

The Economic Club of New York

His Excellency James C.H. Shen
Republic of China, Ambassador to the
United States of America

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Introduction

Chairman George R. Vila

Hank will address his questions to Mr. DeButts. Now our questioners act under Department of Justice rules and there is no collusion. (Laughter) Our first speaker, "The pulse of modern life is economic and the fundamental principle of economic production is individual independence."

This statement was made in 1916 by Chen Duxiu, a founder of the Chinese Communist Party.

Now we're not too surprised to find that in 1972, some 56 years later, the pulse of modern life is not beating very strongly on the Communist-controlled mainland of China, but is strong and loud on an island adjacent to it with an area of less than 14,000 square miles and a population of 15 million independent individuals.

We're amazed, however, to find that the island province of Taiwan, home of the Republic of China, will make over \$5 billion of foreign trade business this year, a bigger volume than that generated by the economic activity of 700 million people on the Chinese mainland. Clearly, as a partner in trade and investment as well as competitor on world markets, Taiwan has never been more important to us than it is today.

The United States has now displaced Japan as the number one customer for Taiwanese goods and is second to Japan only as a supplier. And this is a very heartening situation when we remember that Taiwan was the recipient of economic aid until 1966 when they reached what the

economists call “the takeoff stage.”

Our speaker was born in Shanghai, educated in Peking, and the University of Missouri School of Journalism, so he’s truly cosmopolitan. He has served the Republic of China as a reporter for the China Press, in Shanghai and Nanjing, as a top ranking official of its information services in Taipei and San Francisco, and as an Ambassador to Australia and Washington. Gentlemen, I am honored to introduced His Excellency Mr. James Shen, Ambassador of the Republic of China to the United States of America. (Applause)

His Excellency James C.H. Shen
Republic of China, Ambassador to the
United States of America

Mr. Chairman, members of Economic Club of New York, distinguished guests, and gentlemen, first of all, let me say how appreciative I am of the great honor your Club has bestowed upon me by asking me to be one of the two speakers of the evening. I’ve heard much about the Economic Club of New York. It’s a real pleasure and privilege to be with you tonight.

I have apprised the Club before I came of the title of my talk tonight, “Free China’s Economy - A Year Later.” During the past 12 months, we have received many, many messages preponderantly well-meaning and sympathetic in tone, expressing solicitude over our turn of

fortunes in the diplomatic arena. The essence of much of the correspondence can be boiled down to a very simple question. How is the Republic of China making out after the diplomatic disasters of 1971?

As I look back from the spirit, in a mental survey of what the Republic of China has gone through, I'm reminded of a simple, Biblical parable of the wise house builder. As the New Testament tells it, the rains descended and floods came and the winds blow and beat upon the house. And it fell not, for its foundation was laid upon a rock. As you may recall, a series of diplomatic quakes jolted my country by lightning rapidity last year. It began with the revelation of a well-kept White House secret. Like a bow from the blow, President Nixon stunned the world in mid-July by announcing that he was going to visit the Chinese mainland which as you all are aware has been under Communist occupation since 1949, 1950.

Scarcely three months later, on October 25, 1971, to be exact, the United Nations at its 26th General Assembly flagrantly violated the UN Charter by voting us, a law-abiding founding member, out of the world organization to make way for the Maoist regime which the United Nations itself had earlier condemned as an aggressor in the Korean War.

In the intervening months since our withdrawal from the United Nations, and much to our regret, a number of countries including Turkey, Iran, Belgium, and lately Japan, which had maintained diplomatic relations with us for many, many years decided to switch their recognition in favor of

the ____ regime. Now these actions were calamities in any language. It was as if Taiwan were hit by a hurricane, a tornado, an earthquake, and floods in quick succession, within a short period of time. They would have proven critical, if not fatal, to any nation with a faint heart. But like the Biblical house built on a rock, Free China, with its sound political and economic foundation, successfully weathered all these diplomatic storms.

Now more than one American observer has been surprised by our resilience. Last week's issue of *U.S. News and World Report* had an article titled, "Taiwan – Making Good on Its Own," in which the correspondence said, here I quote, "A visitor to Taiwan, expecting to find resignation and despair discovers instead a fever of rising expectations and stimulating economic expansion. Taiwan's economic performance in the first eight months of 1972 verges on the unbelievable. Compared with the corresponding period last year, industrial production has risen 27%, new construction is up 39%, and trade has ballooned 46%." Well, gentlemen, if you have not done so, I certainly recommend all of you to read that article.

You might well inquire, as Congressman Hanna of California asked one day in Congress, here I quote, "Whence comes the strength of this small island, Taiwan?" To be sure, more than one factor has served to buttress Free China against these shockwaves. I'll name them, one, firm public confidence in our president's leadership, political and social stability, persevering industry and technical skill of the people, enduring legacy of generous American economic aid which incidentally ended in 1965 and not 1966. And the fifth, economic vitality and a growing industry.

Despite unfavorable international developments, the year 1971 saw Taiwan maintain its economic growth. Industrial production was up 21.2% over 1970. The value of our gross national product reached \$6.2 billion showing a growth of 11.4% and is expected to total \$6.5 billion this year. Per capita income was, in 1971, \$329, reflecting a growth of 12.7% – this makes it one of Asia’s highest figures – as compared with less \$100 on the Chinese mainland. Our two-way foreign trade which amounted to no more than \$309 million in 1959 shot up to total of \$4.08 billion in 1971, up 36% over 1970. Now this was only a few hundred million less than what the Chinese mainland as a whole did for the same year. Exports accounted for \$2.13 billion and imports \$1.9 billion, giving us a favorable balance of close to \$200 million. During the last three years, our foreign trade has increased at an average annual rate of 30%. The United States has remained our leading trading partner followed by Japan and the Western European countries in that order.

