Analysis of the Economic Effects of the Divestiture of American Telephone and Telegraph In Cumberland Count

A Thesis

Presented to

The Chancellor's Scholars Council

of Pembroke State University

in Partial Fulfillment

of the Requirements for Completion of

the Chancellor's Scholars Program

by

Janet Elizabeth Beard

December 1984

TABLE OF CONTENTS

AN INTRODUCTION TO THE DIVESTITURE OF AT&T

At the stroke of midnight on New Year's Eve, 1984, most Americans were offering champagne toasts and blowing noisemakers to welcome the new year. It was another beginning and the economic prospects were high. This same night of beginnings, however, marked the quiet end of the world's largest corporation. As a result of an out-of-court settlement in an antitrust suit, American Telephone and Telegraph divested itself of its seven regional holding companies after 107 years of uninterrupted service.

There were no ceremonies and no disruption of services. Some 800 million calls continued to go through daily, just as before. The nearly one million employees of the former Bell System reported to work as usual after the holiday. It all seemed the same, yet the divestiture totally reconstructed a business enterprise with more assets, shareholders,

profits, and employees than any other in the world, dwarfing the 1911 split-up of Standard Oil.

Since 1877, American Telephone and Telegraph has taught the world about advanced communications. The company was formed on July 8th of that year with the inventor Alexander Graham Bell as the chief shareholder and electrician. After patenting the telephone, Bell relinquished his business affairs to his father-in-law, Gardner Hubbard. In 1880, the Bell System was created and immediately bought control of the Western Electric Company and Western Union.[1] AT&T was incorporated in 1885 for the purpose of establishing a long distance telephone system throughout the country. By 1913, however, the threats of antitrust litigation were growing and the company chose to dispose of its Western Union assets, thus eliminating its involvement in the telegraph industry and avoiding a lawsuit by temporarily appeasing its opponents.[2]

For much of AT&T's history, its managers were molded to excel in a regulated, monopolistic market.

Largely due to the security of their environment, the company never suffered a loss in any financial quarter since its formation, until the quarter preceeding its divestiture.[3] These market conditions no longer exist, however, and since divestiture the Bell System has been forced to redefine managers' jobs and change mind-sets as part of a total managerial reorientation program, designed to teach managers how to operate cost-efficiently in a competitive market.

Structure, as well as managerial style, has also changed. In the past, Bell Laboratories had the task of developing the latest technology to be used by the network companies. Western Electric strove to manufacture these products with high reliability. The Bell operating companies served as AT&T's connection with the customer and also concentrated on providing service to the customer at a reasonable return for AT&T. Long Lines built and managed the national network that tied them all together, and General Departments managed the whole

organization as an integrated structure. As of January 1, 1984, however, this system became obsolete. General Departments has almost been disbanded, and the operating companies neither belong to AT&T nor are they connected with each other. Western Electric remained the property of AT&T, but eventually this subsidiary will lose its separate identity. Appendix A summarizes the structural changes that have resulted from the divestiture of American Telephone and Telegraph.

The out-of-court consent agreement to divest AT&T has become a senistive issue for the consumer as well as for the employees of the Bell System. All rental phones remained the property of AT&T and are no longer the responsibility of local phone companies. Rents will be paid to AT&T. while the actual phone bill is paid to the local companies. This presents a confusing situation for the consumer. AT&T has also continued to advertise the fact that the changes will result in lower long distance rates. Local service charges, however, are expected to skyrocket.

Also, competiton for the long distance services will be fierce, as rivals such as MCI, GTE's SPRINT, and ITT's City Call attempt to gain market share. This thesis will examine both the reasons behind the break-up of AT&T and its impact on long distance and local rates for the average residential consumer in Cumberland County.

REVIEW OF RELEVANT RESEARCH AND THEORY

Is this wording from the source?

A monopoly signifies a market in which the supply of, or trade in, a commodity or service is controlled exclusively by one dealer or producer, so that the consumer has no alternative source of satisfying his wants and no choice as to the price. This is opposed to a state of competition, which signifies a market in which many dealers or producers of relatively equal size contend for the consumer by offering rival advantages in price and quality.[4]

Public monopolies, such as AT&T, are often established in those fields in which free competition would lead to waste or inefficiency. These areas, which include public utilities, require heavy capital investments, and it is considered more cost-efficient for a single company to produce and sell the commodity. The private enterprise engages in the business to make profits, but its rate of return is fixed and closely supervised by federal and/or state regulatory agencies. This has been the case with AT&T.

Monopoly power is usually measured as the size of the market share held by the defendent company. Significant monopoly share is associated with a total market share of 90% or more, whereas a share of 60-64% could be considered monopolistic and a share of 33% or less is generally insufficient market power to support an antitrust suit.[5] A chart displaying long distance revenues and profits in 1983 for long distance carriers can be found in Appendix B. Although market share is not shown, it is apparent that AT&T did possess monopoly power. With this in mind, an examination of the history of antitrust laws in this country is necessary in order to fully comprehend the reasons behind the divestiture of American Telephone and Telegraph.

Competition is the socially desired state of the economic market in the United States. Antitrust laws have been legislated and enforced in order to improve the quality of business behavior and to keep markets competitive. Today's antitrust laws are direct descendents of common law actions intended to limit restraints of trade, which became necessary with the enormous growth of national markets after the Civil War. Smaller companies began to merge together to form larger entities, and monopolistic practices appeared in the markets.

