

# Telecommunication Basic Research: An Uncertain Future for the Bell Legacy

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## ABSTRACT

The Bell Labs of decades ago was well recognized as a national treasure for its pioneering innovations and its creation of new knowledge. However, the breakup of the Bell System that occurred in 1984 resulted in considerable change for research and development in telecommunication. This paper reviews that history and, in anticipation of continuing uncertainty and a possible impending crisis, examines possible options for the future to assure leadership by the United States in basic research in telecommunication.

## BACKGROUND

A hundred years ago, the radio spectrum and telecommunication was developed by a number of pioneering inventors and businesses. Some of these pioneers include: Thomas Alva Edison, David Sarnoff, Nikola Tesla, Guglielmo Marconi, Samuel Finley Breese Morse, Lee de Forest (triode vacuum tube), Claude E. Shannon (information theory), Alexander Graham Bell, Allen DuMont, Philo T. Farnsworth (TV camera), Vladimir Kosma Zworykin (electronic television), Michael Pupin (loading coil), and Edwin Howard Armstrong (FM radio).

The businesses founded by these pioneers created their own corporate research laboratories to continue the tradition of invention. Some of these laboratories still exist today as Bell Labs (Lucent Technologies), AT&T Labs, Sarnoff Laboratories (formerly RCA Labs), and Telcordia (formerly Bellcore). In addition, the IBM Labs and the Xerox Palo Alto Research Center have contributed greatly to innovations in computers and information processing, fields closely related to telecommunications.

Basic research benefits society as a whole and has such a long-term horizon that commercial exploitation might not be initially possible by the supporter. For example, the friendly computer interface invented at the Xerox Palo Alto Research Center (PARC) was adapted by Apple—not Xerox. In fact, “...Xerox, having invented the technology underlying present-day personal computing, committed the monumental blunder of letting it slip through its fingers.”<sup>1</sup> The transistor was invented by Bell Labs, but was first used in transistor radios manufactured by Sony. It is the fundamental nature of basic research that its results can not be owned by anyone. The results leak out and become shared with industry and society as a whole.

There are many reasons a company supports its own basic research laboratory. The prestige of the basic research laboratory facilities the recruitment of the very best engineers and technicians for development and other applied research work. Nobel prizes, research awards, patents, and published papers enhance the image and public awareness of the sponsoring company. The basic researchers as noted experts in their respective fields are available as in-house consultants to other divisions of the company.

Bell Labs of the past was a great research institution. When the Bell breakup of 1984 occurred, Bell Labs was split by the creation of Bellcore to perform research for the local telephone companies (the Baby Bells). The AT&T divestiture of 1996 then resulted in a further splitting of research with Bell Labs serving Lucent Technologies and AT&T Labs serving AT&T. The Baby Bells ceased their direct support of Bellcore, which renamed itself Telcordia Technologies and was acquired by Science Applications International Corporation in 1997. Each of the Baby Bells created and had their own research facilities for a few years, but the emphasis was clearly on applied work in the form of exploratory development and not in basic research. Basic research in the old Bell tradition clearly is at risk.

The basic research sponsored at Bell Labs was something of an anomaly in the communication industry. The only other firm to sponsor basic research at its own laboratory over the years has been IBM. Perhaps the old AT&T of the former monopoly era actually believed in a corporate responsibility to create knowledge for the storehouse of basic research.

## THE RESEARCH DILEMMA

The shared nature of basic research makes it increasingly difficult for individual companies to justify continued support. Such firms as AT&T, Xerox, and Lucent Technologies are experiencing financial problems. It will become increasingly difficult for these companies to justify funding for basic research at their own laboratories. The long-term viability of basic research at these facilities thus is at risk. Yet “industry must show its willingness to invest in more venturesome and longer-range R&D.”<sup>2</sup>

The United States has moved from the monopolistic provision of telecommunication services to competition. In the former monopolistic situation, the need for basic research was well recognized and allowed by regulators. In today's competitive situation, the emphasis on short-term profits and markets make it increasingly difficult for a few companies to continue to fund longer-term basic research in telecommunication. The United States is thus about to face a crisis in basic research in telecommunication.

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<sup>1</sup> Hiltzik, Michael, *Dealers of lightning: Xerox PARC and the Dawn of the Computer Age*, HarperCollins Publishers, Inc. (New York), 1999, p. 389.

<sup>2</sup> Keyworth, II, George A., “The Federal Role in R&D,” Vol. XXV, No.1, (January 1982), p. 9.

Telecommunication research over the last two decades clearly has been subjected to many risks arising from changes in corporate ownership, twists in mission, and funding uncertainties. This is not the best environment for research. Years ago, John R. Pierce (an early Bell Labs pioneer of communication satellites) stated that the best environment for research consisted of (1) secure and stable long-term funding, (2) a clear mission and purpose, and (3) the freedom to fail.

## RESEARCH & DEVELOPMENT

The term “research” can describe almost any form of intellectual, investigative activity. Companies conduct market research to measure the response of consumers to new products; students perform library research to obtain references for term papers; and consumers perform research to compare prices for some particular product. This paper is concerned with research meaning the creation of new fundamental knowledge, mostly with ultimate application to the area of telecommunication.