It’s most encouraging that our foreign trade in 1972 has been making further headway. For the first nine months of this year, our two-way trade already totaled \$4.04 billion, up by nearly 43% over the same period last year. Exports accounted for \$2.21 billion and imports \$1.83 billion. The United States again is our number one trading partner this year, our volume totaling \$1.3 billion during the January - August period with exports totaling \$796 million and imports \$574 million. Trade with Europe has also continued to grow since the beginning of this year. But on the basis of figures, for 1971 and ‘72, we estimated that our two-way foreign trade would pass the \$5 billion mark this year, and, therefore, for the first time outstrip the foreign trade for the

Chinese mainland as a whole. Government sources predicted that our foreign exchange reserves would exceed \$1.5 billion before the end of the year. The reserves have already reached \$1.3 billion in September.

Now one of the most heartening signs in Taiwan, after our withdrawal from the United Nations last year, was the discovery that not only was there no flight of capital, but new capital was coming in. No matter how one reads this phenomenon, it could mean only one thing – a total absence of panic at home matched by international confidence in our future. Instead of falling off, foreign trade investments reached \$163 million last year showing an increase of 17% over the previous year. A total of 328 investment projects were approved of which 198 represented additional capital investments for existing enterprises. And there were also 130 new projects including one for the setting up of an integrated steel mill involving an investment of some \$66 million. Now of all these investments, \$125 million represented foreign investments and \$38 million constituted investment by overseas Chinese, of whom there are close to 20 million living principally in Southeast Asian countries and elsewhere in the world.

Standing here before this distinguished group, I am happy to say that American business and industry figure prominently in expression of competence in our country. Of the \$163 million investment from external sources for 1971, no less than \$44 million came from this country. Foreign investments continue to hold up well. In early part of 1972, investment approvals for the first seven months of the year amounted to \$41 million, of which \$28 million were filed by

foreign interests and \$13 million by overseas Chinese. These figures tell a tremendous story considering the fact that foreign investment did not enter the picture of Taiwan's economy until 1952. It was only 20 years ago. And in that year the total investments amounted to no more than \$1 million. They passed the \$50 million figure in 1967 and \$100 million milestone in 1969. Today, cumulative totals of foreign capital investments have increased to \$724 million, almost three-quarters of a billion. Now out of this total, the United States share is \$286 million constituting the largest share in our capital inflow.

Many well-known American corporations and industries exceeding hundreds in number have made investments in Taiwan including – now here I take them at random – the names of RCA, Zenith, Goodyear Tire, Hilton Hotel, General Instrument, IBM, Philco, Owens-Illinois Incorporated, National Distillers and Chemical Company, the Genesis Systems Incorporated of California, Corning Glass, Dupont, Eli Lilly, Admiral Corporation, Singer, and Gulf Oil. The latest to join the ranks of American investors in Taiwan is the Ford Motor Company. Word has just reached us that our government has approved a \$36.6 million investment plan by Ford to produce four models of motorcars as well as engines for both domestic and overseas markets. It's a joint venture with a Chinese firm. The agreement will be signed at Dearborn, Michigan on November 20th and I've been invited to witness the signing.

Most heartening of all the indications in the health of our economy was provided by Mr. Harry Kearns, President of U.S. Export-Import Bank. After a fact-finding visit to Taiwan earlier in the

year, he told a press conference that U.S. Export-Import Bank would provide “unlimited” long-term loans to the Republic of China and individual Chinese borrowers to demonstrate, as he put it, our absolute confidence in the future of the Republic of China. Now translating his verbal assurance into reality, Mr. Kearns signed on behalf of the U.S. Export-Import Bank a \$330 million loan agreement with the Taiwan Power Company on October 12, 1972 for the construction of a second group of nuclear power plants in Taiwan. This huge loan, said Mr. Kearns, is concrete evidence of the American peoples’ confidence in the future of the Republic of China. He also indicated that the bank would make additional loans to Taiwan to help the petrochemical and cement industries.

One of the factors contributing to the phenomenal growth of our foreign trade has been the introduction of the export processing zone which combines the advantage of an industrial complex and those of a free port and it’s proven to be a boon to small and medium-sized investment in export industries. There are three such zones in Taiwan today. The first established in December 1966 is located in Kaohsiung at the southern end of the island and has an area of 160 acres. Its usefulness, having been twice proven, the government subsequently opened a second and a larger one covering an area of 300 acres in nearby town called Tainan. Then a third zone was established last year in the central part of the island close to the newly developed or being developed international port of Taitung.

Now how does an export processing zone operate? The zone provides plant sites built by the

government for investors to set up their factories. But if they prefer, investors are free to build their own plants. All public utilities are installed by the government and charges for water and electricity are among the lowest in the Far East. Raw materials and components may be moved into the zone with a minimum of red tape, ready to be processed for export. Customs and foreign exchange transactions are carried out right there inside the zone itself. So far more than 160 plants employing nearly 43,000 workers have been established in the first zone. In 1971, investments were valued at \$48 million and exports exceeded \$156 million.

In the second zone which accommodates 200 plants, 17 factories are already in operation with investments totaling \$12 million and ten other factories are under construction. The third one, the Taitung zone, the smallest of the three, will hold only 50 plants but it's designed to accommodate more sophisticated industries such as precision instruments. At present, 13 factories are already in operation with investments estimated at \$80 million. According to estimates made by our Ministry of Economic Affairs, all three export processing zones will be operating at full capacity in the very near future. And exports from these factories are expected to total \$400 million, giving employment to some 100,000 workers.

I've talked about our economic growth in the past, about international confidence in our economy today, and about future expansion of foreign trade. But what is our overall policy toward investments from overseas as a whole? In a nutshell, our policy is one of assistance, protection and guarantee of equal treatment for all investments from abroad.

Let me start with our investment laws embodied in the Statute for the Encouragement of Investment which was originally enacted in September 1960 and amended in January 1971. These laws provide considerable incentives to private investors from abroad. First, we permit 100% foreign ownership together with a 20-year guarantee against expatriation. Secondly, we offer a number of tax incentives including a five-year tax holiday or accelerated depreciation, a subsequent 25% tax ceiling, and duty-free import of certain categories of production equipment. Thirdly, we permit foreign investors unlimited remittance of profits, and a 15% annual repatriation of capital. Fourthly, we offer an income tax ceiling of 15% only for individuals if the investors do not live in Taiwan, and also exemption of business tax on export sales.