Known as "trusts," these types of organizations are best exemplified historically by John D. Rockefeller's Standard Oil Company. Standard Oil's attorneys established an arrangement where owners of stock in several companies could transfer their stock to a set of trustees. In return, the owners received consideration in the form of certificates entitling them to a specified share in the pooled earnings of the jointly managed companies.[6]

The result of such a practice was the establishment of a huge corporation. Because of its size, Standard Oil was able to sell kerosene at a price well below its costs. These low prices forced many of its competitors to either sell out or close down. Standard gained an increasingly larger share of the market, and it was able to then raise the prices and obtain monopoly power.[7] Abuses such as this led to the passage of legislation, such as the 1890 Sherman Antitrust Act, designed to prevent trusts from acting against the public's interest. The Supreme Court used the Act in 1911 when it ordered the dissolution of Standard Oil, based on the fact that they found the company had acted in restraint of trade. The Court ruled that the Sherman Act applies only to unreasonable restraints that have a significant impact on interstate commerce.[8]

Although the Department of Justice normally initiates such suits, it is not the only entity that can file under the Sherman Act. Some private parties, including industries and/or corporations, can also

sue for damages or other remedies, such as dissolution or divestiture. The courts have determined that the test of standing, or the ability to sue, depends on the directness of the injury suffered by the plaintiff. A person wishing to sue under the Sherman Act must prove that (1) the antitrust violation either directly caused or was at least substantial in causing the injury that was suffered, and (2) the unlawful actions of the defendant affected business activities of the plaintiff that were protected by the antitrust laws. One of the unique features of the Sherman Act is that it allows any party injured as a result of violations of the Act to bring a suit for triple damages against the defendant in addition to court costs and attorney fees.[9]

Section 2 of the Sherman Act makes practices to "monopolize or attempt to monopolize" unlawful behavior.[10] In practice, this has often been interpreted as actions that aggressively exclude a competitor. A number of factors must be considered, and in 1966, the Supreme Court defined two essential elements of monopolization. These elements are:

1. The possession of monopoly power in the relevant market.

2. The willful acquisition or maintenance of that power as distinguished from growth or development as a consequence of a superior product, business acumen, or historic accident.[11]

Any party found guilty of violating either section of the Sherman Act is subject to criminal prosecution for a felony. Currently, upon conviction, a party can be fined up to $100,000, or imprisonment for three years, or both. A corporation, such as AT&T, could be fined up to $1 million.[12] The Department of Justice can simultaneously institute civil proceedings to restrain the conduct that is in violation of the Act. The various remedies that the Justice Department has asked the courts to impose include divestiture, dissolution, and divorcement, or making a company give up one of its operating functions.

In 1914, Congress attempted to strengthen federal antitrust laws by adopting the Clayton Act, which was aimed at specified monopolistic practices. The Clayton Act outlaws price discrimination, exclusive dealings with one or more companies, and tying contracts. It also outlawed the purchase of enough stock in a corporation to reduce competition and interlocking directorates, which occur when basically the same individuals serve as officers and board members of different corporations whose activities directly affect each other.[13]

Also in 1914, Congress passed the Federal Trade Commission Act, which created a bipartisan, independent administrative agency headed by five commissioners, no more that three of whom could be of the same political party. Section 5 of the Act gives the FTC broad powers to prevent "unfair methods of competition in commerce and unfair or deceptive acts or practices in commerce."[14] The FTC also has the authority to conduct investigations relating to alleged violations of antitrust statutes and to make reports and recommendations to Congress regarding legislation. It defines particular unfair or deceptive acts or practices, including requirements for the purpose of preventing such acts or practices, and has issued guidelines defining unfair practices.[15] These guidelines are still very broad, and many seemingly unfair business practices are not specifically restricted.

The FTC initiates most of its investigations because of oral or written communication from the general public and private business firms. Its primary enforcement mechanisms are cease and desist orders, or orders to stop certain activities or practices which are determined as violations of the FTC Act. Businesses that ignore these orders are subject to fines of up to $10,000 per day for each day of continued violation.[16] These orders can be, and usually are, appealed to the courts.

American Telephone and Telegraph was faced with its first actual antitrust suit in 1949, when the Federal Government alleged that AT&T and Western

Electric had restrained and monopolized commerce in the telephone equipment and supplies industry.[17] The suit was dismissed in January of 1956, when the two parties agreed to a consent judgement. Although the judgement did not alter the fundamental relationships between the company, its subsidiaries, and Western Electric, it did contain provisions which limited the business of the company and its subsidiaries to communications activities subject to regulation, and it did limit the business of Western Electric to manufacturing and other activities of the kind in which it engages for the company and its subsidiaries.[18] There were, however, certain exceptions to these limitations, principally with respect to business incidental to regulated communications services and to business for the U.S. Government.

As technology continued to progress, however, the government once again began to consider AT&T as a monopoly threatening the livelihood of competition and also the privacy of the individual. A report to the White House by the Domestic Council Committee on

Privacy illustrates these fears:

> Information systems are spreading throughout the public and private sectors of the United States and the World. The question is no longer whether or not we should have (information) networks, but how we could establish them to maximize the effectiveness and efficiency in a manner which will insure their use for public good. [19]

According to Harold Sackman, author of the book <u>Mass Information Utilities and Social Excellence</u>, "The social stakes are too high to let the information revolution pass as just another economic opportunity to be resolved by the vagaries of the marketplace."[20] It became obvious that AT&T would not be allowed to retain their monopoly in an ever-growing telecommunications industry that could possibly threaten the privacy of the individual.

