

Part of this seems due to a distinctly "New York Centric" viewpoint. For example, when he states that the Hispanics making up the underclass are "primarily" Puerto Ricans, he displays a rather shallow knowledge of conditions in the other 49 states, especially California. And when Magnet says that "no one seems to have much good to say about the standard-issue eighties and nineties middle class youth," one gets the impression that he doesn't get out of New York much.

Finally, Magnet tends to ignore or downgrade important evidence that supports competing (i.e., economic) theories of underclass formation. Two of the three examples he puts forward as showing the primacy of culture in "The Hole in the Theory" (of Eugene Lang's offer of college scholarships to all students in an inner-city class who graduated from high school and of Kimi Gray's transformation of the Kenilworth public housing project) could easily be argued just as successfully from an "economic primacy" standpoint. Despite an otherwise excellent analysis of homelessness, he ignores William Tucker's landmark studies of the strong link between homelessness and rent control policies—a lapse that is especially puzzling since Tucker's work was partially underwritten by the Manhattan Institute.

As far as offering solutions to the underclass problem, Magnet's general ideas for restoring personal responsibility and individual rights are good, but what few specifics he offers are woefully misguided. His suggestion for creating government-run "group shelters" in the place of current welfare programs ignores the law of unintended consequences and the mischief that government is able to work with just about any social program. Likewise, his argument for "Head Start"-type programs for preschoolers in the same paragraph ignores the mounting evidence that these have little or no long-term effect.

Still, despite all the foregoing, *The Dream and the Nightmare* is a much better book than this list of flaws would lead you to believe. Though Magnet's reach has defi-

nately exceeded his grasp, his book's virtues are great, its sins, more of omission than intent, relatively small. While his diagnoses of the causes and cures of underclass pathology are unconvincing, his description of the disease itself is valuable for its depth and accuracy. Though it doesn't replace *Losing Ground*, it does provide an extra dimension to the welfare debate, and functions as a handy source book for how that debate has developed over the last decade. □

Mr. Person is former editor of Citizens Agenda. His work has appeared in National Review, Reason, and other magazines.

Telecompetition: The Free Market Road to the Information Highway

by Lawrence Gasman

Cato Institute, Washington, D.C. • 1994 • 177 pages • \$12.95 paperback

Reviewed by Raymond J. Keating

Technological change has pushed the telecommunications-information industry into a dramatic and exciting phase of development. Information has always been a most valuable commodity, and now the means of storing, moving, and manipulating it are advancing rapidly while costs plummet.

In turn, such developments are altering the world economy. The globe is shrinking as international competition intensifies. Rather than ensuring the ascendance of large multinational corporations or enhancement of government controls, as many have feared, the revolution in telecommunications and computers has empowered individuals and increased the mobility of capital. Both economic competition and the ability of labor and capital to avoid, for example, severe taxation and regulation are enhanced.

Ironically, however, just as technological developments are strengthening the power and productivity of the individual, the ques-

tion dominating current public policy debate is the extent of state's role in the telecommunications market. Should we be centrally planning a government-led telecommunications industrial policy, or turning to a competition-based, market-driven telecommunications industry? Persuasively weighing in on the side of deregulation and freer markets is Lawrence Gasman with his book *Telecompetition*.

Gasman makes a compelling case for how the convergence of industries and enhanced competition not only support, but necessitate the deregulation of telecommunications. Of course, deregulation also is called for due to the plodding nature of government, which remains a severe roadblock to expanding the reach of new technologies. In fact, Gasman declares: "The general ignorance of technological developments displayed by those who regulate the telecommunications industry is appalling. It also indicates why one cannot expect too much from the government when it comes to a successful industrial policy for the telecommunications industry." Another reason for low expectations is governmental ignorance of how markets work.

Telecommunications advancements are blurring the lines drawn by regulators who try to neatly separate industries. The author notes the fluid nature of information format and storage: "Once it is digitized, voice, video, text, and data are all much the same. . . . [N]ew forms of multimedia communications are emerging in which text, voice, and image communications are combined in a single interactive, user-friendly format." Gasman continues: "It is this fluidity of information formats that constitutes convergence. Convergence has resulted from both the recognition that all information can be converted into the same binary digital form and the development of microelectronics that makes such a conversion possible while providing the means for conveniently and economically manipulating digital information. Convergence is not only central to the Information Age, it affects every level of information technology—hardware, software, and services."

Gasman masterfully illustrates how convergence seriously undermines the government's rationale for extensive telecommunications regulation. For example, he argues that in light of alternative-access carriers and local wireless communications, it is becoming increasingly difficult to legitimately refer to a "local telephone monopoly." In this era, in fact, the source of any true monopoly power emanates from the government. Gasman observes the detrimental effects of an exclusive government franchise: "The existence of communications monopolies slows the introduction of new and innovative services by the industry. The cable-telco dispute is just one example of how government-created monopolies and misguided antitrust action can delay new services."

The author predicts that absent government interference, for example, "an eclectic industry structure for local video distribution might well grow up, designed to fit the needs of local markets. In some areas, telephone companies would supply both the video programming and the channels through which that programming is carried. In others, cable companies would supply programming through the telephone-company networks. . . . In a few areas we might see cable companies upgrade their own networks with switching gear to enable them to offer the kinds of advanced voice and video services that seem today to be the sole province of telephone companies."

Gasman argues for allowing local telephone companies to enter any local, regional, national, or international business they choose—"inside or outside the telecommunications field." Likewise, "any company financially and technically capable of offering local telephone service should be free to do so."

Gasman also makes a compelling case for a pure property-rights system regarding the broadcast spectrum, rather than the current government allocation and temporary licensing system. In lieu of suffering through government delays and politicization, "if spectrum allocation were left to market forces, the providers of new services would

bid directly for the spectrum owned by existing users." Gasman draws a straightforward analogy: "Just as landowners are given title to a particular piece of real estate, spectrum owners would receive a title, allowing them to transmit at certain frequencies with specified powers from given locations. And just as landowners can buy and sell properties, spectrum owners would be allowed to buy and sell their transmission rights. The result would no doubt be speedier deployment of new services responding to consumer rather than government interests." Again, the plodding hand of government must be replaced by the dynamics of the marketplace.

Proponents of a government information infrastructure also are refuted in *Telecompetition*. Instead of taking the telecommunications infrastructure on another trip down the misdirected path of industrial policy, Gasman sagaciously concludes: "Eventually private initiative will undoubtedly produce a network offering all the broadcast services infrastructuralists are so eager to produce with taxpayers' dollars. The difference is that private companies will be certain to produce services businesses and consumers want to buy."

As the author notes, much of telecommu-

nications regulation springs from the economist's use of the perfect competition model. A perfectly competitive market where all companies are price takers and offer homogeneous products is an economic fairy tale. Unfortunately, it also can be turned into economic nightmare when wielded by government officials who seek to regulate when a market fails the perfect competition test. To the contrary, a dynamic, entrepreneurial economy will be flush with temporary monopolies—a result of creation, innovation, and competition. This should nowhere be more evident than in the telecommunications industry. If government establishes and protects property rights, and then largely gets out of the way, as Lawrence Gasman suggests, consumers and the economy will reap great rewards.

Telecompetition is a highly readable primer on the often complex subject of telecommunications public policy. One can only hope that such market-oriented writers as Gasman, along with George Gilder and Peter Huber, prevail in the government-vs.-the-market struggle in telecommunications. □

Mr. Keating is Director of New York Citizens for a Sound Economy.

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