Now besides our commitment to be good hosts to foreign investors, another attraction we offer foreign investors is the high quality and the great dependability of our labor force which is young, healthy, literate, and willing to work. When provided with proper equipment and competent management, our workers can match those in the more developed countries in productivity and quality at monthly wages much lower than those in Japan and even lower than those of Hong Kong. Still another attraction is the ready availability of infrastructure facilities at reasonable cost including electric power, industry water, highway, railway, and harbor facilities.

Lastly, prospects are good for a dramatic surge of trade between our two countries on two counts. One is that plentiful opportunities now exist for expanded trade with the United States to replace items which we used to buy in large quantities from Japan. It's our policy to diversify our

trade and this may or may not have anything to do with recent changes in Japan's diplomatic posture vis-a-vis the Chinese Communists. Another is our determination to proceed with a program for economic development.

My government has just given approval to the sixth four-year plan for economic development calling for investment of \$9.5 billion. The plan will go into effect in 1973. Emphasis will be placed on the development of industries, transportation and communications. The plan is aimed at achieving an average annual economic growth rate of 9.5%. It is hoped that at the conclusion of the plan in 1976, the national per capita income will have increased from \$329 in 1971 to \$550, and the gross national product increased from \$6.2 billion to \$16 billion, and foreign trade increase from \$5.2 million estimated for this year to about \$11 million in 1976.

The other day I was playing golf with Marshall Green, the Assistant Secretary of State for Asian and Pacific Affairs. And he told me that, Mr. Ambassador, we have just made a study. I said, what about? He said, about your trade potential, if it shall continue at this present rate of growth, by 1976, the Republic of China and Taiwan will become the sixth largest trading partner of your country.

Well, gentlemen, as we move more and more in the direction of more sophisticated manufacturing and operations, it's only logical that we should turn increasingly to your country, the United States of America, as a supplier of the more complex machinery required by our

factories as well as a source of supply of investment capital. I would like to emphasize that we, in the Republic of China, are looking forward to rapidly expanding a mutually profitable trade and investment relationship with your country in the years to come. I thank you. (Applause)

Chairman George R. Vila: Thank you, Mr. Ambassador, for a very stimulating, very informative talk. And I'm sure that many of us who have not already studied your country and economy will be getting in touch with you and your associates very shortly.

Trying to think of a fitting introduction for our second speaker this evening, I kept recalling the familiar television program which the TV-viewing members of my family informed me has had a recent rebirth of popularity, What's My Line? Our speaker would make an admirable subject to confuse the panel of experts on that program. He has long lines and short lines, digital lines, and facsimile lines, WATS lines and trunk lines, dead lines and busy lines. (Laughter)

I think many of us in this audience must envy him his job. Billions in revenue, Triple A-rated bonds, fully-funded pension plan, literally tens of millions of customers, no one of which can possibly account for more than a fraction of a percent of the total sales. So during the lunch, or during the dinner, I asked him what he saw as his principal problem as he takes over the reins of this great enterprise? And what do you think he said? The profits. Other than that, he has no problem. Gentlemen, it's my pleasure to introduce to you, Mr. John deButts, Chairman and Chief Executive Officer of the American Telephone and Telegraph Company, the world's largest

corporation. (Applause)

John D. deButts

Chairman and Chief Executive Officer

American Telephone and Telegraph Company

Thank you George. Mr. Chairman, Mr. Ambassador, distinguished members of the Economic Club, equally distinguished guests, and my friends, I want to thank you, George, for that introduction. I trust that those dead lines are because you folks are not using your telephone enough rather than them being out of order.

I've been to a lot of meetings like this of the Economic Club and I'm delighted to be here with you again tonight. But I would like to inform those of you in the audience that there is an enormous difference between being here and being there. (Laughter) Exactly five years ago this evening my predecessor delivered to this distinguished audience a talk to which he gave the title, "Regulation and Great Enterprise." Well, my subject tonight is much the same. But thinking over what I proposed to say, it occurs to me that a more appropriate title might be, "Regulation and the \$1,000 Parrot."

Possibly you've heard the story of the businessman, who having laid out \$1,000 for a parrot he was assured could speak five languages, and gave instructions to the pet shop to deliver the bird

to his home that very afternoon. Arriving home that evening full of anticipation, he asked his wife whether the bird had been delivered. Oh, yes, it had. Where is he, the businessman asked? In the oven, his wife replied. My God, in the oven, said the businessman, why that bird speaks five languages! Well, said his wife, why didn't he speak up? Well, not many of us can speak five languages. But what I hope to suggest this evening is that if we businessmen wish to avoid a roasting, we had better be a little bit more outspoken with the one that we do have.

What emboldens me to think that regulation might have some relevance to the concerns of this audience, more even than it did five years ago, is the fact that what was once the uneasy lot of a portion of the economy – albeit an important one – is now the common experience of most of us. Today the ranks of the regulated hitherto largely limited to the utilities and the transportation industry, the banks and the insurance companies, have been swelled to a point where surely they now include under one method or another virtually every enterprise represented in this room. And I say to you gentlemen, welcome to the club. (Laughter)

Now I can hardly assert with good grace that a business, which over the course of its long experience with regulation has grown to be the world's largest, has been badly used in the process. As a matter of fact, the almost universal availability of communications in this country and its relatively low cost seem to me sufficient evidence that the unique system of private enterprise operating under public regulation to which Americans have chosen to entrust the development and operation of this vital function has served the nation relatively well.

Nonetheless, there are certain aspects of the regulatory scene that trouble me deeply. Some of them are new. Some of them have been with us for quite a long time. From the very outset of regulation, the wisest of regulators have recognized the importance of maintaining a distinction between regulation on the one hand and management on the other. What makes regulation an art is the fact that while this distinction can be asserted, it is difficult to define precisely. To breach it, though, is to chance impairing what even more than profit has been our business's and I think most businesses' main incentive to progress down through the years, and that is its management sense of its own personal accountability for the balanced conduct of its responsibilities to the interest of its share owners, employees, and customers. Take that away, and with it the right to risk and the obligation to live with one's own decisions and you may well destroy that indefinable factor that makes the difference between an outfit that shapes its own future and one that is content to let the future happen to it. So let regulators regulate and managers manage.