In November, 1974, the Department of Justice again brought a civil action suit under Section 2 of the Sherman Act in the U.S. District Court for the District of Columbia, naming AT&T, Western Electric, and Bell Laboratories as defendants and the twenty-three

Bell System telephone companies as co-conspirators. The complaint charged unlawful conspiracy to monopolize, attempt to monopolize, and monopolization of interstate trade and commerce in the telecommunications service and equipment industry, and sought injunctive relief including the divestiture of Western Electric by AT&T, and the separation of the Bell System telephone companies from AT&T and from each other.[21]

Rather than go to court and face the possibility of losing Western Electric, as well as the pending fines and enormous court costs, AT&T announced in January of 1982, that it had agreed to a new consent judgement with the Justice Department. This new decree required that the company divest itself of the Bell System operating telephone companies that provide local exchange and access services --- about three-fourths of the company's total assets.[22] It also required termination of the license contracts AT&T and Western Electric had established with the operating companies. Judge Harold Greene also ordered that AT&T could no longer use the name

"American Bell" to describe the new marketing division it had set up to sell Bell telephone equipment and information processing equipment in the unregulated, competitive market. It may now use the "Bell" name only for Bell Laboratories and overseas enterprises.[23] Judge Greene also awarded the regional companies the rights to all existing Bell System patents, as well as the rights to those which will be issued within the next five years.[24]

In turn, all interexchange facilities and rental phones became the property of AT&T and the parent company was allowed to retain both Western Electric and Bell Laboratories. The regional operating companies were restricted to exchange services and other natural monopoly services, but would be allowed to provide new telephone equipment to sell on a competitive basis. AT&T's access to the services of the regionals would be on terms and conditions equal to those of its competitors.[25] The government then agreed to remove the restrictions

of the 1956 consent decree, which had limited AT&T to the regulated telephone industry, and the 1974 antitrust suit initiated by the U.S. Justice Department was dismissed.

Since the new consent decree was agreed upon, competition has been rapidly developing in the computer industry between AT&T and the industry giant, IBM. Although AT&T played a large role in the birth of the computer industry, it was limited by the 1956 decree to developing computers for in-house use only. Now it is free to sell computers, software, and services to consumers. Both companies are "scouring the globe for alliances with computer and telecommunications companies"[26] in an effort to gain advantages. AT&T is currently negotiating with both Wang and Hewlett-Packard for possible future projects.[27] A major change could be in store for the industry, as IBM has never before been faced with a competitor whose size and reach were anything like its own.

AT&T's plans for the future American home resemble depictions of high-tech office set-ups. The company is marketing everything from small home devices to large minicomputers, with all the network links in between. They are designing a new telephone, known as the "smart phone," which attaches to a terminal and is capable of being linked through communications channels to either ACCUNET, the world's largest digital network, or Slaynet, Satellite Telecommunications' system.[28] Consumers will be able to discuss and manipulate data displayed on the terminals while conversing on the telephone, as well as transfer video pictures.[29]

Despite its entrance in previously forbidden data processing and computer markets, AT&T will continue to provide long distance services to consumers, this time on a more competitive basis. Although AT&T has retained around 90% of the $45 billion per year long distance market, they are being forced into fierce competition with long distance rivals, such as MCI, GTE's Sprint, ITT's City Call, and U.S. Telephone.[30] For now, the ability of these rivals to steal market share from

AT&T is limited only by their current inability to build capacity. (See Appendix C for rate comparisons)

Much of the expansion under way at alternative companies is to reduce their continuing dependence on AT&T. To provide nationwide access these companies have been buying phone lines from AT&T and other carriers at wholesale rates and reselling them to their customers. Divestiture has left smaller companies nervous, as AT&T is expected to raise their bulk discount rates and lower retail rates as the competition stiffens.[31] Alternative carriers are racing to build their own networks, a task which demands immense capital investment.

Although AT&T has actually had competitors in the long distance market for the past twelve years, they have continued to serve over 90% of the market.[32] Rivals are expected to take as much as one third of that market in the next several years as a result of a cost advantage they will enjoy over AT&T until around 1986. Currently, competitors have inferior connections to local companies, and the FCC has ruled that they pay only 45% of what AT&T pays for each minute they are connected to a local network. Local companies have been ordered to complete the conversion to provide equal access for all competitors by 1986. At that time, customers will be asked which primary carrier they prefer, and all long distance calls dialed by a 1 plus the area code will be automatically sent by way of the specified carrier. Alternative carriers can be used by dialing 10 plus a two or three digit carrier code before dialing the desired number.[33] The federal court ruled that customers who fail to select a primary carrier will have their calls automatically routed through AT&T.

To help promote competition, however, some Bell companies may instead intercept these calls and play a recorded message asking the callers to dial again.[34] Long distance competitors are gearing up in preparation to target their sales promotions at communities as conversion takes place.

