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One Less Bell to Answer

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The problem with unfettered capitalism is that it puts itself out of business.

Big fish eat little fish, until there's only one fish. And that's called monopoly, which is not only the opposite of competition—the "invisible hand" of a truly free marketplace, keeping companies honest and innovative—but also a dire circumstance for consumers and workers (as if workers weren't consumers as well): If there is only one store selling and hiring, then they can set prices as high and wages as low as they darn well please.

That "take it or leave it" situation might be acceptable for luxury items or frivolous wants; but when it comes to providing services vital to the rest of the economy, a monopoly amounts to a stranglehold on the nation. Even in the most innocent of scenarios, a lack of competition flirts with extortion.

And no sector of the economy is more vital to our Information Age than the communications industry. The announcement this weekend that AT&T Corp. has agreed to buy BellSouth Corp. is, thus, not only newsworthy but also historic, in terms not only of its sheer size (At $67 billion it is one of the largest deals ever) but also of its social impact: If the merger is approved by the shareholders—those of BellSouth are being offered a premium price by AT&T—and regulators—and the Bush administration (very much like the Clinton administration) never met a trust it wanted to bust—then this union of the nation's largest and third-largest phone companies would reduce the seven regional "Baby Bells," which the government created in 1984 by carving up the original AT&T monopoly, to just three telecom giants: the new AT&T (incorporating BellSouth as well as the current AT&T, itself the product of SBC just recently acquiring the previous AT&T), Verizon Communications (which recently bought MCI), and—smallest by far—Qwest (in the west, probably now targeted for acquisition by Verizon, trying to consolidate its uneasy second-place position).

The final word in this alphabet soup is that just two companies—the new AT&T and Verizon, a "duopoly"—would control almost all of the local residential wireline service, most of the long-distance telephone service, most of the cellphone and other wireless service, and most of the DSL wires—as used by competitors to carry Internet phone calls and broadband TV—across the USA. That's a lot of power in a very few hands ... with

some 10,000 fewer pairs of hands actually doing the telephone work, as the consolidation of companies would result in the "cost efficiencies" of massive layoffs.

But the telecom environment is far more complex than in the days of the old AT&T monopoly, as any Web-surfing, music-streaming, video-downloading, Voice-over-Internet-Protocol-calling teenager could testify.

We find ourselves caught not just in some big-fish-eats-small-fish food chain but in an elaborate food web, if you will, of intricately competing and supporting relationships, which if thrown out of balance can threaten the economic existence of any or all concerned. Consider the interests involved:

Major (Wireline) Telephone Companies

The major telephone companies may be stifling competition from smaller telecom companies, but they are facing stiff competition from cable companies. The telecoms claim that this will stimulate innovation and keep prices low; although it can be argued that if such benefits do indeed accrue, it will be in spite of, not because of, the monopolization now taking place within the telecom industry itself.

It is also worth noting that merged companies often succumb to "unrealized synergies": failures to realize proposed efficiencies and other goals because of problems encountered when trying to integrate two different corporate cultures and structures, in an ever-changing market.

Bundling phone, Internet, and video services, telephone companies are trying to become "one-stop shops" for all our communications needs. Because such services as live video feeds are clearer if their bits of digital information are transmitted rapidly and together, the telephone companies want to charge Internet content providers *(See below)* a premium for delivering videos with "routing priority" over generally less time-sensitive transmissions, such as e-mail. The telecoms claim that they are simply providing consumers with additional choices and recouping some of the billions of dollars they have invested in their networks, as for fiber-optic lines, even as they have cut the price of their broadband service, in competition with cable providers. As John Chambers, CEO of Cisco, recently told analysts, "very soon, all TV will be broadcast over the Internet."

The big telephone companies are lobbying Congress to rewrite the landmark Telecommunications Act of 1996, which deregulated the communications industry, allowing telephone and cable companies to directly compete. In particular, they want to make it easier to provide television service without having to negotiate a new agreement with each city they wish to serve (An indirect but inevitable consequence of this would undoubtedly be the end of funding for uniquely, locally valuable community access television).

