

F.C.C. – Baby Bells vs. Long Distance Providers

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The Federal Communications Commission (hereafter referred as the FCC) is the active Independent Regulatory Commission that consists for five presidential appointees that regulates all non Federal government interstate telecommunications¹. The FCC was originally set up to regulate Television and Radio broadcast industries, they have since moved into other territories, the one in question here being the telephone industry. The FCC, along with the NTIA, (National Telecommunications and Information Administration, a section of the U.S. Department of Commerce that advises the executive branch on telecommunications policies) is mainly responsible for overseeing the industry in terms of prices, entry/exit and competition.

The term “Baby-Bells” relates to what are now, four companies that originally comprised AT&T prior to the divestiture of 1984. They are now known as Verizon, SBC, BellSouth and Qwest. The RBOC’s (Regional Bell Operating Companies) were created to combat AT&T’s monopolistic stranglehold on the Telecommunications industry, amid strong complaints from all other competitors, most notably MCI. The divestiture was the direct result of an antitrust settlement by AT&T in January 1982, leading to the deregulation of the telephone company². According to the agreement, AT&T would no longer provide local phone service, but would be limited to long distance, research and manufacturing operations and competition in new markets, including the data component of the industry³. The local service would be regulated to the (seven) RBOC’s.

While the divestiture was not to take place until 1984, there were already complaints regarding the divestiture plan, and the increased costs that were to be put forward upon consumers to help pay for the agreement. “Access costs” on local phone services, put forward by the regulatory body itself, drew criticisms from the federal judge

supervising the breakup of “Ma Bell”, Harold Greene 3. This was the first evidence given toward how the FCC and AT&T were collaborating to make the transition for the phone company as smooth as possible and quite possibly hurting consumer welfare in the process. Forecasters had already pegged local service rates to rise as much as 100% due to the settlement agreement, and much of the blame was said to rest on the shoulders of the FCC, for not taking consumer welfare into account, and suggesting a pricing structure that would benefit only the RBOC’s and charge exorbitant rates for unnecessary service additions. The counterpoint, as stated by AT&T was that consumers had never paid full economic rates to the Bell companies due to their regulated status, hence all consumers were in a state of perpetual “subsidy” that would be removed by deregulation, and hence lead to the eventual rise in phone rates. Hence, the implementation of the local access charges by the FCC would ensure a steady rise in phone rates to upkeep maintenance on the actual network, and allow for a less pronounced increase over the short run 4.

On January 1st 1984, the divestiture officially took place. The perpetual song and dance regarding rate hikes and impacts were heavily discussed over the month’s leading up to the fateful day, and while all fears of rate hikes were confirmed, the Baby Bells spun off from AT&T, to stand alone as (at the time) local exchange monopolies, with AT&T and MCI, the big players in the long distance market. At this stage, the Baby Bells were unable to enter the Interstate markets while Intrastate markets remained free from competition, given the astronomical barriers to entry due to the high costs associated with establishing independent networks 5. The deal, however, had taken place, and as the Baby Bells struggled to stay afloat at the moment, they were already hard at work handling regulatory issues that reportedly would cost the new companies billions of

dollars. This lobbying was in defense of the proposed access charges by the FCC just prior to the divestiture. The work was already cut out for the new players.

Eventually, as things settled down with the new corporations, they started to look to further avenues of revenue. For the Baby Bells, the holy grail of telephone was quickly becoming the long distance market. Prior to the Telecommunications Reform Act and the Telecommunications Act of 1996, signed in by president Bill Clinton, the market for long distance was heating up with three major players, AT&T, MCI and Sprint on the forefront, with the Baby Bells on their heels to offer long distance service to consumers

6. AT&T was continually raising its base rates to help pay for the various discount plans to maintain its market dominance, which had been continually eroded away by Sprint and MCI. Meanwhile, the Baby Bells were continually forced into competition by wholesaling network rates to competitors who could “piggy-back” on their networks and compete in the local exchange markets. These rates were held to be very high amid complaints that new companies could not maintain an acceptable profit margin, and had to depend on the Bells to provide network maintenance, which was not up to par with service provided to their own customers.

Amid these new complaints by the major players in the Telecommunications arena, the Clinton administration proposed new plans for CLEC's (Competitive Local Exchange Carrier's) to expand into Long Distance service if they satisfied a set of conditions to demonstrate the need to expand under their specific market climate. The Bells welcomed this move at first, claiming it was the only way to stay viably competitive.

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