

***Telecommunications Regulatory Reform during the Carter Years:
Origins, Conflicts and Impacts***

Wayne R. Drews

Masters Research Paper
History and Sociology of Technology and Science
Georgia Institute of Technology

October 16, 2010

Telecommunications Regulatory Reform during the Carter Years: Origins, Conflicts and Impacts

President Jimmy Carter sent a message to Congress on September 21, 1979 urging action to reform telecommunications regulation.¹ This action was the result of a long series of events, multi-faceted issues and contentious debates. While these issues did precede Carter, evidence demonstrates the pivotal nature of his time in office and the impacts of his actions. It is important to note that the legislator most prominent in the telecommunications debates during Carter's tenure, and congratulated in Carter's message, was Democratic Representative Lionel Van Deerlin of California. Van Deerlin was Chairman of the House Communications Subcommittee and led creation of the proposed Communications Act of 1980 to which Carter was referring. This bill aimed to reform the regulation guidelines set forth in the 1934 Communications Act. It addressed the impacts of nearly fifty years of change in the telecommunications industry, including the advent of computers, microwave and fiber optic transmission, and digital technology. Van Deerlin argued the importance of opening telephone service to competition and letting the marketplace determine rates. He maintained that passage of the 1980 Communication Act would encourage telecommunications innovations, lower customer rates, and advance productivity.²

Regulation as a whole assumed enhanced importance during four specific periods of United States history. Thomas K. McCraw identifies these as the 1870s, early years of

¹ President Jimmy Carter to Congress, "*Presidential Message: Regulatory Reform of the Telecommunications Industry*," *U.S. G.P.O.*, Series: (96th, 1st. session: 1979), no. 96-192. (Hereafter, Carter Message to Congress.)

² Interview of Lionel Van Deerlin Conducted by Carol Lof, IEEE History Center, February 19, 1980. (accessed at http://www.ieeeehn.org/wiki/index.php/Oral-History:Lionel_Van_Deerlin_and_Charles_Jackson)

industrialization, 1900-1916, the Progressive Era, the 1930s, Roosevelt's New Deal, and the 1970s. As McCraw points out, the 1970s were unique because during that period both regulation and deregulation somehow grew simultaneously.³ Richard H. K. Vietor similarly points to the two periods of the 1930s and the 1970s, which he calls The Great Depression and The Great Stagflation, as framing the era of regulation.⁴ The relationship between business and government has always been complex. Never more so than during the 1970s and Carter, a Democrat with little government experience coupled with some business experience, was wedged for four years between two longer periods of Republican administrations which espoused support for less government intervention. Coupled with the general tenor of that period toward regulation in general there was also a major shift in technology which impacted telecommunications in particular. McCraw captures it this way, ". . . a situation of natural monopoly prevailed for many years in long-distance telephoning, based on the once valid principle that a single set of transcontinental wires could most economically serve consumer's needs. But in the 1960s and 1970s, a technological revolution in microwave communication destroyed that premise and ended the natural monopoly in long-distance telephoning."⁵ New technology enabled the emergence of new companies who then sought to compete with AT&T. Vietor adds to these two factors of technology and entrepreneurship what he terms new economic and political conditions of the 1970s and what he describes as regulatory failure. He writes about the convergence of all these drivers and their impacts, "The process accelerated in the mid-1970s, until it seemed to spin out of institutional control. This transition, from regulated

³ Thomas K. McCraw, *Prophets of Regulation* (Cambridge: Harvard University Press, 1984)

⁴ Richard H. K. Vietor, *Contrived Competition: Regulation and Deregulation in America* (Cambridge: Harvard University Press, 1994),

⁵ McCraw, 307.

monopoly based on electromechanical technology to regulated completion based on electronic digital technology, culminated in the breakup of the Bell System on January 1, 1984.”⁶

In his book, *Shaping American Telecommunications*, Christopher Sterling also recognized the importance of telecommunications public policy because, unlike most other countries, in the United States the government role was never one of ownership, but of regulation. Sterling goes on to contend, “More than other sectors of a nation’s economy, telecommunications operates through a unique melding of technology, economics and policy.”⁷ Carter captured these aspects in the opening paragraph of his message by writing about three goals, “Legislation is needed to eliminate needless regulatory control, encourage competition and innovation, and keep telephone service affordable throughout the country.”⁸ During the period of Carter’s presence on the national stage, players across a broad spectrum of industry, consumer groups, law and government took active roles in establishing the context and arguing their positions. The ultimate result of this drama did not materialize until after Carter’s departure. The country’s largest company was to split into pieces. This set the stage for a multitude of new entrants, changed the lives of millions and touched almost all citizens in some way.

There are important concepts embedded in the three stated goals of Carter’s message. For each goal, it is worthy to explore its origins, conflicts and impacts in order to understand the underlying concepts. Doing so also provides an understanding of the times, the state of the technology and the importance to society of efforts aimed at telecommunications regulatory reform.

⁶ Vietor,168.

⁷ Christopher H. Sterling, *Shaping American Telecommunications: A History of Technology, Policy, and Politics* (Mahwah, NJ: Lawrence Erlbaum Associates, 2006), 1.

⁸ Carter Message to Congress

Goal One: Eliminate Needless Regulatory Control

The first goal listed in Carter's message was to eliminate needless regulatory control. There were aspects of deregulation that appealed to each of the political parties. Democrats felt it would be good for consumers by lowering prices of products and services due to simplified rules and less paperwork. Also, Carter especially wanted to lower cost of government at a time when inflation was a major concern. Republicans supported deregulation because they believed a free market environment would enhance innovation and competition and reduce the size and omnipresence of government. The mood of the nation was ripe for such changes after the long period of a growing government influence on citizen's lives stemming from the Great Depression, World War II, the Cold War, Vietnam and Watergate.

Ronald Reagan is the president who gets the most attention for his crusade to stem the tide of big government. This is reflected in an article and editorial cartoon in *Regulation Magazine* that credits Reagan with success in his first year by writing, ". . . the administration's record has been far better than that of any other administration, even allowing for the fact that it has had more to deregulate than any other." Christopher DeMuth, Reagan's administrator of information and regulatory affairs and executive director of the Presidential Task Force on Regulatory Relief, wrote the article. Though he was hardly an unbiased source, the following editorial cartoon from the United Feature Syndicate, which DeMuth included in the article, did reflect the generally accepted view.⁹

⁹ Christopher C. DeMuth, "A Strong Beginning on Reform," *Regulation Magazine*. Vol. 6, No. 1 (January/February 1982) The Cato Institute, Washington. 15-18.

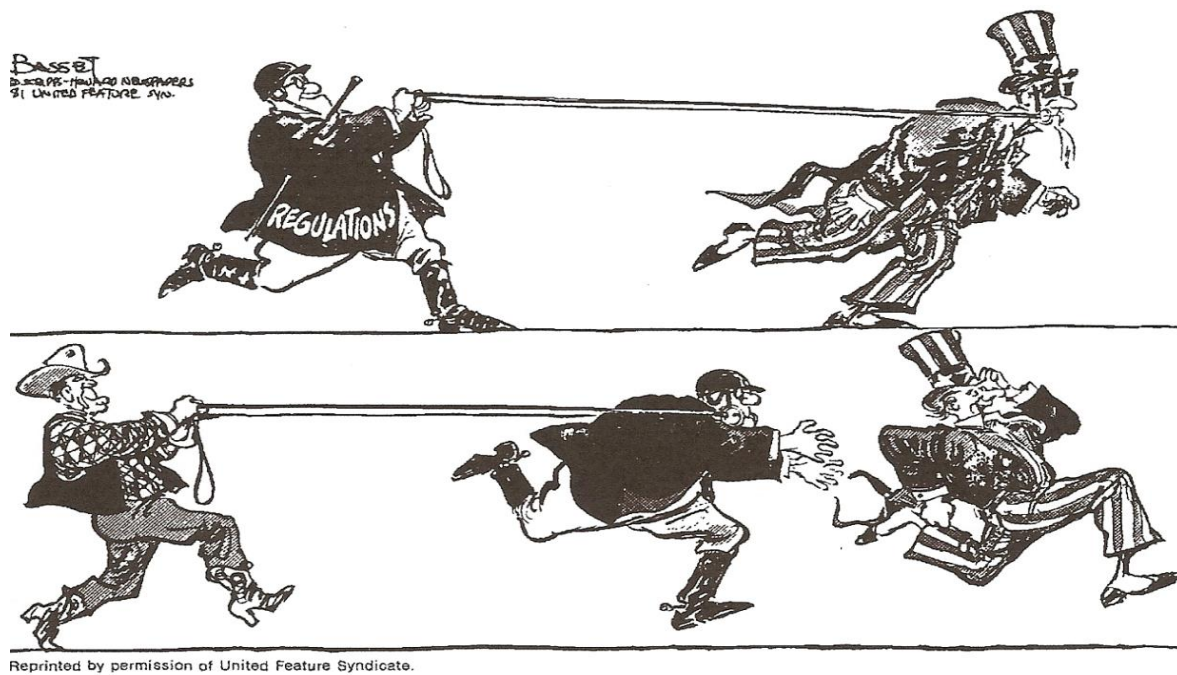


Figure 1

The message is clearly that Reagan changed the model from one where regulation was holding back the progress of the United States to one where he held back regulation and thus allowed the country to advance. While this has been a common view, it can be shown that Carter also made significant progress, albeit not as well recognized.

