

Edited Remarks of  
Speakers:  
Is Long Distance a Monopoly  
After All?  
Thoughts After a Decade of  
Competition

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Edited Remarks of Speakers  
At  
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"Is Long Distance A Natural Monopoly  
Afterall?: Thoughts after a Decade of  
Competition"

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REMARKS OF  
CHARLES M. SKIBO  
PRESIDENT, US SPRINT  
AT  
COLUMBIA UNIVERSITY  
FEBRUARY 26, 1987

GOOD EVENING. IT'S A PLEASURE FOR ME TO BE WITH YOU AND THIS DISTINGUISHED PANEL.

CLEARLY THE TELECOMMUNICATIONS INDUSTRY IS UNDERGOING INCREDIBLE CHANGE. HOW THIS CHANGE OCCURS AND THE IMPACT IT HAS ON THE AMERICAN PUBLIC IS OF DEEP CONCERN TO US ALL. THERE IS ABSOLUTELY NO QUESTION THAT WE ARE LIVING IN AN INFORMATION AGE. JUST AS THE INDUSTRIAL REVOLUTION TRANSFORMED THE FACE OF AMERICA, THE INFORMATION AGE WILL TRANSFORM NOT ONLY THE LIFE OF EVERY AMERICAN, BUT ALSO THE WAY WE RELATE TO AND DO BUSINESS WITH THE OTHER NATIONS OF THE WORLD.

WITH THIS IN MIND, I CAN ONLY TAKE ONE POSITION ON TONIGHT'S TOPIC. LONG DISTANCE IS NOT A NATURAL MONOPOLY. WE AT US SPRINT STRONGLY BELIEVE THAT THE LONG DISTANCE TELECOMMUNICATIONS INDUSTRY CAN AND MUST BE COMPETITIVE.

AT THE TURN OF THE CENTURY, TELEPHONE SERVICE WAS AN ABSOLUTE MONOPOLY, PRIMARILY BECAUSE OF THE ENORMOUS COST TO STRING A TWISTED PAIR OF COPPER WIRE THROUGHOUT VIRTUALLY EVERY COMMUNITY IN AMERICA. BUT, ADVANCES IN TECHNOLOGY CHANGED THAT. AS YOU KNOW, LONG DISTANCE COMMUNICATIONS BY MICROWAVE TECHNOLOGY WAS DEVELOPED BY THE MILITARY DURING WORLD WAR II, AND WAS APPLIED TO PRIVATE COMMERCIAL NEEDS IN THE 1950'S.

EARLY VESTIGES OF COMPETITION BETWEEN THOSE SERVICES LED TO FURTHER TECHNOLOGICAL ADVANCES, AND TELECOMMUNICATIONS COMPANIES LIKE US SPRINT ARE NOW TAKING

FULL ADVANTAGE OF STATE-OF-THE-ART FIBER OPTICS TO PROVIDE  
HIGH QUALITY, LOW COST SERVICE IN COMPETITION WITH MORE  
TRADITIONAL MEANS OF TRANSMISSION. INDEED, OUR SUCCESSES  
WITH-FIBER HAVE DRIVEN OUR COMPETITORS -- INCLUDING AT&T --  
TO ACCELERATE THEIR PLANS TO IMPLEMENT OUR NEW TECHNOLOGY.  
THAT LEADS ME TO THE FIRST REASON WHY PUBLIC POLICY SHOULD  
PROMOTE COMPETITION; WHICH IS THAT COMPETITION DRIVES  
INNOVATION. IF WE ARE TO PROVIDE THE BEST PRODUCT AT THE  
BEST PRICE TO CONSUMERS, AND IF WE ARE TO CONTINUE TO  
DEVELOP NEW PRODUCTS, COMPETITION MUST BE ALLOWED TO GROW  
AND FLOURISH.

MY SECOND REASON IS MORE PHILOSOPHICAL THAN ECONOMIC,  
BUT IT IS JUST AS IMPORTANT. PETER HUBER, IN HIS RECENTLY  
ISSUED REPORT TO THE DEPARTMENT OF JUSTICE, ENTITLED "THE  
GEODESIC NETWORK", PUT IT BEST. QUOTE, "MAINTAINING  
COMPETITION... IS THE SUREST PROTECTION AGAINST ORWELLIAN  
CONCENTRATIONS OF SOCIAL POWER IN THE AGE OF INFORMATION."  
IN A FEW SHORT, WELL-CHOSEN WORDS, MR. HUBER HAS  
ADDRESSED PERHAPS THE KEY REASON WHY BOTH VOICE AND DATA  
LONG-DISTANCE MUST NOT BE ALLOWED TO REVERT TO MONOPOLY  
STATUS. IF INFORMATION IS POWER IN THIS NEW AGE, THEN THAT  
POWER CANNOT BELONG TO JUST ONE GIANT COMPANY. IT MUST BE  
DISPERSED, EQUALLY AND FAIRLY,  
AND IF THE SPECTER OF ONE TELECOMMUNICATIONS GIANT  
CONTROLLING THE FLOW OF INFORMATION IS FRIGHTENING, IT'S  
ABSOLUTELY MIND-BOGGLING TO THINK OF THE GOVERNMENT BEING  
THE REGULATOR OF SUCH A BEHEMOTH.