Research and development—commonly known collectively as “R&D”—form a continuum of efforts, ranging from development to basic research. Exploratory development, systems engineering, and applied research fall in between the two extremes. Industrial research is a term that has been used to define the entire R&D continuum.<sup>3</sup>

- Basic Research
- Applied Research
- Systems Engineering
- Exploratory Development
- Development

Development includes the engineering and design work necessary to manufacture and provide specific products and services. Exploratory development is somewhat less specific in terms of an actual product or service offering, and as its name implies, is “exploring” the possibilities for near-term future products and services. Systems engineering is concerned with the design and engineering of overall systems, taking a broader perspective than the specific engineering design of a single product or service.

Basic research is usually discipline motivated and creates new knowledge, usually with very long-term implications and with no specific application to any near-term products or services.<sup>4,5</sup> Applied research is the creation of new knowledge that is more immediately applicable to specific products or services.

The actual boundaries, distinctions, and semantics between these different efforts are blurry and depend on such factors as:

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<sup>3</sup> Fusfeld, Herbert I., *Industry's Future: Changing Patterns of Industrial Research*, American Chemical Society (Washington, DC), 1994, p. 3.

<sup>4</sup> Hoddeson, Lillian, “The Emergence of Basic Research in the Bell Telephone System, 1875-1915,” *Technology and Culture*, Vol. 22, No. 3 (July 1981), p. 514.

<sup>5</sup> Pavitt, Keith, “National policy for technical change: Where are the increasing return to economic research?” *Proc. Natl. Acad. Sci USA*, Vol.93 (November 1996), p. 12695.

- the time-frame of the applicability of the results of the effort;
- the discipline orientation of the work; and
- the motivation and stimulation of the effort.

A key factor of basic research is that it is usually stimulated and directed by the individual researcher. The philosophy used at Bell Labs, and some other industrial research facilities, was to hire the people with the best minds, expose them to practical problems that can stimulate research into new solutions, and then give them the freedom to invent and innovate novel and creative solutions to problems of interest. Bell Labs combined "... an atmosphere of freedom of integrity with a sense of purpose."<sup>6</sup>

The conditions that seem optimum for basic research are:<sup>7,8</sup>

- secure, stable, long-term funding;
- a sense of purpose and clearly articulated mission;
- the freedom to fail; and
- ties and proximity to real-world problems.

Basic research should not be performed in isolation with no consideration given to the transfer of its applicability to practice. There is a need to "farm" the basic research facility to facilitate the transfer of technology from research to practice. The researchers themselves are notoriously poor at the identification of practicality and the transfer of technology.

The transfer of technology from basic research needs to be a formalized process, yet not so bureaucratic as to be useless. In the early 1980s, I suggested to AT&T that one way of doing this was to create a "skunk works" at the Bell Labs research facility, staffed jointly by researchers and marketing people.

## PRE-DIVESTITURE BELL LABS

The Bell System was vertically integrated from the provision of service to research. Telephone subscribers were provided basic service and access by the local Bell telephone companies, which were known as the Bell operating companies (BOCs). Manufacturing from basic telephones to switching and transmission equipment was provided by the Western Electric Company. Engineering design, development, systems integration, and research was done at Bell Labs. The stock of these operating entities was all owned by the American Telephone and Telegraph Company (AT&T), which provided central leadership, direction, and coordination. The Long Lines division of AT&T provided long-distance service to the BOCs for their customers.

The essential role of research and development was long recognized as essential for the long-term future of telecommunication. Alexander Graham Bell was a teacher of the deaf, in addition to being an inventor. The development of improved telephone transmitters was a key ingredient in the early progress of telephone technology.

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<sup>6</sup> McKay, Kenneth G., "The measure of innovation," *Bell Laboratories RECORD*, July/August 1980.

<sup>7</sup> Pierce, John R. and A. Michael Noll, *Signals: The Science of Telecommunications* (New York: Scientific American Library), 1990, p. 220.

<sup>8</sup> Noll, A. Michael, "The communications revolution began in Jersey; it may end there," *The Sunday Star-Ledger*, April 21, 1996, Section Ten, p. 5.

Loading coils, invented in 1899 by Prof. Michael Pupin, clearly demonstrated the importance of mathematical analysis of transmission lines and also of early patent application after the Bell System lost its claims. Automated electromechanical switching was invented by Almon B. Strowger in the 1890s, again a non-Bell invention. These major advances by non-Bell people spurred AT&T to make a stronger commitment to basic research. In 1925, Bell Telephone Laboratories, Inc., jointly and equally owned by AT&T and Western Electric Company, was formed as the centralized R&D facility for the Bell System.<sup>9,10</sup> The Bell Labs of 1925 had 3,560 employees, including 598 research employees.<sup>11</sup> By 1983, Bell Labs had grown to over 22,000 employees, with 1,480 employed in research.<sup>12</sup>

Just a small few of the innovations that resulted from basic research conducted at Bell Labs and the responsible researchers are listed in the table below:

<b>RESEARCHERS</b>	<b>INNOVATION</b>
George Ashley Campbell	electric-wave filter & frequency-division multiplexing
Harold S. Black	negative-feedback amplifier
Walter H. Brattain, John Bardeen, & William Shockley	junction transistor
Claude E. Shannon	mathematical theory of information & communication
Edward C. Molina	probability theory applied to blocking in switching
Harvey Fletcher	high-fidelity sound reproduction
Arno A. Penzias & Robert W. Wilson	cosmic microwave background radiation
Philip Anderson	solid state physics
Karl Guthe Jansky	radio noise from galaxy, leading to radio astronomy
John I. Kelly, Jr., Benjamin Logan, & M. Mohan Sondhi	adaptive echo cancellers
Bishnu S. Atal	linear predictive coding for speech compression
Charles H. Townes	laser

In addition to these technology related areas, researchers at Bell Labs also made significant contributions and discoveries in a number of other areas, to name just a few examples, such as, economics, computer art, computer music, computer animation, psychology, human vision, and psychoacoustics.

