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Abstract       Analysis of the U.S. Justice Department's antitrust action against AT&T

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# The Telephone Suit

## Competitive Cold Water For Mighty Bell System

By PETER T. KILBORN

The American Telephone and Telegraph Company controls 82 per cent of the telecommunication networks in the United States, which makes it a near monopoly. A.T.&T. also makes most of the equipment it uses, which one could argue makes it two monopolies in one.

The result is purely benevolent, contends John D. deButts, the courtly and yet pugnacious North Carolinian who is A.T.&T.'s chairman and chief executive. The Bell System's customers get the best possible service at the lowest possible rates, he asserts.

Last week, in a move that rocked the business community, the Justice Department disagreed. It brought suit against A.T.&T. alleging anticompetitive practices. The stock of the century-old legacy of Alexander Graham Bell, a company with more shareholders than any other and the highest possible credit rating, tumbled 3 points the next day.

The antitrust action surprised Wall Street and set off enough speechmaking at A.T.&T. to suggest that it came as a shock there, too. But it need not have. For a decade, government prosecutors and regulators — and company rivals — have been tilting at the mammoth corporate empire.

The Government has demanded that Ma Bell be severed of her manufacturing arm, Western Electric, a huge enterprise in itself with revenues last year of \$7-billion. And Western Electric would then be broken down into two or more parts.

The government also demanded that A.T.&T. sell of its long-distance telephone network, which handles 90 per cent of all United States long-distance activity, or sell

off some of the 23 domestic telephone companies that constitute the Bell System. The fate of Bell Telephone Laboratories—A.T.&T.'s highly regarded research operation—was left to be resolved later.

Mr. deButts, who is 59, dug in to fight "to the end," a battle that could easily continue beyond his expected retirement six years from now. He vowed, too, that the company would be operated as it had always run—as a service and manufacturing monopoly.

It won't, however, be business as usual. Ma Bell will be forced to divert men and money from running the network to fighting the suit. State and Federal rate regulators could be slower in responding to rate hike requests because of the Justice Department's charges. That, in turn, could undermine the company's profitability.

The decline in the stock was one signal of A.T.&T.'s new environment. There was a harsher one Friday, when the company withdrew a record \$600-million note and debenture offering to finance new plant and equipment. Continued fund-raising difficulty could lead to deterioration in A.T.&T.'s service.

One analyst, Stuart Crane of Fahnestock & Co., speculated that under such circumstances the company might throw in the towel in a year or two. "The case could be settled on economic realities," he said.

A.T.&T. has survived a number of previous government assaults, including an antitrust action two decades ago which also demanded divestiture of Western Electric.

The company has successfully argued that its status as a utility, and the monopolistic function that utilities are allowed in return for supplying basic services, should be preserved for the public benefit.

In the meantime, however, the industry that A.T.&T. dominates has become vastly broader, then just the business of telephones, cables and switchboards.

Today technology allows computers to telephone between one another. Satellites and microwaves carry

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# A.T.&T.

## And Its

## Rivals

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data and voices as readily as wires do. And there are hundreds of companies, many of them born in avant-garde technologies, wanting access to the nation's communications circuits.

A.T.&T. has fought off many of them, asserting that the competitors' equipment would disrupt its networks. So the companies have sought to establish their own communications systems and to sell their products to the relatively few telephone companies that are not part of the Bell System.

Howard Anderson, of Cambridge, Mass., a communications industry market specialist, lists dozens of companies, selling everything from connectors to switchboards, that would benefit immediately from a successful suit against A.T. & T.

In telephone sets alone, Mr. Anderson sees an annual market of some \$450-million. Everything else may be worth \$7-billion.

If the Justice Department wins its case, there is universal agreement—on Wall Street, in the telecommunications industry and at A.T. & T. — that confusion would follow. Overnight, a multi-billion-dollar market, once the preserve of a single company, would open to anyone wanting a piece of it.

The most aggressive would very likely be the International Telephone and Telegraph Corporation, itself in the process of divesting five subsidiaries that the Justice Department held, successfully, to be anti-competitive.

Decades ago, I.T.T. and A.T.&T. found themselves grappling for the same markets, worldwide. They divided the world in two, with the Bell System taking North America and I.T.T. taking everything else. Western Electric sold I.T.T. all of its European manufacturing facilities in 1925.