Early in his campaign Carter staked out his beliefs about government which he said stemmed from his experiences, “I’m an engineer and a scientist and a businessman and a farmer more than I am a politician . . .” He then described how ineffective, expensive and cumbersome the federal government had become and how he wanted to streamline it. “And I don’t want anybody this year to vote for me for President unless you want me as President to completely reorganize the executive branch of the nation’s government. And, if I’m elected President, I’m going to do it. Primarily because the American people are sick of the bureaucratic confusion

here in Washington.”¹⁰ This statement is an indication of his view toward the size and burden of government and portends his attitude toward regulation in general, though details for future initiatives in specific industries were only in a formative stage.

In retrospect, Carter’s impacts did become particularly noteworthy with regard to deregulation of transportation, energy and telecommunications. Kevin Wilson in his book, *Deregulating Telecommunications*, contends the following with regard to telecom, “Although regulatory reform did not figure prominently in his campaign for president, Carter embraced the movement following his election.”¹¹ However, a letter written by Richard M. Neustadt, Deputy Special Assistant on the White House Staff shortly after Carter took office demonstrates not only support for telecom deregulation, but also makes a claim that Carter did address the subject during his campaign. The letter was a reply to V. G. Husdon, President - Telephone Service Company of Ohio. Neustadt wrote, “The President pledged during the campaign to review the Communications Act in light of the developments of the last 40 years, and he has often stated his belief that the burden of regulations upon business and the public should be kept to a minimum.”¹² The Communications Act of 1934 established rules governing the telecommunications industry and had been only minimally modified since enacted.

Christopher Sterling identifies the key decade for telecom deregulation to be 1974-84. He states that legal and regulatory battles in this period managed to “. . . redefine the shape of American telecommunications—with ramifications still being worked out early in the 21st century. . . . the unified and long-dominant Bell System would cease to exist, creating a wholly

¹⁰ Speech by Jimmy Carter, January 23, 1976, Consumer Federation of America Assembly, Sam Bleicher Files, copy in “Agency for Consumer Advocacy”, Box 31, Jimmy Carter Library, Atlanta. (Hereafter, Carter Library)

¹¹ Kevin G. Wilson, *Deregulating Telecommunications* (Lanham, MD: Rowman & Littlefield Publishers, 2000), 100.

¹² Letter, Richard Neustadt to V. G. Hudson, 3/8/77, White House Central Files, “FG 128, 1/20/77-1/20/81,” Box 184, Carter Library.

different industry structure.”¹³ It is important to note that the Carter presidency (1977-81) is central to this period. More than just a temporal placeholder in the process, the Carter years actually quickened the pace of deregulation in favor of competition. The role of each president in the 1974-84 period is described by Jeremy Tunstall in *Communications Deregulation: The Unleashing of America's Communications Industry*. Tunstall characterizes Ford as a trot, Carter as a canter and Reagan as a gallop.¹⁴

The Carter “canter” started right out the opening gate of his presidency. The White House Office of Telecommunications Policy prepared a memorandum and forwarded it to Neustadt on March 11, 1977. It outlined the suggested position for the administration on telecommunications policy. This memo supported a congressional review of the Communications Act of 1934, made the case that regulatory programs of the FCC should be discontinued where they no longer served a useful purpose and recommended that fostering of market processes should be encouraged. It concluded with this statement, “The President, therefore, wishes the Congress every success in the important task of insuring that our very important communications systems are regulated as well as possible, with as little burden as possible to the public and to those subject to regulation.”¹⁵

Making appointments is one of a president’s main powers. Kevin Wilson elaborates on this subject with regard to telecommunications legislation when he says, “Carter softened industry resistance to these bills by appointing pro-competitive commissioners to the regulatory agencies. Slowly, in a piecemeal fashion, the regulatory commissions began to introduce

¹³ Christopher H. Sterling, *Shaping American Telecommunications* (Mahwah, NJ: Lawrence Erlbaum Associates, 2006), 145.

¹⁴ Jeremy Tunstall, *Communications Deregulation: The Unleashing of America's Communications Industry* (New York: Basil Blackwell, 1986), 28-9.

¹⁵ Memo, William J. Thaler to Richard Neustadt, 3/11/77, “Communications Act Re-Write,” DPS-Gov’t Reform, 2/18/77-1/10/78, Box 13, Carter Library.

competition to the industry.”¹⁶ This worked because industry began to realize that legislative action could put an end to uncertainty due to incremental deregulation. The most influential of Carter’s appointments with regard to telecommunications was that of Charles Ferris as Chairman of the FCC. The goal of this appointment was stated in a memo from Rick Neustadt to Stu Eizenstat, Assistant to the President for Domestic Affairs and Policy. Referring to the appointment of Ferris, the memo said, “This decision presents a crucial opportunity to improve the Federal communications policy and implement the President’s commitment to competition and improved regulation.”¹⁷ Even though the FCC is an independent agency, President Carter continued to press his goals with Ferris after his appointment as Chairman. In a letter to Ferris on April 11, 1978 expressing the need to seek all means to control inflation, Carter continued to push for pro-competitive measures by writing, “I believe that regulatory agencies can contribute to the effort by fostering competitive markets and prices, which often provide the most powerful restraint on inflationary pressures. In addition, we should attempt to use market forces more constructively than has been the case in the past to achieve our social goals.”¹⁸

The efforts of Charles Ferris did achieve some success in meeting the aims of the Carter Administration with regard to deregulation of telecommunications. In a letter dated June 1, 1979, Eizenstat wrote the following to Ferris, “I want to congratulate you on the dramatic regulatory reform steps the FCC has taken in the last few months. Your efforts are contributing substantially to the President’s program of eliminating needless regulation and promoting

¹⁶ Wilson, 101.

¹⁷ Memo, Richard Neustadt to Stuart Eizenstat, 3/30/77, White House Central Files, “FG 128, 1/20/77-1/20/81,” Box 184, Carter Library.

¹⁸ Letter, Jimmy Carter to Charles Ferris, 4/11/78, White House Central Files, “FG 128, 1/20/77-1/20/81,” Box 184, Carter Library.

competition.”¹⁹ In his book, *Telecommunications in the United States: Trends and Policies*, Leonard Levin includes a contribution from Douglas Webbink, a commissioner on the FCC during the tenure of Ferris. Webbink states, “The Chairman of the Commission, Charles Ferris, and some of the other Commissioners have been strongly committed to deregulating many of the services the Commission regulates. This may be seen not only from the Chairman’s votes in Commission meetings and speeches but from the emphasis of the people he has chosen as bureau and office chiefs.”²⁰

FCC processes and congressional rewrite efforts for the Communications Act did contribute to pushing forward the deregulation and pro competition agenda of Carter. However, the largest impact was not achieved in the Executive or the Legislative branch of government; though it is true that they exerted an influence. That largest impact was from the Judicial branch and began on March 6, 1974 as a 36 page civil antitrust complaint by MCI, a small competitor to AT&T in long distance services. This complaint charged AT&T with violating the Sherman Antitrust Act through its domination of telephone services.²¹ The founder of MCI, Bill McGowan, was an entrepreneur who saw the opportunity to attack the AT&T monopoly by arguing for the right to provide lower priced point-to-point high capacity services to businesses by using microwave technology in the dense St. Louis to Chicago route. The FCC approval of this service was instrumental in beginning the long process of changing the rules of the telecommunications game. AT&T called this “cream skimming” and contended it would undermine the long held belief that universal service was in the public interest while advocates

¹⁹ Letter, Stuart Eizenstat to Charles Ferris, 6/1/79, White House Central Files, “FG 128, 1/20/77-1/20/81,” Box 184, Carter Library.

²⁰ Douglas W. Webbink, “The Recent Deregulatory Movement at the FCC,” in *Telecommunications in the United States*, ed. Leonard Lewin (Dedham, MA: Artech House, 1981), 62.

²¹ Sterling, 147.

said it was movement toward a fairer system of cost-based prices. It is a dilemma however, that even if it is in the public interest, a system of cost allocation is complex and debatable. This allocation problem exists in competitive as well as regulated markets. But, for a regulated business it becomes a public policy issue.

The United States filed an antitrust suit against AT&T in the Washington, D. C. district court November 20, 1974. It was sweeping in its allegations. Joseph Kearney in an article in the *Hasting Law Journal* describes it this way, “The government claimed that AT&T had used its vertically integrated organization to impede competition in telecommunications industry segments that by their nature should not have been served by a single provider-specifically, long-distance service and equipment manufacturing.”²² The state-sanctioned franchises of the Bell System provided, on a monopoly basis, local telephone service to more that eighty percent of the nation’s users. Thus, it had the means to do just what the government suit claimed.

Litigation of this case started before Carter and ended after him. However, much of the language of the settlement was pulled from the ongoing congressional and regulatory proceedings during his administration.²³ In view of their impacts, the goals he outlined are central to capturing the essence of the entire debate. Though interrelated, exploring each goal separately achieves the best understanding.

Goal Two: Encourage Competition and Innovation

Early in Carter’s message to Congress, he touted the benefits of deregulation of airlines in the previous year. He claimed this action saved \$2.5B for passengers while increasing air

²² Joseph D. Kearney, "From the Fall of the Bell System to the Telecommunications Act: Regulations of Telecommunications Under Judge Greene," *Hastings Law Journal* 50 (August 1999): 1404.