HOW WE AVOID THIS POTENTIALITY AND PROMOTE THE  
ADVANTAGES OF COMPETITION SHOULD BE THE FOCUS OF TONIGHT'S  
DISCUSSION. FOR EVEN IF SOME AMONG US BELIEVE THAT LONG  
DISTANCE IS A NATURAL MONOPOLY, I DON'T BELIEVE WE CAN  
EITHER REVERSE HISTORY OR, IN GOOD CONSCIENCE, ALLOW THAT TO  
HAPPEN.  
FOR NEARLY A CENTURY THE OLD BELL SYSTEM GREW WITHOUT  
ANY CHALLENGE OR COMPETITION AND WAS PROTECTED BY  
REGULATION.  
UNIVERSAL SERVICE WAS A MAJOR GOAL OF PUBLIC POLICY IN  
THE EARLY YEARS AND STILL IS. EVERY AMERICAN SHOULD HAVE  
ACCESS TO TELEPHONE SERVICE AND, BECAUSE OF THE COST TO  
PROVIDE SERVICE, IT WAS INITIALLY THOUGHT THAT A PROTECTED  
MONOPOLY WAS A GOOD WAY TO ACHIEVE THAT GOAL.  
THERE WAS, HOWEVER, AN ASSOCIATED PROBLEM. INNOVATION  
WAS STIFLED. CERTAINLY, BELL LABS HAS SUPPORTED SEVERAL  
TECHNOLOGICAL ACHIEVEMENTS -- BUT BRINGING THOSE  
ACHIEVEMENTS TO THE PUBLIC HAS BEEN LESS RECOGNIZABLE WHEN  
RELATED TO TIMING AND THE RESOURCES BEHIND BELL LABS.  
AS JUDGE HAROLD GREENE SAID IN A SPEECH TO THE CONSUMER  
FEDERATION OF AMERICA LAST OCTOBER, "NO FAIR-MINDED PERSON  
CAN DENY THAT THERE HAS BEEN A FREER MARKET, WITH MORE  
DIVERSITY, MORE INNOVATION, AND MORE SOPHISTICATION IN  
TELEPHONE APPARATUS AND SERVICE IN THE LAST TWO OR THREE  
YEARS THAN IN THE PRECEDING THIRTY OR FORTY." AFTER  
DESCRIBING A NUMBER OF NEW EQUIPMENT AND SERVICE  
ENHANCEMENTS, JUDGE GREENE WENT ON TO SAY, (QUOTE) "WHY DID

ALL THESE FEATURES, AND OTHERS, APPEAR ON THE STORE SHELVES ONLY IN THE LAST COUPLE OF YEARS? DOES ANYONE BELIEVE THAT THEY WERE INVENTED ONLY YESTERDAY? I VENTURE TO SUGGEST THAT THE TECHNOLOGY WAS FULLY DEVELOPED ALL ALONG. BUT THE BELL SYSTEM HAD NO INCENTIVE TO MARKET THESE NEW FEATURES, BECAUSE THERE WAS NO ONE ELSE AROUND WHO COULD TAKE THE TELEPHONE BUSINESS AWAY FROM IT." (UNQUOTE)

IT WAS THIS LACK OF RESPONSIVENESS TO THE MARKETPLACE THAT, IN SOME WAYS, BROUGHT US TO TODAY'S COMPETITIVE ENVIRONMENT.

THE MODIFIED FINAL JUDGEMENT HERALDED A NEW AGE. THE LONG-DISTANCE MONOPOLY WAS OFFICIALLY DISMEMBERED AND INNOVATIVE NEW COMPANIES ENTERED THE MARKETPLACE.

US SPRINT'S PARENTS, UNITED TELECOM AND GTE, WERE AMONG THE LEADING COMPETITORS IN THOSE EARLY DAYS WHICH SEEM SO LONG AGO, BUT ARE ONLY A HALF DOZEN YEARS BEHIND US. THEY HAD A VISION THAT INCLUDED THE BUILDING OF A NEW, TECHNOLOGICALLY ADVANCED, UBIQUITOUS FIBER-OPTIC NETWORK.