Wireless Telephone Companies

Owned jointly by AT&T and BellSouth—and, thus, having helped to pull the two corporations together—Cingular, the largest cellphone

company in the country, competes directly with Verizon Wireless, the second-largest (jointly owned by Verizon and a British telecom), and Sprint, the third-largest wireless company, which recently bought Nextel; and wireless telephone companies in general compete at least indirectly with wireline telephone companies *(See also Cable and Satellite Companies, below)*.

To support the new technology of high-speed wireless communications, and to thus make wireless providers more competitive, there are calls for more government auctions of unused portions of the wireless spectrum and for the release of other frequencies for unlicensed utilization.

Internet (VoIP) Telephone Companies

Internet phone services ("Voice over Internet Protocol," or VoIP) are growing rapidly in popularity. However, because they are often offered by smaller telephone companies, such as Skype or Vonage (CallVantage, from AT&T, is an exception), they are often at a competitive disadvantage to more traditional telephony. Sensitive to that, the FCC last year ceased Madison River Communications, a telecom company, from blocking their consumers' access to Vonage.

Cable and Satellite Companies

Facing stiff competition from telephone companies, cable and satellite companies are bundling phone and Internet services with their video services. Typically having infrastructure already in place, cable companies can often undercut the price that telecoms need to deliver video profitably.

Efforts by telephone companies to promote congressional legislation that would allow the telecoms to bypass local regulations and, thus, build into communities more quickly, have provoked some coordinated resistance by cable companies, each protective of its "turf."

Actively competing with the major telephone companies, Comcast, Time Warner Cable, and some other cable companies are selling phone lines into homes; and they are also partnering with Sprint-Nextel to provide mobile phone services, in competition with Cingular (from AT&T-BellSouth) and Verizon Wireless. In addition, Sprint is providing its long-distance network to carry phone calls for cable companies, which are thus less dependent upon AT&T and Verizon.

Although the telephone companies have been pursuing the idea of a "tiered" pricing structure for Internet content providers *(See below)*, cable companies have generally not embraced this controversial position, although they can be expected to side with the telecoms, as it would bring in more revenue.

Other Hi-Tech Companies

Telephone equipment companies, like Lucent (spun off from AT&T in 1995) and Nortel, may find themselves in a more difficult bargaining position, having fewer telephone companies with which to negotiate.

Even electric companies may become involved in the communications market, by offering a new technology of broadband service delivered over their power lines.

Internet Content Providers: "Network Neutrality" vs. "Tiered Service"

Perhaps the greatest debate in the field of telecommunications these days involves the plan by telephone companies and cable companies, normally at odds, to establish "tiered" levels of service on their systems: "fast lanes" and "slow lanes" on the "information superhighway," if you will.

The telecom companies argue that as Internet content providers, like Google, Yahoo!, Amazon, eBay, or Microsoft, increasingly download video and other transmissions that consume enormous amounts of bandwidth (capacity), they should be required to pay a fee—in addition to the standard access fee paid by end-users—to the telephone or cable companies, which supply the costly, typically fiber-optic lines.

Moreover, by giving a video transmission priority treatment—by routing its digital bits together through the system, ahead of less time-sensitive transmissions (such as e-mails)—the quality of the video will not be degraded, even during periods of heavy Internet traffic.

In the press and before committees in Congress, which are considering and drafting legislation, the telephone companies and, less vocally, the cable companies are promoting tiered levels of service—a "pay to play" system, if you will—as a reasonable way for them to recoup their sizable investments and a method by which higher-quality sites can deliver higher-quality content to their users.

Not surprisingly, the Internet content providers—and most consumers and many legislators—feel otherwise.

Google, in particular, has termed this practice "cyberextortion."

Less inflammatory, but no less damning, critics have accused the telecoms of wanting to be "gatekeepers" of the Internet, or "toll booths" on the "information superhighway," impeding the free flow of ideas and innovations.

How, they ask, could a start-up company ever hope to compete with, say, a Google, which could afford to spend far more on getting priority service on the Internet? Who would use a new search engine, no matter how good, that took ten seconds to return a result that took only a second on Google?

In effect, the critics contend, the telecoms—and not a competitively free market of ideas—would be picking the winners and losers on the Internet, the winners being not only those who paid the most but also those with whom the telecoms had a working relationship (such as a subsidiary or sister company within a conglomerate). Internet phone companies would be particularly vulnerable to "discrimination," as some have called it, by rival telephone companies being allowed by law to charge more for some than for others to use their systems.