²³ Michael K. Kellogg, *Federal Telecommunications Law* (Boston: Little, Brown and Company, 1992), 221.

travel and airline revenues. He believed similar progress could be achieved in the telecommunications industry through better services coupled with cutting costs. Carter wrote, “We cannot afford to have this progress frustrated by unwarranted regulation. We must ensure that competitors fight through their salesmen in the marketplace rather than through their lawyers in government hearings.”²⁴

This belief was not new to Carter as he held it as a basic tenet during his first campaign. At an event hosted by Ralph Nader, who was a prominent consumer advocate, Carter was asked if he favored competition in the telephone industry. At the time the *Consumer Communications Reform Act* (commonly called the Bell Bill) was being pushed by the incumbent telephone companies. Many aspects of it were deemed by consumer activists and potential competitors to the incumbents as blatantly anticompetitive. Further, Carter was asked if he supported the government’s pursuit of antitrust litigation against the Bell System. Carter replied, “I do favor competition within the telephone industry. I think that there are a couple of instances with which I am personally familiar as a businessman and as a candidate.”²⁵ He went on to describe, as an example, in-building systems for large companies as an area where competition is a good thing. He said, “I have not observed myself, nor have I been presented with any proof that there is too much competition within the telecommunications industry now. My own inclination now is to think that there is not enough competition.”²⁶ He also indicated support for the antitrust case.

These comments raised considerable concern within labor unions, as competitors to the

²⁴ Carter Message to Congress.

²⁵ Transcript of Public Citizen's Forum, August 9, 1976, 1976 Campaign, Sam Bleicher's Files, Communications Folder, Box 31, Carter Library.

²⁶ Ibid

Bell System were generally non-union shops.²⁷ Though less prominently expressed, there was a parochial worry that competition and innovation might result in what could be viewed as the type of “creative destruction” famously described by Joseph Schumpeter. In this theory, technological innovation could reduce the need for human labor and eliminate jobs. Subsequent to the forum, Carter acknowledged these concerns and stated that he was still studying the issues. He expressed appreciation for labor support in a conciliatory letter to the president of the telephone employees union, “Certainly we cannot have massive disruption of employment in the industry and personal hardships for industry employees. . .”²⁸

Carter’s varied statements led to uncertainty as to his real position. The following editorial cartoon captured this point.²⁹

²⁷ Glen Watts, President - Communications Workers of America expressed concerns about Carter’s remarks. Watts reinforced that the CWA had been a strong supporter of the Democratic Party and this position expressed by Carter was very damaging to their continued support. Carter’s campaign staff aide, Stu Eizenstat, alerted him to the sensitivities of labor and also made this strongly worded recommendation to Carter about the antitrust case, “Finally, no comment whatsoever should be made on the pending Justice Department litigation on this question, on the grounds that it would be inappropriate to comment on a case that is in Litigation. THIS IS A DIFFICULT ISSUE THAT SHOULD NOT BE DISCUSSED IF WE CAN AVOID IT.” Memo, Stu Eizenstat to Jimmy Carter, August 24, 1976, 1976 Campaign, Sam Bleicher's Files, Communications Reform Act Folder, Box 32, Jimmy Carter Library.

²⁸ Letter, Jimmy Carter to Glen Watts, September 20, 1976, 1976 Campaign, Sam Bleicher's Files, Communications Folder, Box 31, Carter Library.

²⁹ Lon B. Gregory, "Management Notes," *Telephone Engineer and Management*, September 15, 1976, 11 (obtained from 1976 Campaign, Sam Bleicher's Files, Communications Folder, Box 31, Carter Library).

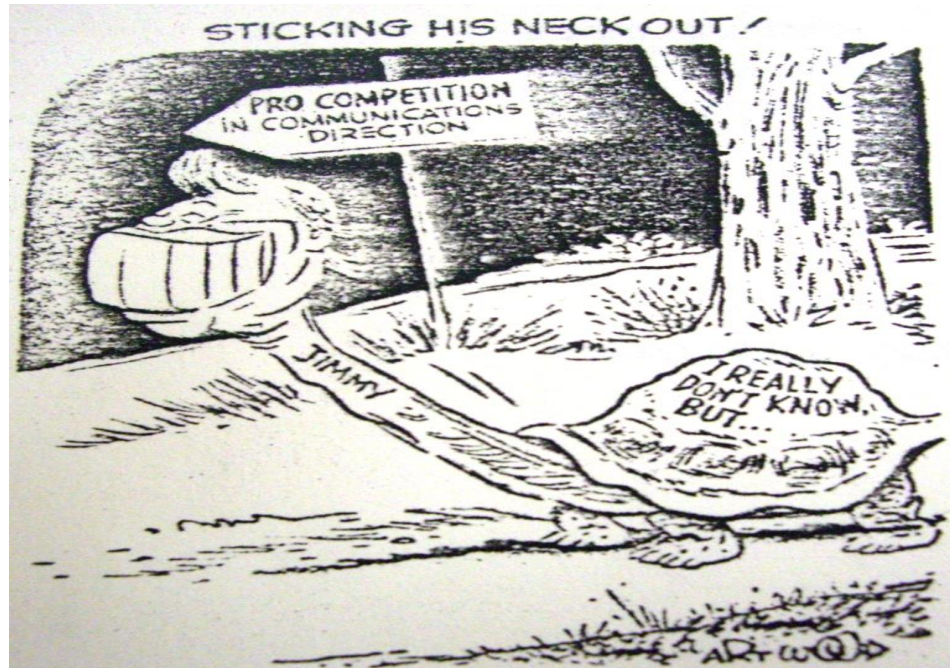


Figure 2

Some of Carter's uncertainty may have been founded in his background as an engineer and businessman. From that perspective, he could appreciate the arguments against opening up full competition. For example, the briefing materials furnished to Carter, contained a detailed and scholarly written paper that provided an analysis of the domestic telecommunications industry. The author, Laurence Singer, was a former lobbyist for the Consumer Federation of America. He addressed the issues under debate and described the arguments from multiple perspectives. The value of the integrated system of telecommunications was recognized in a reference made to a recent decision by an Administrative Law Judge of the FCC. That decision acknowledged that the combination of research and development, manufacturing and operations in the Bell System provides useful public benefits.³⁰

³⁰ Laurence Singer, *Domestic Telecommunications*, Briefing Papers prepared for Jimmy Carter, September 16, 1976, 3, 1976 Campaign, Sam Bleicher's Files, Communications Folder, Box 31, Jimmy Carter Library.

Kenneth Lipartito in *Rethinking the Invention Factory*, agrees that monopoly status gave AT&T certain advantages when it came to research. Lipartito states, “Most notable, it could charge the costs of its research to its customers, in contrast to competitive firms, which must absorb the costs of unfruitful research.”³¹ This scenario was good for the company, but also considered good for the public. This assumption of public good derived from the ability of Bell Labs to undertake not only applied research but also basic research. Payoffs from basic research may be long term but could also be widely applicable beyond only the Bell System. As Paul Starr describes the situation in his book, *The Creation of the Media*,

In a purely competitive market, AT&T would have been too concerned with its short-term survival to invest in new knowledge potentially convertible into profitable innovations only many years later. Regulation, in contrast, provided a stable environment for recovering long-term investments, and rate-setting agencies typically recognized research as a legitimate capital cost. As a result, AT&T could allocate research costs to its operating companies, which could pass them on to consumers.³²

Beyond the research implications, Singer’s paper does highlight three of the major thrusts of AT&T’s legislative initiatives and explains adverse impacts on competitors that would result. First, prices would be set based on incremental costs, which advantages the incumbents who already have the imbedded investment. Second, states would be given jurisdiction over terminal equipment, which creates a huge obstacle for a new entrant to compile with both the requirements of each local telephone company and the varied requirements of each state in which

³¹ Kenneth Lipartito, "Rethinking the Invention Factory," in *The Challenge of Remaining Innovative*, ed. Sally H. Clark, Naomi R. Lamoreaux, and Steven W. Usselman, Innovation and Technology in the World Economy (Stanford: Stanford Business Books, 2009), 133.

³² Paul Starr, *The Creation of the Media* (New York: Basic Books, 2004), 221.

they sell equipment. The third, and most challenging, proposal would be that in order to grow its network a new carrier would have to prove the following: there would be no increase in local exchange costs, no wasteful duplication of existing lines, and no impairment of the technical integrity and capacity for unified operations of the nationwide network.³³

It was long recognized that a powerful weapon against competitors in long distance service was control of access to the local network and hence to end user customers. This local network was the domain of the operating companies, primarily AT&T.³⁴ This was a successful tactic dating back to 1913 and the agreement that resolved the first antitrust case against AT&T. While this case resulting in forced interconnection to other independent local service providers it did not apply to interconnection to long distance providers. AT&T repeatedly used its power to avoid long distance interconnection until 1978. On petition by a firm, Execunet, the court ordered AT&T to interconnect. The FCC took the position that “. . . the introduction of competition stimulated technological change in the telecommunications system, helping to satisfy new business communications markets and realize latent but unsatisfied demand for existing services.”³⁵

The policy issue facing the Carter was the merits of competition versus the dangers of dismantling a system that had worked traditionally worked very well. It is not surprising there would be some uncertainty. In addition to incumbent telecommunications operators (Bell and Independents) and influential labor forces, other constituencies who expressed their views in favor of the traditional telecommunications structure included retired workers and senior

³³ Laurence Singer, *Domestic Telecommunications*, 5.

³⁴ Gerald W. Brock, *The Telecommunications Industry* (Cambridge: Harvard University Press, 1981), 199.

