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**Research in Preparation or Submitted:**

Competition and Progress, a book-length reassessment of the nature of competition and of policies toward market power.

Classic Micro-Economics, with George B. Shepherd. A concise textbook of micro-economic concepts.

"Competition and Extremism: Failures in the Marketplace of Ideas"

"The Emergence of Dominance: Properties of Instability in the Competitive Process"

"The Trend of Competition in the US. Economy, 1980-1997"

"The Theory of Actual Entry"

**Other Professional Activities:**

Visiting Professor: Williams College, 1982; University of Massachusetts, 1984-1985.

Preparation of numerous conferences on industrial organization, antitrust, regulation and public enterprise.

University of Glasgow, Fulbright Graduate Fellowship, 1959-60.

Research in Britain, in 1959-60, 1962, 1964, 1967, 1969, 1971, 1974, 1978, 1985 and 1987.

Awarded Ford Foundation Faculty Fellowship, 1967-68 (declined, to do the year at the Antitrust Division).

Numerous book reviews, refereeing of articles and books, screening research proposals, comments on other papers in conference volumes, etc., not listed individually here.

Addresses and seminars at various universities and colleges in the U.S. (University of Chicago, University of Michigan, University of Cincinnati, Wesleyan University, Amherst College, Miami University, University of Miami, University of Wyoming, Michigan State University, Middlebury College, College of William & Mary, University of New Hampshire); Canada (McGill University, Dalhousie University); Britain (London School of Economics, Oxford University, Cambridge University, University of Lancaster); Europe (University of Amsterdam, University of Ljubljana, University of Louvain, University of Rome); China (Nankai University) and Japan (Doshisha University).

Associate Conferee at The Merrill Center for Economics, summer

session, June-August, 1956.

Invited 4-week lecture series on Industrial Organization, Nankai University, Tianjin, China, April-May 1983. Further lectures at Nankai University, May, 1989; and September 1994 (for three weeks).

Director of Graduate Studies, Chairman of the Graduate Program Committee, and Chairman of the Graduate Admissions and Fellowships Committee, Department of Economics, University of Michigan, 1966-67, 1968-70.

Director of Graduate Studies in Economics, University of Massachusetts, 1990-91.

Statement and testimony for the Subcommittee on Antitrust and Monopoly, U.S. Senate; on industrial concentration, 1965; on antitrust policy in Britain, 1968; on discrimination in managerial employment, 1972; and for the House Committee on Energy, on Electric Sector competition, 1985.

Adviser at various times to: Antitrust Division, U.S. Department of Justice. U.S. Federal Trade Commission. U.S. Senate Subcommittee on Antitrust and Monopoly. Regulatory commissions in Massachusetts, the District of Columbia and Michigan. The African Development Bank, Abidjan, Ivory Coast. Various city governments, foundations, and private companies.

Testimony and consulting as an expert witness in antitrust and regulatory cases, including cases involving: IBM Corp. (California Computer Products), AT&T (Diversified Industries), DuPont Company (the titanium dioxide case), G.D. Searle, Pfizer Inc. (International Rectifier), the Santa Fe and Southern Pacific railroad merger, Southern California Edison (Cities of Anaheim et al); Macy's-Federated merger; Chicago Daily Herald v. Chicago Tribune et al; Rochester Gas & Electric; drug producers (price discrimination); the Union Pacific and Southern Pacific railroad merger; and before the Federal Energy Regulatory Commission (the Williams Pipeline case, 1992), and the regulatory commissions of the District of Columbia, New Jersey, Florida, Illinois, Maine, Massachusetts, Montana, New Hampshire, and Virginia. Also, extensive participation after 1995 in electric-industry competitive questions, among all sides of the industry (utilities, would-be entrants, commission staff, conferences, public and cooperative groups, etc.).

Adviser to the African National Congress, South Africa, on South African antitrust and related industrial policies, during 1992-94.

Adviser on industrial policies to officials of the Republic of Slovenia, since March 1995; visits in 1995 and 1996.

Chairman, the Ann Arbor Cablecasting Commission, 1973.

Co-Editor (with Henry W. de Jong) of the monograph series, Studies in Industrial Organization, Dordrecht: Kluwer Academic Publishers, since 1978.