AT US SPRINT WE ARE CONSTRUCTING THE NATION'S FIRST ALL DIGITAL 23,000 MILE FIBER OPTIC NETWORK. OUR PARENTS BELIEVE IN IT AND HAVE COMMITTED OVER \$2 BILLION TO THE NETWORK'S CONSTRUCTION. WE ARE AHEAD OF SCHEDULE AND ON BUDGET. BY THE END OF THE YEAR VIRTUALLY ALL OF OUR TRAFFIC WILL BE ROUTED OVER OUR NEW NETWORK. ALL THIS BECAUSE OF COMPETITION.

HOWEVER, COMPETITIVE CONDITIONS HAVE BEEN LESS THAN FAIR AND FAVORABLE OVER THE PAST FEW YEARS.

PICTURE, IF YOU CAN, THE AIRLINE INDUSTRY OPERATING UNDER CIRCUMSTANCES SIMILAR TO WHAT HAS ACTUALLY OCCURED IN THE TELECOMMUNICATIONS INDUSTRY.

ONE CARRIER WE'LL CALL BIG AIRLINES ENJOYS A 90 PERCENT MARKET SHARE. ANOTHER, LITTLE AIRLINES, HAS ABOUT FOUR TO FIVE PERCENT WHILE THREE HUNDRED OTHER CARRIERS BATTLE FOR THE REMAINING CUSTOMERS.

FOR YEARS BIG AIRLINES OWNED NOT ONLY THE AIRPLANES, BUT IT ALSO CONTROLLED THE GROUND TRANSPORATION. IT CONFIGURED A HUBBING ARRANGEMENT THAT LIMITED THE WAYS TRAVELERS COULD GET TO AND FROM THE AIRPORT. YOU COULD CHOOSE ANY AIRLINE CARRIER TO GET FROM CITY TO CITY, BUT WHEN YOU GOT OFF THE PLANE AND WALKED OUTSIDE THERE WERE ONLY TWO WAYS TO GET DOWNTOWN--LIMOUSINE OR TAXI. BOTH SERVICES WERE OWNED, OPERATED AND CONTROLLED BY AMERICAN AIRLINES.

FOR QUITE AWHILE LITTLE AIRLINES' PASSENGERS WEREN'T ALLOWED IN THE LIMOUSINES. THEY PAID LESS FOR TAXIS BECAUSE THEY HAD TO PUT UP WITH STOP AND GO TRAFFIC WHILE THE LIMOS RACED BY IN THE EXPRESS OR LIMO LANES.

THEN, ONE MEMORABLE DAY IT WAS DECIDED THAT GROUND TRANSPORTATION SHOULD BE EQUAL: NOT EQUAL SERVICE, JUST EQUAL COST. EVERY PASSENGER PAID EQUAL AMOUNTS FOR GROUND TRANSPORTATION EVEN THOUGH EVERY PASSENGER DIDN'T GET EQUAL TREATMENT. YOU SEE, PRICES WERE RAISED TO LIMOUSINE LEVELS, BUT A GREAT MANY PEOPLE STILL HAD TO RIDE IN TAXIS. ONLY



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BIG AIRLINES PASSENGERS WERE GUARANTEED LIMOUSINE SERVICE,  
IT WAS LITTLE AIRLINES PASSENGERS, AND THE OTHER AIRLINES,  
WHOSE PASSENGERS HAD TO STAND IN LINE WAITING FOR TAXIS,  
GET THE IDEA,  
THIS IS WHAT US SPRINT AND OUR PREDECESSOR COMPANIES HAVE  
HAD TO CONTEND WITH JUST IN THE EQUAL ACCESS AREA, WE HAVE  
BROUGHT THIS TO THE ATTENTION OF THE FCC TIME AND TIME AGAIN  
BUT TO NO AVAIL,  
MOVING ON, MY PURPOSE AT THIS FORUM IS NOT TO COMPLAIN  
ABOUT PAST AND CURRENT ADVANTAGES GIVEN TO AT&T, BUT TO  
EXPLAIN THAT, DESPITE THE MANY DISADVANTAGES, WE ARE ON  
SCHEDULE, MOVING AHEAD, AND SUCCEEDING IN THE MARKETPLACE,  
LET ME TELL YOU WHAT A COMPETITIVE TELECOMMUNICATIONS  
ENVIRONMENT HAS SPURRED IN THIS COUNTRY AND WHAT A GROUP OF  
DRIVEN ENTREPRENEURS ARE ACCOMPLISHING IN THE MARKETPLACE;  
--THIS GROUP OF ENTREPRENEURS AT US SPRINT IS TAKING A  
LEADERSHIP POSITION IN BRINGING THE ABSOLUTE FINEST AND  
NEWEST TECHNOLOGIES TO THE TELECOMMUNICATIONS INDUSTRY;  
--WE ARE TRANSLATING THE BENEFITS OF THESE NEW  
TECHNOLOGIES TO THE CONSUMER IN THE FORM OF THE HIGHEST  
QUALITY AND THE BEST VALUE AT THE LOWEST PRICE;  
--WE AT US SPRINT ARE BUILDING AND PROVIDING A  
TRANSMISSION MEDIUM THAT IS SO CRYSTAL CLEAR THAT YOU CAN  
HEAR A PIN DROP,, SO GOOD THAT IT SOUNDS LIKE YOUR RIGHT  
NEXT DOOR AND, SAID ANOTHER WAY, IT'S LIKE COMPARING THE

DIFFERENCE BETWEEN A 45 RPM PHONOGRAPH RECORD AND A COMPACT

DISC.