³⁵ Andrew Davies, *Telecommunications and Politics: The Decentralised Alternative* (London: Pinter, 1994), 161.

citizens, agencies representing rural areas, and minority groups. Examples of these position statements are:

- Pennsylvania Association of Older Persons, “. . . the Telecommunications Industry in the United States has established for industry, labor, small business and the individual consumer, telecommunications service which even its severest critics acknowledge as the finest in the world at the lowest cost to the consumer. . . . During recent years, significant regulatory decisions are threatening to upset balanced universal service at low cost by fragmenting the telephone network into thousands of suppliers seeking to control portions of the telecommunications service. . . .”³⁶
- American Farm Bureau Federation, “We support the goal of attaining an efficient interstate telephone system that will provide telephone service to rural consumers at a reasonable cost. We oppose policies which erode those revenues that traditionally have contributed to maintaining service at reasonable rates over the entire telephone network.”³⁷
- NAACP, “. . . nationwide cost averaging and rate integration has provided an equality of service for low income as well as commercial users in both urban and rural areas . . . we call upon the Congress to prevent the extension of unnecessary competition in the areas of terminal equipment and intercity common carrier service.”³⁸

³⁶ Pennsylvania Association of Older Persons, Resolution sent to Pennsylvania U.S. Senators and Representative, April 20, 1976, 1976 Campaign, Sam Bleicher's Files, Communications Folder, Box 31, Carter Library.

³⁷ American Farm Bureau Federation, Resolution, *Rural Electrification and Telephones*, 57th Annual Meeting, January 1976, 1976 Campaign, Sam Bleicher's Files, Communications Folder, Box 31, Carter Library.

³⁸ National Association for the Advancement of Colored People, Resolution, *Communications*, 69th Annual Convention, July 1978, Domestic Policy Staff, Neustadt Files, Common Carrier Correspondence Folder, Box 12, Carter Library.

An especially enlightening section of the Singer's paper addresses convergence of telecommunications and computer technologies and services. After describing the rapid pace of development in telecommunications, the paper makes the point that ". . . not only is the telecommunications industry changing at an ever-increasing pace, but so, too is the computer industry. The relationship of these two industries, now already affecting one another, presents further complexities."³⁹ This accurate observation explains why the computer industry was deeply involved and active in promoting the merits of telecommunications competition.

For the third quarter of 1976, AT&T posted record profits and became the first public corporation in the history of the nation to net over \$1B in a single three-month period. The chart in Figure 3 appeared on the front page of the New York Times. The timing was bad as competitors seized on AT&T's "astronomical profits" to buttress the argument that AT&T should be stripped of its near-monopoly position in telecommunications. Consumer activists, equally sensitive to the level of AT&T's profits, asserted that the new flush of prosperity at the company was just one more sign that rates were too high. "Ma Bell speaks with a forked tongue," said Marlin Rogol of the consumerist Public Interest Research Group. "At the same time they're saying competition is dangerous, they're reporting the highest profits in history."⁴⁰

³⁹ Laurence Singer, *Domestic Telecommunications*, 1.

⁴⁰ Richard Phalon, "A. T. & T.'s Record Profits Stir Elation and Vexation," *New York Times*, September 20, 1976, 1976 Campaign, Sam Bleicher's Files, Ad Hoc Committee Folder, Box 31, Carter Library.

AT&T Earnings – In millions of dollars, quarterly

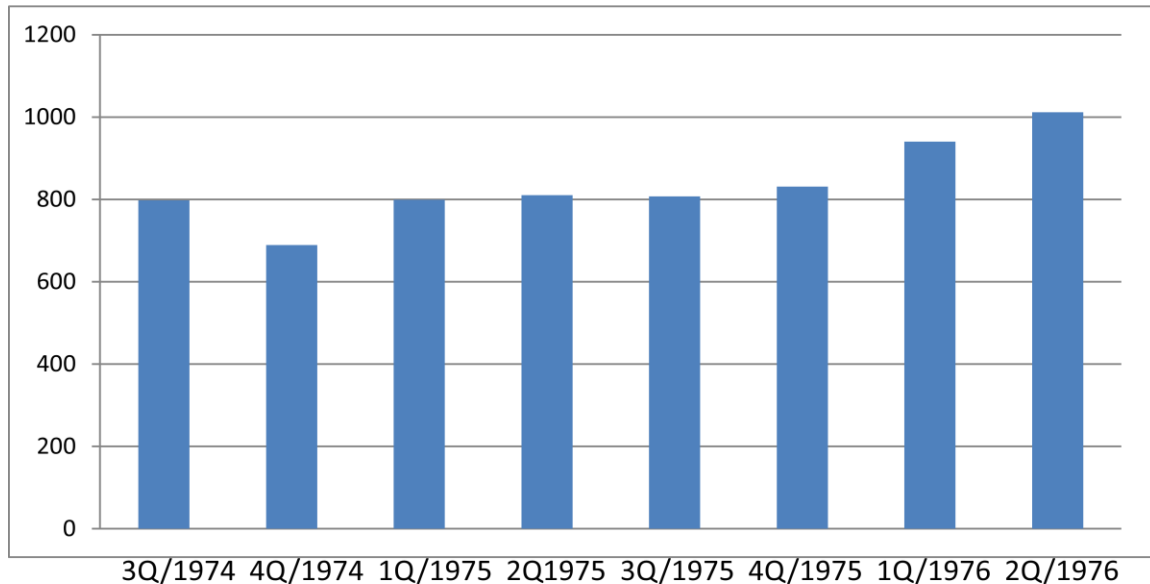


Figure 3

Similarly strong and vocal opponents to AT&T were those companies who sought to provide competitive transport services. Chief among these was MCI Telecommunications. Others included companies United States Transmission Systems and Southern Pacific Communications. Along with several other companies they formed the “Ad Hoc Committee for Competitive Telecommunications (ACCT). They presented a particularly impressive (in style and content) statement of their arguments to the Committee on Interstate and Foreign Commerce of the House of Representatives. The Introduction addresses the merits of competitive free enterprise as the basis of the American economic system. It includes a statement from an analysis made by AT&T of the results from one of their surveys of public opinion. The statement reads, “If the public is to adopt our position fully, it must, in some instances, suspend its convictions and accept the antithesis of some long-held beliefs (e. g., that free enterprise means higher prices and lower product or service performance” Using this statement, ACCT undertakes a rather scathing attack on AT&T by contending their legislative initiative of the

CCRA is a final resort appeal to Congress after having failed to convince regulatory agencies, the White House Office of Telecommunications, the courts and the public that they should be protected from competition. The CCRA bill, they charge, “. . . is neither a ‘reform’ bill nor is it consumer-oriented. Rather, it threatens to deny American consumers innovations and options in choosing communications services . . .”⁴¹

The statement that regulatory agencies are not convinced is clearly demonstrated by the remarks of the FCC Chairman.⁴²

Competition, in my opinion, has made AT&T and its partners better and more vigorous business entities and better and more vigorous public servants. Critics of the Commission's procompetitive policy originally argued that the "one carrier -- one system" concept was necessary to preserve the technical integrity of the telephone network. After nearly a decade of experience with the interconnection of customer-supplied equipment and specialized common carriers, the telephone industry has yet to document deterioration of the nationwide switched network. Thus, it is not surprising that the technical integrity arguments have now been superseded by the theme of adverse economic impact. In point of fact, however, Bell and the independents also have yet to prove any case of harm here either.

In addition, the Director of the Office of Telecommunications Policy also weighted into the debate with this strong statement in opposition:⁴³

⁴¹Ad Hoc Committee for Competitive Telecommunications, *Competition in Telecommunications*, September 29, 1976, 1976 Campaign, Sam Bleicher's Files, Ad Hoc Committee Folder, Box 31, Carter Library.

⁴²Richard Wiley, "Address to the International Communications Association," May 3, 1976, 1976 Campaign, Sam Bleicher's Files, Ad Hoc Committee Folder, Box 31, Carter Library.

The whole basis for our free enterprise system is that business access should be won competitively in the marketplace by providing the goods and services that customers want. It is unbecoming for a company the size and the stature of AT&T to use its legal, political and economic power to see to extend its monopoly by governmental fiat into areas where monopoly is not called for. In my judgment, the Government cannot let such an effort go unnoticed or unchecked.

AT&T argued they did pursue new technology and services. In the annual report to shareholders the Chairman said, "In 1975, we brought new technology to the threshold of introduction that, beginning in 1976, will not only increase the versatility of the nationwide switched network but improve the efficiency of its operations as well." Indeed, there were advancements and it is a tough case for either to prove what impacts, positive or negative, would occur from greater competition.⁴⁴

Beyond those who sought to be competitors, others touting the benefits of competition included State Commissions. One example is the Colorado Public Utilities Commission. The commission rejected a proposed Mountain Bell Telephone Company tariff filing as being non-compensatory and in violation of Colorado anti-trust laws. They also ordered Bell to inform all customers who had signed leases for equipment that they could terminate their contracts at any time without penalty.⁴⁵

⁴³ Clay T. Whitehead, "Testimony before the Senate Anti-Trust and Monopoly Subcommittee," July 9, 1974, 1976 Campaign, Sam Bleicher's Files, Ad Hoc Committee Folder, Box 31, Carter Library.

⁴⁴ John deButts, *AT&T 1975 Annual Report to Shareholders*, 1976 Campaign, Sam Bleicher's Files, Ad Hoc Committee Folder, Box 31, Carter Library.

⁴⁵ North American Telephone Association, *New Release-Colorado PUC Takes Stand Favoring Bell Competitors*, April 24, 1976, Domestic Policy Staff, Government Reform Neustadt, Folder 2 Common Carrier – Bell Bill, Box 12, Carter Library.