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FCC Roundtable on the Economics of  
Mergers Between Large ILECs

Opening Remarks

Dr. Dennis W. Carlton, University of Chicago  
and LEXECON Inc.

Dr. Richard J. Gilbert, University of California, Berkeley  
and LECG, Inc.

Friday, February 5, 1999

**FCC ROUNDTABLE ON THE ECONOMICS OF MERGERS  
BETWEEN LARGE ILECS**

**Opening Remarks of Dr. Dennis W. Carlton  
University of Chicago and LEXECON Inc.**

**Merger Benefits**

The merger of SBC and Ameritech will create a national competitor that can quickly provide a broad range of services for both residential and business customers. The benefits of stimulating competition in the provision of these services are undeniable and large.

SBC/Ameritech plans to (i) establish a national footprint; (ii) offer packages of a wide variety of services including local, long distance, Internet, and customized data services for both residential and business customers; and (iii) provide end-to-end services with a single point of contact for business customers. The National/Local plan is SBC's response to what are obviously very rapid changes in demand and supply for telecommunications services. As far as I am aware, no one has seriously disputed that the National/Local plan is a sound business strategy whose implementation will significantly increase competition.

The validity of the National/Local plan is confirmed by the fact that the other major providers of telecommunication services are heading in precisely the same direction, the most prominent being the three major interexchange carriers, MCI WorldCom, AT&T, and Sprint (as well as Bell Atlantic/GTE). It is no surprise that the objections to the transaction principally are being made by the very firms that SBC plans to challenge in the marketplace, which would face less competition if the transaction is blocked.

Opponents claim that the National/Local plan should not be considered a merger-specific efficiency. They have made two basic arguments which are glaringly inconsistent. On the one hand, they claim that SBC will not carry out the plan. MCI WorldCom, for example, calls the plan a "ruse" and a "bluff." On the other hand, opponents also claim that the plan is not merger-specific because SBC and/or Ameritech would carry out similar plans absent the merger. Opponents can't have it both ways. Moreover, they are wrong on both counts.

The claim that SBC's commitment is not credible can be easily dismissed. There is no reason to believe that SBC would willfully misrepresent itself before customers, investors, Congress and the FCC. Moreover, SBC has established an internal organization developing a detailed

implementation plan; will soon announce the first cities in which it will begin deploying facilities; and has issued formal requests for information from vendors about network architecture, support systems and the like.

The claim that SBC or Ameritech would carry out the plan in the absence of the merger is simply unsupported speculation. The issue is not whether SBC could finance the plan by itself. The issue instead is whether, in the absence of the merger, SBC or Ameritech would have the necessary economic incentive to undertake such an aggressive plan in such a short time. There is no evidence whatsoever to support the position that it would be profitable for SBC (or Ameritech) to undertake the National/Local plan absent the merger.

Acting alone, SBC or Ameritech would face higher costs and greater risk of failure in pursuing the National/Local plan than would be expected with the merger. For example, either firm alone would need to deploy services and facilities in more areas and would be required to hire more managers and engineers than would be required with the merger. In the absence of the merger, there are also fewer in-region large business customers that are the natural targets for selling national services. SBC's and Ameritech's existing relationships with these customers enable the merged firm to more rapidly

"fill" its network. In the absence of the merger, the plan plainly would be less attractive financially and, as a result, it would be perfectly rational for SBC and Ameritech to decide not to pursue such a risky strategy.

Given the "race" now underway to offer packages of services on a nationwide basis, delays in establishing a national footprint translate into a reduced likelihood of the project's success and a reduced likelihood that a project of this speed and scope would be undertaken. The fact that mergers can speed the creation of a national footprint should not be a surprise, nor is there anything inherently troubling about it. WorldCom's acquisition of MCI and AT&T's acquisition of TCG had similar motivations – accelerating the deployment of packages of end-to-end services.

The merger is expected to result in additional efficiencies beyond the National/Local plan. With its PacTel merger, SBC has an established track record in generating cost savings in mergers and is ahead of schedule in achieving more than \$1 billion in annual cost savings by 2000 as a result of the PacTel merger. SBC has also achieved increased penetration of vertical services in PacTel's territory.

