

# States of the Union

## THE PRACTICAL ECONOMIST

BY RICHARD J. MARGOLIS



ALAN GREENSPAN

**C**ALL ME Finchmale. Until last month I was just an average American with an average American job. Now I hold an important government post, thanks mainly to my remarkable grasp of the national economy.

My short, happy tale begins a few Sundays ago when I switched on the set to watch *Face the Nation*. There

was the President's top economic adviser, Alan Greenspan, bringing us his top economic advice.

"The recession for all practical purposes is over," he announced.

"Hot dog!" I said.

Greenspan picked a bit of lint off his dark blue jacket and continued, "I don't think we have started into the next phase, which I would consider an upswing, but clearly that is the area into which we are basically moving."

"Did you hear that?" I asked my wife. "The recession is over for all practical purposes. This calls for a little celebration."

"In other words," said my wife, "for all practical purposes you've decided to have a drink."

"That," I replied, turning off the TV, "is the area into which I am basically moving."

My wife eyed me narrowly as I poured two martinis. "What makes this Greenspan so sure the recession is over?" she wanted to know.

I casually dropped an olive into her glass. "That's a typical dumb-broad question," I said. "It betrays your fundamental ignorance of how

the world's work gets accomplished."

"Accidentally," she cut in.

"Pragmatically," I countered. "And Greenspan is your basic all-around, hard-headed, tough-minded pragmatist. Note that he didn't just say the recession was over. No, he said the recession was over *for all practical purposes*. You gotta get up pretty early in the morning to fool Alan Greenspan."

My wife sipped her martini. "The *New York Times* says that nearly one-quarter of all the construction workers in America don't have jobs. I bet *they're* not getting up very early in the morning these days."

"There you go changing the subject. We were talking about being practical."

"Wasn't it Henry Adams," my wife asked, "who said, 'Practical politics consists in ignoring facts?'"

"Henry Adams had a lousy education," I retorted.

"And wasn't it John Maynard Keynes who pointed out that 'Practical men are usually the slave of some defunct economist?'"

"People who use their middle names are not to be trusted," I shot back.

My wife sighed. "You know what I think? I think that for all practical purposes this conversation is over."

The next day I strode into my boss's office and demanded an immediate raise. "After all," I argued, "for all practical purposes the recession is over." My boss did not answer; he merely looked bewildered.

I persisted. "I don't think we have started into the next phase, which I would consider an upswing, but clearly that is the area into which we are basically moving."

"Finchmale," my boss finally asked, "who told you all that mar-larkey?"

"Alan Greenspan," I answered triumphantly, "the President's top economic adviser. He told the entire nation over network television. Too bad you missed him."

My boss favored me with a peculiarly tight smile. "Finchmale," he said, bringing his face close to mine, "do you know what I was doing while you watched the Green-spanning of America? I was adding up our company's deficit, that's what I was doing. It took me most of the day, Finchmale, because it happens to be one humdinger of a deficit. In fact, Finchmale, unless we do something drastic, we will be basically moving into the area of bankruptcy. Now get out of here before I fire you."

I did not tarry. As I have often observed, it's no use arguing with a closed mind.

I later called on my best friend and told him I was the bearer of glad tidings. "I sure could use some," he said. "I've been out of work for five months, I'm running out of food stamps and the bank is threatening to foreclose the mortgage on my house. What can you tell me that will cheer me up?"

"Rejoice! Rejoice!" I answered. "The recession is over for all practical purposes. That's the top of the

news off the top of the head of the President's top economic adviser, Alan Greenspan."

My best friend's face grew very dark. Before I had time to think about it he delivered an upswing to my chin that instantly sent me spinning into the next phase, which was on my back. My feelings were hurt, but I soon forgave him. After all, he'd never been too smart at economics.

**L**ATER that evening it occurred to me that I might be the lone person in America—maybe the world—who understood Alan Greenspan. So I decided to go to Washington and shake his hand. I felt deep-down that we were kindred spirits.

The next day I boarded the Metro for the capital. The train lurched out of Penn Station, moved a few hundred yards and then, somewhere beneath the Hudson River, coasted to a standstill. After two hours of waiting in the dark, I collared the conductor.

"Can you see the light at the end of the tunnel?" I asked.

"Not only can I see the light at the end of the tunnel," he said, "but according to my calculations, prosperity is just around the corner."

