

REPORT: 20 YEARS AFTER AT&T BREAK-UP, CONSUMERS SEE SOME BENEFITS, BUT TELECOMMUNICATIONS INDUSTRY IS BOGGED DOWN UNDER RESTRAINTS

WASHINGTON, D.C.//December 30, 2003// Telecommunications consumers have experienced an amazing array of communication options in the wake of the AT&T (NYSE: "T") break-up 20 years ago on January 1, 1984, but the court-ordered divestiture and two decades of ensuing laws and rules have been a decidedly mixed bag for the telecommunications industry, according to a New Millennium Research Council (NMRC) report released today.

Entitled '*Reflections and Directions: Twenty Years After the Divestiture of AT&T*,' the four authors of the NMRC report find that consumers have experienced a 'rocky road' over the last two decades but now benefit from a plethora of new choices on how to communicate. However, the telecommunications industry has not been so fortunate, suffering through such developments as the Telecommunications Act of 1996 and associated regulation that are not viewed as strong policy bedrocks upon which the marketplace can flourish.

The New Millennium Research Council invited four telecommunications experts and scholars, some of who commented on the divestiture process in 1983, to present their views of the 20th anniversary of the historic decision that led to the AT&T divestiture. Those contributing to the NMRC paper are: Richard P. Adler, principal, People and Technology; Henry Geller, former general counsel to the Federal Communications Commission; Joshua L. Mindel, assistant professor, College of Business, San Francisco State University; and Samuel A. Simon, who is president of Issue Dynamics, Inc. and chairman of the Telecommunications Research and Action Center.

In general, the diverse group of authors concludes that a dynamic telecom industry will remain one step ahead of legislators and regulators, who would be best advised to focus their attention on setting broad national policy. The experts also find that flourishing competition in a largely deregulated environment is essential to the future of a healthy and prosperous telecommunications industry.

What has gone wrong since the break-up of AT&T 20 years ago? Henry Geller explains: "The 1984 'big bang' -- divestiture of the local Bell operating companies from the rest of AT&T -- was designed to promote full and effective long distance competition... This elegant economic theory has been shown to be unsound. The distinction between local and long distance is rapidly eroding... With no certainly, investment in infrastructure is discouraged. There is asymmetric regulation of cable and telecom in the broadband field, which cannot be justified since both are starting from zero..."

The NMRC report authors note that the telecommunications industry has thrived despite – not because – of divestiture and two decades of reliance on rigid laws and rules. Richard P. Adler describes this process as follows: "While the break up of AT&T has had a real impact, it is the combination of this event with the continuing evolution of technology that has fundamentally reshaped the telecommunications landscape. In particular, the emergence of the Internet, along with the shift from analog to digital media on many fronts, has changed the competitive environment and led to the introduction of new types of services."

The result is a regulatory and legal structure of telecommunications that is constantly in a "catch-up" mode. Joshua L. Mindel points out in his essay that, "...many telecommunications policy analysts would agree that the current legislative framework in the U.S. still does not serve the telecommunications sector well. It relies on historical market structure and technological traits, wherein it should be based upon service and current market definitions."

Since the current telecommunications regulatory and legal structure is not keeping pace with the market, there is a need to rethink the whole way that government oversees the telecommunications industry. In his

essay, Samuel A. Simon writes, "...if there is a lesson of the last 20 years, it is that the Government should get out of the business of micro-management of telecommunications. Legislators and regulators should content themselves to set broad national policies that encourage investment and deployment of new services and then keep a watchful eye out for possible abuses."

ABOUT NMRC

Established in 1999, the non-profit New Millennium Research Council (NMRC) is composed of a network of policy experts who seek to develop workable, real-world solutions to the issues and challenges confronting policymakers. Its work has focused primarily in the fields of telecommunications and technology. For more information on the NMRC please visit: <http://www.newmillenniumresearch.org>.

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EDITOR'S NOTE: The full report is available at <http://www.newmillenniumresearch.org>.