SBC expects to realize significant savings from the Ameritech transaction, including more than \$1 billion in annual cost savings by 2003. It

also anticipates that the Ameritech transaction will result in more rapid deployment of new services. One significant example is ADSL – asynchronous digital subscriber lines – which greatly increase the capacity of copper wires and the speed of Internet access. SBC has already deployed ADSL in nearly 100 PacTel central offices and is in the process of deployment in all Southwestern Bell central offices. Ameritech now offers ADSL in only four central offices.

In sum, the substantial benefits from this merger are indisputable. The merger creates a more potent national service provider for business and residential customers. The notion that this merger should be stopped because someone hopes that each company would on its own embark on its own plan is folly. Consumers should not be deprived of the benefits of this transaction on the basis of unfounded speculation.

FCC ROUNDTABLE ON THE ECONOMICS OF MERGERS  
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Opening Remarks of Dr. Richard J. Gilbert  
University of California and LECG, Inc.

**Merger Benefits**

When economists study markets and try to draw conclusions about market behavior, we prefer to rely on empirical data whenever it is available. It is critically important that regulatory agencies base their decisions on facts and not on theoretical speculation.

The observable facts strongly indicate that the merger of SBC and Ameritech will produce substantial public benefits. The merger makes possible the achievement of significant efficiencies that include cost savings and improved opportunities to expand output. These benefits have been discussed extensively in my affidavits and in the affidavits of James Kahan and Martin Kaplan on behalf of SBC. Briefly:

- SBC projects cost savings of over \$1.4 billion as a result of the merger.
- These savings will come from increased economics of scale; the ability to combine administrative and support functions and other

consolidation efficiencies; avoiding duplicative expenditures; and the adoption of best practices.

- The companies also expect to expand their output of telecommunications services through improved sales and marketing to supply more of the services consumers are demanding.
- Consumers will also benefit from increased innovation, improved service quality, economics of scope, and the ability to offer one-stop shopping.

These are merger-specific efficiencies that must be part of the FCC's public interest analysis.

We do not have to speculate about these benefits. We can look at the record. When SBC merged with Pacific Telesis, it told the Commission that it expected to achieve substantial efficiencies and synergies, and that is exactly what happened. Martin Kaplan has detailed these synergies, which currently exceed \$1 billion annually. Examples include:

- Reductions in capital expenditures approaching \$50 million by applying Pacific's trunk and tandem design practices to SBC's network.

- Cost reduction and benefits from increased output estimated at \$88 million by 2000 in operator services.
- Cost reduction and benefits from increased output estimated at \$134 million – exceeding SBC’s premerger prediction – in directory publishing.

SBC also improved service quality and reduced the time it takes Pacific Bell to deploy new services. It also increased Pacific’s sales of a variety of services, giving consumers more of what they want. This track record provides confidence that the SBC/Ameritech merger can and will create synergies that will directly benefit consumers.

My colleague, Professor Carlton, has discussed SBC’s National-Local Strategy – an unprecedented, broad-based entry into 30 new out-of-region markets, providing service to both residential and business customers. There is no question that this entry will generate benefits by stimulating local competition throughout the country.

In light of the benefits the merger will produce, the FCC should approve the merger unless it is convinced that it will produce significant harm to consumers that outweighs these benefits. There is no factual basis on which

to predict such harm. The arguments against the merger are speculation and should not form a basis for the FCC to deny approval.

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**Effects on Benchmarking and Diversity**

The mere fact that the proposed mergers will reduce the number of large ILEC holding companies is no reason for rejecting them. In particular, concerns about the loss of regulatory "benchmarks" are exaggerated. Opponents of the mergers also strike an inappropriate balance between regulatory convenience and procompetitive benefits. The relevant question in considering the effect of these mergers on benchmarking is whether the mergers will so significantly impede the ability of regulators to do their job that it will overwhelm the substantial benefits of the transaction, not whether there will be one or two fewer data points for some hypothetical comparison.

There is no empirical evidence whatsoever to support the claim that the proposed RBOC consolidations will make regulation significantly more difficult. There is, for example, no evidence that previous RBOC mergers have resulted in significant impediments to regulators' ability to do their jobs. Instead, opponents of the mergers rely on theoretical arguments. Moreover,

they ignore the ways in which trends in the industry, and the mergers themselves, will actually improve the quantity and quality of information available to regulators on key issues. They also ignore the substantial and indisputable benefits of the mergers.