The vast majority of the work at Bell Labs was involved with the research and development of specific products and telecommunication services. The products would then be manufactured by the Western Electric Company for use in the Bell System, and the services would be provided by the local telephone companies (the BOCs) and the Long Lines division of AT&T. In addition to the centralized R&D performed at Bell Labs, individual operating units of the Bell System also had their own engineering units involved with the day-to-day operation of the businesses. The centralized R&D performed at Bell Labs was involved with the future, whether a few months

<sup>9</sup> Noll, A. Michael, "Bell System R&D activities," *Telecommunications Policy*, Vol. 11, No. 2 (June 1987), p. 164.

<sup>10</sup> Hoddson, Lillian, "The Emergence of Basic Research in the Bell Telephone System, 1875-1915," *Technology and Culture*, Vol. 22, No. 3 (July 1981), p. 541.

<sup>11</sup> Noll, 1987, p. 164.

<sup>12</sup> Noll, 1987, p. 167.

hence in terms of tomorrow's new products, services, and technologies or decades hence in terms of basic research in disciplines deemed essential for the long-term future.

John R. Pierce, an executive director of communication research at Bell Labs, observed that the research at Bell Labs "was suited, not to a manufacturing company whose revenues fluctuate wildly with the economic cycle, but to the future needs and opportunities of a national resource that was there yesterday, was there today, and was expected to be there tomorrow and tomorrow. Research accordingly was supported largely by a fee levied by AT&T on the operating companies."<sup>13</sup> "With divestiture and competition, the communication industry has become fragmented, but the communication network and system must remain universal ... research is even more important today to assure the future of telecommunication in the United States."<sup>14</sup>

The basic research and systems engineering supported by AT&T was for the benefit of the Bell System as a whole. As such, it was funded by license contract fees charged to the BOCs and by the Long Lines division of AT&T. Although the license contract fee was capped at 2.5 percent of revenues, it actually usually was only about 1 percent of revenues. The rationale for the license contract fees was that the BOCs operated under patents held by AT&T and also received coordination services from AT&T.

Bell Labs was a separately-owned facility within the Bell System and was managed as a business. The researchers were exposed to real-world problems, and it was expected that such exposure would guide the research to seek innovative solutions and new knowledge applicable to the problems for longer-term solutions.

Many of the inventions and patents issued to the basic research division were not related to the core businesses of the Bell System. Nevertheless, these non-core patents were valuable in terms of access through cross licensing to the patents held by other companies.

Indeed, much of the basic research conducted at Bell Labs was developed commercially outside the Bell System. The transistor, mentioned earlier, was invented at Bell Labs but first used in transistor radios manufactured by Japanese companies. The transistor later found use within the Bell System. The linear predictive coding (LPC) method of speech compression, invented at Bell Labs, was first used in a toy manufactured by Texas Instruments. LPC later found use within the Bell System. Adaptive echo cancellers, invented at Bell Labs, were first used by Comsat, and were only later adopted for use by the Bell System. The electret microphone, invented at Bell Labs, was first used in consumer electronics, and only later was adopted for use in telephones for the Bell System. In all these cases the initial benefactors of the research conducted at Bell Labs was outside the Bell System, but all these innovations later were very important for uses within the Bell System. The path, however, was initially outside and then a return to the Bell System.

## AFTERMATH OF THE BELL BREAKUP

On January 1, 1984, AT&T divested the local telephone companies from the Bell System and organized them into seven regional holding companies (RHCs)—also known as the Baby Bells. In

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<sup>13</sup> Pierce, John R. and A. Michael Noll, *Signals: The Science of Telecommunications* (New York: Scientific American Library), 1990, p. 220.

<sup>14</sup> Pierce, John R. and A. Michael Noll, *Signals: The Science of Telecommunications* (New York: Scientific American Library), 1990, p. 223.

return for this divestiture, AT&T was allowed to enter the computer and any other businesses. AT&T retained ownership of Bell Labs but was required to rename the organization AT&T Bell Labs. Bell Communications Research (later called Bellcore) was created to serve the R&D needs of the seven RHCs and was owned jointly by the seven Baby Bells.

Each of the RHCs created their own R&D facilities, in addition to the central one they supported at Bellcore. For example, NYNEX Science and Technology, Inc. was owned by NYNEX and performed applied research, exploratory development, and funded development for NYNEX. About 400 people worked at the NYNEX facility. Today this facility performs mostly development work for Verizon, the successor of NYNEX.