"So is Newark," chimed in an old lady sitting behind me. "And beyond that, Media, Pennsylvania."

I turned around in my seat. "I'm going to Washington," I explained, "in order to shake the hand of Alan Greenspan, the President's top economic adviser."

The old lady smiled sweetly. "They'll mug you," she said. "Everybody gets mugged in that town. It's not the heat, it's the permissiveness."

When we finally reached Washington, I took a taxi to the big building next-door to the White House where the President's top thinkers think. A young woman was sitting at the reception desk.

"I'm here to see Alan Greenspan," I told her.

"Do you have an appointment?"  
"No, only a hunch."

"Mr. Greenspan is not in today for all practical purposes," the receptionist said, and resumed her typing.

At that moment a door to my left opened a crack, revealing a pair of spectacles, a Paisley tie, and a receding brow. It was definitely Alan Greenspan. I jammed a foot into the opening and said politely, "Mr. Greenspan, would you object terribly if your office became an area into which I was basically moving?"

Greenspan flung open the door. "Not at all," he said with a broad smile. "In fact, you may be able to help me out of a pickle."

I walked in and saw immediately that Greenspan had been working hard on a problem. The blackboard behind the desk was filled with his feverishly scrawled computations. At the top of it, in a firm hand, Greenspan had carefully written down the primary issue as he perceived it:

IF JOHN HAS \$4.57 AND MARY HAS \$8.91, HOW MUCH MONEY DO THEY HAVE ALTOGETHER?

Greenspan stared at the calculations and stroked his chin. "You see," he said to me without further chitchat (for great men are invariably direct), "I've done rather well, if I do say so myself, with the digits to the *right* of the decimal point. It's only when I veer to the *left* that I begin to have trouble."

I soon saw his mistake. "Maybe I'm speaking out of turn, Mr. Greenspan, but you forgot to carry the one."

Greenspan gasped and slapped his forehead. "Pshaw!" he exclaimed. "This job has grown too complex for just one man. How about coming aboard, Finchmale?"

"I thought you'd never ask," I said.

And that is how I got to be top deputy to the President's top economic adviser—for all practical purposes.

# How there came to be only one telephone company in town.

“In many cities of the United States, and in rural communities as well, there are dual and competing telephone systems, doing both local and long-distance business...Patrons of these telephone systems are put to endless annoyance and increased expense. In order to reach all the people using telephones, the telephone patron finds he must install two telephones in his house and office...Double systems of cables, wires and conduits burden the streets and highways.”

— Report of the House of Representatives Committee on Interstate and Foreign Commerce, 67th Congress (1921)

When Alexander Graham Bell's telephone patents expired in 1893 and 1894, new telephone companies sprang up almost overnight. The accepted way of organizing communications was to have the “dual and competing telephone systems” cited in the Congressional report.

“Call us. We're on the Bell,” was a frequent invitation in those days, to friends or customers. Central, the voice of “Number, please?,” spent a lot of time explaining

*“Number please.”*



to customers that the number wanted was on the town's other telephone system. And each month there were two telephone bills to pay.

A solution to the problem had been worked out long before by John Stuart Mill.

In 1847 Mill had studied the situation of two other new industries that supplied water and gas through pipes to the homes and businesses of London:

“It is obvious, for example, how great an economy of labour would be obtained if London were supplied by a single gas or water company instead of the existing plurality. While there are even as many as two, this implies double establishments of all sorts, when only one, with a small increase, could probably perform the whole operation equally well; double sets of machinery and works, when the whole of the gas and water required could generally be produced by one set only; even double sets of pipes, if the companies did not prevent this needless expense by agreeing upon a division of the territory. Were there only one establishment, it could make lower charges, consistently with obtaining the rate of profit now realized.”

Such a consolidation, Mill saw, was clearly in the public interest. The concept of a “public utility” was reinforced.

When Edison’s electric light superseded illuminating gas, the parallel was obvious. It was not quite so obvious for the telephone.

It was not hard to see that the public benefited from having water piped into homes. But while some viewed the telephone companies as providing a similar vital service, others regarded them as being more akin to manufacturers selling ingenious machines in the luxury class. When only a few people had telephones, one observer called them “electric toys.” Should Bell’s invention be compared with Edison’s new electric light, or was it more like his phonograph? As the proportion of homes and businesses with telephones grew, the usefulness of the telephone increased greatly.

