

Annals of Telecommunications Policy Series Memorandum

Re: DTV vs. the Bell System Breakup.

Introduction

Experts differ regarding the planned transition to digital, over-the-air television broadcasting, currently scheduled for February of next year. The National Association of Broadcasters (NAB) and most of the FCC seem to think the cutover will go reasonably smoothly. Some consumer groups, however, aren't convinced. They're concerned the Government isn't doing enough to publicize this fundamental change -- and, hasn't developed sufficient systems to aid the technically unsophisticated.

Look at FairPoint-Verizon

New England regulators who used to be reasonably confident say they're now worried, given their experience with the recent purchase of many upper New England local telephone exchanges by FairPoint.

"For more than eight months," one senior regulator said to your Review, "Verizon's sale to FairPoint was front-page news throughout New England -- and, it lead on the evening news all the time." Except for maybe the Boston Red Sox's World Series prospects, hardly anything generated quite the coverage in that region.

"The day after the first set of new FairPoint telephone bills was mailed," however, "the company evidently got more than 14,000 calls, nearly all asking, 'Who are you, and why are you sending us a bill?'" Even several weeks later, the company was getting 7,000 calls a day -- three times the number it'd planned. Obviously, the Verizon-to-FairPoint transition wasn't something the public in New England knew much about -- again, despite the best efforts of the companies, regulators, and labor unions to tell them what's up.

Consider the Bell System Breakup

But don't abandon all hope -- not yet. For there's some reason to believe the American public can cope, given the Bell System breakup (1982-84).

In 1982, remember, the announcement the Bell System would be broken-up came as a considerable shock to most Americans -- and, it was a change virtually all of them opposed. The first sign something new was happening was when AT&T notified all those then leasing Western Electric equipment -- which was most Americans -- that they could now purchase the equipment. At the time, remember, Hinchman jacks were still relatively rare. Most people had Western Electric phones that were "hard-wired."

In addition to being told they could now buy their own "customer premises equipment" (CPE), notices were dispatched regarding "inside wiring" and its

maintenance. Most Americans were only vaguely aware there were telephone wires coming into their homes. But they accepted the need to pay some small amount -- usually 75-cents -- a month to keep that equipment working.

Regulators at the time said they got relatively few calls about the CPE changes, and only slightly more about "inside wiring." But then, there was the "balloting process."

Seriously Confusing

The Bell System breakup, remember, rested on the premise -- now known to be fundamentally flawed -- that local and long-distance telephone service should be rigidly segregated. Thus, as part of the breakup, the public was asked to pick a "primary interexchange carrier" -- through ballots which they were supposed to fill out and mail back.

The first "telephone primaries" had AT&T as the default carrier. That is, if a subscriber didn't choose, that account stayed with AT&T -- something which greatly bothered AT&T's long-distance competition. After conducting the first wave of "voting" under one set of rules, the FCC decided to have a second vote -- and, with different rules.

Under the new rules, the "default traffic" was allocated according to a formula that took into account a carrier's market share. Thus, if MCI had 8% of the Wheeling, West Virginia, market, it got 8% of the default traffic. The FCC also provided that nearly everyone would get something. Thus, soon after the second round of balloting, people started getting bills from companies they'd never heard of -- but, they coped.

Some Commercial Problems

The Bell System breakup procedures were reminiscent of Terry Southern's Magic Christian in some regards. No one could quite figure out why the FCC was doing what it was doing. Nevertheless, life went on.

One area where there were major problems was commercial, business accounts. In 1984, the local Bell companies and the long-distance companies didn't have established order processing procedures. Thus, businesses would order more lines -- but nothing would happen.

Nationally, the Bell System breakup saw some significant local residential service price increases -- especially in Southwestern Bell territory. Dallas talk radio hosts were telling listeners, "Call now -- while you can afford it!" But the mounting backlog of unfulfilled business orders attracted national media attention. For the first time ever, the Chief of the FCC's Common Carrier Bureau (then Jack D. Smith) appeared on the "CBS Evening News," and explained the Government was working hard to solve this problem.

Conclusion

By the fall of 1984, the business order backlog problems were resolved. One consequence was the famous "1984 data point" which would figure in FCC "price cap" proceedings for years. Because of these snafus, the growth rate in 1984 was "artificially" suppressed -- and, parties would debate whether to include it in the agency's arcane calculations. Nevertheless, despite this confusion, the American public coped.

So will the American public soldier on and make it through the digital television transition? We expect the biggest winners here will be the cable television companies. As the cutover date approaches, more and more people will chose simply to "bite the bullet" and sign up for cable television -- where the cable companies are advertising, "We'll take care of it all for you." As nearly all the cable companies in the country will "down-convert" digital TV signals to begin with, most cable subscribers won't see the "razor sharp images" and other features associated with digital television.

But, then, the real purpose of this transition isn't to provide better or prettier pictures to the public, is it? Like so much of what the FCC is doing these days, the goal is raising money for the U.S. Treasury. A "giant regulatory cash-register," as Senator Stevens predicted? You bet!

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