THE REACTION OF THE MARKETPLACE IS ALSO CRYSTAL CLEAR:

--IN SIX SHORT MONTHS OVER 2 MILLION NEW CUSTOMERS HAVE

SELECTED US SPRINT AS THEIR LONG DISTANCE COMPANY, THAT'S

NOT BAD WHEN YOU REALIZE THAT WHEN WE STARTED OUT ON JULY

FIRST OF LAST YEAR THAT WE HAD 2.7 MILLION CUSTOMERS.

--MAJOR CORPORATIONS ARE MOVING TO US SPRINT IN DROVES,

HISTORICALLY, WE USED TO GET FIVE TO TEN PERCENT OF A LARGE

COMPANY'S TELECOMMUNICATIONS BUSINESS, NOW WE GET ORDERS

FOR 40 TO 60 PERCENT OF THEIR NETWORKS, COMPANIES LIKE

SEARS, HONEYWELL, UNISYS AND AMERICAN EXPRESS ARE CASTING

THEIR COMMUNICATIONS LOTS WITH US SPRINT AND THERE ARE MORE

MAJOR ACCOUNTS TO COME IN THE VERY NEAR FUTURE.

--US SPRINT'S ADVERTISING HAS CAPTURED THE MINDS OF

CONSUMERS, WE HAVE INFORMED THEM OF OUR RESEARCH AND

SURVEYS WHICH SHOW THAT 75 PERCENT OF THE PEOPLE WHO HAVE

COMPARED OUR SERVICE TO AT&T'S PREFER US SPRINT, AS OUR

ADVERTISING SAYS, "THAT'S A LANDSLIDE!"

WHAT I FIND PARTICULARLY GRATIFYING IS THAT, DESPITE

THE UPS AND DOWNS AND PROBLEMS ASSOCIATED WITH THE CHANGES

IN THE TELECOMMUNICATIONS INDUSTRY, OUR INNOVATION AND

SPIRIT OF ENTREPRENEURSHIP IS PAYING DIVIDENDS, AS ONE OF

OUR FORTUNE 500 CUSTOMERS SAID RECENTLY, "US SPRINT IS THE

BEST RESULT I'VE SEEN FROM DEREGULATION."

WHILE WE CONTINUE TO BUILD ON OUR SUCCESSSES,

TWO SPECIFIC PROPOSALS, NOW IN THE FOREFRONT, ARE OF GREAT CONCERN TO US SPRINT, AND OTHER INTEREXCHANGE CARRIERS, BOTH ATTEMPT TO CHANGE THE RULES OF THE GAME AT A CRITICAL STATE.

THE FIRST IS THE DEPARTMENT OF JUSTICE'S RECENTLY RELEASED TRIENNIAL REPORT TO JUDGE GREENE. I KNOW MY COLLEAGUE HERE TONIGHT SHARES MANY OF THE SAME CONCERNS I HAVE ABOUT THIS REPORT.

THE OTHER ISSUE OF CONCERN TO US IS A NOTICE OF PROPOSED RULE MAKING, DOCKET 86-421 WHICH INCLUDES A SO-CALLED STREAMLINING MECHANISM FOR BIDDING ON TELECOMMUNICATIONS CONTRACTS.

THE DOJ REPORT SUGGESTS THAT THE TIME IS RIGHT FOR THE REGIONAL BELL OPERATING COMPANIES TO GET INTO THE INTEREXCHANGE LONG DISTANCE BUSINESS. EVEN WITH THE RESTRICTION THAT THEY WOULD HAVE TO DO BUSINESS OUTSIDE THEIR OWN REGION, I CANNOT FATHOM HOW THE DOJ COULD SUGGEST THAT TIMES HAVE CHANGED ENOUGH OVER THE LAST THREE YEARS TO ALLOW THE RBOCS ENTRY INTO THIS MARKET.

FIRST OF ALL, THE BELL OPERATING COMPANIES OR BOCS STILL REMAIN AN ENTRENCHED MONOPOLY EVEN IF THE BOCS WERE TO GIVE UP THEIR MONOPOLY PROVIDER STATUS IN ORDER TO OFFER UNIVERSAL INTEREXCHANGE SERVICE. THERE CAN BE NO DOUBT THAT THEY WOULD REMAIN DE FACTO LOCAL MONOPOLIES FOR MANY YEARS TO COME....IF NOT FOREVER.

