Breakup of the Bell System

The **breakup of the Bell System** was mandated on January 8, 1982, by an agreed consent decree providing that AT&T Corporation would, as had been initially proposed by AT&T, relinquish control of the Bell Operating Companies that had provided local telephone service in the United States and Canada up until that point.[1] This effectively took the monopoly that was the Bell System and split it into entirely separate companies that would continue to provide telephone service. AT&T would continue to be a provider of long distance service, while the now-independent Regional Bell Operating Companies (RBOCs) would provide local service, and would no longer be directly supplied with equipment from AT&T subsidiary Western Electric.

This divestiture was initiated by the filing in 1974 by the United States Department of Justice of an antitrust lawsuit against AT&T.[2] AT&T was, at the time, the sole provider of telephone service throughout most of the United States. Furthermore, most telephonic equipment in the United States was produced by its subsidiary, Western Electric. This vertical integration led AT&T to have almost total control over communication technology in the country, which led to the antitrust case, *United States v. AT&T*. The plaintiff in the court complaint asked the court to order AT&T to divest ownership of Western Electric.[3]

Feeling that it was about to lose the suit, AT&T proposed an alternative — the breakup of the biggest corporation in American history. It proposed that it retain control of Western Electric, Yellow Pages, the Bell trademark, Bell Labs, and AT&T Long Distance. It also proposed that it be freed from a 1956 antitrust consent decree, then administered by Judge Vincent Pasquale Biunno in the United States District Court for the District of New Jersey, that barred it from participating in the general sale of computers.[4] In return, it proposed to give up ownership of the local operating companies. This last concession, it argued, would achieve the Government's goal of creating competition in supplying telephone equipment and supplies to the operative companies. The settlement was finalized on January 8, 1982, with some changes ordered by the decree court: the regional holding companies got the Bell trademark, Yellow Pages, and about half of Bell Labs.

Effective January 1, 1984, the Bell System’s many member companies were variously merged into seven independent "Regional Holding Companies", also known as Regional Bell Operating Companies (RBOCs), or "Baby Bells". This divestiture reduced the book value of AT&T by approximately 70%.

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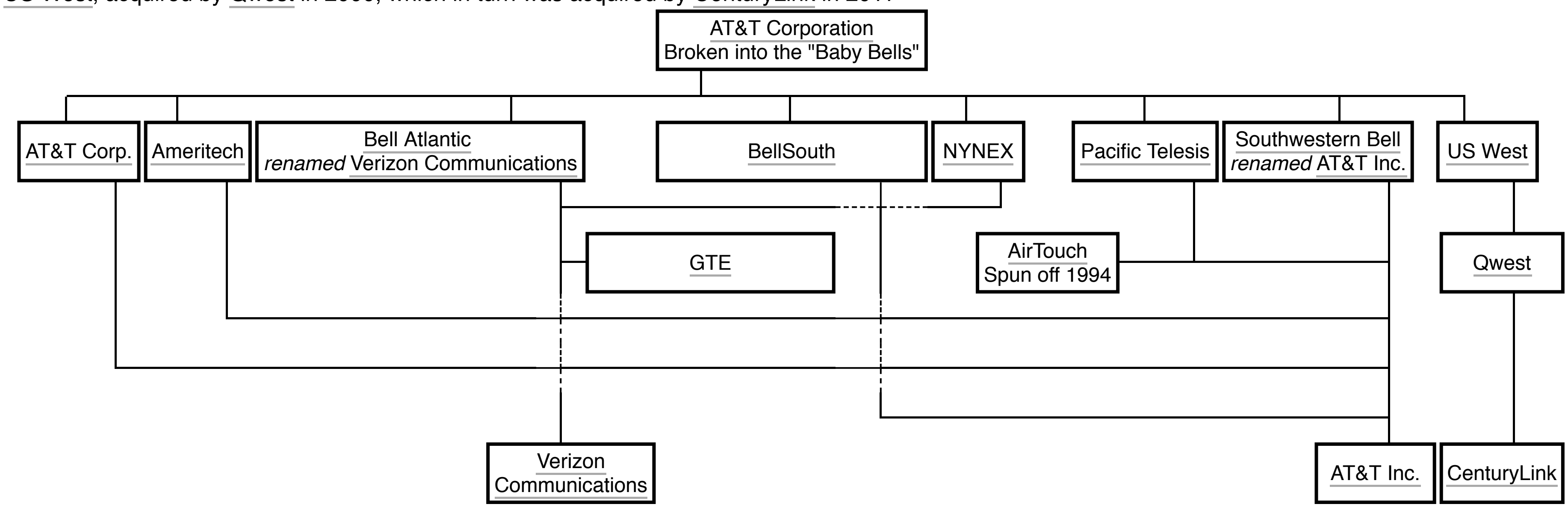
Post-breakup structure