Now I'm not aware that there has been any serious quarrel with this proposition as a theory on either side in the course of our business's experience with regulation. At the same time, though, I am certain that there has never been a time when the distinction between the role of regulation and the role of management has not been in some peril. And I have a very strong feeling that it is in some peril today. Let me cite some examples from my own experience in my own company.

From time to time in the recent past, regulators have second-guessed our financing methods as well as their timing. This despite the fact that as this audience doesn't need to be reminded, it is

one thing to call the signals on Saturday afternoon and quite another to replay the game in the hearing room on Monday morning. More recently, some regulators have sought to prescribe, even impute the financial structure, the balance between debt and equity, that they consider appropriate for our business, again without any anticipation that were their recommendations to prevail, they would be held accountable for the consequence. And even more recently, questions have been raised as to the appropriateness of pricing methods specifically designed to protect the general body of telephone users from costs incurred by a few. Who? Who, I can't help but wonder, is being protected from whom?

But more troubling than these three examples, more troubling because I recognize that the responsibility for its happening was ours, is the fact that some regulatory agencies, happily no more than a handful, have felt it necessary to assume a function that it has been long a point of pride with us to exercise ourselves. And that is the establishment of standards for the quality of service we provide the public. Let me make it clear that we do not deny the right of commissions to impose service standards. Our purpose is to remove the reason for their doing so. When that is accomplished, and I assure you gentlemen it will be, it is my fervent hope that this particular camel's nose will be gracefully and expeditiously withdrawn from under the tent.

This example, I suspect, has some parallels in the experiences of many of the companies represented in this room – businesses that are presumably unregulated, but are nonetheless increasingly being told not only what they can market and what they cannot, but how they will

conduct their marketing activities. If there is a lesson in this particular experience of ours, it is simply this. The best defense against too much regulation, or unduly restrictive regulation is performance and the initiatives that management takes to assure that performance stays ahead of the public's rising expectations.

Thus, no regulatory authority told us to launch Telstar or to invent the transistor. No regulatory authority prompted us to market the Princess telephone, although some of you might wish that they had instead prohibited it. (Laughter) And certainly no regulatory authority compels us to commit the nearly \$500 million a year we apply to research and development in the interest of assuring that whatever communications service the public may require ten years hence or twenty, we will be in a position to provide it. Incidentally, every time I hear the familiar bit of wisdom attributed to Satchel Paige about don't look back, someone may be gaining you, I find myself wondering where he acquired his experience with regulation.

Of more serious concern to me than the prospect of regulatory invasion of the province of management is the remoteness of the regulatory process from the public it is designed to serve. I have recently seen the results of a survey that confirms what many of us had long expected. And that is that the general public, 75% of them, is only dimly aware that the charges for utility company services are regulated in any way by public authority. Of those who do know, few know who does the regulating and fewer still are ready to express much confidence that their interest, presumably as distinguished from those of our share owners are effectively taken into

account in the process. What these findings say to me is that regulation is in trouble. And if regulation is in trouble, so are we, the regulated.

Perhaps this might have been the case a few years back when for a period of perhaps a dozen years, utility rates stood firm while the prices of nearly everything else were going up. Today, however, telephone rates, utility rates generally, are going up somewhat faster than the consumer price index. And we couldn't have chosen a worse time for this to happen – at the very peak of public impatience over rising prices and in the face of determined national policy to halt inflation.

The choice, however, was not ours to make alone. That choice was dictated by an obligation that utilities have no alternative but to meet, in good times and bad, whether prices are going up or down or sideways, to meet public demand where and when it arises. Also that choice was dictated by the regulatory doctrine which holds that prices may not be changed in anticipation of higher costs no matter how inevitable that prospect might be, but only after – in many instances, long after – those costs have actually been experienced and booked. However, the key factor responsible for the continuing pressure on utility rates in a period when other inflationary pressures have begun to ease is the expansion of capacity required to meet public demand and the very large amounts of new capital that it takes to finance that expansion.

Some numbers will give you the dimension of this problem. As the economist, Robert R. Nathan,

told the Price Commission, whereas the output of the utility industries barely exceeds 10% of the GNP, they currently account for more than one-third of the United States annual expenditures for plant and equipment and to finance these expenditures, they account for more than half of the new issues of bonds by all United States corporations, and for more than half of new stock issues. The meaning of these numbers will be plain to this audience. What hopes we in the utility field have that we can raise, on sound terms, these very large sums it will take to meet the future service needs depends...(Audio ends, then continues, no overlap) competitive with alternate investment opportunities in other businesses regulated and unregulated.

The alternative to our doing so is to acquiesce in that irreversible process that begins with inadequate capitalization and the shoddy compromises it requires, and ends in deteriorating performance and the demoralizing appeals for public subsidy that have been the all too familiar history of some once great businesses. I can assure you that down that road I'm not ready to take even the first step.

Perhaps it is faith alone that supports my conviction, but I believe that the public has the capacity to understand and to accept the fact that to serve, we must build. And that to build, we must earn, and earn at levels that warrant the confidence of current investors and the interest of new ones. But that understanding will remain beyond our reach so long as the rising charges utility customers are currently being asked to accept are perceived as a product of a remote and arbitrary process they have no means to influence and in which they feel themselves

inadequately considered.

Sufficiently exacerbated, this feeling of helplessness and the frustrations it engenders could undermine the authority of regulation itself. What is needed is a climate of public opinion that is not dominated by a few individuals or activist groups with their own axes to grind, and that is, therefore, sufficiently objective and sufficiently informed that every rate increase, every rate of return finding above the level of bare subsistence, does not risk being characterized as a betrayal of the public trust and a sellout to the greedy interests. And too often overlooked in the heat of public discussion, accompanying rate proceedings is the fact that those so-called greedy interests, “the company,” are in reality millions of small investors.

