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June 27, 1996

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Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M. Street, N.W. Room 222
Washington, D.C. 20554

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JUN 27 1996
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Re: CC Docket 94-1

Dear Mr. Caton:

The purpose of this letter is to inform the Commission and interested parties that AT&T is responding to a USTA data request, pursuant to paragraph 15 of the Fourth Further Notice in the above referenced proceeding.

Two copies of this Notice and attachment are being submitted to the Secretary of the FCC in accordance with Section 1.1206(a)(1) of the Commission's rules.

Sincerely,

Brian W Masterson

Attachment

cc: Anthony Bush
Les Selzer

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Brian W. Masterson
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June 27, 1996

Mr. Charles Cosson
USTA
1401 H Street Suit 600
Washington, D.C. 20005

Dear Charles:

The following answers are being provided in response to your questions of April 26, 1996. I apologize for the delay in responding, but the time since your request has been particularly busy for Dr. Norsworthy and AT&T, as it was I assume for you with the many proceedings in progress relating the implementation of the Telecommunication Act of 1996. In several instances the information you have requested has been previously supplied and is on the public record. In those cases where this true we have indicated so.

Item #1

All information requested in the first two paragraphs of Item # 1 has been previously provided to the Commission in AT&T's March 1, 1996 reply comments in this docket.

First Bullet

The Bureau of Labor Statistics regularly produces TFP, output prices, input prices, and quantities for two sectors: private business and non-farm business. Both sectors exclude state and local government output from their respective measures of GDP. The reason for this is straightforward: The valuation of output for governments is not determined by market transaction, and real output for government is measured by labor input. This practice biases the growth rate toward zero. The nonfarm business sector is preferable to private business sector as a benchmark because the former includes the volatile farm sector, which is relatively small but adds considerably to the variability of output.

Second Bullet

In their Review of Income and Wealth(RIW, 1969,1970) papers, Christensen and Jorgenson adjust the quantity of capital input used in their measurement of TFP for capacity utilization(Christensen and Jorgensen, 1970 p 35). Christensen refers to those work papers repeatedly in filings with the FCC.¹ The application of a capacity utilization adjustment in a model based on the long run equilibrium assumption, such as the Simplified Christensen Model (SCM), would be inconsistent with the theoretical basis of that model. In a March 8, 1996 telephone conversation with you and I and Drs.'. Norswothy and Christensen, Dr. Christensen stated that the study reported in the RIW papers made no adjustment for capacity utilization. This appears to be inconsistent with the manner in which the results were explained in the earlier RIW papers. Numerous filings in the Docket 94-1 proceeding refer to the RIW papers for explanation of the capital input measurement methodology in both the earlier USTA/Christensen model and the currently advocated SCM. Furthermore the discussion of the input price differential depends upon measures of private sector TFP that Christensen asserts employ the methods documented in the RIW papers.

The 1986 Christensen-Jorgensen "study" updating the TFP methodology provided by USTA as a result of our March 8, 1996 telephone conversation is inadequately commented internally and totally without external comment. As such it provided no insight into the dilemma of whether or not an adjustment for capacity utilization was indeed omitted from the SCM methodology and we therefore could only rely on the RIW papers where Christensen/Jorgensen documented that a capacity utilization adjustment was made. Our statement concerning Christensen/Jorgensen altering the procedure for calculating aggregate input price growth stems from the inability to accurately reproduce the SCM results from the publicly available data sources and the inconsistent explanations of the data.²

¹ Service prices for components of capital input in the 1969-1970 Christensen-Jorgenson papers in the RIW were computed from capital input quantity series adjusted for capacity utilization by a horsepower factor, as anticipated in Jorgensen and Griliches(1967). The adjustment has been omitted in Jorgensen's subsequent work, e.g., Jorgensen, Gallop, and Fraumeni(1987);Jorgensen and Yun(1991);Jorgensen in Jorgensen and Landau, eds., (1993)

² AT&T's comments do not reflect upon the work of Dr. Jorgensen, which has always been well documented. Our issue concerns Christiansen Associates undocumented methodology.

Item #2

AT&T supplied all materials requested by USTA to the Commission as part of its March 15, 1996 ex parte filing.

Item #3

AT&T supplied all materials requested by USTA to the Commission as part of its March 29, 1996 ex parte filing.

References

Christensen, L. R. and Jorgenson, Dale W. (1969) "The Measurement of U.S. Real Capital Input, 1929-1967". Review of Income and Wealth. v. 15 December. pp. 293-320.

Christensen, L. R. and Jorgenson, Dale W. (1970) "The Measurement of U.S. Real Product and Real Factor Input, 1929-1967". Review of Income and Wealth. v. 16 March. pp. 19-50.

Jorgenson, D.W. and Griliches, Z. (1967) "The Explanation of Productivity Change," Review of Economic Studies v.34, pp. 249-283.

Jorgenson, Dale W. (1993) Introduction and Summary. In: Jorgenson, Dale W. and Landau, Ralph, Editors. Tax Reform and the Cost of Capital. The Brookings Institution.

Jorgenson, Dale W.; Gollop, Frank, and Fraumeni, Barbara W. (1987) Productivity and U.S. Economic Growth. Harvard University Press.

Jorgenson, Dale W. and Yun, Kun-Young (1991) Tax Reform and the Cost of Capital. New York: Oxford University Press.

Norsworthy, John R. (1984) "Growth Accounting and Productivity Measurement" Review of Income and Wealth. v. 30. December. pp. 309-329.

AT&T sincerely appreciates the cooperative relationship for exchanging information that we have been able to establish with USTA in this proceeding. I apologize again for the delay in responding to your request but given the previous commitments of our consultants and the myriad of issues related to the Telecommunications Act of 1996 I hope you that will understand and that we can maintain our cooperative relationship.

Sincerely,

A handwritten signature in cursive script that reads "Brian W. Masterson".

Brian W. Masterson

cc: Anthony Bush
Les Selzer