The breakup of the Bell System resulted in creation of seven independent companies that were formed from the original twenty-two AT&T-controlled members of the System.[5]

At the time of the breakup, these companies were:

- NYNEX, acquired by Bell Atlantic in 1996, now part of Verizon Communications
- Pacific Telesis, acquired by SBC in 1997, now part of AT&T Inc.
- Ameritech, acquired by SBC in 1999, now part of AT&T Inc.
- Bell Atlantic, merged with GTE in 2000 to form Verizon Communications
- Southwestern Bell Corporation, rebranded as SBC Communications in 1995, acquired AT&T Corporation in 2005
- BellSouth, acquired by AT&T Inc. in 2006
- US West, acquired by Qwest in 2000, which in turn was acquired by CenturyLink in 2011



In addition, there were two members of the Bell System that were only partially owned by AT&T. Both of these companies were monopolies in their coverage areas, received Western Electric equipment and had agreements with AT&T whereby they were provided with long distance service. They continued to exist in their pre-breakup form after the antitrust case, but no longer directly received Western Electric equipment, and were no longer bound to use AT&T as their long distance provider.[5] These companies were:

- Cincinnati Bell, now the only Bell System member never owned by a Baby Bell, covering the Cincinnati metropolitan area

- Southern New England Telephone (SNET), acquired by SBC in 1998, now part of Frontier Communications, covering Connecticut.

Effects

The breakup led to a surge of competition in the long distance telecommunications market by companies such as Sprint and MCI.[5] AT&T's gambit in exchange for its divestiture, AT&T Computer Systems, failed, and after spinning off its manufacturing operations (most notably Western Electric, which became Lucent, then Alcatel-Lucent, now Nokia) and other misguided acquisitions such as NCR and AT&T Broadband, it was left with only its core business with roots as AT&T Long Lines and its successor AT&T Communications. It was at this point that AT&T was purchased by one of its own spin-offs, SBC Communications, the company that had also purchased two other RBOCs and a former AT&T associated operating company (Ameritech, Pacific Telesis, and SNET), and which later purchased another RBOC (BellSouth).

One consequence of the breakup was that local residential service rates, which were formerly subsidized by long distance revenues, began to rise faster than the rate of inflation. Long-distance rates, meanwhile, fell both due to the end of this subsidy and increased competition.[5] The FCC established a system of access charges where long distance networks paid the more expensive local networks both to originate and terminate a call. In this way, the implicit subsidies of the Bell System became explicit post-divestiture. These access charges became a source of strong controversy as one company after another sought to arbitrage the network and avoid these fees. In 2002 the FCC declared that Internet service providers would be treated *as if* they were local and would not have to pay these access charges. This led to VoIP service providers arguing that they did not have to pay access charges, resulting in significant savings for VoIP calls. The FCC was split on this issue for some time; VoIP services that utilized IP but in every other way looked like a normal phone call generally had to pay access charges, while VoIP services that looked more like applications on the Internet and did not interconnect with the public telephone network did not have to pay access charges. However, an FCC order issued in December 2011 declared that all VoIP services would have to pay the charges for nine years, at which point all access charges would then be phased out.[6]

Another consequence of the divestiture was in how both national broadcast television (*i.e.*, ABC, NBC, CBS, PBS) and radio networks (NPR, Mutual, ABC Radio) distributed their programming to their local affiliated stations. Prior to the breakup, the broadcast networks relied on AT&T Long Lines' infrastructure of terrestrial microwave relay, coaxial cable, and, for radio, broadcast-quality leased line networks to deliver their programming to local stations. However, by the mid-1970s, the then-new technology of satellite distribution offered by other companies like RCA Astro Electronics and Western Union with their respective Satcom 1 and Westar 1 satellites started to give the Bell System competition in the broadcast distribution field, with the satellites providing higher video & audio quality, as well as much lower transmission costs.[5]

However, the networks stayed with AT&T (along with simulcasting their feeds via satellite through the late 1970s to the early 1980s) due to some stations not being equipped yet with ground station receiving equipment to receive the networks' satellite feeds, and due to the broadcast networks' contractual obligations with AT&T up until the breakup in 1984, when the networks immediately switched to satellite exclusively. This was due to several reasons — the much cheaper rates for transmission offered by satellite operators that were not influenced by the high tariffs set by AT&T for broadcast customers, the split of the Bell System into separate RBOCs, and the end of contracts that the broadcast companies had with AT&T.[5]

AT&T's post-breakup strategy did not work out the way it had planned. Its attempt to enter the computer business failed, and it quickly realized that Western Electric was not profitable without the guaranteed customers the Bell System had provided.[7] In 1995, AT&T spun off its computer division and Western Electric, exactly as the government had initially asked it to do. It then re-entered the local telephone business that it had exited after the breakup, which had become much more lucrative with the rise of dial-up Internet access in the early 1990s.[7] Even this, however, would not save AT&T Corporation. It would soon be absorbed by one of the Baby Bells, SBC Communications (formerly Southwestern Bell), which then co-opted the AT&T name to form the present-day AT&T Inc.