Surely in the interest of an informed public, we cannot leave unchallenged the doctrine that all too many of these consumer activists or public defenders knowingly or unknowingly pervade. And that is that somehow there is an inevitable and irreconcilable conflict between the interest of customers and the interest of share owners. Somehow we must gain a better understanding of the relationship between product and profit – not only on the part of regulators and judges, but on the part of those who sooner or later will come to judge the judges – and I mean the public as a whole.

In the telephone business, we’ve been traditional disinclined to try our rate cases in the press to avoid any action that could be construed as designed to influence the regulatory process on any

other basis than the merits of the issue at hand. At the same time, we would do regulators a disservice as well as ourselves were we to neglect to inform the public of its stake in these matters. In short, we must look to our public relations and so must the regulators. For only with public understanding of the issues and public confidence in the process by which the issues are resolved can regulation in any form gain the public consent that objective determination of the public interest requires.

Today regulatory agencies comprise the fourth branch of government, one that wields vast influence over most of American industry and a wide range of vital public concerns, and yet for most Americans, the functions of these agencies are a mystery wrapped in an enigma.

Regulators, I'm sure, would infinitely prefer to have it otherwise. And in point of fact, regulatory proceedings in this country are as open as any other aspect of our government. If there is a conspiracy that shields the regulatory process from public view, it is not a conspiracy of secrecy; rather does it seem to me a conspiracy of complexity.

To cite just one example, the FCC proceedings directed to determining an appropriate earnings level for the Bell Company's interstate services has in the course of the 24 months since it was initiated accumulated some 153 exhibits and 5,621 pages of transcript of oral testimony by witnesses, expert and otherwise. I fall in that latter category I might add. (Laughter) And that's just Phase I. It is a small wonder then that such coverage as the press devotes to regulation of our business is sporadic and, therefore with some rare exceptions, superficial. It's a real question

whether a reporter who wanders into the midst of a cross-examination of an economist on rate-making principles and the relevance thereto of long-range incremental cost, will be overcome first by confusion or by sheer boredom. In any case, it's a pretty safe bet, and experience proves it, that as soon as decency permits, he'll make a fast dash for the nearest exit.

What is most troubling about all this, the complexity of the issues confronting the regulatory establishment and the obscurity of the process by which those issues are resolved, is that decisions are made that are declared to be in the public interest without the benefit of that useful discipline that would be brought to bear were there any, in fact, public to raise the question. Is it? Is it really in my interest?

In the field of telecommunications, for example, crucial policy issues are currently being resolved by regulatory decisions that, should the trends they set afoot continue, may fundamentally alter the structure of the industry as a whole and the cost of its services. It is the public that will bear the consequences of these decisions, and it is the public who will pay the price. And yet the public, I am sure, is largely unaware of the implications of those decisions or even for that matter that they have been rendered.

What I am sure you will learn, to your infinite relief by the way, is that for this one evening at any rate I'm not going to try to get into the detail of those decisions or to debate their merits. Suffice it to say that common to these decisions is the question of the degree to which

competition should obtain in an industry that from the earliest years of this century has been guided by a concept that has provided this country with a mostly highly developed communication system in the world. And I mean the concept of universal, a universal system designed and configured to operate as a single integrated entity, its services available on equal terms to all users wherever they are, whoever they might be.

Now I will admit to you that my own instinctive response to emerging competition in our business matches that of our first president, Theodore N. Vail, who back in the days of the brass knuckle competition our business experienced in the early 1900s, declared in a statement that we would now call Churchillian, "we have established and organized the business and we do not propose to see it taken from us." Nor do we today. (Applause) Nor do we today. I have made it plain that if there is to be competition, the Bell System is going to be a tough competitor.

But competition or otherwise, the basic question is what is the effect on the general users of communication services? I recognize that changed times call for changed conditions.

Nonetheless, I know of no law that, although we may conform to final regulatory decision, requires us to pretend that we agree with it. I know of no law that compels us to keep silent in the face of propositions that on the basis of the most objective judgment we can apply to them would adversely affect the services we provide to the public or add to their cost.

Accordingly, my colleagues and I have been using every appropriate occasion, and some that

probably weren't, to raise questions as to whether the public interest construed as we must construe it, as the widest availability of high-quality communications at the lowest overall cost to all its users, can help but be impaired in some measure by the duplication of facilities, the dilution of economies of scale, and the division of responsibility that will inevitably ensue if we go too far down this road. In short, is it in the public interest? Is it really?

Among the models of the telecommunications industry that are now being forwarded are some that call for a degree of fragmentation, that were it to be implemented, would make the industry technically and administratively unmanageable. What is ironic about these proposals is that they come at a time when the Bell System itself is being offered as a paradigm of the kind of functional integration, the systematic organization of resources that some observers feel is needed to quicken the pace of innovation and improve efficiency in the performance of a number of society's basic chores – housing, transportation, even the supply of clothing.

Well, I'm not prepared to argue the merits of these proposals tonight. What I do suggest is that we are moving into an era of re-examination of the shape of our private and public institutions, not excluding a re-examination of the question of which of society's functions should be served by private institutions and which by public, which by modes of competition, and which by modes of cooperation? There's always a degree of mismatch, a lag if you will, between our institutional structure and society's needs. Closing that gap intelligence requires, it seems to me, that we be ready to challenge cherished assumptions including some that are deeply embedded in

our own rhetoric.

For example, I've found myself applauding that recent correspondence to the editor of *The New York Times*, who in the course of commenting on the antitrust suit against IBM, observed that "18th century theories of atomistic competition have about as much relevance to current economics as Ptolemy's Music of the Spheres has to modern astronomy." Do we not need, before we get to the 21st century, to reexamine those 18th century theories and the 19th century laws in which they have embodied, in the light of their accuracy as a rational prescription for our own times?