In addition, it was beginning to be recognized that continuing innovations were emerging from the convergence of computers and communications. Computer technology was being deployed in telecommunications switching equipment. But, more significant was the role distribution of electronic information through information services and capabilities such as Electronic Funds Transfer. The FCC ruled in 1971 that a communications common carrier could not offer data processing services or equipment unless a separate subsidiary was established for this purpose. This was due to a concern that regulated non-competitive services might subsidize competitive data processing services. In March 1976, the FCC used this prior ruling to reject AT&T's proposed "Dataspeed 40" computer terminal on the basis that it performed data processing.⁴⁶ The FCC decided to reopen the 1971 ruling because it was apparent that communications and data processing were becoming harder to distinguish. Fearing more attempted intrusions by AT&T onto their turf and anticipating aggressive AT&T lobbying, the computer industry led by IBM entered to debate.

While both companies were considered giants, it is interesting to note that AT&T actually held a considerable edge, as shown in Figure 4.⁴⁷

⁴⁶ Office of Telecommunications Policy, *Comments on AT&T Bills*, pg. 11, 1976, 1976 Campaign, Sam Bleicher's Files, Ad Hoc Committee Folder, Box 31, Carter Library.

⁴⁷ Harry Edelson, *Communications and Computers: AT&T and IBM*, pg. 1, August 24, 1976, 1976 Campaign, Sam Bleicher's Files, Ad Hoc Committee Folder, Box 31, Carter Library.

<u>RELATIVE SIZE</u>					
<u>AT&T vs IBM</u>					
(\$Billions)					
<u>1975</u>	<u>AT&T</u>	<u>Western Electric</u>	<u>AT&T Total</u>	<u>IBM</u>	<u>AT&T/IBM</u>
Fixed Assets	\$80.1	\$5.0	\$85.1	\$15.5	5.5x
Shareowners' Equity	33.8	3.2	37.0	11.4	3.2
Revenues	29.0	6.5	35.5	14.4	2.5
Net Income	3.1	.1	3.2	2.0	1.6
Employees (000)	939	153	1,092	289	3.8

Table 1 reveals that IBM is almost a dwarf compared to AT&T. The giant communication company has 5.5 times the fixed assets, 3.2 times the shareowners' equity, about 4 times the employees and twice the revenues and net income of IBM. In fact, by any of the above measures, AT&T is not only larger than IBM, but larger than the combined totals of Honeywell, NCR, Sperry Rand, Burroughs, Control Data, Digital Equipment, Data General, Xerox, Automatic Data and all of the 37 domestic members of the Computer Industry Association, combined!

Figure 4

Distinctions between these companies is important because AT&T was not allowed to offer data processing services and IBM was essentially precluded from the regulated business of communications. In view of what was accepted as a convergence of the businesses, the issues surrounded the resolution of these divergent modes of operation. In fact, IBM fired an early shot of the war by listing AT&T as one of its competitors in its filing with the Justice Department in its own antitrust case. Revenues of \$700 M were attributed to AT&T even though they were not supposed to be in data processing.⁴⁸

Relationships between these two giants were complex as IBM was both the largest single customer and the largest vendor to AT&T. IBM took a one third ownership stake in Satellite Business Systems (SBS), which provided long distance private transport services in competition with AT&T. When this happened, AT&T lost a major portion of IBM's transport revenue.

⁴⁸ Edelson, 3.

Possibly, in retaliation, AT&T began to replace IBM computers in its operations with computers from IBM competitors.

SBS prepared a position paper for lobbying purposes that attacked the Bell Bill. The paper stated:⁴⁹

The proposed legislation would nullify recent actions by the FCC which have brought the fresh air of choice to consumers of telecommunication service and equipment. This is leading to significant improvement in costs and technology. All the while AT&T's profits and business growth have increased by nearly record amounts. (see Figure 3) The AT&T Bills would leave AT&T almost alone in deciding what service and equipment consumers would have and at what cost. While it and its allies assert that they are moved to this action by a concern for some consumers, the basis of that concern is demonstrably unsound.

The paper goes on to make a case that the benefits derived from competition in terminals products has forced AT&T to expand the choices it provides and to move forward with new technologies. It contended the same would occur with competition in transport as AT&T, and an array of new competitors in the transport sector, would meet needs that AT&T previously was not motivated to do.⁵⁰ The paper charged that AT&T was using falsely founded fear tactics about impacts on basic residential service. As evidence, quotes from findings of the FCC were given which stated that competition had benefited customers in terms of features, functionality

⁴⁹ Satellite Business Systems, SBS Position on AT&T Bills, 1976, pg 1, 1976 Campaign, Sam Bleicher's Files, Ad Hoc Committee Folder, Box 31, Carter Library.

⁵⁰ Ibid., pg 3.

and cost and had not impacted company's earnings or rates for basic services. FCC quotes also concluded that situation is unlikely to change.⁵¹

IBM walked the line between agreeing with regulation for telecommunications but seeking to avoid regulation of equipment and services, which they provided. In a letter to Carter's domestic policy staff regarding the FCC inquiry into computers and communications, IBM stated, "Competition has proven to be the spur to innovation and the spawning of a variety of new products and services at the lowest possible prices to meet the diverse demands from all users." They proposed that regulation was appropriate only for pure transmission services and not for equipment installed on users' premises. While they acknowledged the right for carriers to supply premises equipment, they insisted safeguards were essential to insure that regulated services did not subsidize the pricing of equipment.⁵²

In a letter to the FCC Chairman, AT&T saw the situation differently. They argued that users were pleased with their ability to offer a complete package that included transport as well as data processing equipment and services. In this regard, they took issue with the position of IBM and other data equipment providers and contended that separation of equipment and transport combined with a broad definition of data processing would limit the use of modern technology. The result would be to reduce user choice, restrict innovation and dramatically limit data communication services to small or geographically remote users.⁵³ Again, this resonated with the AT&T refrain of universal service with uniform and reasonably priced availability to all users.

⁵¹ Ibid., pg 4.

⁵² Letter, Robert S. Cecil to Richard M. Neustadt, June 10, 1977, Domestic Policy Staff, Government Reform Neustadt files, Computer Inquiry Folder, Box 22, Carter Library.

⁵³ Letter, James R. Billingsley to Charles D. Ferris, October 17, 1977, Domestic Policy Staff, Government Reform Neustadt files, Computer Inquiry Folder, Box 22, Carter Library.

It was not only the giants who fought against AT&T proposals. There was also small business representation from the manufacturing and supply of telephone equipment. One such company president, Keith Schwayder, had the connections to get a meeting with Carter's staff. Mr. Schwayder was wealthy Colorado industrialist who had contributed heavily to Democratic campaigns. One of the companies he owned was a competitor to AT&T and their Western Electric manufacturing unit. He also brought to the meeting a lobbyist for the North American Telephone Association, a group of independent telephone equipment manufacturers. A memo written by Rick Neustadt of Carter's staff describes the issues involved. Schwayder argued against the Bell Bill citing the values of open competition and referring to Carter's announced position in support of regulatory reform and free market competition. He contended that AT&T arguments of universal service and network harms were groundless. Of particular interest in this internal memo is the frankness with which Neustadt said that the Bell Bill really had no chance of passage anyway and if anything did happen on the legislative front it would be in the context of a re-write of the Communications Act of 1934 which would be a 2-4 year process. Accordingly, the Administration's position needed to be one in which they could essentially keep from alienating any of the impacted groups, i.e., Democratic supporters such as Schwayder and consumer advocates, but also the powerful CWA union, the traditional rural and lower income base of the Democratic Party and the business interests of the largest corporation in the world, AT&T. Neustadt ended his memo with this statement, "I think the Bill is terrible, but since it is dead for now, I see no point in our getting out in front on it and bringing AT&T and CWA down on our heads."⁵⁴

⁵⁴ Memo, Rick Neustadt to Stu Eizenstat, February 4, 1977, Domestic Policy Staff, Government Reform Neustadt files, Common Carrier Correspondence Folder 6, Box 12, Carter Library.

In a later memo, Neustadt provides a succinct analysis and again relates that the bill should not be passed. In three parts, he lists the FCC rulings at question, the AT&T goals in their proposed legislation and the position of opponents to the Bell Bill.⁵⁵

FCC Decisions permitted sale of:

1. Phones, switchboards, answering machines, and other equipment which plugs into the network,
2. Private lines to large businesses, and
3. Computerized telephone services, such as Electronic Funds Transfer.

AT&T sought to maintain their monopoly because:

1. Non-Bell devices will damage the system,
2. Private lines will cause wasteful duplication, and
3. Loss of revenue will require increase rates for residential users, especially in remote expensive-to-serve areas.

Opponents countered:

1. FCC registration of devices protects the network,
2. Competition leads to minimum prices and maximum innovation,
3. Competitors succeed only where users prefer their offerings which means they are better and not duplicative,

⁵⁵ Memo, Rick Neustadt to Stu Eizenstat, March 7, 1977, Domestic Policy Staff, Government Reform Neustadt files, Common Carrier Correspondence Folder 6, Box 12, Carter Library.

4. There is no reason Bell should take money from some customers and give it to others. If it is in the national interest to subsidize rural service, the government should do it as they do in the case of rural electrification.

