Getting There:
The Role of Government, the Role of Industry

Prepared Remarks of:
C. Michael Armstrong
Chairman and Chief Executive Officer, AT&T
at the Economic Strategy Institute
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I’m delighted and honored to be part of the celebration of GATT’s 50th birthday. And my thanks especially to the Economic Strategy Institute for putting together this celebration of the past 50 years – and issuing a challenge to make the coming century a continuation of the global prosperity spawned by the birth of GATT.

Think about that. America is the most successful society in the history of the world. That's uncontested. We've got a Constitution not just revered here in the U.S., but admired in most other parts of the world. We've got a political system of checks and balances that's helped us preserve democracy and protect individual freedoms for more than 200 years. But neither of these systems -- not our government charter, not our political system -- have been widely adopted by other peoples in other countries. We're admired, but seldom imitated.

Now turn from our Constitution and our political system to our economic system, and you see a very different story. Our economic system -- our open market economy -- has been imitated emulated and replicated the world over. No, not cloned or carbon copied -- there are always adjustments, but it's fair to say our American "economic operating system" has been a major source of the world's wealth creation for the past 50 years.

By using that phrase "economic operating system," I mean -- like any operating system -- one that manages or channels resources to enable work to be done more effectively. And I think the verdict is in: No other economic system in history can match the free market economic system in the manufacture of wealth and well-being. I'm not advancing any claims that the market is perfect -- just that it is better than any other practical alternative for organizing economic activity. What Churchill said about free government is really also true of the free market: It is the worst system -- except for all the rest.

Not only is the American economic operating system dominant -- it's dynamic: If anything, our influence in the global economy is growing.

So where does that leave us? Should we call off the rest of this conference right now, and just sit back and let the "American economic operating system" do its work?

Hardly. The good news is, people are playing our game. The bad news is, precisely because people are playing our game -- we've got to take it up a notch.

To see what I mean, consider what are to my mind three principles that help define the American economic operating system.
The first principle is open markets: The free flow of investment across boundaries and borders, the unencumbered flow of funds, services and distribution, governed by the laws of supply and demand. No cartels, no combines, no cliques, no keiretsu, no non-tariff barriers -- none of the collections of economic power that frustrate the mandate of the market.

Second principle: open ownership -- because investment without ownership is like taxes without representation: To really buy into an economy, you've got to be able to exit that market as well as enter, and that can't happen without clear rules regarding open ownership.

And third, the market must drive government -- not the other way round, except in the area of public ethics or deregulating monopoly power. But the fact of the matter is that things work both ways: Government can be the catalyst in opening markets -- or government can be the glitch in the system.

My point is that economic operating systems, like network architectures, are always evolving, always in progress. However, as an antidote to any economic arrogance that I've encouraged thus far, let me say clearly: Being a model for the world cuts both ways. The U.S. cannot be eagle-eyed when it comes to spotting competitive barriers in other countries, and blind when it comes to our own. We've got to clean up our act at home -- or we're going to end up exporting our problems to the world at large.

Three American situations come to mind.

First, if we wish to export open markets, we've got to break the bad habit of using trade as a foreign policy weapon -- especially our fatal attraction to unilateral economic sanctions as a means of changing other nations' behavior. Unilateral sanctions are the ultimate in feel-good foreign policy: We act as if we can unilaterally put an economic quarantine around another country -- but the fact is that when we resort to unilateral sanctions, it isn't the errant country that's hurt -- it's American companies and American workers that end up paying the price.

While there's no evidence that unilateral sanctions affect errant behavior in the so-called target state, there's plenty of evidence that unilateral sanctions punish American workers and businesses. As Chairman of the President's Export Council, we found that the top 10 countries against which the U.S. has sanctions in place cost U.S. business about $11 billion dollars in lost exports, and about 220,000 American jobs -- and that's just for one year. When we wish to deal with sanctions, this country needs a process that defines purpose, assesses costs and benefits, measures effect -- and reviews for reality. Anything less in our sanctions policy isn't foreign policy -- it's unilateral economic disarmament.
Second, if we wish to export market forces over government intervention as the driving determinant of a global economy -- then we need to inject more of a market mindset into regulatory policy right here at home. And make no mistake: Rulemaking is lawmaking, period. If government must make rules, then let's provide the means to measure their impact -- a metric that tells us how effective regulation is in achieving its aim. That's why congress should pass the Thompson-Levin bill that requires regulatory risk assessments -- in essence, "regulatory impact statements" on the objectives, measurements and economic costs created by federal rulemaking.

My third example comes from my own industry. Put simply, we can't preach market systems -- and practice monopoly protection.

While the American economic operating system is today a standard to aim for, it is time to step up to America’s last monopoly -- local exchange telephony. The regional Bell companies have over 98% of the local exchange market -- and have not opened that market to competition.

