
FOREIGN POLICY & DEFENSE

Reagan favors.

The authors do not call for a full halt to Star Wars research; they favor limited scientific exploration "as a hedge against technological breakthroughs or Soviet ABM deployments." They also say that the ABM Treaty (especially its compliance features) may need to be updated. But they warn that casting aside one of the few symbols of mutual Soviet-American commitment to prevent nuclear war would be a mistake.

ECONOMICS, LABOR, & BUSINESS

After Ma Bell

"Beyond the Bell Breakup" by Peter F. Drucker, in *The Public Interest* (Fall 1984), 20th & Northampton Sts., Easton, Pa. 18042.

When Ma Bell passed away in January 1984, with the breakup of the American Telephone and Telegraph Company (AT&T), hardly anybody grieved. Drucker, a noted management expert who teaches at the Claremont Graduate School, believes that Americans may yet sorely regret the demise of the giant telecommunications monopoly.

Its splintering was the result of a federal antitrust suit launched by the U.S. Department of Justice in 1974 but pursued without enthusiasm. Federal officials were surprised when AT&T decided, late in 1981, to settle out of court. Drucker believes that the company had begun to view its monopoly as a no-win business proposition.

As a regulated monopoly, AT&T was required (and had long been committed) to making low-cost telephone service available to all Americans. It subsidized cheap local service for individuals by charging long-distance callers (primarily businesses) high prices. By the late 1970s, however, competitors such as MCI were making inroads into the lucrative long-distance business. Meanwhile, federal courts ruled that AT&T could not use its control over the phone lines to fight back. AT&T still handled 90 percent of the nation's long-distance calls in 1981; by 1984, its share had fallen to 60 percent.

There were other signs that AT&T's "natural monopoly" was coming to an end. For example, state regulatory authorities, dedicated to low-cost services, would not permit the company to "waste money" by scrapping functioning but technologically obsolete equipment such as electromechanical switchboards. That gave AT&T's rivals another competitive edge—marketing computerized switchboards.

Inevitably, Drucker believes, AT&T would have made its own adjustments to these challenges. The government's antitrust suit rushed things along and encouraged the company to take drastic action.

He sees many likely ill effects. The cost of local service will surely rise as the seven new, independent regional Bell companies ask state regulators for sharp rate increases to replace Ma Bell's old long-distance subsidies. The nation's vaunted technological lead could suffer if the

ECONOMICS, LABOR, & BUSINESS

new AT&T (comprised of the Long Lines division, the \$12 billion-dollar Western Electric manufacturing arm, the famed Bell Telephone Laboratories) does not adapt well to a competitive, unregulated marketplace. And the lack of an integrated, nationwide communications system worries U.S. defense planners. (In fact, the Pentagon is seeking from the courts certain exceptions to AT&T's breakup agreement.)

Uncle Sam, Drucker concludes, never should have stuck his nose into Ma Bell's business.

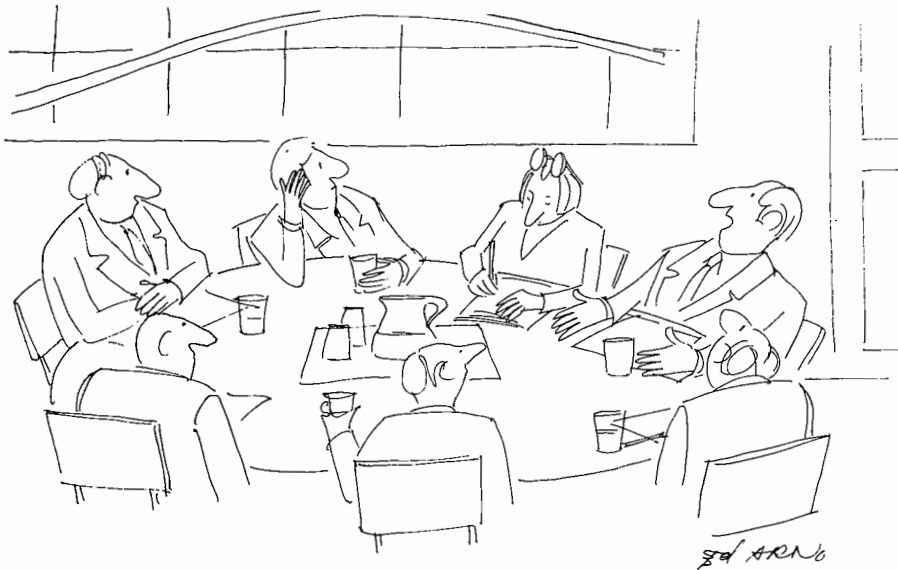
Why Listen To Oracles?

"Are Economic Forecasters Worth Listening To?" by Peter L. Bernstein and Theodore H. Silbert, in *Harvard Business Review* (Sept.-Oct. 1984), P.O. Box 3010, Woburn, Mass. 01888-9975.

If you like having egg on your face, economic forecasting may be the profession for you.

Despite its many spectacular failures, write Bernstein and Silbert, New York financial consultant and banker, respectively, the art of reading tea leaves is indispensable to business. An executive who makes no effort to anticipate the future will find himself out on the street selling apples. And simply extrapolating predictions from present conditions is a certain recipe for failure.

Even the expert *individual* forecasters, the authors concede, are



From the *New Yorker*: "The question before the board is this: Do we believe Milton Friedman, Alan Greenspan, or Jimmy the Greek?"