SECONDLY, I CAN CERTAINLY FORESEE THE DAY -- IF THE BOCS ENTERED THE LIMITED INTEREXCHANGE MARKET AS STRUCTURED

BY THE DOJ -- THAT THEY WOULD, VERY SHORTLY THEREAFTER, BEGIN PLEADING TO HAVE THE "OUT-OF-REGION" RESTRICTIONS LIFTED. THEY WOULD ARGUE THAT THEY CAN'T EFFECTIVELY COMPETE WITH THE RESTRICTIONS IN PLACE.

CLEARLY, BOC ENTRY INTO THE INTEREXCHANGE BUSINESS AT THIS POINT -- EVEN WITH THE SO-CALLED RESTRICTIONS -- WOULD DO ONLY ONE THING. IT WOULD SERVE TO FORCE EVEN GREATER CONSOLIDATION IN THE LONG-DISTANCE BUSINESS, FURTHER REDUCING THE CHOICES OF CONSUMERS, AND EVENTUALLY RECREATING AN UNREGULATED BELL SYSTEM BIGGER AND MORE PERVASIVE THAN WHAT WE HAD BEFORE.

THE INFORMATION SERVICES SECTION OF THE DOJ REPORT ALSO IS ILL CONCEIVED IN THAT IT TENDS TO RELY ON PROTECTIONS CONTAINED IN COMPUTER INQUIRY III WHICH ARE NOT YET IN PLACE.

THE NOTICE OF PROPOSED RULEMAKING, MENTIONED EARLIER, COULD SET A DANGEROUS PRECEDENT IF ADOPTED. ITS BASIC THRUST WOULD BE TO ALLOW AT&T TO PRICE BELOW TARIFF ON PROJECTS THAT ARE LET OUT FOR BID.

OUR FIRST OBJECTION IS SIMPLY THAT IT HARDLY SEEMS FAIR THAT BIG CUSTOMERS, WHO CAN PUT PROJECTS OUT FOR BID, SHOULD BE ABLE TO GET BELOW-COST PRICES AT THE EXPENSE OF SMALLER CONSUMERS.

SECOND, WHILE SUCH A PRACTICE MIGHT HELP LARGE COMPANIES IN THE SHORT RUN, THE LONG-TERM IMPACT COULD WELL BE THAT SMALLER COMPETITORS WOULD BE PREDATORILY PRICED OUT

OF BUSINESS LEAVING CONSUMERS WITH NO ALTERNATIVE FOR THEIR TELECOMMUNICATIONS NEEDS.

EARLY NEXT MONTH WE WILL BE FILING OFFICIAL COMMENTS ON BOTH THE DOJ REPORT AND THE PROPOSED RULE. OUR POSITIONS WILL BE FLESHED OUT FURTHER AT THAT TIME AND I HOPE BOTH JUDGE GREENE AND THE FCC WILL SEE THAT EACH PROPOSAL, IN ITS OWN WAY, COULD SERIOUSLY UNDERMINE THE POTENTIAL FOR GROWTH AND MATURITY IN THE NEWLY COMPETITIVE TELECOMMUNICATIONS INDUSTRY.

DESPITE THESE SUBSTANTIAL ROADBLOCKS, US SPRINT IS COMMITTED TO BEING THE QUALITY, THE VALUE, AND THE CUSTOMER SERVICE LEADER IN THE LONG DISTANCE BUSINESS. WE ARE COMMITTED TO BUILDING OUR BUSINESS, OUR MARKET SHARE AND OUR NETWORK.

I DOUBT THAT MANY INDUSTRY WATCHERS THOUGHT US SPRINT COULD COME AS FAR AS WE HAVE IN SO SHORT A TIME. THE GROWTH AND ACHIEVEMENT WITH OUR NETWORK, OUR CUSTOMERS AND OF OUR COMPANY SINCE JULY 1 HAS BEEN, IN A WORD, SUPER.

WE HAVE A SOLID STRATEGIC BUSINESS PLAN WHICH WILL ENABLE US TO TAKE OVER THE NUMBER TWO SPOT (IN SIZE, BUT NUMBER ONE IN QUALITY) AND BECOME PROFITABLE. WE HAVE THE COMMITMENT AND DRIVE TO ACHIEVE OUR PLAN'S OBJECTIVES.

THAT'S THE SELFISH POINT OF VIEW. FROM THE VIEWPOINT OF WHAT'S GOOD FOR CONSUMERS AND COMPETITION IN GENERAL, I BELIEVE IT IS ESSENTIAL THAT TELECOMMUNICATIONS POLICYMAKERS LOOK AT THE LONG-TERM BENEFITS TO THE CONSUMING PUBLIC OF LONG-DISTANCE COMPETITION.