The author examined the immediate effects of the Bell breakup of 1984 on R&D and concluded that "... no major changes have occurred as a result of divestiture." The examination included a variety of factors, such as the number of employees, budgets, patents, and publications.<sup>15</sup> His analysis combined post-divestiture AT&T Bell Labs with Bellcore and compared the combined effort with the pre-divestiture Bell Labs. However, he cautioned "There are reasons for concern about the future."<sup>16</sup> This concern was because it was reported that research at AT&T Bell Labs since the Bell breakup of 1984 was forced to emphasize products rather than longer-term discipline-oriented research.<sup>17</sup> Indeed, product development was being emphasized, although clearly the market pressures facing AT&T perhaps justified such a change in direction.<sup>18</sup> Such emphasis was not new, and decades ago, Dr. William O. Baker—then Chairman of the Board of Bell Labs—testified that "A characteristic failing of modern R&D is over compression of the span between discovery and use, so that the basic scientist is expected to become a design engineer and the whole system crumbles from internal pressures and implosion."<sup>19</sup>

## THE SAGA UNFOLDS: POST DIVESTITURE

After years of failing to achieve any success with its own computer business, in 1991 AT&T acquired NCR. This failed to develop the computer business for AT&T, and accordingly in 1996 AT&T divested NCR and the entire manufacturing business of Western Electric, in what is known as the trivestiture. The divested Western Electric was renamed Lucent Technologies. The vast bulk of AT&T Bell Labs was transferred to Lucent, and the R&D facility reverted to the former simpler name of Bell Labs. Lucent quickly advertised its connection to Bell Labs with the corporate slogan "Bell Labs Innovations." Some of the basic research at Bell Labs is focused on the physical sciences, in addition to other areas.

AT&T created its own corporate R&D facility named AT&T Labs. The research component of AT&T Labs was named the Shannon Labs in honor of Claude E. Shannon, the founder of information

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<sup>15</sup> Noll, 1987, p. 161.

<sup>16</sup> Noll, 1987, p. 178.

<sup>17</sup> Guyon, Janet, "AT&T's Bell Labs Has Shifted Its Focus From Elite Academic Themes to Products," *Wall Street Journal Europe*, January 31, 1995, p. 6.

<sup>18</sup> Boyd, Robert S., "Experts Have Big Concerns About Shrinking of Research," *Detroit Free Press*, April 18, 1995, p. A1.

<sup>19</sup> Baker, William O., "Destinies For American Research: Nobel Laureate Work in Telecommunications," Testimony at Hearings on "Destinies for American Research" before the Subcommittee on Energy Research and Production and Subcommittee on Science, Research and Technology, U. S. House of Representatives, December 10, 1979.

theory. Much of the research at the Shannon Labs is systems research concentrating on information sciences and mathematics.

The RHCs viewed themselves as competitors and in the early 1990s became concerned about the possible antitrust implications of supporting and sharing common work at Bellcore. Some of them also had become somewhat disenchanted with Bellcore. Clearly, the situation was awkward since the RHCs were both the competitors and the customers of Bellcore. These issues created an uncertain future for Bellcore, which was finally resolved in 1997 when the RHCs sold Bellcore to Science Applications International Corporation (SAIC). In 1999 Bellcore changed its name to Telcordia. Telcordia has become a contract systems house for hire to work on specific projects, frequently for the RHCs.

Data (shown in the following table) about the total number of R&D employees, research employees, and R&D budget are somewhat informative in terms of overall trends over time until 1997.<sup>20,21</sup> The budget numbers are not adjusted for inflation. The general conclusion from this data is that the R&D situation has been very stable from the Bell breakup of 1984 until 1997.

YEAR	FACILITY	TOTAL EMPLOYEES	RESEARCH EMPLOYEES	R & D BUDGET
1981	Bell Labs	24,100	1,200	\$1.6 billion
1985	AT&T R&D	24,500	1,200	\$2.37 billion
	+ Bellcore	<u>7,700</u>	<u>500</u>	<u>\$0.86 billion</u>
	TOTAL	32,200	1,700	\$3.2 billion
1997	Bell Labs (Lucent)	25,000	1,200	\$3.0 billion
	+ AT&T Labs	2,000	400	\$0.3 billion
	+ Bellcore	<u>5,600</u>	<u>300</u>	<u>\$1.1 billion</u>
	TOTAL	32,600	1,900	\$4.4 billion

NYNEX created its own company, called NYNEX Science and Technology, Inc., to perform applied research and exploratory development, at a level of a total of about 400 people. This facility mostly today is a development laboratory for Verizon. US West had its own advanced technology laboratory, which was later disbanded.

Frequently, the pay-offs and direct applications of basic research at Bell Labs was to other companies and industries than the AT&T that directly paid for it. For example, as observed earlier, the transistor invented at Bell Labs was first used in portable radios. Furthermore, the Consent Decree of 1956 required AT&T to license all its patents for reasonable fees to everyone. Yet AT&T continued its support of basic research through the divestiture of 1984 and even today supports basic research at its Shannon Laboratory.

## CURRENT SITUATION

Lucent, created in 1996, inherited the responsibility for the financial support of basic research in telecommunication at Bell Labs. As long as Lucent was doing very well financially,

<sup>20</sup> Noll, A. Michael, "The Effects of Divestiture on Telecommunications Research," *Journal of Communication*, Vol. 37, No. 1 (Winter 1987), p. 79.

<sup>21</sup> Noll, A. Michael, *Introduction to Telephones and Telephone Systems (Third Edition)*, Artech House, Inc. (Norwood, MA), 1999, p. 334.

during its initial years, this support was not a burden. But when financial doom gripped Lucent in 2000, with problems worsening through 2001, such benevolence could no longer be justified in terms of the bottom line.

