

Birth of the Bell Monopoly

It was a vigorous, but messy, competition. In those days, competing systems did not interconnect. The subscribers of competitors were unable to talk to Bell subscribers. In 1907 Theodore Vail was named president of the American Telephone and Telegraph Company ("AT&T"), by then the parent company for the Bell system. Vail reorganized the company and launched a campaign to establish a unified national telephone system under AT&T's control. Corporate self-interest was involved. Prices and profits had fallen dramatically in the early years of the 20th Century. Working with the federal government, Vail and AT&T established the Bell system monopoly. The result, realized over the next half century, would be the most technologically advanced and far-reaching telephone system in the world.

Vail argued that the public interest would be best served if there were a single national network, coordinated and controlled by a single entity, AT&T, with wasteful duplication eliminated. (This concept was promoted by AT&T under the slogan, "One Policy, One System, Universal Service.") There would be no need for a tangle of wires coming to a business or a home that needed to communicate with users of different phone systems. In return, the company would accept government regulation of its rates and service.

In the meantime, the company was acting to assert and expand its market dominance. When AT&T moved to acquire a number of its independent competitors as well as telegraph giant Western Union, the federal government became concerned. It eventually charged AT&T with violating the Sherman Antitrust Act.

A landmark settlement (the "Kingsbury Commitment") was reached in 1913. The deal framed the conditions for the telephone industry for decades to come. The company embraced federal regulation (as it would state regulation over the next several years) and committed itself to:

- ☐ Dispose of its Western Union holdings;
- ☐ Discontinue acquiring other telephone companies operating in competition with the Bell System, with certain exceptions;
- ☐ Allow competitors to interconnect with the Bell system for long-distance toll calls.

AT&T's acceptance of regulation marked the beginning of the end of competition. Federal officials adopted AT&T's view of competition as "duplicative," "destructive," and "wasteful" and of telephone service as a "natural monopoly." Soon, they and industry leaders began promoting the idea of a unified telecommunications system. In 1921 Congress passed the Willis-Graham Act to permit the consolidation of overlapping phone systems. By the mid-1920s, the era of competition had ended. Each community had a monopoly provider of local service, most often a subsidiary of AT&T, but in some cases an independent company. Long-distance service was provided by the Long Lines Department of AT&T.

The Communications Act of 1934 established the Federal Communication Commission ("FCC"), consolidating federal regulatory authorities previously exercised by the Interstate Commerce Commission and the Federal Radio Commission. This New Deal legislation did not fundamentally change federal policy toward telephones. The FCC was given authority over interstate telephone service; state commissions retained responsibility for intrastate activity. This basic framework remained intact until the Telecommunications Act of 1996.

Over the next several decades, industry changes and evolving regulatory policy created the conditions leading to the 1996 Act. Challenges dating from the earliest days of the industry — for example, interconnection — continued to plague regulators and providers. In addition, technological advances began to erode the basic logic, always questionable, that justified treating the industry as a natural monopoly.

A series of decisions and events, outlined below, documents the inexorable march toward market competition and deregulation.

Kingsbury Commitment

From Wikipedia, the free encyclopedia.

The **Kingsbury Commitment** of [1913](#) marked the beginning of [AT&T's monopoly](#). The [Bell System](#) and independent [telephone](#) operators reduced competition out of concern for government intervention. The government had been increasingly worried that AT&T and the other Bell Companies were monopolizing the industry.

Under [Theodore N. Vail](#) from 1907 AT&T had bought Bell-associated companies and organized them into new hierarchies. AT&T had also acquired many of the independents, and bought control of [Western Union](#), giving it a monopolistic position in both telephone and telegraph communication. It is also credited with using almost illegal methods to eliminate competition. Vail stated that there should be "one policy, one system (AT&T's) and universal service, no collection of separate companies could give the public the service that [the] Bell... system could give." Faced with a government investigation for antitrust violations AT&T had to act.

In the Kingsbury Commitment, actually a letter from AT&T VP Nathan Kingsbury of [December 9](#), AT&T agreed with the Attorney General to divest itself of Western Union, to provide long-distance services to independent exchanges under certain conditions and to refrain from acquisitions if the [Interstate Commerce Commission](#) objected.

The Commitment did not settle all the differences between independents and Bell companies and averted the federal takeover many had expected. However the Commitment played into AT&T's hands - the company was allowed to buy market-share, as long as it sold an equal number of phones. So AT&T was able to consolidate its hold on the most profitable urban markets, and interconnection only strengthened its hand in long-distance traffic. Between 1921 and 1934 the ICC approved 271 of the 274 purchase requests of AT&T.

The entire network was nationalised during [WW I](#) from June 1918 to July 1919, following re-privatization AT&T resumed its almost monopoly position. In 1934 the government acted to set AT&T up as a regulated monopoly under the jurisdiction of the [Federal Communications Commission](#).

Universal service: A century of commitment

Soon after the start of the twentieth century, Theodore Vail, president of AT&T, articulated his vision of the future of the nascent telephone industry:

The Bell system was founded on broad lines of "One System," "One Policy," "Universal Service," on the idea that no aggregation of isolated independent systems not under common control, however well built or equipped, could give the country the service. One system with a common policy, common purpose, and common action; comprehensive, universal, interdependent, intercommunicating like the highway system of the country, extending from every door to every other door, affording electrical communication of every kind from every one and every place to every one at every other place.^{[1](#)}

Vail's vision may have been intended as much to further the corporate strategy of the powerful Bell company as to promote a social policy, but the concept of universal service,,connecting each to all,,has been at the center of telecommunications policy ever since.^{[2](#)}

Vail's vision was certainly futuristic at the time, because only about 10 percent of the households in the country had telephone service.³ But this goal was effective and produced a rapid extension of service and concentration in the industry.⁴ A quarter of a century later, when Congress passed its first piece of comprehensive legislation dealing with the telecommunications industry (the Communications Act of 1934), the penetration of telephone service had risen to almost 40 percent. And AT&T's market share had risen from about 50 percent to more than 80 percent.⁵

In the Communications Act of 1934 Congress established a national policy of universal service that went beyond merely laying the wires and infrastructure to connect each to all. It included a commitment to making service economically accessible to all Americans. To continue the highway analogy introduced by Vail, it was not enough that the roads be in place; public policy declared that pricing be such that all Americans could avail themselves of telephone service. The Federal Communications Commission (FCC) was created at this time,

[f]or the purpose of regulating interstate and foreign commerce in communication by wire and radio so as to make available, so far as possible to all the people of the United States, a rapid, efficient, Nation-wide, and world-wide wire and radio communications service with adequate facilities at reasonable charges.⁶