All rental phone equipment became the property of AT&T after the divestiture. (See Appendix D for a comparison of rental rates) At first, local

companies, whether they were a part of the Bell System or one of the 1400 other U.S. phone companies, will continue to supply services. Eventually, however, whenever repairs or exchanges are needed, customers will have to deal directly with AT&T. It will send out technicians to install or repair rented telephones, but it will be very expensive. The company plans to charge residential customers an average of $40 for a fifteen minute visit and $20 for every additional fifteen minutes, even if the visit is needed to repair AT&T's equipment. Local companies will usually provide free service visits to repair their phone lines, but they will charge also, if the problem turns out to be in the phone equipment, rather in the lines. Phone rental will continue to be collected by the local companies as a service paid for by AT&T, but over the next eighteen months AT&T must begin billing customers directly.[36] Long distance bills will also continue to be collected by the local companies. AT&T Communications, the subsidiary that now handles long distance, has not decided if it will ever bill directly for long distance services. Since local companies are making money by collecting long distance charges for AT&T, they may begin to provide billing for other carriers as well.[37]

AT&T originally announced that it would cut the charges for regular long distance rates by 10.5%, or nearly $2 billion, thus closing the price gap between the dominant carrier and its competitors. This announcement was based on an FCC plan to charge customers access fees, which would take the place of hidden charges previously included in AT&T's long distance rates. The charge would be $2 a month for residential lines and up to $6 a month for business lines, and would be used to compensate for the loss of subsidies formerly generated from long distance revenues.[38]

Anyone making $20 or more a month of interstate long distance calls would come out ahead, as the $2.10 cut would outweigh the $2.00 access fee. That, of course, seems to penalize customers whose

monthly long distance bills are less than $20.00, while benefiting those whose bills are more.[39]

It is possible that access fees would increase, as AT&T's costs are shifted to consumers. Legislation to undermine the access charges include a bill in the Senate Commerce Committee that would place a two-year moratorium on access charges for residences and small businesses only. The telecommunications subcommittee in the House hopes to approve legislation that would eliminate the residential access charge but would impose a higher access charge as well as additional fees for business customers.[40]

The proposed access charges would cost customers $3.3 billion per year, while the 10.5% rate cut would save them considerably less. AT&T's data indicate it would lose $2.3 billion in annual revenue because of the cut. Using an industry rule of thumb, however, it has been shown that a 10.5% rate cut will stimulate 7.35% more calls, and the net effect would be only about an $850 million loss.[41]

Some analysts think the $3.3 billion in access charges would reduce AT&T's cost of providing long distance service by that amount. AT&T claims it would save only $2.3 billion and that the rest would go to boost local companies' profits.[42] Should the combination of access charges and the 10.5% rate cut go through, however, not only will AT&T realize a windfall, but also its competitors' costs would go up, making it harder for them to raise money for much-needed expansion.[43]

AT&T could lower its rates while still showing higher profits on its long distance business. Its promise of even greater rate reductions if the access charge plan is adopted could increase pressure on the FCC to stick with the plan and could help to defuse the possibility of a congressional override. One criticism of the access charge plan is that AT&T was planning to reduce its long distance rates by less than half the amount it would save in lower subsidies towards local service.[44]

AT&T also plans to impose a fifty cents charge

for each interstate directory assistance call, after one free call per month. The company claims that if the new charge is not imposed, long distance rates for those who do not make information calls would have to be higher in order to reimburse local companies for providing the directory assistance services. Directory assistance is most heavily used by businesses. For example, First Union in Charlotte, NC, spent $1,748 for directory assistance in June, 1983, alone.[45]

American Telephone and Telegraph has also proposed a new nationwide long distance pricing plan in which customers would pay a flat monthly fee for an hour's long distance calling. The new pricing option, called "Reach Out America," could be a powerful marketing tool as AT&T strives to retain customers who might be tempted by competitors. Under the plan, customers would pay a monthly fee of $10 for an hour's worth of interstate calls made after 11:00 p.m. and on weekends. The plan would not apply to calls in certain areas, such as

Western Europe. For an additional $1.50 per month, the customer would get the basic plan plus an additional 15% discount on calls made during the evenings.[46]

The Justice Department has asked the FCC to reconsider the rate plan, claiming that the new rate appears to be lower than the company's cost of providing the service --- something it sought to avoid in the 1974 consent decree. According to the Department, the proposed rates would not cover what AT&T pays local telephone companies for the use of their facilities in providing long distance services.[47]

By 1986, AT&T's competitors will have equal access and pay equal rates, and they will have to charge rates close to AT&T's in order to make profits. Major rivals currently have their own microwave saucer antennas to link phoning between major cities by radio. Others retail discount circuit time , which can be purchased wholesale from AT&T. Even when a rival does not reach a particular area, it

may take the call less expensively most of the way, and then use AT&T Long Lines to complete the call. Currently, only push-tone phones work for carriers other than AT&T, but interconnections for all phones, including rotary dial units, must by provided by 1986.[48]

The local operating companies have proposed a plan which would eliminate one advantage in costs that the rivals have over AT&T. These competitors now pay essentially flat rates for access to local phone systems and residential consumers. They use the connections for more minutes than AT&T expected, though, so the extra minutes cost them nothing. Because of this, companies like MCI can make profits while charging only nine to fifteen cents per minute for late-night and weekend calls. Under the proposed new charges, these companies would pay eleven cents for every minute it uses.[49] That would greatly reduce their ability to offer cheaper off-peak rates.