One of the key factors facing regulators today is seeing that local exchange markets effectively make the transition to competition and assuring that ILECs do not discriminate in providing interconnection to CLECs. The most useful tool in evaluating such potential discrimination is to compare the service that ILECs provide to themselves to that provided to CLECs. That is, the ILECs provide an internal benchmark for evaluating discrimination. This key benchmark will not be lost as the result of the merger.

In addition, there are new benchmarks available from firms that are both ILECs and CLECs. For example, Sprint is an ILEC that provides service in such cities as Raleigh, NC and Las Vegas, NV. This means that both Sprint and regulators can observe how Sprint, as an ILEC, succeeds in providing interconnection with Sprint's ION service. This provides another benchmark for evaluating an ILEC's performance in dealing with Sprint as a CLEC.

SBC's out-of-region plan also will establish new benchmarks. As a new entrant SBC will have to negotiate interconnection arrangements with every

other ILEC. These arrangements will provide additional reference points that can be used by competitors and regulators.

CLECs have the incentive and ability to monitor the performance of ILECs with which they deal. Most CLECs, including AT&T, MCI WorldCom and Sprint, have state-specific interconnection agreements in a large number of states. These firms can compare an ILEC's performance in different states and will continue to readily compare different ILECs' performance. As CLECs grow, more information will be created, improving the ability of regulators to detect discrimination.

Regulators can and do respond to changes in the information available to them. Regulators generally evaluate a wide variety of evidence, not simply ILEC-specific benchmarks and, following the merger, can respond by revising standards or placing greater weight on different types of evidence.

Opponents also claim that the merged ILECs will have a reduced incentive to undertake investments in reducing costs following the merger, since the merged firm may carry a greater weight in regulators' decisions to lower regulated rates in the future. However, this concern is entirely speculative and no empirical evidence is presented in support. Moreover, opponents ignore obvious incentives that work in the opposite direction, such

as the increase in the return on investments in reducing costs by enabling the combined firm to generate savings over a larger geographic area.

If the reduction in the number of benchmarks lead to increased discrimination, as opponents suggest, that effect will be felt in all RBOC territories. Thus, under this theory, SBC and Bell Atlantic would also find themselves subject to greater risk of discrimination in their out-of-region entry plans as a result of the merger. SBC's proposed deployment of its National/Local plan shows instead that no such significant benchmarking concerns exist.

In sum, there is no evidence suggesting that past reductions in the number of ILEC benchmarks have had a significant adverse effect on the ability of regulators to regulate. Given industry trends and the new information generated by the merger, more, not fewer benchmarks, should be expected. Consumers should not be denied tangible benefits based on unsupported speculation about theoretical harms.

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**Potential Competition**

The doctrine of potential competition is well established in antitrust. In order not to block efficient, procompetitive mergers, the courts have focused on three key facts all of which must be proved to show harm from the loss of potential competition. First, there must be evidence that one of the merging firms would soon have entered the other firm's market in the absence of the merger. Second, there must be evidence that the entry of that firm would have produced a substantial de-concentration of the market. Third, the merging firm must be one of only a few likely potential competitors, for if other entrants are available the impact of having one fewer obviously is minimal. The record developed before the FCC shows that these crucial elements cannot be satisfied.

The arguments that the merger reduces potential competition ignore the evidence. The evidence is that SBC is not a likely potential entrant in Ameritech's territory. Well before this merger was agreed upon, SBC

considered providing out-of-region local exchange service using its wireless service as an entry platform. The evidence shows that SBC found that this strategy would not be profitable. Ameritech's attempt to follow a large customer out-of-region also was a failure. As a result of these experiences, SBC and Ameritech determined that local exchange entry outside their existing regions was infeasible. The only exception relates to St. Louis where Ameritech considered offering resold local exchange services to its cellular customers. Even if this plan were to go forward it would not represent a significant competitive thrust – unlike the kind of entry the National-Local Strategy contemplates.