While the Telecom Act of 1996 has the right stuff to deregulate the local exchange market, the Bell companies have never let it get to the market. After authoring it as an agreed means to open the local telephone market, the Bells have put the Telecom Act in court, where both time and outcome are uncertain.

The Telecom Act went straight from legislation to regulation to litigation without ever being allowed to work in the marketplace.

That’s tragic because the Telecom Act established two very important principles to enable local competition.

One involved access charges, which are the fees local monopolies charge to complete long distance calls. The Act created an environment in which access charges would be competed down to cost and it required cost-based pricing of the only wire to the home so that there would be a level playing field for fair competition.

Both of those principles are vital to the deregulation of the local exchange monopoly

The fees we must pay the local monopolies to complete long distance calls are at least eight to 10 times more than their actual costs. The difference over cost amounts to a hidden tax of more than $10 billion a year that long distance customers pay to the local telephone companies.
That windfall averages about four or five cents a minute on every long distance call. Without it, long distance charges could be that much lower.

Worse, if the Bells are allowed to offer long distance service before those subsidies are eliminated, they will have an unfair advantage over any would-be competitor.

Even in the absence of the Telecom Act, there is still a way, and the authority, to get these excess charges out of consumer prices, and off the back of long distance bills. The FCC has the authority to prescriptively take these excess access charges down. Especially, now that the Telecom Act is stuck in legal limbo, the FCC should define and implement an expedited schedule to take all access charges over cost out of American telephony.

The second principle necessary for local telephone competition is a level playing field on the cost of reselling the only wire into the home. As I’ve said, the Telecom Act requires cost-based prices from the local exchange companies, so that all parties have a common cost basis on which to compete. But if the Bell companies have a different or subsidized cost for the wire, and interested competitors get a so-called discount that is in reality a much higher cost, then you can say -- let the competitive games begin. But no one’s going to show up. And that’s what’s currently happening with the Telecom Act on hold. While some states are working to create an environment for competition, it’s not obvious that the terms and operational conditions are likely to attract the investment that will make competition a reality.

A level playing field will attract investment. We can get that level field by requiring local telephone companies to fully and totally separate into ‘wholesale’ businesses that complete calls for other carriers, and ‘retail’ businesses that sell services to end users.

Separating the Bell companies’ local networks from their other operations will ensure that the Bell companies can’t subsidize their competitive activities from the inflated fees they charge long distance companies to have calls completed. It will also ensure market pricing of the resale of the only wire that connects to the home.

Such a structural separation would put the retail operations of the Bell companies on an equal footing with AT&T and the other long distance companies. Also, by meeting the other conditions of the Act, it could free the Bell companies to compete in the long distance market quickly, something they have been clamoring to do.

It would create an environment where every industry player is working to
implement the Act as quickly and as thoroughly as possible. It could take the Act out of the courts and put it to work in the nation’s homes and businesses where people can get the benefits of real competition.

MCI and LCI have made similar proposals to divest Bell company facilities as means to help introduce local telephone competition. It’s time for policy-makers to take a serious look at this option.

Whether it's unilateral sanctions or regulatory policy or the local phone monopoly -- set these issues against the broader canvas of global trade and acting now to resolve these problems is even more urgent. It all comes back to the one irrefutable fact of the last 50 years: Free and open market system is the single greatest engine of growth -- and the most valuable export we can offer other nations.

In that fact lies tremendous opportunity -- and tremendous responsibility as well. The power of the American economic operating system is at its strongest when policy and practice align with principle.

And if the legacy of GATT is any indication, the stakes go well beyond what we can measure in GDP alone.

I believe it was the power of communications more than anything else that ended the Cold War. It was the power of communications that flew over the Wall -- and eventually pulled the Wall down.

Thanks to modern communications, people from Berlin to Budapest to Beijing could see and hear for themselves what modern democratic capitalism was all about.

An industry that can open the hearts and minds of almost two billion people can certainly open up its last bastion of monopoly to competition.

And a nation that puts its faith in free people and free markets can certainly open a world of opportunity to men and women everywhere.

Thank you.

C. MICHAEL ARMSTRONG was elected chairman of the board and chief executive officer of AT&T, effective November 1, 1997. Mr. Armstrong came to AT&T from Hughes Electronics, where he had been chairman and CEO for six years. Prior to Hughes, he spent more than three decades with IBM. Beginning
there as a systems engineer, he rose through the ranks to become senior vice president and chairman of the board of IBM World Trade Corporation. Mr. Armstrong serves as chairman of the President’s Export Council, and is a member of the Council on Foreign Relations, the National Security Telecommunications Advisory Committee and the Defense Policy Advisory Committee on Trade. He is a member of the board of directors of Travelers Corporation, and the supervisory board of the Thyssen-Bornemisza Group. Mr. Armstrong earned a B.S. degree in business and economics from Miami University of Ohio in 1961, and completed the advanced management curriculum at the Dartmouth Institute in 1961.