WHEN THE OLD BELL SYSTEM WAS DISMANTLED THE AMERICAN PUBLIC WAS GIVEN ASSURANCES THAT COMPETITION WOULD BE BETTER IN THE LONG RUN; THAT THEY WOULD REAP THE BENEFITS; AND, THAT OUR NATION'S LEADERSHIP IN TELECOMMUNICATIONS TECHNOLOGY WOULD BE UNSURPASSED.

THESE WORTHY GOALS CAN BE ACHIEVED BUT NOT OVERNIGHT.

TO GET A TOEHOLD IN THIS INDUSTRY REQUIRES, ABOVE ALL, ENORMOUS FAITH IN A REGULATORY AND LEGISLATIVE ENVIRONMENT WHICH COULD, WITH A STROKE OF THE PEN, WIPE OUT THE POTENTIAL FOR A TRULY COMPETITIVE LONG-DISTANCE BUSINESS.

BUT THAT RESULT WOULD BE WRONG FOR BOTH CONSUMERS AND OUR NATION'S ECONOMY. INSTEAD, OUR ATTENTION AND ENERGIES SHOULD BE FOCUSED ON MAKING COMPETITION, FREE AND FAIR. THE CONSUMING PUBLIC CAN AND SHOULD ENJOY THE BENEFITS OF CHOICE IN THE VALUE, THE QUALITY AND THE FEATURES THE LONG DISTANCE TELECOMMUNICATIONS COMPANIES HAVE TO OFFER.

IN SUMMARY, WHAT WE ARE ASKING AND ADVOCATING IS BOTH FAIR AND EQUAL TREATMENT AND ACCESS. EQUAL AND FAIR TREATMENT FROM THE REGULATORS AND EQUAL AND FAIR ACCESS TO THE MARKETPLACE WHERE, I AM PLEASED TO SAY US SPRINT IS SUCCEEDING.

A. C. Partoll Remarks  
Columbia University  
Center for Telecommunications Studies  
February 26, 1987

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Panel: "Is Long Distance a Natural Monopoly After All?  
Thoughts After a Decade of Competition"

Professor Noam (Eli), as always, it's a pleasure to be with you, and a real privilege and honor to be invited to be a part of your program this evening. I commend you, the Center and the University for your recognition that telecommunications has become such a critical element in all facets of American life, and applaud your continuing interest in and study of how this industry can optimize its contribution to our society, our economy and our world competitiveness.

I confess to feeling a bit like a test pilot at a colloquium on aerodynamics. Despite apparent unanimity, we are likely, this evening, to hear some compelling arguments on both sides of the question of whether long distance is a natural monopoly. But after all the theories have been explored, Mr. Skibo and I have to take the very practical step of climbing into the cockpit and flying the plane -- and taking the real world financial risks inherent in participating in the long distance marketplace. I prefer, therefore, to find the answer to the question of whether the long distance market is a natural monopoly not by debating theory, but rather by looking at the evidence already available in the industry today.

[Response of economist to pragmatic solution]

My examination of the available evidence suggests a "NO" answer to the question of whether long distance is a natural monopoly. If you detect some tentativeness in my answer, you are both perceptive and correct. I am not yet prepared to answer the question definitively or finally, because I believe it is still too early -- for reasons I will explain in a moment.

Nevertheless, while it may take several more years and some changes in current conditions to settle whether interexchange telephone service is a natural monopoly, the evidence clearly points to the conclusion that competition in the long distance industry today is alive and well, and exhibits few, if any, natural monopoly characteristics.

"What evidence?" you ask.

First, the number of players in the long distance industry has become so large that the Federal Communications Commission offers regular reports on the number of competitors. The FCC's most recent tally, based on figures supplied by the seven Regional Bell Holding Companies, shows that there are 516 long distance carriers serving in one part of the nation or another. Two hundred of those carriers have purchased equal access from the local Bell Operating companies. Many of those 516 long distance companies are admittedly small resellers serving a region or even one city, but there are also many facilities-based carriers whose investments are growing at an even faster rate than the number of competitors.

Second, a look at the growth in competitors' physical plant offers compelling evidence that a large number of savvy enterprises are operating on the assumption that long distance is not a natural monopoly. And they are supported by seasoned investors who are funding these enterprises with massive infusions of capital. Thus, I have at least some sophisticated company in believing there is no natural monopoly in the long distance business.

A decade ago, AT&T owned 96 percent of the public long distance network facilities in this country. In 1976, AT&T had 283 million circuit miles in its network, and other long distance companies had only 11 million circuit miles. By the time of divestiture in 1984, AT&T's share of the public interexchange facilities in America had fallen to only 67 percent. While our network had nearly tripled in size, the competitors networks were 36 times larger.

The most current figures, for 1985, show that the facilities picture has continued to change at an exceedingly fast pace. In only two years since divestiture, AT&T's share of total public interexchange facilities has dropped to 38 percent. While our network continued to grow, by about 18 percent, competitors have more than quadrupled the size of their networks just since divestiture!

