

Keeping Ma Bell in One Piece

By Eugene V. Rostow

New York Times (1857-Current file); Feb 10, 1975; ProQuest Historical Newspapers The New York Times

pg. 27

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NEW HAVEN—The Government is suing to break up the long-distance telephone network of the United States, and to divorce the Bell System's manufacturing unit, and perhaps even Bell Laboratories, from its operating companies.

In 1967 and 1968, I was chairman of a Presidential task force on communications policy that reached contrary conclusions. We found that the integrated national switched message network, under Bell management, should remain the backbone of our communications system. Since 1921, the law has treated that network as a natural monopoly, subject to regulation.

The task force thought the law was sound, and should not be changed. New specialized communications services offered by non-Bell companies, the report urged, should be allowed by the Federal Communications Commission only if they were indeed new, and did not harm the technical integrity and economic viability of the switched network.

The task force also concluded that the ownership links among Western Electric, the Bell Laboratories, and the Bell telephone companies should remain where they were left by the

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Western Electric antitrust consent decree of 1956, which the Government is now trying to overturn.

The provision of communications services through a unified grid connecting every telephone to every other telephone seems a manifest requirement of common sense, efficiency, national security, and economy in the use of scarce resources. On this issue, to borrow Judge Learned Hand's phrase, monopoly has been "thrust upon" the Bell System by the nature of things, as well as by the decisions of Congress.

The necessity for a single-entity solution in basic telecommunications is reinforced by technological developments. Present and prospective Bell System methods of electronic transmission and switching will have such huge capacities, and offer such economies of scale, as to make significant communications systems outside the Bell-managed network unthinkable wasteful.

These innovations will not come into being, however, if the Government should prevail in its effort to break up the Bell System, and if present trends in F.C.C. policy, restricting Bell's right to meet the competition of specialized common carriers, are not promptly reversed.

The question of innovation is fundamental also to the second issue in the suit against Bell—the legality of the ownership connection joining Bell Labs, Western Electric, and the Bell telephone companies. Like any other

antitrust lawyers, the lawyer members of the task force, including the chairman, were predisposed to favor divestiture.

What finally persuaded us was evidence that the present structure of the Bell System did not present a problem in vertical integration at all, but that the development, improvement, and maintenance of the network, and of the equipment it needs, is a job that requires the sustained collaboration of research, manufacturing, and operating personnel.

The technological imperatives of the communications industry make it essential to bring such resources and inputs together if the task is to be accomplished at all. Twenty-two per cent of Western Electric's current output is equipment that did not exist five years ago, and about 50 per cent did not exist ten years ago.

It has been contended that the American Telephone and Telegraph Company's ownership of Western Electric permits it to earn high profits by charging high prices in sheltered telephone company markets, and thus inflate the telephone companies' rate base. This is a matter subject to constant scrutiny by the F.C.C. and state utility commissions, as well as the pervasive pressure of antitrust policy.

The fact is that Western Electric prices tend to be relatively low. A recent study shows Western Electric prices to be on average 72 per cent of the lowest prices available from other suppliers of comparable products.

Moreover, Western Electric's return on investment has been shown to be consistently lower than the returns earned by other large manufacturing concerns with broadly comparable risks.

Success for the Government in its Sherman Act suit against the Bell System would be an economic disaster, without compensating public advantages of any kind.