While the cost of long distance services is basically expected to decrease, the cost of local services for the average residential customer is expected to increase dramatically. In the past, basic services were provided by AT&T through the local companies at prices that were considerably below the actual cost of the services. The difference AT&T would have lost was made up by profits in the long distance market.[50] As a result of divestiture, however, this subsidy will eventually disappear. The cost of local service, now provided by the seven regionals, must be passed on to the consumer, as the regionals cannot afford to subsidize rates. State regulatory boards will virtually be forced to raise local rates in order to retain adequate service. A list of the total proposed changes in telephone bills can be found in Appendix E.

THE DESIGN OF THE STUDY

The divestiture of AT&T has had definite impacts on both residential and business consumers, as well as constructing a competitive long distance market. It is my hypothesis that businesses will profit from the settlement while the residential customers bear the actual negative impacts of this divestiture, and that, as predicted, local rates will actually increase dramatically as long distance rates begin to decline.

Originally, a project was designed to study both the short-range and long-range economic effects in these areas, and research was to be concentrated in Cumberland and Robeson Counties. Groups to be used in the study included private consumers, business consumers, local phone companies in each county, and AT&T.

Unfortunately, however, the project had to be redesigned. There simply has not been enough time since the divestiture to accurately complete the project as planned. The complete divestiture of a major corporation, such as AT&T, does not occur over a short period of time. The agreement to divest was reached in 1974, yet it was not ordered to occur until ten years later, in 1984. During these ten years, the company planned every aspect of the breakup, down to the last minute detail.

Although it has been twelve months since the divestiture took place, its impacts on consumers, as well as on the market, are sill very unclear. The imposition of the proposed access charges has been postponed by Congressional legislation, and many requests for local rate increases have not been ruled on yet by the state regulatory agencies. With this in mind, the project was redesigned in a more feasible manner.

Through mutual correspondence, information was obtained from the Federal Commerce Commission regarding the physical results of the divestiture of AT&T, a summary of long distance revenues for the top seven carriers in 1983, and a comparison of long distance rates at different times between the top three carriers. The FCC also provided information regarding equipment rental charges and used purchase prices for rental equipment, as well as a summary of proposed changes in telephone bills. This information has been tabled and can be found in Appendices A - E.

With the cooperation of Carolina Telephone and Telegraph, a local company serving Cumberland County, long distance and local rate data were collected as follows:

Long distance rates were obtained for calls originating in Fayetteville, N.C., to ten different cities within the U.S. The rates were based on the first minute as well as each additional minute during the daytime full-rate period. The data was collected for the years 1981 - 1984.

Local service rates were collected on a monthly basis from 1980-1984, for both residential and simple business consumers. From all of the information gathered, charts were created and inferences regarding the effects of divestiture on business and residential consumers will be presented in the next chapter.

THE RESULTS OF THE STUDY

After collecting the rates for long distance and business and residential local services, the data was arranged in table form and then percentage differences were calculated for the years in question. These percentages will be presented in this chapter, and conclusions will be drawn in the following chapter with respect to the original hypothesis.

Ten cities were randomly selected for the long distance study, two of which are located in North Carolina. The chart on page 35 demonstrates that long distance rates increased an average of 3.9% for the first minute, and 1.6% for each additional minute between 1981 and 1982. It should be noted that the largest increase was in calls placed to Raleigh, N.C., while the only decrease occurred with calls placed to St. Louis, MO.

Continuing along the chart, from 1982 to 1983, the rates for the first minute as well as each additional minute remained the same for all ten cities. This is significant in that it shows a stabilization of the long distance rates.

The year preceeding the divestiture, however, marks the predicted turnaround in long distance charges. Rates for the first minute declined an average of 3.4%, noting that there was no change in rates for calls to Raleigh and Charlotte. The charges for each additional minute declined by an average of 2.3%, also with no change in the rates for the two cities located within North Carolina.

While these rates were taken from the daytime full rate period, there is a 40% discount for calls placed from 5:00 p.m. to 11:00 p.m., and a 60% discount for calls placed between 11:00 p.m. and 8:00 a.m.

LONG DISTANCE RATES

FROM

FAYETTEVILLE, N. C.

CITY	1981		1982		1983		1984	
	1st min.	Addl min.	1st min.	Addl min.	1st min.	Addl min.	1st min.	Addl min.
Los Angeles, Calif.	.66	.46	.74	.49	.74	.49	.69	.46
Raleigh, N. C.	.38	.26	.48	.30	.48	.30	.48	.30
Atlanta, Ga.	.58	.42	.59	.42	.59	.42	.55	.39
New York, N. Y.	.61	.42	.62	.43	.62	.43	.58	.40
Chicago, Ill.	.61	.42	.62	.43	.62	.43	.58	.40
Charlotte, N. C.	.44	.32	.52	.35	.52	.35	.52	.35
Richmond, Va.	.53	.37	.58	.39	.58	.39	.54	.37
Miami, Fla.	.61	.42	.62	.43	.62	.43	.58	.40
St. Louis, Mo.	.64	.44	.62	.43	.62	.43	.58	.40
Honolulu, Ha.	.73	.55	.79	.55	.79	.55	.74	.52

The above figures are quoted for Daytime Customer Dialed Rate calls....first minute plus each additional minute.