I do not want to be misunderstood. I did not come to this high altar of free enterprise to knock competition. As a matter of fact, I considered for a while that I might entitle this talk, "Two Cheers for Competition." (Laughter) Seriously, to convey my own conviction that while competition remains the best way to get most of society's work done efficiently, it only makes sense to recognize that there are some fields in which it works well and some where it doesn't, and where it is appropriate for regulation to serve in its stead. And surely, when a company has proved itself successful in the competitive arena, it doesn't make any sense to me to penalize that company and its investors because of its success.

What I did come to tell you, and what I hope will have some application to your own concerns, is that in the debate over the shape of our business tomorrow, we do not intend that our own voice

will go unheard. In short, although our lawyers may occasionally advise us to the contrary because that's the way lawyers are you know, my company does not propose to limit the presentations of its views on matters that have a crucial bearing on our ability to do our job to the hearing rooms of regulatory agencies. We intend to speak out plainly and publicly on these matters.

I'm not recommending that we seek a plebiscite on every issue confronting business, nor do I claim that business is the sole repository of the public interest. However, it does seem to me that by working to broaden the community of rational discussion, we can set up barriers to simplistic or doctrinaire solutions and thereby improve the prospects that what does emerge from the regulatory process will, in fact, be in the public interest. We can raise questions. I hesitate to venture comment beyond the business I know best, but I confess that as both businessman and citizen it has occurred to me to wonder, for example, whether it is really in the public interest to permit our newly tender regard for the environment and for environmentalists to sentence this city to summer after summer of power crises for lack of a sensible decision on a proper site, short of Labrador, (Laughter) for urgently needed generating facilities. (Applause) We've had an offer from Taiwan tonight. (Laughter and Applause)

On my travels it has occurred to me to wonder too whether the public interest is really served by the proliferation of competition along our railways and the resulting empty seats for which, whether he realizes it or not, the customer will sooner or later have to pay. And is it really in the

public interest to put so low a ceiling on the price of a vital fuel that the incentive to supply it disappears, and so does the fuel. In this instance, I gather there have been some second thoughts as to whether the consumer's interest and the investor's interest are quite so diametrically opposed as they had apparently been first considered.

And does it really make sense to demand that our pulp and paper mills equip themselves to remove 99.5% of the dust they produced as against say 97% when removing that last 2.5% calls for twice as much power and costs the consumer 35% more? Would the general public really feel it is in their interest for the government to embark on a stringent system of automotive emission controls if they knew that it will cost them some \$5 billion a year more than the benefits they are purported to receive from them? And this, by the way, by the reckoning of a committee report prepared for the federal government's own Office of Science and Technology, in the same committee's words, "The regulation of automobiles is not a game in which higher costs are imposed on the industry. It is the public that must bear these costs." How willingly, by the way? You may judge from the evidence of a recent survey that reports that the public, while it places a high priority on clean air as a national objective, is predominantly opposed to paying higher prices for anti-pollution devices on cars or accepting higher taxes on leaded gasoline, or barring cars that have been on the road for more than five years.

Which brings me to my message for this evening; I can state it in two words. Speak out. Join us, and speak out, for unless we do, business will hardly be in a position to decry the consequences

or to complain that its motives are misunderstood and its opportunities curtailed. If, as the public opinion experts remind us, the repute of business in the public's mind is lower now than it has been in a generation, it is in my opinion not so much because the public believes that what we've said is wrong, rather it is because the public is very largely unaware that we have had very much to say that has a bearing on his interest.

Well, I, for one, am not ready to accept the view that businessmen, because they have interests of their own, are any less qualified than poets, parsons, or professors, to speak to the public interest as well. (Applause) In all times and all lands, that AT&T president, Theodore N. Vail, wrote back in 1911, public opinion has had control at the last word. Public opinion is based on information and belief. If it is wrong, he said, it is wrong because of wrong information and consequently erroneous belief. It is not only the right but the obligation of all individuals and organizations who come before the public to see that the public have full and correct information.

If ever there was a need for full and correct information, it is now in this time of urgent debate over society's newly emerging priorities – the elimination of poverty, the preservation of our natural resources, and the enhancement of the quality of our national life. In this debate, for lack of full and correct information, business risk being cast as the villain. That by joining this debate we shall emerge as heroes – I'm not ready to predict that. What I do believe, however, is that businessmen are uniquely qualified to contribute to society's search for the right answers.

Schooled in the necessity to make hard choices, to balance opportunities against the resources available to achieve them, businessmen can help bring to the fore those questions it is the public's all too human tendency to defer. And that until they are answered will leave us uncertain as to what our priorities really ought to be.

In brief, what tradeoffs of private convenience for public good, of present consumption for future use, of higher cost for uncertain social benefits is the public, or rather the people who comprise it, actually ready to make when the oratory dies down and the final vote is taken? It is on our readiness to address ourselves to the facts behind these hard questions and not on simplistic assertions of the virtue of the free enterprise system that such claim as business has to a place of leadership in our society will in the final analysis depend. What lends substance to my hope that what I have been saying may have some relevance beyond what we call the regulated sector is the prospect that to all present appearances, the future will be and must be a more disciplined time than any we have experienced in the past.

Certainly I'm not the first speaker from this rostrum to predict that the years ahead will be years of testing for all of our institutions. What we call our way of life will hang in the balance and our freedom depends on the degree to which we can meet the future stern necessities without impairing the incentives to enterprise that have given this nation its unique vitality. Whether what needs to be done will, in fact, be done will depend on public confidence in the processes and the people who define the public interest.

Finally, only if all of us are ready to speak up for what we believe and to test what we believe against the convictions of others can we assure ourselves that what is declared to be in the public interest truly is in the public interest. Only thus can we assure a future that belongs to all of us and to which all of us belong. And only thus can we avoid that same sad fate of our friend, the parrot. Thanks very much. (Applause)

QUESTION AND ANSWER PERIOD

CHAIRMAN GEORGE R. VILA: Well, John, I think it's abundantly clear that you have, in a most masterful and provocative way, hit the nail on the head on a subject that's bothering every man in this audience tonight – this dull thud, and the sting, this impertinence of regulation. We'll now turn to the questions and we will adjourn promptly at 10:00. And first we'll hear from Mr. Menzies who will address the first question to Ambassador Shen.