The problems at Lucent could have been anticipated, and in 1996 the author had predicted that “[Lucent] most certainly will not be able to afford basic research, the research that could create innovations that could help secure the United States’ place in the global market a decade or two hence.”<sup>22</sup> Given its serious financial problems, in 2001 Lucent began selling entire business units and also initiated substantial downsizing of its remaining employees, including those at Bell Labs.

As a response to financial difficulties, Lucent has been active in divesting and selling its various business units. Avaya Communication, responsible for manufacturing PBXs and other business communication systems, was created from the business systems division of Lucent in 2000. Avaya Labs Research was created as a small internal research facility, mostly concentrated on applied research and exploratory development in support of Avaya business units. Agere Systems, which used to be the microelectronics division of Lucent manufacturing integrated circuits (chips) and communication components, is expected to be completely divested in 2002.

AT&T encountered financial problems in early 2000 as a result of its costly acquisitions of cable television companies. This resulted in the divestiture of its wireless business in 2001 and the planned divestiture of its cable broadband business in 2002. In early 2002, AT&T reorganized and refocused Shannon Laboratory to be more relevant to the business of AT&T, resulting in a reduction in the number of research employees.

The table below gives the R&D picture for 2001. Compared to 1997, the reassembled Bell family (consisting of Bell Labs, AT&T, Telcordia, Avaya, and Agere) is spending more on R&D, but the number of researchers has decreased by nearly 15 percent over the four years. Such measures as the number of patents and publications have a long time constant and thus might not show a looming crisis for a number of years.

BELL FAMILY R&D FOR 2001				
FACILITY	TOTAL R&D EMPLOYEES	RESEARCH EMPLOYEES	R&D BUDGET	RESEARCH BUDGET
Bell Labs (Lucent)	16,000	550	\$2.4 billion	\$150 million
+ AT&T	10,000	450	\$1.3 billion	
+ Telcordia	3,000	300	\$1.0 billion	
+ Avaya		55	\$0.5 billion	
+ Agere	2,800	<u>275</u>	<u>\$0.8 billion</u>	
TOTAL		1630	\$6.0 billion	

The telecommunication landscape is very different today than it was before the Bell divestiture of 1984. A number of competing firms manufacture telecommunication equipment, including not only Lucent Technologies (the reincarnation of the old Western Electric) and Nortel (formerly Northern Telecom) but such others as Cisco and Corning. Hence, the potential for

<sup>22</sup> Noll, A. Michael, “The communications revolution began in Jersey; it may end there,” *The Sunday Star-Ledger*, April 21, 1996, Section Ten, p. 5.

support of basic research has expanded greatly, although many of these firms do not support their own research laboratories.

The telecommunication service landscape is likewise quite different than before the Bell divestiture when telecommunication was synonymous with AT&T and the Bell System. Long distance service is provided by such major carriers as AT&T, MCI/Worldcom, Sprint and Global Crossings, with a host of smaller firms that sometimes own their own facilities but more frequently package and resell service provided over facilities owned by the major carriers. Local telephone service is still provided primarily by the divested Baby Bells, but the provision of wireless service is provided by a number of highly competitive firms. Internet access is provided by a large number of firms, although dominated by a small few, such as AOL and Earthlink. With the exception of AT&T, the service providers do not support their own research facilities.

## BENCHMARKS FOR R&D

The determination of an adequate level of support of R&D is a difficult issue. The table below gives the R&D budget for Lucent Technologies, Avaya Systems, and Agere Systems for 2000. Data for IBM, Hewlett Packard, Intel, and Texas Instruments are also shown as benchmarks for comparison.

The R&D budget as a percentage of net sales is shown as a normalized metric. It would seem that Agere Systems is spending proportionately more on R&D compared to such comparable firms as Intel and Texas Instruments. Avaya seems in line with such comparable firms as IBM and Hewlett Packard. Lucent spends less than Nortel but both spend considerably more than IBM and Hewlett Packard as a percentage of sales.

R&D SUPPORT (2000)			
COMPANY	NET SALES	R&D BUDGET	PERCENT OF SALES
Lucent	\$33.813 billion	\$5.023 billion	14.8%
Avaya Systems	\$7.680 billion	\$0.468 billion	6.1%
Agere Systems	\$4.708 billion	\$1.273 billion	27.0%
IBM	\$88.396 billion	\$5.151 billion	5.8%
Hewlett Packard	\$48.782 billion	\$2.646 billion	5.4%
Intel	\$33.726 billion	\$4.006 billion	11.9%
Nortel Networks	\$30.275 billion	\$5.496 billion	18.1%
Texas Instruments	\$11.875 billion	\$1.747 billion	14.7%

## THE CONDUCT OF BASIC RESEARCH

There are many mechanisms for the support and conduct of basic research. Each mechanism needs to be evaluated by the four conditions, listed in an earlier section of this paper, that seem to facilitate the best environment for basic research.

One mechanism is support by an industry consortium formed from many companies. This mechanism is close to real world problems because of the strong ties to industry. But since the

results are shared by all the members of the consortium, issues over proprietary ownership can occur, leading to the situation where the supporters all lose interest in the research. Also, too many cooks all attempting to oversee the direction of the research can lead to chaos.