A strong opponent to the Bell Bill was Representative Timothy E. Wirth. As a supplement to a summary of testimony before the Communications Subcommittee, circulated by Chairman Van Deerlin, Wirth submitted into the Congressional record what he called a “very good summary” from a recent article in the magazine of Consumer Reports. The article provided details of the main points of the proposed legislation and concluded: ⁵⁶

In effect, the bill guarantees existing phone companies the monopoly they already enjoy and insures them a monopoly in future telecommunications technology. At the same time, the bill weakens or eliminates the very government regulation made necessary by a lack of competition. . . . In effect, the bill guarantees existing phone companies the monopoly they already enjoy and insures them a monopoly in future telecommunications technology. At the same time, the bill weakens or eliminates the very government regulation made necessary by a lack of competition.

Considering the logical case against the Bell Bill and the general opposition in Congress, it may be surprising that there was continued momentum. The likely reason is the powerful lobbying resources of AT&T. Given its size and economic impact, AT&T was able to get the attention of President Carter by actions such as stated in a letter from AT&T Chairman to Carter in which AT&T pledged to support efforts to slow inflation by freezing equipment prices and executive compensation as well as keeping local phone rates low. Carter responded by writing,

⁵⁶ *Congressional Record* vol. 123, daily ed. (January 26, 1977): 11, Domestic Policy Staff, Government Reform Neustadt, Folder 2 Common Carrier – Bell Bill, Box 12, Carter Library.

“I also appreciate the importance you attach to holding down the rate of increase on telephone service charges. This is the most important step your company can take against inflation.”⁵⁷

This goal seemed to fit into the philosophy that AT&T espoused against competition.

The lobbying power of AT&T was not enough to carry the day. By the end of 1977, AT&T recognized the Bell Bill would not succeed and began to seek compromises. On the equipment side, AT&T sought to require at least one telephone instrument be leased from the company to insure availability of service to users. The computer industry did not agree as they felt it could impede their sales of home computer/telephones terminals. Regarding intercity services, AT&T was willing to concede private lines used within a single company could obtain access to their public network if “access charges” were levied which provide a fair contribution to subsidize local phone rates. While this was movement on the part of AT&T, it still left a large gap between contending parties.

Henry Geller, who would soon be appointed the first head of the Commerce Department’s newly created National Telecommunications and Information Administration, was expected to play a major role in the future debates as committees in both the House and Senate began to consider their next steps.⁵⁸ Geller made requests to the Office of Management and Budget in September 1978 for additional staffing required to balance strongly held partisan views in the adversarial process of legislative debate on revision of the Communications Act of 1934. He stated this issue would be of continuing concern.⁵⁹

⁵⁷ Letter, Jimmy Carter to John DeButts, April 30, 1978, White House Central Files, AT&T Folder (name file opened upon request July 6, 2010), Carter Library.

⁵⁸ Memo, Rick Neustadt to Stu Eizenstat, December 22, 1977, Domestic Policy Staff, Government Reform Neustadt files, Common Carrier Correspondence Folder 6, Box 12, Carter Library.

⁵⁹ National Telecommunications and Information Administration, Budget Estimates Fiscal Year 1980, September 15, 1978, Domestic Policy Staff, Government Reform Neustadt Files, NTIA Folder 3, Box 47, Carter Library.

Geller was right to anticipate a major role and secure appropriate resources. Congress agreed in early 1979 begin anew the process of rewriting telecommunications law. Rick Neustadt suggested to Geller there was the potential for a Presidential Message calling on the Congress to act. It was also expected there would be objection from the Justice Department as the antitrust case against AT&T was dealing with primarily the same set of issues. The charge was given to Geller to move rapidly with developing and publicly announcing the administration position. Neustadt went on to write, "It is time to decide what we want to do in late 1979 and 1980. (This may be our last opportunity to put issues on the national agenda, if the bad guys win next year.)"⁶⁰

In summary, Singer noted, "Each FCC decision seems to create more problems than it solves, with no party entirely satisfied." He mentions conflict between the FCC and state agencies, between business and residential users, and between AT&T and its competitors. Further, he points out, ". . . the complexity of telecommunications policy problems are magnified by the substantial technological, social and economic consequences of any policy decision." Consequently, he predicts the new administration will need to pay close attention to these problems and provide a guiding hand. However, he suggests to Carter that the complexities, and presumably the divisions of opinion around this subject, do not make it a useful campaign issue. If pressured, Singer suggests the position to take is a non-committal one. He proposes, ". . . recognition that this industry is, in a sense, at a new stage of development and thus requires close

⁶⁰ Memo, Neustadt to Geller, May 3, 1979, Domestic Policy Staff, Government Reform Neustadt Files, NTIA Folder 5, Box 47, Carter Library.

examination and cooperation among the government and business communities in order to insure a communications industry responsive to the needs of the public.”⁶¹

Goal Three: Keep Telephone Service Affordable throughout the Country

In addressing the role of the FCC as regulator of telecommunications, Carter pointed out the authority was granted under the Communications Act of 1934. He notes the Act was “. . . designed at a time when technology made monopoly the logical structure for telecommunications. That system, assisted by the rural telephone loan program, has nearly achieved the national goal of universal service—96 percent of all households and nearly all businesses have telephone service.” Carter maintains conditions have changed and points to the extraordinary technological advances since 1934. “In addition to the wired network, the telephone companies and new, competing firms are using satellites, lasers, microwaves, and miniature computers to provide more and more systems and services for business and homes. The new technology makes it possible to hold meetings, transmit messages, do research, bank, shop and receive a widening variety of information and entertainment—all through electronics. In the process, the technology has invalidated the old assumption that all aspects of telecommunications service are natural monopolies.”

However, in the late 1970s, AT&T continued to use this assumption of the need for a monopoly in their arguments and backed it up with references to the renowned work of Alfred D. Chandler.⁶² In his 1977 work, *The Visible Hand*, Chandler stated, “In the creation of the nation’s communications network, monopoly rather than oligopoly became the pattern. . . . The speed and volume of messages made possible by the new electric technology forced the building of a

⁶¹ Laurence Singer, *Domestic Telecommunications*, 8-9.

⁶² Davies, 49.

carefully designed administrative organization, operated by salaried managers, to coordinate their flow and to maintain and expand transmitting facilities.”⁶³ AT&T insisted new technology had not negated the value on a unified network owned, planned and operated by one company. A counter view is that espoused by Thomas R. Hughes, who is critical of Chandler’s technological determinism. Hughes can accept the impact of a technological structure on organizational form, but he argues that the technological system is reciprocally influenced by organizational decisions.⁶⁴ In this view, a policy decision to alter the organizational structure of the Telecommunications industry would result in technological adaptation to the new (i.e., competitive) business model.

Edward B. Crossland, AT&T senior vice president, tried to paint it as an “either or” issue, “All we’re trying to do is get Congress to tell us: ‘Which rules do you want us to play this telecommunications game under? Do you want competition, or do you want the rate structure as it is, providing low home phone rates?’”⁶⁵ This position was a major point of argument by the telephone industry and was stated not only by AT&T but also by independents. A bill insert to customers of independents is an example.

Today we are forced to work in another area to be able to continue providing the service you expect and we wish to provide. Big Government, in the form of the Federal Communications Commission, is experimenting with the world’s best telephone system- in a way we believe endangers the service you enjoy and the reasonable prices you pay.

⁶³ Alfred D. Chandler, *The Visible Hand: The Managerial Revolution in American Business* (Cambridge: Harvard University Press, 1977), 202-3.

⁶⁴ Thomas P. Hughes, *Networks of Power* (Baltimore: Johns Hopkins University Press, 1983)

⁶⁵ *Congressional Quarterly*, "Bell Telephone Presses Case for Monopoly," September 25, 1976, 2615. (copy sent to Bleicher by Richard Drayne of Drayne/Guttenberg, Letter, September 30, 1976, 1976 Campaign, Sam Bleicher's Files, Consumers Folder, Box 31, Carter Library.)

Impartial studies conducted for USITA show that this “contrived competition” will cause residential and small business telephone customer to pay up to 60 per cent more in the next decade as well as threaten the quality of the service.⁶⁶