The fundamental question is, shall the Internet be turned into a system like that of cable television, in which the content producers must pay to have their content transmitted, in addition to the fees paid by the end-users to have the content received? Or will the dissemination of information on the Internet continue to be free? And how would all that impact personal Web sites and blogs? The implications—for society at large as well as for the economy in particular—are as staggering as the power of the Internet itself.

Currently, the popular demand is for continuing "network neutrality"—perhaps with some accommodations for extraordinarily large transmissions—but telecom companies, and perhaps cable companies, are thought by some to already be working out deals behind the scenes for preferential treatment of various content providers.

Consumers & Workers

Both residential and business consumers of telecom services can expect to be bombarded with press releases, advertising, and other corporate communications from the new AT&T regarding the BellSouth merger—perhaps in addition to the half billion dollars AT&T is spending this year acclimating its customers to the recent acquisition of AT&T by SBC, which took the more famous brand name of its purchase.

Just as the SBC-AT&T deal was by almost all accounts a "good fit"—AT&T bringing with it long-distance; SBC, local—the AT&T-BellSouth merger also makes sense on paper—the two systems compete very little for local or Internet customers, and they own Cingular Wireless together: At least initially, customers of AT&T, BellSouth, and Cingular should experience little if any change from the deal.

It is in the long run that the impact is more debatable.

Speaking on behalf of the combined AT&T and BellSouth, for which he would serve as chairman and CEO, current AT&T Chairman Edward E. Whitacre Jr. has said, "The merger ... will benefit customers through new services and expanded service capabilities." The plan is for the company's increased size to help hold down costs—as with those layoffs mentioned above and other economies of scale, saving some $2 billion to $3 billion a year—which may allow the new AT&T to undercut the prices of the cable and satellite companies, particularly for the television programming AT&T is beginning to deliver.

Speaking on behalf of consumers, Gene Kimmelman, policy director at Consumers Union, publisher of *Consumer Reports* magazine, has been quoted as saying that the merger "will lead to the end of the era of falling prices for telephone and cellphone service." In addition, fees for Internet service may rise, particularly in areas with limited high-speed choices and perhaps with the introduction of a "tiered" system of fees for content providers (as discussed above), probably ultimately passed on to consumers.

Regulators and Legislators

Mark Cooper, research director of the Consumer Federation of America, has been reported as saying, "Telecommunications has now gone from a regulated monopoly to an unregulated duopoly with just two major players. Consumers know that is not enough competition to lower their prices and drive innovation."

Moreover, Janee Briesemeister, a senior policy analyst of the Consumers Union, has said, "The track record of the baby Bells since the passage of the Telecommunications Act of 1996 shows a persistent pattern of bad acts, broken promises, and a failure to compete."

And it doesn't help at least the image of the telecom and cable companies to have so many of their members in regulatory positions: In 2003 to 2004, for example, about a third of the Consumer Advisory Committee of the FCC was composed of lawyers for AT&T, BellSouth, Cingular, Verizon, MCI, Cellular Telecommunications and Internet Association, National Association of Broadcasters, Telecommunications Industry Association, and the National Cable Telecommunications Association.

Regardless, despite all the lobbying by phone companies and by those who oppose a tiered system of fees on the Internet, Congress will probably not pass telecom reform legislation this year: It is probably too complex and time-consuming to debate in an election year. But as mentioned above, supporters of "net neutrality" fear that secret deals are already being done between phone companies and certain content providers for preferential treatment on the Internet.

And it is widely anticipated that the merger of AT&T and BellSouth will be approved by both shareholders and regulators within a year, particularly because the business environment in which the new AT&T will operate bears little resemblance to that which existed when the old "Ma Bell" was broken up: Back in 1984, cable companies were far smaller and less competitive, cellphones were a novelty, and the Internet was mostly a scholarly dream.

In Conclusion

The original Bell Telephone Company was founded in 1877 by Alexander Graham Bell. This inventor of the telephone captured the spirit of our Information Age when he said: "Great discoveries and improvements invariably involve the cooperation of many minds."

That is precisely the reason we must so jealously guard the freedom of all our communications.