Local ervice was divided into two categories, the first of which is simple business. The chart on page 37 illustrates the business rates for each month from 1980 to 1984. Basic charges for each month in 1980 were $21.80, and did not increase until May of 1981. At this time, they rose $1.00 to $22.80. Another rate increase occurred in May of 1982, raising the basic rates $3.40 to $26.20. Following suit, rates again increased in April of 1983 by $2.40 to $28.60, and they have remained at that level throughout 1984.

The second category of local service is residential consumers. The chart on page 38 illustrates the basic rates for residential consumers for each month between 1980 and 1984.

Basic charges in 1980 were $8.50 and did not increase until May of 1981, when they rose $0.55 to $9.05. In May of 1982, rates increased by $1.40 to $10.45. The final rate increase of $1.50 occurred in April of 1983, leaving the basic rates for consumers at $11.95 throughout 1984.

MONTH	1980	1981	1982	1983	1984
JAN.	21.80	21.80	22.80	26.20	28.60
FEB.	21.80	21.80	22.80	26.20	28.60
MARCH	21.80	21.80	22.80	26.20	28.60
APRIL	21.80	21.80	22.80	28.60 (eff. 4/7/83)	28.60
MAY	21.80	22.80 (eff. 4/16/81)	26.20 (eff. 4/14/82)	28.60	28.60
JUNE	21.80	22.80	26.20	28.60	28.60
JULY	21.80	22.80	26.20	28.60	28.60
AUG.	21.80	22.80	26.20	28.60	28.60
SEPT.	21.80	22.80	26.20	28.60	28.60
OCT.	21.80	22.80	26.20	28.60	28.60
NOV.	21.80	22.80	26.20	28.60	28.60
DEC.	21.80	22.80	26.20	28.60	28.60

MONTH	1980	1981	1982	1983	1984
JAN.	8.50	8.50	9.05	10.45	11.95
FEB.	8.50	8.50	9.05	10.45	11.95
MARCH	8.50	8.50	9.05	10.45	11.95
APRIL	8.50	8.50	9.05	11.95 (eff. 4/7/83)	11.95
MAY	8.50	9.05 (eff.4/16/81)	10.45 (eff. 4/14/82)	11.95	11.95
JUNE	8.50	9.05	10.45	11.95	11.95
JULY	8.50	9.05	10.45	11.95	11.95
AUG.	8.50	9.05	10.45	11.95	11.95
SEPT.	8.50	9.05	10.45	11.95	11.95
OCT.	8.50	9.05	10.45	11.95	11.95
NOV.	8.50	9.05	10.45	11.95	11.95
DEC.	8.50	9.05	10.45	11.95	11.95

SUMMARY AND CONCLUSION

From the rate information collected with the help and cooperation of Carolina Telephone and Telegraph, several inferences can be made and conclusions drawn with respect to the effects of the divestiture of American Telephone and Telegraph on long distance and business and residential consumer rates.

Long distance rates, as shown on the table on page 35, decreased during 1984 by an average of 3.4% for the first minute, and 2.3% for each additional minute. This is significant in that it is the first year following divestiture, and it agrees with what was originally predicted.

There are two major reasons which support this rate decline and even indicate that decreases may continue in the future for the long distance market. The first is that American Telephone and Telegraph is no longer subsidizing the cost of local service with long distance revenues. The company is now capable of offering long distance calls and services at a price which is closer to its actual cost. Also, AT&T is now involved in a market which is quickly becoming highly competitive. In the future they will be forced to both operate more cost-efficiently and to keep their prices competitive.

The rates for simple business, however, are not as easy to relate to former predictions. It was believed that basic business rates would decrease, as businesses had previously been charged such high rates. The amount of increases, in actuality, declined from $3.40 in 1982 to $2.40 in 1983 and there was no change in rates for 1984. It can be surmised that the rates have reached a

possible point of stabilization and perhaps they will decline in the future.

Residential consumer rates were not surprising, either. Increasing rate hikes were imposed in the years 1981, 1982, and 1983, raising the basic local service rate from $8.50 to $11.95. There was no change in rates during 1984. This is primarily due to the fact that legislation has delayed the imposition of access charges, allowing more time to study the necessity of these charges. Also, most state regulatory agencies have not yet ruled on rate increases proposed by the local companies following the divestiture. Major changes will be occurring within the next two years.

Competiton in the area of long distance can best be summarized by saying that AT&T still has monopoly power. Appendix B shows revenues and profits for 1983, along with the number of subscribers for the top seven carriers. With 97% of the market and the closest competitor (MCI) with only 2%, it is quite obvious that it will take both time and effort before the rivals can hope to take away the monopoly power AT&T has enjoyed wince its formation.

American Telephone and Telegraph is one of the most fascinating corporations existing in the world today. Besides operating private phone services, the Bell System superintends over one million pay phones. The corporation is also the world's largest publishing company, producing over 120 million phone books per year. The print was specially designed by the company itself. It also owns the largest number of buildings and motor vehicles, and even supplies its own navy, equipped to bury cables under the oceans. Despite the divestiture of the seven regional holding companies and the loss of local service business, American Telephone and Telegraph will continue to be a leader in the communications industry, honoring its past while fulfilling the future goals of the corporation.

This thesis is the culmination of two semesters filled with research, writing, rewriting, and of course, a great deal of frustration. A major part of the lessons learned included the fact that the phone company is not always the most cooperative in terms of offering information about itself. Imagine my surprise when I discovered that the phone number for the major office in Fayetteville (not the centers where a customer might pay his bill) is an unlisted number!