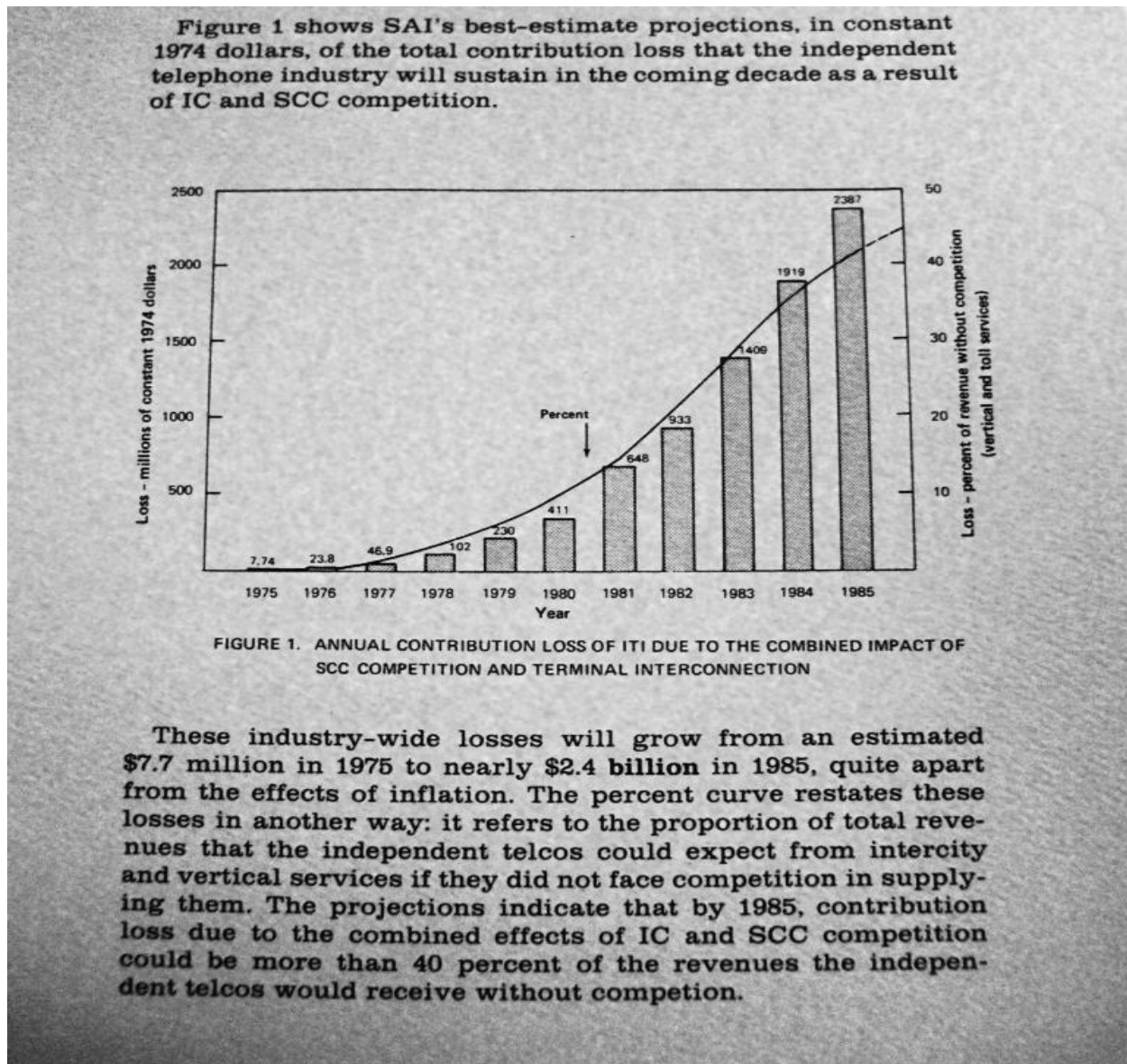
The early, and long enduring, goal of universal service to all customers at affordable prices with the highest possible quality dates to 1907 when Theodore Vail was AT&T president. As Mark Clark notes in his *Technology and Culture* article, which reviews Bell Telephone’s work on magnetic recording during the World War I era, “To provide universal service at a superior level of quality became AT&T’s formula for corporate prosperity.”⁶⁷ In the years prior to World War II, this meant pricing long distance, which was capital intensive and expensive to maintain, below its cost to provide. The rationale was to encourage customers to purchase local service for the purpose of calling long distance. As technology advanced, the cost factors changed and long distance became more profitable than local service. Disparity between costs and prices of long distance and local service was an accepted condition under the regulated monopoly model. Long distance, as well as business services, subsidizing local residential service in order to keep those rates low was considered to be in the public interest.

In a lobbying effort in favor of the Bell Bill the U.S. Independent Telephone Association commissioned a study and published the findings in a report labeled, “Economic Impacts on Independent Telephone Companies and Their Customers from Competition in the Supply of Terminal Equipment and Intercity Services.” It described the difficulty of meeting competition while also functioning as public utilities under federal and state regulation. The study contended

⁶⁶ Frank S. Barnes, “A message from the President U. S. Independent Telephone Association”, 1976, 1976 Campaign, Sam Bleicher's Files, US Independent Telephone Association Folder, Box 31, Carter Library.

⁶⁷ Mark Clark, "Surpassing Innovation: Bell Laboratories: and Magnetic Recording," *Technology and Culture* 34, no. 3 (July 1993): 535.

that revenues from basic local service do not cover costs and are subsidized by the services that the FCC had opened to competition. New entrants go after the most profitable customers and do not have the obligation to serve the less profitable ones. The following chart was included to show the revenue losses which the study projected would occur.⁶⁸



⁶⁸ Systems Applications, Study commissioned by United States Independent Telephone Association, January 1976, 1976 Campaign, Sam Bleicher's Files, US Independent Telephone Association Folder, Box 31, Carter Library.

The impact would be that companies would have to raise rates on basic local service to make up for these losses. The study explained that in rural areas costs to provide service is much higher due to distances between customers. Therefore, those customers would be left to the regulated company with the obligation to serve all customers. When forced to make up revenue losses in denser urban areas, the company would have no choice but to significantly raise rates in rural areas to cover their costs. It predicted a rate increase of 60 percent over the following ten years would be necessary to maintain the financial viability of the independent telephone companies. It ended with this plea, "What is really needed is a comprehensive review by the FCC, Congress, and state regulatory agencies of the roles and responsibilities of the telcos as public utilities and the market conditions that must prevail for them to be able to meet these responsibilities."⁶⁹

The Communications Workers of America (CWA) is the primary union representing the workers in telecommunications. They issued a strongly worded resolution in favor of the Bell Bill. It followed along the same lines of argument as USITA by charging:

Recent decisions of the Federal communications commission encouraging competition in telephone equipment and services, if carried to their logical conclusion, could result in higher rates for local telephone service." The FCC has encouraged "specialized common carriers" to provide competing private line services which, when tied in with the switched network, enable subscribers to virtually duplicate message toll services of telephone companies. Yet telephone companies are being restrained in their efforts to meet this competition. The FCC has also required the interconnection of terminal equipment manufactured by unregulated companies to the telephone network, overriding

⁶⁹ Ibid.

the regulations of state authorities and undermining the end-to-end, system-wide responsibilities of telephone companies for the quality, maintenance, and functioning of telephone equipment. If FCC encouragement of these kinds of competition results in diversion of substantial revenues from telephone companies, rates for remaining services, particularly basic residential services, will have to be raised in order that total system revenues will cover total system costs. If this were to happen, the result would be less business and less employment for telephone companies.⁷⁰

The CWA went on to warn of serious consequences for customers and employees. They also stressed that the telephone was too good to risk damage based only on theoretical but unproven benefits of competition. It argued it was best to stay with the current model of an integrated system where responsibilities were clear and where revenues from business and long distance services enabled low rates for basic residential service. In effect, this was the long held belief in the merits of universal service which had guided the industry since its earliest days and which was codified in the Communications ACT of 1934.

The Acting Director of the Office of Telecommunications did not agree that it was clear rates would increase. He stated in a public forum, "For every study that says the rates are going to go up 70%, we can find one that says they are not going to go up. Most people do seem to agree that present competition does significantly impact the Bell System's total revenues, and it is rather difficult to extrapolate that kind of impact into anything approaching the 70% scare that hit a couple of months ago."⁷¹

⁷⁰ Communications Workers of America Executive Committee, Current Issues in Telecommunications Policy, March 19, 1976, 1976 Campaign, Sam Bleicher's Files, Consumers Folder, Box 31, Carter Library.

⁷¹ John Eger, TSAI Forum New York, March 19, 1976, 1976 Campaign, Sam Bleicher's Files, Consumers Folder, Box 31, Carter Library.

The efforts by AT&T to get legislative relief were dealt a severe blow by the conclusions drawn in an analysis of the AT&T bills by the Office of Telecommunications Policy. “. . . the proposed legislation would result in the virtually complete monopolization of an industry in which historical, technological, and economic considerations suggest that, certainly for some it, free market forces are quite capable of serving the best interest of the public.”⁷²

By the time Carter delivered his message to Congress in 1979, there was developing consensus that changes in the model of regulation were needed. He stated, “FCC and court actions over the last decade opened portions of the industry to competition. Despite these far-reaching developments, the statutory framework has remained unchanged, and regulatory changes have come slowly.” However, the goals of the change advocated by Carter were diametrically opposed to the argument in Carter’s message supporting an overhaul. While the telephone companies and their advocates wanted stall competition, Carter wanted to promote it.

He states the impacts are that “Outmoded regulatory controls and slow procedures are harming new competitors, established telephone companies, and the users of telephone and other telecommunications services. Regulatory delays and uncertainties discourage firms from entering new markets and offering new services. In a dynamic industry, these delays can mean that the product or service offered is obsolete by the time the regulatory proceeding ends. Innovation is hobbled by uncertainty and by the need to respond to artificial regulatory conditions instead of real consumer demand.” He believes “Consumers are the final beneficiaries of competition, through lower prices and wider choices. The competition already allowed in the telecommunications industry is producing benefits. For example, the market for telephone sets

⁷² Office of Telecommunications Policy, *Comments on AT&T Bills*, 1976, 1976 Campaign, Sam Bleicher's Files, Ad Hoc Committee Folder, Box 31, Carter Library, 26.

and other terminal equipment recently was opened to competition. Consumers now can shop around for good prices, choose from a wide variety of products, and decide whether to buy or lease. Competition is also providing more choices among sophisticated, new services, such as those that combine data processing and transmission.”⁷³

Carter had charged his FCC Chairman, Charles Ferris to work on these issues recognizing that “Competition is a fact of life in this industry. It cannot and should not be rolled back, and we should not allow it to continue developing haphazardly. That approach means delay and uncertainty, and it poses a long-run danger to the health of our telecommunications system.” The goal is to create a structure to give customer the benefits of competition where it makes sense with attention to the need to keep telephone service reliable and affordable. The FCC did have some successes in this regard. As written in the 1979 Bell Telephone Magazine: "In a 'tentative decision' released in July, the FCC says it will 'adopt a flexible regulatory scheme' in CI-2. In brief, the FCC says it will allow common carriers to set up separate subsidiaries to sell detariffed enhanced 'nonvoice' services. AT&T endorses the concept but is concerned about specifics. AT&T vice chairman James E. Olson cautiously notes that 'controversy seems to be giving way to consensus' on telecommunications legislation, helped in large part by President Carter's call for action.”⁷⁴

Carter went on to state, “But, FCC attention is not enough. Changes in the law are also needed. To this end, he urged congress to press ahead with a bill that incorporates: encouraging competition wherever it is workable and of eliminating needless regulation. Deregulation makes sense for competitive markets, such as terminal equipment, and for small firms that cannot

⁷³ Carter Message to Congress.