QUESTIONER: Mr. Ambassador, you made the comment earlier that Taiwan depends very heavily on foreign investment. Now I listened to the figures that you put through tonight and it seems that after two strong years, this year's investment may be down a little bit, even including Ford. Do you feel that this represents the overseas investment community's concern about the events that have affected Taiwan in the last couple of years? And do you expect it to be a continuing concern?

AMBASSADOR JAMES C.H. SHEN: Yes, we have reasons to believe the present trend will continue. Money is one of the most sensitive things in the world. At the slightest indication of insecurity and it flees the country. Much of the investment that has been made in my country has stayed with us, and in addition fresh capital has been coming in. And after a lapse of a year's time, since October last year, there has been no slacking in the inflow of foreign capital. Apparently, people who have money to invest have found Taiwan, not only an attractive place, but also a safe place to put their money. And so long as we, I mean the government, steers its course of action in enlightened self-interest, at the same time assuring the investors a reasonable return on it, we expect the present trend to continue into the foreseeable future. (Applause)

QUESTIONER: Well, the trend of last year was down a little. Do you expect that, do you think that's just an unusual state, or do you expect it to be down a little from the last couple of years?

AMBASSADOR JAMES C.H. SHEN: Last year, to again to return to that climatic episode, the Japanese investors stood still for a while. They were wondering what happened. But at the same time, Western Europeans didn't wait and see. I mentioned in my talk this integrated steel mill project involving \$66 million. I think there's some Austrian money in it, some German, some Italian, and some Belgium money in it. That investment was made. The project was concluded, an agreement concluded, after we had gotten out of the UN, not before.

QUESTIONER: One of the, to spread it a little wider, one thing that interests me is are you finding that countries like South Korea and Singapore are becoming more competitive to you as the Taiwanese standard of living starts to rise?

AMBASSADOR JAMES C.H. SHEN: Yes, we expect that. In fact, we helped the Koreans, South Koreans setting up some of the industries which have proved to be quite competitive with us. But economic development, especially industrialization is something that cannot stand pat; it has to keep on moving forward. We have picked up quite a bit after the Japanese in the early days of our program. And it only stands to reason that the South Koreans and Singaporeans should pick up after us a little bit in due course, as we too move on to more and more sophisticated skill-intensive projects of various kinds. Wage will increase in Taiwan as in other countries, developing countries, but at such an acceptable pace as to give us that much leeway to be competitive in world markets. As I mentioned, our wage scale is lower by about one-third than Hong Kong and more than half than Japan. That is the industrial advantage; we have kept the lights on. But we cannot really expect to go on taking advantage of that indefinitely because we too want to move on to more sophisticated development projects. (Applause)

QUESTIONER: I rise to ask to John deButts a question. John, this is your parrot speaking. I heard you talk about the extent of competition that you're confronted with, and I would like to pose a question for my enlightenment and perhaps for many others in the room about the extent to which AT&T now has competition and to the extent to which it has been either increasing or

diminishing in recent times?

JOHN D. DE BUTTS: We have competition in two areas. I'm leaving out the competition we have for the investors' dollars by the way. In our business we have competition in the private line field which comes about through large companies who buy and erect their own communication systems. And we have competition through the newly arising specialized common carriers that started with the first one out between Chicago and St. Louis and is now purported to be expanding all over the United States. They have been, if I recall that one time was a request for some 1,800 microwave sites before the FCC for this purpose. Quite of few of them have been approved. They are all on what we call heavy routes, that is between our largest cities, and they are charging prices that are considerably below what we charge because we use nationwide averaging rather than basing it on the cost of the individual route. We have not lost very much of this so far. I think the total number of customers they have today is something like 65 voice circuits they've sold. However, it is very obvious that they are going to expand. It is very obvious that they are going to be competing with us for this private line business. And it is very obvious that we are going to compete back. As we have announced, we are now studying the possibility of getting away from nationwide averaging and going to a two-step tariff which would charge less for the heavy routes and more for the light routes. We have not yet filed that tariff however. The other area where we have competition is in the field, almost entirely, of business, of private branch exchanges and so-called key systems, two or more lines. Companies are buying these from outside manufacturers, installing them, and that also includes the

telephones behind the private branch exchange. The number of them installed is significant. The percentage of cases that we have lost, and the percentage of those installed to the total installed throughout the Bell System is approximately one percent. We are winning the competition in most instances where we are competing. And I have to be a little critical of my own organizations, sometimes we don't compete the way we can. But the competition is significant, and the degree to which it grows will run us down the road that I was speaking about in my talk.

QUESTIONER: You also made a strong pitch for speaking out which I certainly, as one, subscribe to thoroughly. But in doing so, you didn't make any allusion to the organizations which attempt to speak for businessmen and have businessmen speak for the organizations. I happen to be deeply involved in one or two of them. And I find an all too often lacking desire for business leaders, here in New York City at least, who involve themselves with organizations that will speak out and where they can have a forum to speak out. I just wondered if you had any particular view about the extent to which, in speaking out, we can use the organizations that exist or new ones that may have to be formed.

JOHN D. DE BUTTS: I think we can use both, John, but I think you put your finger on the problem involved. There are a great number of very fine organizations in this country that can speak out and have spoken out. However, their problem is that their membership is so diversified it is difficult for them to get a common voice that is acceptable to all of the membership. And therefore, what I am urging is that we, who know the facts and the particular problems that are

being discussed at the time, do the speaking out ourselves.

QUESTIONER: Yes, I think the next question I would like to ask John is one that I'm sure many of us have been very interested in. What new breakthroughs, what next breakthrough do you see in the communications field in this country?