Despite the obstacles, I do believe that the paper represents a significant effort to study an enormous topic, and it could not be done without the help of several people. I would like to thank Mr. O'Brien for his continued support, as well as Dr. Herrick, Dr. Brown, and Dr. Jenkins. There were many times when I thought of giving up, and one of you convinced me that I should finish the project. I would also like to thank Mr. Jeff Holmes, who helped me finally get my rate information

from Carolina Telephone and Telegraph. It has been a great learning experience and although there were many obstacles involved, I am glad that I listened to my advisors and continued with the thesis. I could not have finished without their constant support.

PHYSICAL RESULTS OF DIVESTITURE OF AT&T*

American Telephone and Telegraph
1. AT&T Communications Long distance services
2. AT&T International Overseas marketing
3. Western Electric Product manufacturing and marketing
4. Bell Laboratories Research and development
5. AT&T Information Systems Data transmission services and products

*Data: Federal Commerce Commission

APPENDIX C

AT&T VERSUS COMPETITORS*

Company	Minimum monthly bill		Day 8am-5pm	Evening 5pm-11pm	Night 11pm-8am and weekends
AT&T	None	first minute	\$0.57-0.74	\$0.34-0.44	\$0.22-0.29
		each additional minute	0.37-0.49	0.22-0.29	0.15-0.20
MCI	None	each minute	0.33-0.43	0.16-0.21	0.12-0.16
SPRINT	\$5.00	first minute	0.40-0.61	0.24-0.35	0.16-0.24
		each additional minute	0.31-0.44	0.18-0.26	0.11-0.17

*Data: Federal Commerce Commission
Note: All rates are based on a 100-mile-to-3,000-mile range.

APPENDIX B

SUMMARY OF LONG DISTANCE REVENUES IN 1983**

	Revenues	Profits	Subscribers
	Millions of Dollars		(thousands)
AT&T	35000	1430	85,000
MCI	1520	203	1,550
GTE SPRINT	750	66	920
Allnet	180	8	150
ITT	170	3	95
U.S. Telephone	140	-5	80
SBS	70	-145*	90

*Total corporate losses: data communications as well as long distance services.

**Data: Federal Communications Commission

BELL-AT&T EQUIPMENT PRICES*

	Monthly Rental (Current average)	Monthly Rental (Maximum until 1/1/86)	Used Purchase Price (Current average)	Used Purchase Price (Maximum until 1/1/86)
Basic Rotary	$1.34	$1.50	$21.35	$19.95
Basic Push-Button	2.12	2.85**	41.36	41.95
Trimline Rotary	3.01	3.42**	41.23	44.95
Trimline Push-button	3.87	4.60**	53.58	54.95

*Data: Federal Commerce Commission

**Can be adjusted in 1985 for inflation.

PROPOSED CHANGES IN TELEPHONE BILLS*

Service	Proposed change (as of Jan. 1)
Local Calls	Up 20% to 150%. Proposals vary from state to state.
Long Distance (AT&T)	Down an average 10.5%, as much as 16% off some calls.
WATS (AT&T's long distance bulk discount service)	Down an average 6.9%.
800 Service (AT&T)	Up an average 1.3%.
Long distance information	50¢ per call-one free per month, split between AT&T and local companies.
Private-line service (AT&T's dedicated business phone lines	Up 15.3%.
800 and 900 information	Will remain free.
Access charge	$2 per month residential, $6 per month per line for businesses.
Equipment rentals	Undetermined.
Long distance discount services such as MCI, Sprint, etc.	Undetermined.

*Data: Federal Communications Commission

NOTES

[1]Sonny Kleinfield, The Biggest Company on Earth (New York, Holt, Rinehart, and Winston, 1981), p. 32.

[2]Ibid., p. 34.

[3]"Cultural Shock is Shaking the Bell System," Business Week (Sept. 26, 1983), p. 113.

[4]Joseph W. Burns, A Study of the Antitrust Laws (Westport, Conn., Greenwood Press, 1976), p. 43.

[5]Stanley N. Barnes and S. Chesterfield Oppenheim, The Attorney General's National Committee to Study the Antitrust Laws (Westport, Conn., Greenwood Press, 1976), p. 49.

[6]Thomas G. Manning, The Standard Oil Company: The Rise of a National Monopoly (New York, Holt, Rinehart, and Winston, 1960), p. 17.

[7]Ibid.

[8]Barnes and Oppenheim, p. 24.

[9]Congress and the Monopoly Problem: Fifty-Six Years of Antitrust Development (New York, Greenwood Press, 1968), p. 19.

[10]Barnes and Oppenheim, p. 43.

[11]Ibid., p. 48

[12]Ibid., p. 43.

[13]Robert H. Bork, The Antitrust Paradox: A Policy at War with Itself (New York, Basic Books, Inc., 1978), p. 48.

[14]Congress and the Monopoly Problem, p. 3.

[15]Ibid.

[16]Ibid.

[17]"American Telephone and Telegraph," Moody's Public Utility Manual (New York, Moody's Investors Service, 1983), p. 130.

[18]Ibid.

[19]John Wicklein, Electronic Nightmare: The Home Communications Set and Your Freedom (Boston, Beacon Press, 1981), p. 5.

[20]Ibid., p. 6.

[21]Moody's, p. 130.

[22]Ibid.