Then there was the matter of geographic area served. An exclusive franchise for a specified area is a natural corollary of Mill’s concept of a public utility. And exclusiveness was a troublesome subject.

When two or more rivals supply a similar service, competition keeps each up



John Stuart Mill

to the mark, or else some eventually lose customers and go out of business. If in the public interest, government removes that rivalry by granting exclusive franchises, then government must provide the mechanisms for preventing arbitrary or excessive charges or unreasonable or discriminatory regulations.

The doctrine of public regulation of privately owned resources has its roots in Roman law and the tenet of *justum pretium* —“just price.” English common law provided a rationale for regulation. In an essay on rates for wharf services, Sir Matthew Hale, Lord Chief Justice of England, established in 1670 the criterion that private industries “affected with a public interest” may be regulated by the public:

“If the King or subject have a public wharf unto which all persons that come to that port must come and unload their goods...because they are the only wharfs licensed by the King. ...or because there is no other wharf in that port...there cannot be taken arbitrary and excessive duties...but the duties must be reasonable and moderate....For now the wharf and crane and other conveniences are affected with a public interest.”

Various municipal boards did undertake to control the quality of service provided by water, gas and electric companies, usually through periodic reviews of franchises granted. It was no easy task. For quality of service leads quickly to questions of cost: good service for the price charged;

equal prices for all customers for services of a similar nature, so that no one is discriminated against; adequate service capacity so that anyone able to pay for the service can have it.

Local officials had their hands full regulating the three industries already mentioned (water, gas, electricity). They were not eager to take on the responsibility of regulating the telephone business. And so redundant companies continued to exist in many towns. Confusion multiplied geometrically as the companies strung long distance lines to connect various cities.



Theodore N. Vail

Soon after he was elected A.T.&T. President in 1907, Vail enunciated the goal: “One policy, one system, universal service.” He saw that the future of the business depended on having one unified telephone service for the entire nation—a service that every family and business could enjoy. That meant ending duplicate telephone companies, replacing them with exclusive telephone franchises. In other words, Vail understood that it was not enough for the nation to have telephone companies. What was needed—and what he sought to create—was a *telephone system*. Vail saw, too, that the very “exclusivity” of the franchises invited—

indeed, demanded—regulation by officials elected or supported by the public to protect the public interest.

Vail thus agreed with the efforts of Gov. Charles Evans Hughes of New York and Senator Robert M. LaFollette of Wisconsin, who were working to persuade state legislatures to try a new approach to regulation through state utility commissions—responsive to the public at the state level—as best serving the public interest.

The state commissions, supported by public desire for efficient regulation, worked. Most public utilities came to be regulated on a statewide basis, and a framework of efficient regulation was set.

Vail recognized, however, that national regulation also was a necessary complement to state regulation, particularly since one company—A.T.&T.—was chiefly responsible for interconnecting the individual telephone companies into a telephone system.

As noted earlier, regulation of telephone companies already had begun to develop at the state level. But on the national level—for telephone lines and services crossing state boundaries—there was no federal counterpart to the state regulatory commissions, although telegraph companies had been regulated to some extent by the Postmaster General and the Interstate Commerce Commission under statutes dating back to the 19th century.



*Alexander Graham Bell*

The first effort at comprehensive federal regulation came in the Mann-Elkins Act of 1910, amending the Interstate Commerce Act. Telephone, telegraph and cable companies were declared to be common carriers subject to ICC regulation.

Federal regulation took a new turn in 1934 with the passage by Congress of the Communications Act, which established the Federal Communications Commission. The intent of Congress—as it had been the intent of both Bell and Vail—is outlined in Section I of the Communications Act:

“For the purpose of regulating interstate and foreign communications by wire and radio so as to make available, so far as possible, to all the people of the United States a rapid, efficient, nationwide and

worldwide wire and radio communication service with adequate facilities at reasonable charges....”

Almost alone among the nations of the world, then, this country entrusted the development and operation of its communications resources to private enterprise. It endowed companies with the rights and responsibilities of common carriers, each solely privileged to purvey its services within its territory but all in turn strictly accountable through state and national regulation to the public they serve.

Has it worked?

In 1968, President Johnson’s Task Force on Communications Policy concluded, “It can be truly said that the United States has the finest telephone system in the world.”

That kind of service didn’t just happen. It was planned that way, right from the start.

One Bell System. It works.



**Bell System**