JOHN D. DE BUTTS: Well, if Dr. Fisk of the Bell Labs were here, I might get him to answer that question. Actually if you're talking about a transistor, if you're talking about a Telstar, I don't see any of those in the immediate making. There have been announcements made about magnetic bubbles which looks like it has great possibilities in the area of the memory of our electronic switching offices or in the computer business. There are such things as the laser for the transmission of voices or any other data for that matter. There is also the waveguide which we are now putting into operation on a trial basis in which we can put a quarter of a million voice circuits through a pipe about 2 ½ inches in diameter and where we already know how to put a half a million through that same pipe just by changing the repeaters set up on it. This is in the future and, of course, will cut circuit mile cost of transmission facilities down considerably under \$1 per mile. So these, they're significant from the standpoint of better service at lower cost. They are not significant from the standpoint of a real breakthrough, if you will, in technology. Most of the things that we have coming up today and tomorrow are in this area of how can we improve the quality and cut the cost. (Applause)

QUESTIONER: Mr. Ambassador, you stressed the importance also of trade with Taiwan. There have been certain moves around the world at the moment, sort of protectionism in the United States, represented by the Burke-Hartke Bill, the movement of Britain into the Common Market, and certain concern about imports of the type of thing that Taiwan is exporting like electronic goods, agriculture in the case of Japan. Do you see a movement in the world that's liable to endanger Taiwan's goal of doubling its exports in four years?

AMBASSADOR JAMES C.H. SHEN: Oh, yes, if most of the trading countries should resort to highly protective measures, naturally the world market as such will shrink. And we, although have a very, very small piece in the pie, will feel the effect just the same. But we do hope that this isn't going to happen.

QUESTIONER: Well, on the, the other part of this is you were talking about your concern about concentration with the United States and Japan as your major trade partners, regardless of what may come out of your future with the Japanese in trade, you presumably wouldn't want to be too involved, more involved with the U.S. Are you looking to non-industrialized countries, to trade more with, say South American countries?

AMBASSADOR JAMES C.H. SHEN: You know for very obvious reasons you want to trade with people who have purchasing power. (Laughter) Because there are a lot of people elsewhere still undergoing the process of development, and I think most of them are more concerned with

filling their stomachs and having enough clothing on their back, probably may not be able to buy substantial part of what we hope to produce in years to come. We know where real money is – I mean profit is. And naturally, like everybody else, we would like to go there. We do trade a little bit with countries, other than this country – Japan and EEC member countries – but the percentage that constitutes is rather small, and I expect this will remain the case for the foreseeable future.

QUESTIONER: One of the other things going on in world trade at the moment is the softening, if you will, of the climate between East and West. It seems to be there's more desire to trade with the United States, Soviet Union, and even with the Communist Chinese. Does the Taiwanese government have a policy in which you would never trade with a Communist nation?

AMBASSADOR JAMES C.H. SHEN: It is our policy not to trade with the Communist countries. And I expect this policy to stay.

QUESTIONER: I address this question to Mr. deButts. We, I guess as you said before in your speech, are all, if not old businesses being regulated, new to it. And I think one of the things that we've had to be regulated in or been subjected to is the Equal Opportunity Act of '69, I think it was. And would you share with us the problems that your company has been faced with in that field?

JOHN D. DE BUTTS: You know Duane Eckerman suggested that we limit our replies to ten words. I could answer that with one very famous word that was used by an American general when he was asked to surrender. (Laughter and Applause) But I won't. We feel frankly that the Bell System has been a leader in the whole area of providing opportunities for employment and opportunities for advancement to members of minority groups as well as to members of the female sex. We were quite surprised when the charges were filed against us by the EEOC and quite surprised at the vehemence with which they were filed. The hearings are now underway in Washington before the Federal Communications Commission. I don't know how they're coming out. I will say this; we think we have a very good story to tell. We are not at all satisfied with the progress that we have made to date, although we are proud of the progress that we have made. And we have very definite affirmative action programs for employment and advancement and transfer of members of these groups within the Bell System business and we are measuring the quality of the management of our people on the basis of their results in that area as well as in the other areas of our business. So I am not concerned about the long-term impact on the business because we already have it. (Applause)

QUESTIONER: John, this is the last question I understand that we have time for. But those of us who are very aware of the telephone company's actions and plans and so forth have been hearing about the charge for an Information call, calling Information, and \$.20 to go into the phone booth. John, is this for real?

JOHN D. DE BUTTS: Down south where I come from they have a reply that says, yeah, man.

QUESTIONER: But they still have a \$.05 telephone call down there.

JOHN D. DE BUTTS: Only in the state of Louisiana, and we have hopes there. In all seriousness, the charge for Directory Assistance Service is a positive effort on our part to protect the general user from the abuses of a few customers. Information Service was originally designed to provide the customer with a source of information to get numbers that were not listed in the telephone book. There are lots of us who don't use the telephone book and we recognize this. But the cost for providing information service is embedded in the regular monthly charge for telephone service in the residence customer, and the business, and everybody else. This volume of business is growing at the rate of over 20% a year. We know from our own studies that about 10% of the customers are using well over 50% of it, and the percentage goes way up. Now, our feeling is this. We do not expect the average customer to have to pay for the calls to Directory Assistance that he needs in order to get a number not listed in the book. We do not expect blind people to have to pay to call Information Service. We do not expect any handicapped people to do so. Our proposal is that we will provide an allowance that according to our studies, and it will be changed as further experience is gained, will allow the average customer to call Information Service, or Directory Assistance as we now call it, as many times as is necessary for him to do it to meet his communication requirements without ever having to pay a penny. As a matter of fact, he gets a little gain because in a message rate area like New York if

he doesn't use for that, he can use it for making other calls. On the other hand, those people who are misusing the service, using it for credit checking, Christmas card addresses, and all the rest of the things that they can dream up, would either pay for it or stop making the calls and that would allow us to save both capital dollars and expense dollars. We are trying to protect the little guy with this. (Applause)

CHAIRMAN GEORGE R. VILA: I'm sure we're all satisfied that the questions were not pre-answered. Thank you again, Mr. Ambassador, and Mr. deButts for a most inspiring and entertaining and informative evening. The meeting is now adjourned. We look forward to seeing you in January.