

AT&T/T-Mobile Merger: Let's Call It What It Is



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Anyone who has ever taken a basic economics course knows that fewer players in an industry lead to higher prices and more limited choice, absent regulatory oversight. Noted author and technical futurist Leo Wrobel explains why the AT&T/T-Mobile merger is a bad idea for consumers, the market, and even the U.S. constitution and how the future of the Internet itself is at stake

In a hilarious parody on the T-Mobile commercials, two young ladies (one of which bears an uncanny resemblance to the T-Mobile girl) discuss the AT&T merger with T-Mobile

- T-Mobile Girl: It's kind of funny that you guys once got in trouble for being a monopoly. Like, "Here she goes again!"
- AT&T Girl: That was, like, 30 years ago. It's not like it's the 80s any more.

T-Mobile Girl: Then why are you wearing leg warmers?

This is one of four videos sponsored by [Free Press](#), which had us in stitches. The fact is that there is a certain underlying truth to them. And above and beyond high bills, there is ample reason to be concerned with the AT&T/T-Mobile merger. The issue is not only about price, brand, or customer service. When considered in context, this merger is only one aspect of a bigger plan: deciding who will *control* the wireless access market, *dominate* the Internet, and ultimately *decide* what you will see and hear. Let's start with the first of three troubling trends: consolidation of wireless providers.

Fewer Wireless Providers Is NOT Good

Telecommunications regulation, as it was previously practiced, is no longer in existence in the U.S. Traditionally carriers utilized Rate of Return (ROR) regulation under which they were called to justify rates and prices. This kind of regulation is as dead as the rotary dial phone, and nowhere is it more evident than in wireless. These companies can go out and make as much money as they like and not have to account for it to anyone except shareholders. Monopolies are inconsistent with deregulation, yet AT&T and T-Mobile seek the best of both worlds. They pursue unlimited potential earnings combined with no regulation on how much they earn.

A union of AT&T and T-Mobile would create a monopoly. The marriage would shrink the number of national mobile operators (AT&T, Verizon, Sprint, and T-Mobile) from four to three. In fact, if approved, the proposed merger would create the nation's largest mobile carrier, with more than 129 million subscribers. If Sprint is, in turn, forced to seek a merger with Verizon (considered likely in many circles), there would be only two national wireless carriers: AT&T and Verizon. Let's put this in perspective for a moment. The top ten oil companies in the U.S. control 80 percent of the gas market. The merger of AT&T and T-Mobile would give the same level of market dominance to *only three companies*. How can that be good?

Are we all relegated to a 1980s-style monopoly with regard to choices in services and providers? Under the present regulatory structure, we would have to say "probably." But the impact will be even worse in a couple of other areas. Consider *Net Neutrality* and *Media Consolidation*. The impact in these two areas could be worse on our nation than simply high phone bills.

Fewer Providers Limit Options and Choice

We have discussed *Network Neutrality* in previous articles, but it stands repeating here in the context of the AT&T/T-

Mobile merger. We stand to lose not only financially, but also in regards to national competitiveness if the wrong entities gain control of the Internet. Make no mistake about it: Control of the Internet is the end game here. Powerful forces are at work in regulatory, judicial, and legislative bodies seeking to manipulate and control the Internet to their financial advantage rather than for the common good. Countering the tendency of network monopolies to act in a self-serving manner is the doctrine of Network Neutrality. *Net Neutrality* is the principle that affirms that Internet service providers may not discriminate between different kinds of content and applications online. It guarantees a level playing field for all websites and Internet technologies whether the user is large or small. AT&T, for example, cannot provide an inferior grade of service or render a surcharge on your Internet because you don't use *their* television offering that is, at least *not yet*. (More about this point in a minute.)

Net Neutrality protects the consumer's right to use any equipment, content, application, or service without interference from the network provider. It espouses the notion that a provider's job is *move* data, not to *choose* which data to move. This principle is under attack by special interests beginning with the emasculation of the FCC's rules on Net Neutrality. Special interests with deep pockets are working the halls of congress and brokering schemes designed to subvert Net Neutrality. One plan was to pass a bill cutting funding to the Federal Communications Commission (FCC) needed to enforce Net Neutrality. The first step in robbing the hen house is to neutralize the watchdogs.