The picture is even more dramatic if we look only at the newest technology of lightguide facilities. AT&T today has less than a third of the operational fiber optic routes in this country.

While talk may be cheap, especially given the long distance price reductions since divestiture, interexchange facilities are not. By the end of this year, AT&T's competitors will have invested nearly 8.8 billion dollars in their networks in just the four years since divestiture. Clearly, investors believe that there is a competitive market.



You have only to turn on your TV set or open a business magazine to see that long distance competitors are also spending sizable sums for customer recognition in a competitive marketplace. While facilities are at least physical assets that could be sold to others, the millions of dollars spent on advertising are a non-recoverable act of faith in the future of a competitive long distance industry.

Third, these massive investments in facilities and advertising, and the implementation of equal access, have had dramatic competitive effects in the marketplace. According to the latest figures from the Yankee Group, AT&T had 91 percent of the domestic interstate long distance business in 1983. In only three short years, AT&T's share of this market, according to the Yankee Group, has dropped 15 percentage points, to 76 percent in 1986. And that occurred during a period when AT&T was competing very hard for those customers to keep them using AT&T services. That tells me that competition is indeed alive and well and making dramatic inroads.

Fourth, the evidence is even more compelling when we contrast the long distance business with two other telecommunications markets, the local exchange and carrier access markets. No one that I know of is investing billions of dollars on the proposition that local exchange service is not a natural monopoly. And in the carrier access market, competition from bypass of the local exchange companies' access facilities is miniscule. In his report prepared for the Department of Justice, Peter Huber calculates that bypass represents far less than one half of one percent of total local company carrier access revenues.

Wholly apart from any legal barriers to entry in the local exchange and carrier access markets, which may exist in some jurisdictions, it is perfectly clear to me there are economic barriers to entry in those markets which simply do not exist in the long distance market.

In any event, let's be sure to put the question -- of whether the long distance market is a natural monopoly -- in proper perspective. As many of you know, access charges consume about 60 cents of every dollar of long distance revenue. The long distance transmission and switching costs reflect, I believe, only about 10 percent of a representative carrier's total costs. Therefore, whatever natural monopoly may have existed in the long distance market before divestiture, whatever economies of scale AT&T may still enjoy apply only to about 10 percent of our total costs. When viewed in that light, the question takes on a very different dimension -- and may even suggest that the answer is irrelevant.

Nonetheless, despite all this available evidence that the long distance market is not a natural monopoly, I am inclined to believe it is too early to reach a definitive conclusion. Why? Because looking back at this first decade of interexchange competition, we see that in the early years, the unavailability of equal access and the 55% discount provided to AT&T's competitors skewed the picture. Since divestiture and the advent of equal access, the cost of access has become more nearly equalized for us and our competitors.

Yet, despite this leveling of access costs for all competitors, competition in the long distance market is still not fully effective. Today, 515 of the companies in the long distance industry are essentially free of regulatory restraints, but AT&T is still pervasively regulated at the interstate level and subject to many regulatory controls in the intrastate arena.

AT&T is still generally required to file tariffs for new services with elaborate cost support materials. The cap on AT&T's earnings under rate-of-return regulation distorts pricing for all carriers in the entire industry. And, the competitive picture is also skewed by the large subsidy still contained in both interstate and intrastate carrier access prices.

Each of these items warrants discussion at length, but in the interests of time, perhaps we can defer them to the Q and A portion of the program.

To sum up, then, it is my view that the competitive long distance industry is still an adolescent, and we can't be absolutely sure how the adult will turn out. To date, however, a great many intelligent businessmen and an awful lot of shrewd investors are betting billions of dollars that long distance is not a natural monopoly. But we can't and won't settle the question by debating it. The only way we will learn for certain is to let the game play out in the real world, to let full and equal competition take place -- with AT&T and all other interexchange companies on the same footing -- and then let the customers in the marketplace decide. In the end, after all, that is the only answer that really counts.

Clearly, a number of present competitors may not survive. There will inevitably be more mergers and acquisitions. That's the way our economy works. But it is my personal belief that the marketplace will both demand and permit a number of facility-based carriers and resellers. Doubtless, the survivors will number far fewer than the 500 entrants in the market today. But our industry is growing at a very brisk rate. Those who offer high quality, reliable service, and are able to link all the tools of the new information technology into useful solutions that help business customers to become more productive and profitable -- or that help consumers make their lives richer -- those companies will prosper in the long distance business.

What we need is for regulators, legislators, and lawyers to let the competitive marketplace work. What we certainly don't need now, if we're trying to answer the question of whether long distance is a natural monopoly, is the confusion and turmoil of the recent Department of Justice recommendation that the Regional Holding Companies be allowed into the interLATA long distance market. That course would predictably plunge the industry back into the debilitating uncertainty and trauma of combining competitive and monopoly businesses. While that turmoil might please some lawyers who have seen telecommunications anti-trust work drop off dramatically since the local exchange monopoly was severed from the competitive long distance industry at divestiture, it would introduce such instability that we are unlikely in our lifetimes to see the answer to tonight's question.