Much basic research is performed at universities, frequently supported by the Federal government. Clearly the decentralization of research in many universities as opposed to a few national laboratories was a wise decision.<sup>23</sup> But the process for seeking support is lengthy. Proposal must be written and then evaluated by peer review. Considerable effort is expended in this process, sometimes more effort than will be spent on the research if it ultimately receives support. University research is far from the real world with few ties to industry, although much thought has been given on how to improve these ties. In reality, the ties occur when doctoral students leave the university and go to work for industry. But rarely do industry people return to the university, and if they do, they are viewed with suspicion by their more academic colleagues who have spent their entire careers in academe. The need to renew support creates insecure long-term funding. Furthermore, the main mission of the university should be education—not some national goal. But universities do protect academic freedom and understand the role of individual researchers in guiding their own research.

The Federal government supports its own various research laboratories. This makes good sense when the mission of the laboratory is the same as that of the agency supporting it. Government laboratories have secure, long-term funding, and yearly proposals are not needed. But when it comes to the needs of industry, government laboratories are far distant.

Basic research can occur at a laboratory supported by a specific company. The company needs to value basic research and accept that the payoffs might be far in the future and might arrive back at the company after a circuitous route outside the company.

The table below evaluates each of these mechanisms by the conditions for the best basic research. The company-supported basic-research laboratory seems to be the best mechanism.

	FUNDING	MISSION	FREEDOM	REAL-WORLD
Consortium	Perhaps	Diffuse	<b>Yes</b>	<b>Yes</b>
University	Variable	No	<b>Yes</b>	No
Government	<b>Yes</b>	Diffuse	Somewhat	No
Company	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>

But that mechanism seems to be slipping away as concerns over short-term profits capture most companies. This leads to thoughts about other approaches.

The RHCs purchase their equipment from a number of suppliers, such as Lucent and Nortel. To the extent that Lucent has been sponsoring basic research at its Bell Labs, the RHCs thus indirectly help fund that research through their purchase of equipment from Lucent. However, in a competitive environment, basic research is a very costly luxury with long-term applicability and pay-offs. Thus, one would expect the support for such basic research at industrial laboratories to shrink in a competitive environment where business decisions must be made based on short-term profitability and payoffs. This then strengthens the rationale for federal government support of basic research, usually at universities.

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<sup>23</sup> Sink, John D., "Academic Research: The Faculty's Role and Responsibility," *Society of Research Administrators Journal*, Spring 1985, p. 20.

The author suggested “the creation of a national telecommunications research institute funded by a tax on the gross revenue of all service providers.”<sup>24</sup> The implementation would be as a formal organized consortium of existing research laboratories, with an emphasis on basic research. Assured long-term funding through a tax on industry revenues would eliminate the need for yearly research proposals and would introduce the model used for decades to support basic research at industrial research laboratories. The telecommunication industry would be asked to contribute current buildings, or the equivalent to create this facility. In return, the industry would no longer need to support such basic research internally, which would allow the use of these funds for other purposes. An advisory board could be created to assure the relevance of the research and also to facilitate the transfer of the results of the research into practice.

Bell Labs is not the only facility responsible for basic research in telecommunication. Various universities also conduct basic research in various aspects of telecommunication, usually funded by government agencies but also by industry. But the prime mission of universities is education—research comes second. However, some universities were able to create separate research institutions staffed by full-time researchers, for example, the Lincoln Laboratories by MIT and the Stanford Research Institute by Stanford University. Most university-based research is done by academic faculty members. This academic research creates the opportunity for doctoral students to be exposed to research and to work as junior members of research teams. This helps to prepare these students for future careers as academics themselves. Of course, this is a different world than the company-sponsored research laboratory, since university research is far removed from the practical considerations and mission of industry.

Some universities have been successful in an administrative role in managing a somewhat independent research facility, such as Cal Tech’s administration of the Jet Propulsion Laboratory and the University of California’s administration of the Lawrence Livermore Laboratory. This suggests yet another model for the support of basic research in telecommunication, namely a facility supported financially by industry yet affiliated with and administered by a university. The financial support could be in the form of contributions either to the yearly operating expenses or to the creation of an endowment. An endowment would assure continuity and also strengthen research freedom.

## THE BELL LEGACY

Telecommunication and its infrastructure are essential enablers for the growth of the economy, particularly in a global environment. Without long-term basic research, the future of telecommunication is at risk. The importance of such research was realized over a century ago by the founders of the Bell System.

In many ways, the RHCs—the so-called Baby Bells—inherited the Bell legacy and commitment to basic research in telecommunication. They today represent and are responsible for the future of telecommunication in the United States, much more so than AT&T or Lucent. As service companies, with near monopolies for local access, the Baby Bells have inherited the responsibility to the public of the old Bell System. They are all very profitable with after-tax profit margins over 15 percent for the year 2000. All this means that they should be supporting basic research in telecommunication at their own research facilities—a responsibility they have been ignoring, after their past negative experience with Bellcore.

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<sup>24</sup> Noll, A. Michael, “The Future of AT&T Bell Labs and Telecommunications Research,” *Telecommunications Policy*, Vol. 15, No. 2 (April 1991), p. 191.

Basic research is believed to be most relevant to products, and thus the Baby Bells probably believe that such research should be funded primarily by the manufacturers of these products. Telecommunication service providers, with the exception of AT&T, therefore do not support basic research at their own facilities. Service providers, such as the Baby Bells, believe that their support of basic research occurs indirectly with their purchase of equipment from manufacturers. But very few manufacturers are supporting research on the scale and level needed to assure the long-term future of telecommunication in the United States.