Without Net Neutrality, innovation will be stifled, and access to information will be restricted and controlled. Consumer choice and free speech would be sacrificed to the financial interests of a few large corporations who would, for practical purposes, own the Internet. For an inkling of what this could be like imagine your cable company had total control of the Internet. Consumers would have to choose from *their* menu. Consumers will have to pay *their* prices.

Users are rightfully peeved about being constantly corralled as captive customers through onerous contracts by wireless and cable companies. When given the opportunity, such as in cases where there is *true* competition, they vote with their feet.

Consider Netflix. In a recent study by [The Diffusion Group](#) (TDG), a significant percentage of Netflix users are saying goodbye to the cable company. They are in fact *downgrading* their cable TV service. In the study, TDG asked consumers about the probability that they would downgrade their pay TV service in the next six months or, move to a lower tier of service, cancel some or all premium service, or both. It appears that in general, the percent willing to dump all or part of their existing cable service has risen from 16 to 32 percent in 2011. This is, in our opinion, because Netflix has introduced a viable alternative that is real competition against over-priced and all-too-comfortable cable providers. Wireless communication providers simply do not face the same issues as cable, which has to contend not only with Netflix but also Hulu, Amazon, and a host of other streaming providers. This is because, unlike wireless frequencies, nobody owns the Internet[[el](#)] at least not yet.

Whatever the reasons, all this is generally good for Netflix and generally bad for cable. Even Netflix faces some uncertainty though. Netflix still has to pay for programming. The Netflix contract with Starz Play reportedly ends in 2012, and the company is expected to pay more in general in the future for the rights to stream TV shows, movies, and other content to its subscribers. This has already begun. In July 2011, Netflix raised its prices, creating uproar from some circles. Even so, the prospect of a \$15.95 Netflix charge in a world where cable TV prices routinely exceed \$100 per month is still a bargain.

There is yet another issue to consider in the context of AT&T/T-Mobile, and it's more than wireless and cable TV. There is a control issue as well. Too much control in too few hands creates other problems too. Consider the whole issue of who controls the media in the context of Net Neutrality.

Fewer Content Sources Limit Options and Choice

According to the [Media Reform Information Center](#), the number of corporations that control a majority of U.S. media (including newspapers, magazines, TV, radio, books, music, movies, videos, wireless services, and photo agencies) fell from 50 in 1983 to just 5 in 2004. Imagine that these five controlled the Internet as well. Not to be melodramatic here but does anyone remember Germany in 1933?

NOTE

In 2004, Ben Bagdikian's book, *The New Media Monopoly*, shows that only five huge corporations—Time Warner, Disney, Murdoch's News Corporation, Bertelsmann of Germany, and Viacom (formerly CBS)—now control most of the media industry in the U.S. General Electric's NBC is a close sixth.

A free and open Internet counteracts this trend and makes the country more democratic. With a free and open Internet, any Internet site can have the reach of a TV or radio station.

The loss of Net Neutrality would end this unparalleled opportunity for freedom of expression. It would be like the 1800s where one could own a printing press but someone else had cornered the market on paper and ink. Arguably the Internet has elevated the First Amendment of the U.S. Constitution to a whole new level. Allowing ownership not only of the information sources but also on the very means of their transmission is not only a bad combination, it sounds like the Fourth Reich

Summary

AT&T's \$39 billion acquisition of T-Mobile is part of a disturbing trend. It's a deal because monopolies without regulation act in predictable fashion. They raise prices. It's a bad deal because like the competitive options facing cable providers (Netflix, Hulu, Amazon, etc.), there are no natural competitors to wireless providers. AT&T and T-Mobile have locked in the frequencies and locked out their competitors. Finally, the real end game in this story is the functional and financial control of the Internet, including its content. This is the most chilling aspect of all.

The public interest cannot be preserved by self-serving special interests. Left unaltered, many small users will no longer be able to afford the cost of entry, or will have inferior service from monopoly providers for not using *their* product. Consolidations of wireless, media and content providers are the first step: down this slippery slope.

Decisions now made collectively by millions of users of all sizes may in the future be made in corporate boardrooms. The choice we face now is whether we can choose the content and services we want, or whether broadband barons will choose for us. Let's call these mergers what they really are and stop sugar coating the real issues.