The real issue we should be debating tonight -- the one we should all be interested in helping to resolve -- is whether true competition is ever going to get a chance to work. It can't work when there are different rules for different players. It can't work where the political and regulatory process limits earnings because of a rate base, rate of return mentality appropriate for an entirely different era and market structure. And it can't work in an unstable political, legal, and regulatory environment -- particularly one which permits monopoly services to be merged with competitive services.

We should all be working to permit reliance on market forces in competitive markets. That would create the conditions where we would be able to answer our question once and for all.

I thank you for your attention, and I look forward to the upcoming dialogue.

r b:Skibo/Partoll -- Discussants

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[John Chapman] Thank you, I'm glad to be here tonight. What I'd like to do, since I didn't review the speakers' material beforehand, is to simply comment on what they had to say. To begin with, as a doctoral candidate I have no status at Columbia, I'm not qualified to say anything, so don't take any notes... It is interesting that Mr. Skibo has a background in geology, because we have seen two massive tectonic plates change in the restructuring of the telecommunications industry. Certainly in the 1970s, AT&T were, by their own admission, monopolists, raising the issue that developing their own brand of cost and pricing structures gave them an edge. In pioneering economies of scale, allowing a single producer to have the lowest unit cost for providing telecommunications services, AT&T fulfilled the economic definition for a natural monopoly. But as Mr. Partoll said, we don't know what is really the case because of the recent entries. Mr. Skibo has expressed that well, as did Mr. Partoll in his comparison to a test pilot, experiencing the collision of these tectonic plates of divestiture and the FCC's acts of charge/decision, with subsequent changes in regulation and requirements over AT&T. As in the January 1st, 1987 price decreases, we've seen wave after wave of subsidies that allowed

the OCC competitive changes. The 7% OCC discount on access costs has dropped to nearly zero but only theoretically, since equal access effectively raises it to perhaps 20% or 30%. For example, when Mr. Skibo's MCI was flush trading on the margin, the 7% discount, MCI meant money coming out. Now it may be time for a name change to MGO -- "money going out," as it took a writeoff of \$550 million last quarter. While things have changed, it is yet too early to test the hypothesis that this is a natural monopoly industry. Mr. Partoll and Mr. Skibo are both test pilots, searching for the "right stuff" in this era of competition. Part of my dissertation work indicates that the situation is fairly complex for economic analysis. After all, economists look at historical data, accumulated with significant time delay; they don't look as well into the future. Also, both Mr. Partoll at AT&T and Mr. Skibo at Sprint preserve their company's confidential data. Still, we do know from reports published before 1984 that the OCCs enjoyed an entry market growth rate of 35%, yet after then, the rate dropped precipitously to the 10-15% range. The significance of that change is extraordinary, implying that the question isn't simply "has there been competitive entry?". Mr. Partoll mentioned that issue of various entry, but where are those areas of entry? One can see them at different levels. We have the level of technology, in the context of whether or not natural monopoly means there's room for competition. With microwave innovations, MCI and Sprint came on the scene, changing the economies of scale and the ability to

provide service at historical costs. Another level of change came from the concepts of equal access and unequal connection. The means of access has always been dominated by AT&T, whether you go twice to the local loop from the trunk or you go from the trunk side. That access, not the cost, was the rationale behind the 70% discount for the OCC, perhaps a fair subsidy. First imposed by Judge Green, then ratified by the FCC, equal access has been implemented by the local operating companies, scheduled for completion this year. We all know that's not the case, although equal access is achieved in various metropolitan areas. Another level for analysis is relative probability, with AT&T's continued profitability and the lack of profitability of the OCCs raising the problem of adding to the network. Sprint has committed 23,000 miles and \$2.5 billion of capital investment plans, but can it keep up the pace? Has there indeed been a tidal wave created with the cost structure changes, with increased costs preventing further penetration into the market? Are increased customer bases sufficient to give a Sprint or MCI the margins necessary to keep that continued network growth so important in achieving competitive, universal, end-to-end interconnection? In fact, the questions of economies of scale and natural monopoly are complicated by the two basic network levels, the trunk and the end-connection. Still, the OCCs have not achieved technical equal access at the local level. On a trunk line basis they're certainly managing well and providing fiber optic links, and these new trunk transmission paths can

lower costs. But it seems that both panelists are right in stating that only time will tell if the dynamics of cost allow continued competition against the dominant firm. We see the entry of the BOCs recommended by the Department of Justice, yet it appears that the uncertainties involved with the government's policy change make it too early to add this other ingredient of uncertainty. Thank you.