Evolution of the Baby Bells

A Verizon payphone with the Bell logo

Following divestiture in 1984 and the creation of the seven Baby Bells, the service within the LATAs remained regulated until 1996, when the Telecommunications Act of 1996 was passed. Following this, the Baby Bells began consolidating amongst themselves. Section 271 of the Telecommunications Act of 1996 also established a way that regulators could approve BOCs to enter the interLATA market in regions where they provide local exchange service.[8] In 1998, Ameritech sold some of its Wisconsin Bell lines (covering 19 exchanges) to CenturyTel, which merged them into its company CenturyTel of the Midwest-Kendall.[9][10]

SBC Communications (named Southwestern Bell Corporation until 1995) purchased Pacific Telesis in 1997 for $16.5 billion, creating an organization with about 100,000 employees, an annual net income of $3 billion, and revenue of about $23.5 billion.[11] SBC purchased Southern New England Telecommunications in 1998 for $5.01 million,[12] and Ameritech in 1999 for $61 billion, creating the largest U.S. local phone company at the time.[13] AT&T Corporation, the original parent, was acquired effective November 18, 2005, by SBC, which renamed itself AT&T Inc. and began using the ticker symbol "T" and a new AT&T corporate logo.[14] The new company then acquired BellSouth for $85.8 billion on January 3, 2007, with FCC approval.[15]

Bell Atlantic merged with NYNEX on August 18, 1997 in a $25.6 billion deal, retaining the name Bell Atlantic,[16] and then with non-Bell GTE on June 30, 2000 to create Verizon Communications in a $70 billion deal.[17] Verizon sold all of its wireline operations in northern New England (Maine, New Hampshire, and Vermont) in 2008 to FairPoint Communications for $2.7 billion;[18] a new operating company, Northern New England Telephone Operations, was created. Operations in Vermont were later split into Telephone Operating Company of Vermont, but continued with FairPoint. In 2010, Verizon sold 4.8 million access lines in 14 states, including Verizon West Virginia (originally The Chesapeake and Potomac Telephone Company of West Virginia), to Frontier Communications.[19]

US West was acquired by Qwest in June, 2000 for $43.5 billion.[20] On April 6, 2011, Qwest was acquired by CenturyLink, an independent telephone provider,[21] bringing Qwest Corporation, originally Mountain Bell, under its control.

AT&T Inc. is headquartered in Dallas. Atlanta suburb Brookhaven, Georgia is the location of the headquarters for AT&T Mobility, formerly Cingular Wireless. The name change came after AT&T's merger with BellSouth, as well as with southeast-region telephone operations. Bedminster, New Jersey is home to the AT&T Global Network Operations Center and is the headquarters of AT&T Corp., the long-distance subsidiary of AT&T Inc. The new AT&T Inc. lacks the vertical integration that characterized the historic AT&T Corporation and led to the Department of Justice antitrust suit. AT&T Inc. announced it would not switch back to the Bell logo,[22] thus ending usage of the Bell logo for corporate use by any of the Baby Bells, except Verizon.

Financial arbitrage

Due to discrepancies between the pricing of the "old" AT&T shares and the new "when-issued" shares, investors were able to make risk-free profits, most spectacularly Edward O. Thorp, who made $2.5 million in what was at the time the NYSE's largest (nominal) block trade.[23]

See also

- Standard Oil – The 1911 breakup of Standard Oil is often compared to the breakup of AT&T and, like AT&T, later had many "baby Standards" merge.
- AT&T Technologies
- Vincent Pasquale Biunno
- Harold H. Greene
- Viewtron

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Further reading

- Steve Coll (1986), *The Deal of the Century: The Breakup of AT&T*, New York: Atheneum.

External links

- Obituary of Harold H. Greene (http://www.ieee.org/portal/cms_docs_iportals/iportals/aboutus/history_center/yurcik.pdf), judge presiding over the divestiture
- Has Divestiture Worked? A 25th Anniversary Assessment of the Breakup of AT&T (http://www.isoc-ny.org/?p=618) Conference at NYU, May 6, 2009.