I.T.T. marked time, for a while, waiting for the gearing-up of phone usage overseas. But it also diversified in the United States by buying up companies in other industries, and built a conglomerate whose revenues ranked ninth in American industry last year — at the same time riding the long-delayed boom in European telecommunications.

Harold S. Geneen, I.T.T.'s chairman, still wants a bigger share of the American telecommunications market than he has been able to nibble from the independent companies that do not depend on captive equipment suppliers.

He fired his first salvo seven years ago, not against A.T. & T., but against General Telephone and Electric. G.T. & E., whose Automatic Electric Company makes equipment for the telephone companies that G.T. & E. owns, had taken control of the Hawaii Telephone Company. Before the takeover, Hawaii Telephone had bought equipment from all suppliers.

I.T.T. brought legal action, asking that Automatic Electric be spun off from G.T. & E., and that the parent company also divest itself of 50 per cent of its operating companies. I.T.T. won the case, and it is now under appeal.

Mr. deButts argued this week that such action against the Bell System "would destroy a unique national resource." He said the system, "to work efficiently, must be designed, built, and operated as a single entity."

The Justice Department, however, sees a deeper issue. Jesse Markham, Wilson professor of business administration at Harvard, put it this way: "Should a public utility with regulated rates be its own supplier of its more important equipment when the supplier is unregulated?"

The telephone company's rates are based on what regulators consider a fair rate of return, which in turn is based on operating costs. Equipment, an operating cost, is unregulated, inviting the possibility of higher telephone rates than necessary.

Actually, some analysts feel a Justice Department victory against A.T. & T. would mean higher telephone rates, because Western Electric—the lowest-cost producer currently—would be faced with raising prices to pay for staff it has been able to do without, such as a sales force.

Further, the company could be expected to raise prices to boost its profit margins to help bear the cost of developing new products.

"That's just one of the dangers of open competition," says Daniel McGurk, president of the Computer Industry Association.

Just as likely, however, Mr. McGurk says, would be competition so ferocious as to decrease prices. "Trade wars," he says, "are what free enterprise is all about."

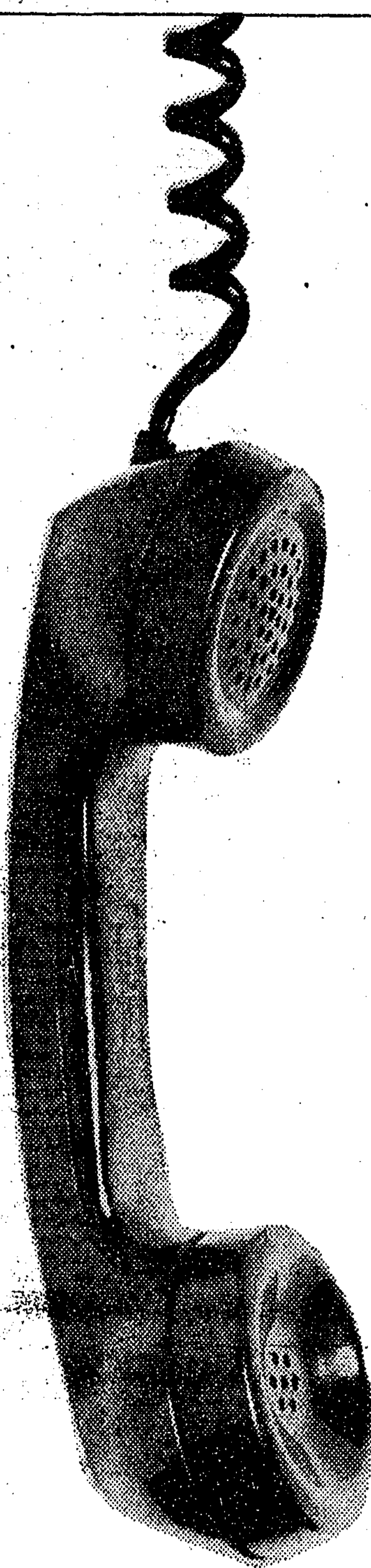
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# AT&T



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