium processes with frameworks that highlight the role of information or improvements in a technology. David Teece’s analysis of a firm’s decision to perform research and development in-house (Ch. 12) emphasizes strategic and appropriability issues. He stresses that firms are reluctant to invest in specialized assets complementary to R & D if the firm cannot realize returns associated with that research.

Even though it contains some fine accomplishments, this book as a whole may not appeal to many economists who are interested in technical change. The authors cover a wide range of topics, but too many broadly outline their favorite alternative approaches, emphasizing the more general (and more theoretical) implications. As a consequence, these essays are not well suited for those who give practical advice to executives about how to manage innovation. They also rarely focus directly on issues relevant to a nation’s policies regarding technical change (Nelson and Soete, Ch. 28, is too brief an exception). There is also little which lends itself to empirically testable competing hypotheses. The book’s essays have implications for related issues in these areas, but developing them often seemed to be of secondary importance.

Rather, the essays primarily aim to present partially competing, but mostly complementary alternative theoretical visions. Expression and extension of that vision dominates most presentations. Overall this does take steps towards an alternative framework, as desired by the editors. The authors together address many inadequacies of neoclassical theory in capturing the important and rich complexities of dynamic technical change. Despite the generality of some of the essays, with some effort, a reader can distill when a “systemic approach” leads to fresh insights or requires further development.

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The divestiture of AT&T was a major event in industrial history. This dismemberment of the world’s largest corporation, sprung on the public in 1981, has never ceased to be controversial; it led to a nostalgia which is often shared by economists who otherwise hold no brief for monopoly. From the beginning, conspiracy theories abounded, e.g., that AT&T had hoodwinked the government and gained admittance to the industries of the future, while dumping the tiresome baggage of the regulated local exchange companies into the public’s lap. Since this view is well on its way to becoming accepted wisdom, it is particularly important to look at the evidence that supports it. A scholarly investigation that establishes the events leading to the divestiture is therefore of great significance, and this is the contribution of the book authored by economic historian Peter Temin of MIT with the collaboration of historian Louis Galambos of John Hopkins University. The study was commissioned by AT&T, which opened its corporate records and provided ac-
cess to company officers but did not interfere otherwise. The result is a considerably more differentiated book than Alvin von Auw's insider account (1983) or Steve Coll's readable but personalities-centered story (1986). With an enormous number of original documents accessed and participants interviewed while memories were still fresh, Temin's book is likely to remain for a long time the definitive study of the subject. But one would also hope to see in the future studies based on confidential documents of non-AT&T participants such as MCI or Judge Harold Greene, and studies using more of the voluminous antitrust trial evidence. Temin presents a scholarly investigation as a political and economic suspense story which will be compelling as well to the nonspecialist, and to anyone interested in business-government interaction.

The book is organized in a chronological fashion and bracketed by two chapters that set the stage and provide concluding reflections. On the level of protagonists, the divestiture seems the product of many improbabilities, in particular the simultaneous appearance of three outstanding individuals, each representing a major strand in American politics. Assistant Attorney General William Baxter, an economic conservative and Stanford law professor, managed to outmaneuver the active opposition of Defense Secretary Weinberger and Commerce Secretary Baldrige, sidestep the evident reluctance of President Reagan and Attorney General William French Smith, and overcome the might of AT&T and its Congressional allies. The second figure was Judge Harold Greene, a liberal legal activist who believed in the role of the judiciary to shape unpopular solutions where the other branches of government could not. It was AT&T's misfortune that Greene wanted to use the case to demonstrate how to manage a major antitrust case in an expeditious way. The third protagonist was Charles Brown, AT&T's Chairman, who represents the pragmatic technocratic tradition in American business. He contrasts with his charismatic predecessor John deButts whose heavy-handed attempts to roll back competition antagonized most of the body politic, with the possible exception of state regulators, at the time, whose association NARUC gave him a standing ovation for an anticompetition speech in 1973 ("the time has come, then, for a moratorium on further experiments in economics . . .").

Going beyond the chance conjunction of events, Temin identifies in the concluding part of the book the factors underlying the divestiture as the politically induced discrepancy between regulated long-distance prices and costs. His thesis is that cream skimming became politically acceptable due to a change in the regulatory ideology in government, while at the same time rigidities within the Bell System prevented the company from adjusting rapidly to changing market and regulatory conditions. Technology, conventionally seen as the central element of change in this sector, is assigned a secondary role. This big-picture segment of the book, while perceptive, is far sketchier than the historical narrative that precedes it. The policy shifts in Britain, Japan, and now increasingly also on the European continent indicate that more than local peculiarities are at work, and that regulatory price distortions may be a symptom rather than the cause of change. More likely, monopoly networks break apart because the economic interests of its numerous participants cannot be reconciled anymore, and the network thus moves from a cost-sharing to a pluralistic arrangement. The AT&T divestiture was but one, albeit dramatic, step in that transformation.

The AT&T divestiture was painful and expensive. By now, six years after divestiture, it is increasingly evident that most scenarios of doom did not materialize. Given that the sky did not fall in, the time has come to move on and develop a research agenda that is appropriate to the future. For scholars, it is time to strengthen the understanding of economic, technological, and political dynamics at work in the transformation of telecommunications, and Peter Temin's Fall of the Bell System is an important building block in such an effort.

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References