Any basic research supported by telecommunication manufacturers (such as Lucent) is subjected to the short-term variations in profits, changing corporate missions, and a short horizon that forces the research to be product specific. Telecommunication service providers, particularly the Baby Bells, have secure long-term profits, a clear sense of mission, and a broad definition of service. They thus would seem to be the most appropriate source of support of long-term basic research in telecommunication.

The provision of telecommunication service is the prime mission of the Bell RHCs. The technology component of the provision of that service is manufactured by other companies, such as Lucent and Nortel in North America. Thus, there is some rationale in the position that basic research relevant to telecommunication technology should be supported by these manufacturers. But there is also basic research that is relevant to the provision of services. That research focuses on human behavior in the use of telecommunication. Decades ago, the futurist Alvin Toffler studied the Bell System and one of his many conclusions was the identification of the need for what he called a "Bell Behavioral Laboratories."<sup>25</sup> This facility would focus on social science research to increase "socio-behavioral know-how."

Each of the three RHCs will most likely be allowed to provide long-distance service in a few years. An efficient way of doing this would be for each of the three RHCs to acquire each of the three major long-distance companies. This would result in three mini Bell Systems, each with yearly revenues in the order of \$100 billion and profits of over \$15 billion. A possible condition imposed by the government to allow such powerful consolidation, even though the three mini Bell Systems would compete with each other in many of their businesses, would be that each make a long-term commitment to the support of their own basic research facilities. This then could result in three "Bell Labs." This situation would be more exciting than the basic research situation of the past with only one Bell Labs because there would be strong competition between the three Labs for the best researchers, for the best published papers, and for patents and inventions.

To assure the long-term future of such basic research facilities, an endowment is needed for financial stability and independence. The Baby Bells could contribute to the creation of such an endowment, perhaps gradually over a decade to spread the financial commitment. But strong management with exposure to real-world problems must always be emphasized.

The Bell RHCs believe that they indirectly fund basic research through their purchase of equipment from the manufactures who then directly have their own research laboratories. This flow of research through the products of manufacturers that are purchased by service providers has been the traditional model for telecommunication. But the intense competition in manufacturing with a strong emphasis on short-term profits has created a crisis for the support of research at industrial telecommunication laboratories. It is time to re-examine this model and consider alternatives, before the long-term harm from a crisis in research can no longer be remedied. Service industries must invest in their future through the direct support of

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<sup>25</sup> Toffler, Alvin, "Social Dynamics and the Bell System," November 15, 1972, pp. 148-150.

basic research at laboratories close to their mission and with the characteristics that so strongly responsible for the great contributions of Bell Labs of the past. These are challenges that must be discussed and addressed.

## DISCUSSION

Long-term consequences are difficult to predict, in general. Yet years before the Bell breakup of 1984, a number of well-respected people warned of the dire consequences for Bell Labs. William O. Baker (a past president of Bell Labs) stated that “Changing the structure of the Bell System would necessarily mean that Bell Labs could no longer survive as we know it.”<sup>26</sup> Edward E. David, Jr., past science advisor to the President of the United States, warned that “... the fragmentation of the Bell System will mean emasculation of the Bell Telephone Laboratories...”<sup>27</sup> Nobel laureate Dr. Arno A. Penzias predicted that “It is possible to kill Bell Labs as we know it.”<sup>28</sup> Their and the warnings of other people were premature, but ultimately might be correct.

The crisis in telecommunication research in the Bell tradition is not unique and is occurring in other industries. The RCA Labs invented television and pioneered the NTSC compatible color system. RCA was then acquired by General Electric and the RCA Labs became the Sarnoff Labs which then became a subsidiary of SRI International in 1987, all but halting basic research related to television. The Sarnoff Corporation is now about “to move ... from its historical research-and-development mode ... into a more client- and consumer-friendly entity.”<sup>29</sup> But such diffuse attempts at redirection have rarely been successful and usually are the death knell of any basic research.

A recent paper by Prof. Roli Varma observes that corporate “has shifted to low-risk, mission-oriented, and short-term research” and that “Basic research projects seem to be completely gone from centralized corporate research laboratories.”<sup>30</sup> Perhaps the large centralized R&D facility has outlived its role in today’s business world of individual business units each with their own bottom-line financial responsibility. The various business units in a company require direct control of all the elements needed to bring a product or service to market, including the R&D spectrum from applied research to product development. The decentralization of R&D results in much faster development and also much closer ties with the marketplace. However, basic research serves all business units and thus should remain in a centralized structure. The issue should be centralization of all R&D—not support of basic research.

However, the challenge in justifying support by industry of basic research is not new. A study supported by the National Science Foundation in the late 1970s stated “The justification for doing basic research in industry before a direct connection between the basic research and a

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<sup>26</sup> *Bell Labs News*, November 25, 1974, p. 1.

<sup>27</sup> “Don’t bust up Bell,” *The Christian Science Monitor*, June 2, 1975, p. 39.

<sup>28</sup> “Bell Labs: The threatened star of US research,” *Business Week*, July 5, 1982, p. 46.

<sup>29</sup> Pinsker, Beth, “Reinventing the Inventor,” *The New York Times*, June 2, 2002, Section 14, pp. 1 & 8.