[23]"Gone with the Bell," Economist (July 23, 1983), p. 25.

[24]Ibid.

[25]"Why AT&T Will Lose More Long Distance Business," Business Week (Feb. 13, 1984), p. 102.

[26]"Prometheus Unbound and Seeking His Footing," Forbes (March 12, 1984), p. 142.

[27]"Telecommunications," Forbes (Jan. 2, 1984), p. 238.

[28]"Prometheus Unbound and Seeking His Footing," Forbes (March 12, 1984), p. 142.

[29]Ibid.

[30]"Can AT&T Compete in Long Distance," Fortune (April 16, 1984), p. 112.

31 Allan Sloan, "The Fall of the Phone System," Money (Jan., 1984), p. 82.

32 Fortune, p. 112.

33 "Why AT&T Will Lose More Long Distance Business," Business Week (Feb. 13, 1984), p. 102.

34 James A. White, "Telephone Service: How AT&T's Breakup Changes Bills, Rates, Long Distance Calls -- Part II," The Wall Street Journal (Dec. 21, 1983), p. 27.

35 James A. White, "Telephone Service: How AT&T's Breakup Changes Bills, Rates, Long Distance Calls -- Part I," The Wall Street Journal (Dec. 21, 1983), p. 33.

36 Ibid.

37 White, The Wall Street Journal, Part II, p. 27.

38 Ibid.

39 Money, p. 80.

40 James A. White, "AT&T Proposes Larger Rate Reductions If FCC Access Charge Plan is Approved," The Wall Street Journal (Jan. 9, 1984), p. 4.

41 Money, p. 82.

42 Ibid.

43 Ibid.

44 James A. White, "AT&T Proposes Larger Rate Reductions of FCC Access Charge Plan is Approved," The Wall Street Journal (Jan. 9, 1984), p. 4.

45 "Directory Assistance Calls Become a Cost to Watch for in Businesses," The Wall Street Journal (August 2, 1984), p. 1.

46 "AT&T Proposes Long Distance Flat-Rate Plan," The Wall Street Journal (April 20, 1984), p. 4.

47 Albert R. Kane, "Justice Department Urges FCC to Review Staff Approval of AT&T Discount Plan," The Wall Street Journal (July 9, 1984), p. 8.

BIBLIOGRAPHY

I. Books

Barnes, Stanley N. and S. Chesterfield Oppenheim, The Attorney General's National Committee to Study the Antitrust Laws, Westport, Conn.: Greenwood Press, 1976.

Bork, Robert H., The Antitrust Paradox: A Policy at War With Itself, New York: Basic Books, Inc., 1978.

Burns, Joseph W., A Study of the Antitrust Laws, Westport, Conn.: Greenwood Press, 1976.

Congress and the Monopoly Problem: Fifty-Six Years of Antitrust Development, New York: Greenwood Press, 1968.

Hamilton, Walton and Irene Till, Antitrust in Action, New York: DeCapo Press, 1974.

Kleinfield, Sonny, The Biggest Company on Earth, New York: Holt, Rinehart, and Winston, 1981.

Manning, Thomas G., The Standard Oil Company: The Rise of a National Monopoly, New York: Holt, Rinehart, and Winston, 1960.

Stelzer, Irwin M., Selected Antitrust Cases, Homewood, Ill.: Richard D. Irwin, Inc., 1976.

Wicklein, John, Electronic Nightmare: The Home Communications Set and Your Freedom, Boston: Beacon Press, 1981, pp. 1-15.

II. Periodicals

"AT&T Proposes Long Distance Flat Rate Plan," The Wall Street Journal, April 20, 1984, p. 4.

"Can AT&T Compete in Long Distance," Fortune, April 16, 1984, p. 112-114.

"Culture Shock is Shaking the Bell System," Business Week, Sept. 26, 1983, pp. 112-114.

"Directory Assistance Calls Become a Cost to Watch For in Businesses," The Wall Street Journal, August 2, 1984, p. 1.

"Gone With the Bell," Economist, July 23, 1983, pp. 24-25.

Kane, Albert R., "Justice Department Urges FCC to Review Staff Approval of AT&T Discount Plan," The Wall Street Journal, July 7, 1984, p. 8.

"Prometheus Unbound and Seeking His Footing," Forbes, March 12, 1984, pp. 141-148.

Sloan, Allan, "The Fall of the Phone System," Money, Jan., 1984, pp. 79-83.

"Telecommunications," Forbes, Jan. 2, 1984, pp. 237-239.

White, James A., "AT&T Proposes Larger Rate Reductions If FCC Access Charge Plan is Approved," The Wall Street Journal, Jan. 9, 1984, p. 4.

White, James A., "Telephone Service: How AT&T's Breakup Changes Bills, Rates, Long Distance Calls, Part I," The Wall Street Journal, Dec. 20, 1983, pp. 33.

White, James A., "Telephone Service: How AT&T's Breakup Changes Bills, Rates, Long Distance Calls, Part II," The Wall Street Journal, Dec. 21, 1984, p. 27.

"Why AT&T Will Lose More Long Distance Business," Business Week, Feb. 13, 1984, pp. 100-102.

III. Other

"American Telephone and Telegraph," Moody's Public Utility Manual, New York: Moody's Investors Service, 1983, pp. 130-145.

Information provided by the Federal Commerce Commission.

Information provided by United Carolina Telephone and Telegraph Company.