⁷⁴ 1979 Bell Telephone Magazine, Publication of AT&T, September 1979 edition.

dominate markets. Many communications and equipment offerings should be deregulated now, and legislation is needed to avoid endless litigation over the FCC's authority to do so. Of course, some communications markets, such as the local exchange, may remain regulated monopolies indefinitely.”⁷⁵ That has not been the case as all of telecommunications is now open to competition.

Carter acknowledges a major paradigm shift, “The line between telecommunications and data processing has become blurred; new equipment and services involve both. Existing controls based on this distinction have produced years of regulatory proceedings and are delaying the use of new technologies. He discusses subsidies by LD to Local Service, “Universal availability of basic telephone service at affordable rates must be maintained. Overall long-distance revenues currently contribute to keeping some local and toll rates affordable. This is done through complex accounting processes largely determined by the telephone industry. Because of the developments of the last decade, this system is in trouble. The industry is considering changing it in order to match the new competitors' rates, and that could mean significant rate increases in some rural areas.”⁷⁶

The lobby of rural interests had effect as seen by his comments that, “The legislation should provide for a charge on all long-distance services-including those of the new competitors-which use local exchanges. This "access charge" would cover the actual cost of using local facilities, provide support for local service, and finance protection for rural residents against large toll rate increases.”⁷⁷

⁷⁵ Carter Message to Congress.

⁷⁶ Ibid.

⁷⁷ Ibid.

A major argument used by the telephone companies was the potential for the complicated nationwide network to be harmed by outside companies. Crosland cautioned, “You have trillions of working parts in that system, and you have to have them compatible.”⁷⁸ His contention was that the only way to insure integrity and functionality was to have the telephone company supply and control the devices in and connected to the network. Carter recognized the importance of the industry, “Telecommunications is crucial to our society. . . . The availability of nationwide, high-quality communications is vital to the economy, national security, and the quality of our lives.” He further contended that competition in place thus far had paid off, “Sophisticated new communications systems are providing better services, lower costs, and improved productivity in an economy that depends more and more on information transfers.”⁷⁹

Even though he acknowledged the importance of the telecommunication industry, as he neared the end of his term, Carter’s message became much more aggressive in favor of consumer interests than what it was in during his campaign. During the campaign, at a Ralph Nader forum, he admitted not knowing much about the consumer impacts of telephone regulatory reform. By the time of this message to Congress, he sought consumer involvement, “Public participation in regulatory decision making should be encouraged. Effective participation by the users of telecommunications services will help the FCC and state regulators make their difficult decisions. Such involvement should be encouraged through open proceedings and by providing

⁷⁸ *Congressional Quarterly*, 2616.

⁷⁹ Carter Message to Congress.

funding for groups that could not otherwise afford to participate and that represent an important interest that would not otherwise be heard.”⁸⁰

With the power facing them, consumer protection forces needed advocates, as they could never match what AT&T was able to spend on lobbying. It is important to understand just how big AT&T was in 1970. Peter Temin, in *The Fall of the Bell System*, provides data from *Fortune* magazine that lists the asset value of AT&T as 53.3 billion dollars with net income of 2.5 billion. The next largest corporation, Standard Oil (NJ) had assets of 19.2 billion and net income of 1.3 billion.⁸¹ This only shows a part of AT&T’s power. Temin points out that AT&T also had enormous political power derived from its one million employees who were present in every congressional district of the country.

AT&T sought to mobilize the power of these employees by suggesting they participate in a letter writing campaign to their congressional representatives. The company provided employees with arguments to use against the antitrust action and in favor of maintaining the Bell System as it was. Corporate headquarters heavily promoted this campaign and even handed out coffee cups with the Bell logo and the slogan, “The System is the Solution.” Edicts went to subsidiary companies instructing them to conduct similar campaigns at all levels. Investors and suppliers also received requests to support this cause of the status quo. There were extensive advertising campaigns in print and television touting the value of the “23 Partners” of the Bell System. This was a reference to the twenty-three different companies in the system who, the ads claimed, worked so well together to build and operate the best telecommunications system in the

⁸⁰ Ibid.

⁸¹ Peter Temin and Louis Galambos, *The Fall of the Bell System* (New York: Cambridge University Press, 1987), 10.

world. The message was that government efforts to break apart this valuable national asset were counter to the public interest.

As Peter Temin points out, residential customers were largely satisfied with their service. In view of this, the message of the ads sounded reasonable as improvements in service capabilities and reductions in cost did occur over the long history of AT&T. Letters flooded into Washington. Ironically, the political pressure of such a media blitz may have been counterproductive to the company's objectives as it reinforced concerns about the power of AT&T. It further irritated those who felt the company took the arrogant position that they knew what was best for the public. Temin makes this statement, "In fact, from a political point of view, AT&T was too big. It had grown rapidly in the 1960s and 1970s and appeared to have overwhelming power, equal almost to that of the federal government. . . . Although no one in power ever said so, the United States found it difficult to tolerate any company quite as large and omnipresent as the old AT&T."⁸² Not to diminish the significance of the deregulation movement and competitive open market goals, which were valid drivers for change, the AT&T mentality as exemplified by the ad campaign may indeed be an overarching reason why this break-up attempt succeeded. It is a factor whose origin AT&T could not blame on any party, other than itself.

It is ironic that with all the discussion about the role of the FCC and about the need for Congress to rewrite the applicable laws, the matter was ultimately decided not by the executive nor the legislative branch of government. The bills died at the end of the 96th Congress in December 1980, concurrent with the end of Carter's presidency. In the Senate, committee leaderships passed from the Democrats to the Republicans; in the House, the failure of Representative Van Deerlin to be re-elected meant a change in the influential Communications

⁸² Ibid., 342.

Subcommittee. It was a single federal judge, Harold Green, who made the key decisions and oversaw their implementation. The Antitrust suit brought against AT&T was settled in January 1982. As of January 1, 1984, the Bell System split into seven regional operating companies, and a long distance and manufacturing company.

Whether the breakup of AT&T was good or not for society can be endlessly debated. What is for certain is that through legal and political processes the pro-competitive philosophy, which Carter advanced, resulted in the largest divestiture in history and overwhelmed and outdated all other previous telecommunications regulation and competition initiatives.

Bibliography

Achival Files of Jimmy Carter Library in Atlanta, Georgia

Brock, Gerald W. *Telecommunication Policy for the Information Age: From Monopoly to Competition*. Cambridge: Harvard University Press, 1994.

———. *The Telecommunications Industry*. Cambridge: Harvard University Press, 1981.

Chandler, Alfred D. *The Visible Hand: The Managerial Revolution in American Business*. Cambridge: Harvard University Press, 1977.

Davies, Andrew. *Telecommunications and Politics: The Decentralised Alternative*. London: Pinter, 1994.

Gregory, Lon B. "Management Notes." *Telephone Engineer and Management*, September 15, 1976.

Hughes, Thomas P. *Networks of Power*. Baltimore: Johns Hopkins University Press, 1983.

Kearney, Joseph D. "From the Fall of the Bell System to the Telecommunications Act: Regulations of Telecommunications Under Judge Greene." *Hastings Law Journal* 50 (August 1999): 1395-1472.

Kellogg, Michael K. *Federal Telecommunications Law*. Boston: Little, Brown and Company, 1992.

Lipartito, Kenneth. "Rethinking the Invention Factory." In *The Challenge of Remaining Innovative*. Edited by Sally H. Clark, Naomi R. Lamoreaux, and Steven W. Usselman., 132-59. Innovation and Technology in the World Economy. Stanford: Stanford Business Books, 2009.

McCraw, Thomas K. *Prophets of Regulation*. Cambridge: Harvard University Press, 1984.

Starr, Paul. *The Creation of the Media*. New York: Basic Books, 2004.

Sterling, Christopher H. *Shaping American Telecommunications: A History of Technology, Policy, and Politics*. Mahwah, NJ: Lawrence Erlbaum Associates, 2006.

Temin, Peter, and Louis Galambos. *The Fall of the Bell System*. New York: Cambridge University Press, 1987.

Tunstall, Jeremy. *Communications Deregulation: The Unleashing of America's Communications Industry*. New York: Basil Blackwell, 1986.

Vietor, Richard H. K. *Contrived Competition: Regulation and Deregulation in America*. Cambridge: Harvard University Press, 1994.

Webblink, Douglas W. "The Recent Deregulatory Movement at the FCC." In *Telecommunications in the United States*, edited by Leonard Lewin, 61-83. Dedham, MA: Artech House, 1981.

Wilson, Kevin G. *Deregulating Telecommunications*. Lanham, MD: Rowman & Littlefield Publishers, 2000.