<sup>30</sup> Varma, Roli, “Are We Eating our Seed Corn?: Basic Research in the US Corporate Sector,” *Prometheus*, Vol. 20, No. 1 (March 2002), p. 1.

need or opportunity is recognized is very difficult for many industrial managers.”<sup>31</sup>

The future for basic research laboratories supported by industry is very uncertain today. For example, it has been observed that “the utopian ideal of a corporate laboratory whose scientists are free to roam through Idea-space draws only ridicule today.”<sup>32</sup> There are many who believe that “...the company-owned research lab, that proud 19th-century invention, has become obsolete.”<sup>33</sup> Indeed perhaps the times have changed substantially, and the basic research laboratory sponsored by a specific company has become obsolete. Yet, surprises can occur, sometimes with dramatic effect. For example, the attacks on the United States on September 11, 2001 could stimulate a return to basic values and national defense, with a renewed emphasis on basic research supported by industry. Also, bucking the accepted wisdom and recreating the centralized, company-supported basic-research laboratory could become innovative and the way to build for the future in today’s world of global competition.

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<sup>31</sup> Fernelius, W. Conrad, “Contribution of Basic Research to Recent Successful Industrial Innovations,” Industrial Research Institute Research Corporation (St. Louis, MO), NSF Grant No. PRA77-1790B, May 1, 1979, p. 3.

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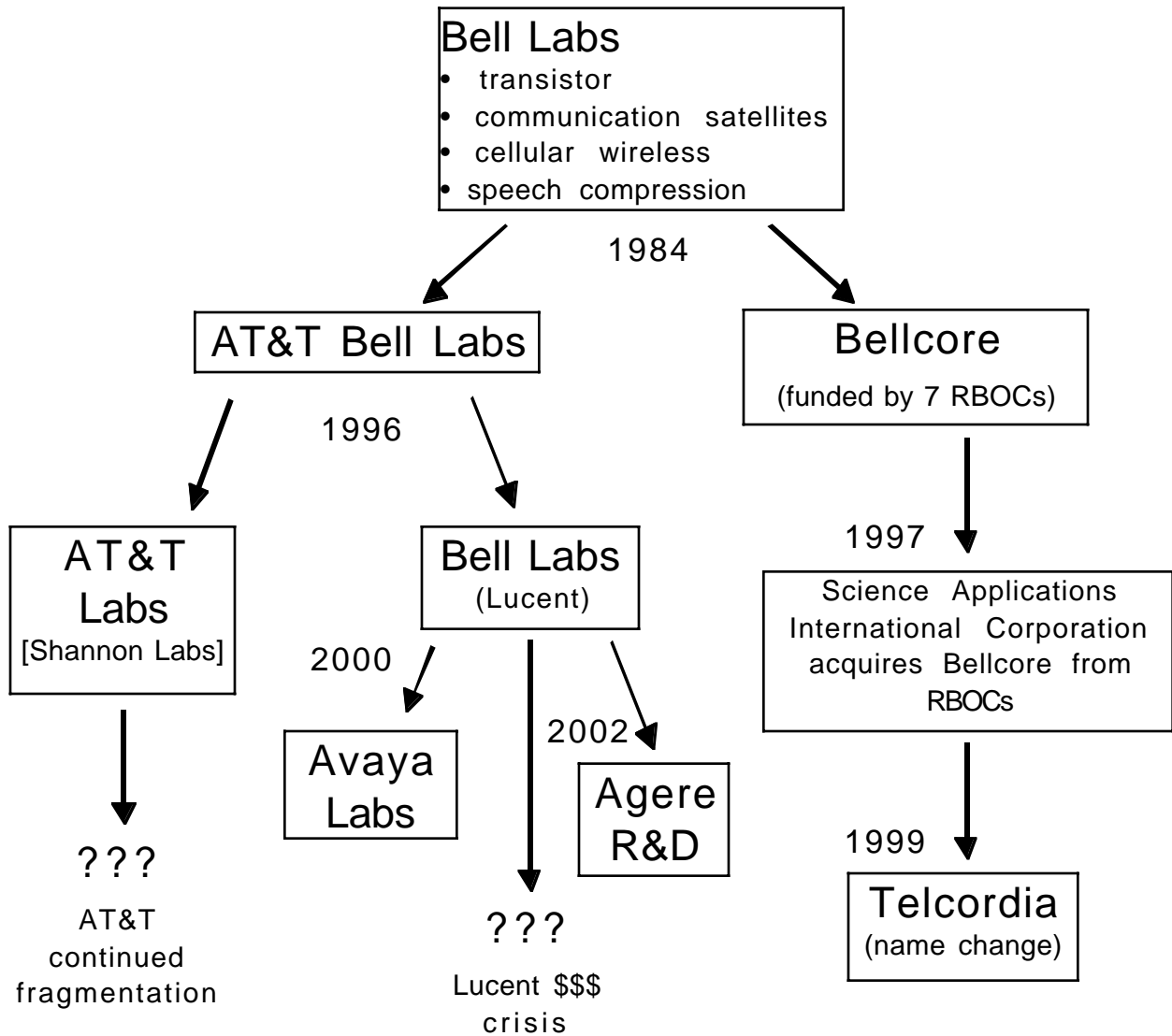
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# BELL FAMILY R&D



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