The Behemoth Is Dead. Long Live the Behemoth

By Philip J. Weiser
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Just last week, SBC Communications formally requested permission to acquire AT&T. If completed, this merger would end the nearly 130-year reign of one of America's most successful companies. For Americans of "the greatest generation," AT&T represented the best of the nation's businesses, the essence of quality, service and reliability. Yet, for Americans under 30 years old, Ma Bell is a distant memory or a historical relic; to them, AT&T is largely irrelevant.

If SBC's acquisition of AT&T marks the end of a business era, it will also mark the failure of the Telecommunications Act of 1996 to deliver on its plan for robust competition between AT&T and its corporate offspring. The current telecommunications landscape looks entirely different from the world envisioned by Congress in 1996, as technological changes have turned that law into an anachronism.

Does it matter? Yes, and no. The death of AT&T leaves consumers wondering how they might be affected by the emergence of a handful of corporate colossi carving up shares of the telecommunications marketplace. There are far fewer telecommunications companies competing with one another today than Congress imagined there would be when it adopted the act; the Baby Bells have devoured each other as well as their corporate progenitor.

Yet consumers also have a wider variety of services, conveniences and gadgets than ever before. And new technologies could soon remake the market again, rendering not only new regulations but also the new corporate behemoths obsolete.

To understand the forces remaking the telecom industry, it is useful to recall how AT&T went from preeminence to irrelevance. Until the late 1960s, AT&T's Bell System enjoyed complete protection from competition, largely because regulators concluded that it could provide telephone service more cheaply and more reliably than a competitive system would.

A scrappy upstart named MCI challenged this conventional wisdom in the mid-1960s by proposing to compete against Bell in certain long-distance markets using new microwave technology. Around that same time, other companies developed plans to break the Bell System's dominance in the market for telephone equipment.

In 1969, the Federal Communications Commission decided, as Commissioner Nicholas Johnson put it, to add "a little salt and pepper of competition" to Bell's "rather tasteless stew of regulatory protection" by authorizing MCI to enter the long-distance market. In response, Bell fought competition by using its control over local telephone lines to thwart others' entry. In the long-distance market, Bell forced rivals' customers to dial extra digits to make their calls and degraded their connections. In the equipment market, Bell made its competitors use unnecessary equipment in order to raise the cost of attaching their products to the network.

Ultimately, Bell's tactics failed. In 1974, the Justice Department filed an antitrust action against AT&T. As the antitrust lawsuits piled up, company executives settled rather than test the Justice Department's antitrust chief's threat to "litigate to the eyeballs." In the 1984 settlement, AT&T retained its prized Bell Labs and Long Lines divisions, leaving the seven Baby Bells (as they were dubbed) to operate local telephone services. And the Baby Bells were barred from providing long-distance service -- lest they distort that market as AT&T had previously done.

For many Americans, having to shop for telephone service was a source of frustration. They not only complained about the breakup but also failed to take advantage of the new opportunities. My grandmother, for example, continued to rent her telephone from AT&T until several years ago, believing that AT&T's reliable service was worth the premium. Like my grandmother, millions of other Americans never changed their long-distance provider to a rival company -- despite the substantially better deals that millions of others took advantage of.

In 1996, Congress attempted to end the era of monopolies in local telephone service. To encourage the Baby Bells to open up local markets to competition, Congress provided a pathway for them to enter the long-distance market. In so doing, Congress expected great consumer benefits from a battle royal between the Baby Bells and their long-distance rivals (in both local and long-distance markets).

That didn't happen. Instead, the rise of wireless services and the Internet reshaped the telecommunications industry. Many wireless providers offered packages of bundled minutes that charged the same for local and long-distance calls, prompting millions of consumers to shift their long-distance calls to wireless services, taking profits right out of AT&T's pockets.

Later, the Internet's popularity created demand for an entirely new communications technology: broadband, or high-speed, access. In this market, both AT&T and the Baby Bells were behind the cable companies in developing and rolling out the new service. More recently, companies like Vonage have introduced voice-over-Internet services, which are starting to challenge Baby Bells like Verizon in their local markets.

In its attempt to compete in this new marketplace, AT&T purchased McCaw Cellular in 1994 and two cable firms in the late '90s. Although initially celebrated as a visionary, AT&T chief executive C. Michael Armstrong soon drew criticism for overpaying for the cable acquisitions and saddling the company with a huge debt load. In an about-face, AT&T sold both cable companies to Comcast less than two years after acquiring them -- and for far less than it had paid for them. In a statement that strained credulity, Armstrong defended that sale and the spinoff of its wireless operations as "a leap forward in realizing a vision that thousands of AT&T people have worked toward."

In reality, just six years after the 1996 Telecom Act, AT&T was left without any clear strategy for its future.

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