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The Split-Up Worked. No, It Didn't.

BYLINE: By **ELI** M. **NOAM;** **Eli** M. **Noam** is a professor of finance and economics at the Columbia University Graduate School of Business and the director of its Institute for Tele-Information.

BODY:
WHEN the old Bell System came to an end a decade ago, there was instant nostalgia for a lost golden age and great anxiety about the future. Many dire predictions were made about the breakup's effect on affordable rates, service quality and technological progress.

The reality has been much more benign. The percentage of households with telephones has increased, from 91.4 percent in 1983 to 94.2 percent in 1993, according to the Federal Communications Commission. For the poorest fifth of the population, this rose from 80.1 percent to 83.7 percent. Average telephone rates did not double or triple, but grew at only half the rate of inflation. Industry research and development increased, too, as did productivity, although at the expense of some employment. The market for telecommunications equipment became competitive, with prices that are now among the lowest worldwide. Nor were the very poor damaged by divestiture; a cheap "lifeline" service was introduced. True, technological advances were in part responsible for these many successes. But the Bell breakup deserves credit, too. Without question, today's communications sector is more dynamic and innovative than it was under the stately, tightly regulated A.T.& T. monopoly.

And it was precisely that promise of greater dynamism and innovation that was the driving force behind the divestiture. Why? Because as technology advanced and the service economy grew, large corporations and other organizations realized that the electronic transmission of information was of ever-increasing importance -- and expense. But the American Telephone & Telegraph Company was too slow, too dominant and too tightly regulated to meet these growing needs.

As a result, MCI Communications and other new carriers emerged. The Government gradually let these companies compete with A.T.& T. but, understandably, the monopoly resisted at each step. Soon, it became clear that the tiny new carriers could not compete with an 800-pound gorilla whose cooperation -- and phone lines -- they needed to do business. The result was the A.T.& T. divestiture.

It was the correct move. The monopolistic A.T.& T. was like I.B.M. at the dawn of the minicomputer age -- too dominant and too powerful to respond to the explosion of new electronic technology and applications. With one big difference: as a regulated monopoly that controlled the telephone lines, A.T.& T. could keep competitors out of telecommunications much more effectively than I.B.M. could keep them out of computers.

Also, despite A.T.& T.'s large size and impressive past, it is clear that no single company can tend the information infrastructure of a large high-tech economy, and do it well, across all hardware, software and services. Some economies of scale may have been lost by the divestiture, but this loss was more than offset by gains in innovation and customer responsiveness.

Today, policy makers face a different challenge: fitting the multiplying pieces of the telecommunications puzzle together. Their many tasks include establishing technical and legal inter-connectivity, assuring local phone competition, designing pricing policies that equitably distribute among carriers the cost of affordable rates, protecting privacy and encouraging the spread of new applications of telecommunications technology to aid economic growth.

For its part, industry is responding to these issues by reshaping itself at a dizzying pace through mergers and other reorganizations.

And how is the Clinton Administration responding? Earlier this month, after a year of high-sounding generalities from Washington, Vice President Al Gore added some specifics. In a forward-looking speech in Los Angeles that endorsed some pending Congressional efforts, he committed the Administration to local telephone and cable competition nationwide. The traditional companies, in return for new freedoms, must cooperate with the new competitors, offering them inter-connection and open access.

But if the established companies suppress competition, the future will bring calls for strict regulation and, yes, Divestiture II.

GRAPHIC: Drawing

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