When I submitted testimony in 1996 concerning the SBC-Pacific Telesis merger, I noted that SBC was then thinking about providing local exchange telephone service to its customers in some out-of-region markets in which it operated cellular systems. To test the feasibility of such expansion, SBC experimented with providing local exchange service to its cellular customers in Rochester, New York. The project was a failure and based on these poor results, as explained in Mr. Sigman's affidavit, SBC management determined that out-of-region expansion into local exchange through existing cellular operations should not be pursued. No further thought was given to reviving

this plan in any out-of-region market. To suggest that SBC was a likely potential entrant into Ameritech's markets is to ignore every available fact.

As for Ameritech, like SBC, it considered whether its out-of-region cellular system in St. Louis could provide local exchange service on a resale basis. This was motivated by a concern that wireless competitors would be able to bundle wireless and local exchange services and erode Ameritech's cellular base. Thus, Ameritech considered offering resold local service to its cellular customers as a defensive measure; management did not have a plan for entry on any other basis in St. Louis or elsewhere.

Even if we assume that Ameritech's St. Louis plan would have gone forward, it still does not amount to the kind of de-concentrating entry that injects substantial new competition in a market. There is no shortage of competitors who are proposing to offer CLEC service in metropolitan markets, particularly as a reseller, in the way Ameritech considered doing. This is certainly true of St. Louis where there are numerous significant facilities-based and reseller competitors already competing against each other and SBC. In these circumstances, Ameritech's presence or absence as a reseller cannot have a material competitive impact, much less a significant deconcentrating effect.

Potential competition analysis must be based on evidence, not speculation. The evidence here shows that there is no valid concern that the SBC-Ameritech merger will eliminate substantial potential competition. This speculative theory should not be allowed to interfere with a merger that will generate significant, demonstrable benefits for competition and consumers.

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**Effects on Ability and Incentive of ILECs to Raise Rivals' Costs**

There is no reason for the FCC to block the SBC-Ameritech merger based on fears of discriminatory behavior. The claims that significant discrimination will occur either are unrelated to the mergers themselves or lack any factual support, or both.

Opponents to the transaction have raised two general objections based on the possibility of discrimination. First, they say that RBOC discrimination is a serious problem and that this concern should stop this, or apparently, any, merger involving RBOCs.

But that concern is not related to any merger analysis. It is instead a challenge to the Telecommunications Act of 1996, in which it already has been decided – correctly in my view – that appropriate regulatory safeguards exist so that RBOC entry into other services can be expected to benefit consumers. Regulation, Congress has decided, is capable of dealing with any

related price and non-price discrimination concerns. There is no reason to revisit that conclusion.

The second concern is that the merger will increase the incentive for the merged ILECs to engage in discrimination. According to this story, the incentive to discriminate is apparently not so strong now but after the merger will significantly increase so that discrimination will become a serious problem. But there is no factual support for such speculation.

As has been correctly noted in previous analyses, there is a significant tension in standard discrimination theories, especially those involving non-price discrimination. That is, in order for discrimination to succeed, it must be significant enough to induce consumers not to use services offered by ILECs' rivals. At the same time, however, discrimination must not be detected by regulators or by rivals themselves. Proponents of the discrimination arguments ignore this tension and, as a result, exaggerate the potential for harm.

Proponents of discrimination theories also ignore the fact that the 1996 Act incorporates very strong incentives for firms to avoid discrimination against CLECs, including the promise of entry into long distance. For SBC, with its National/Local plan, the possibility that it would not be able to

provide in-region long distance would be a disaster. So, SBC's incentive to discriminate, if anything, should fall as a result of the transaction. Moreover, it bears mention that SBC is moving rapidly to satisfy the 14-point checklist to ensure its regions are open to competition. As recently reported by the Texas PUC:

"Southwestern Bell has met the majority of the 14 points required for us to recommend its entry into long distance," said Commissioner Judy Walsh. "Based on its cooperation in this process, I am confident that the remaining issues can be resolved, and that upon successful completion of operations systems testing, the Commission can then make a positive recommendation to the FCC."

Proponents of discrimination theories also fail to confront indisputable marketplace evidence suggesting that discrimination is not a significant regulatory problem. That evidence is the massive entry now being undertaken by CLECs throughout the U.S. According to the FCC's most recent Local Competition Report, in the third quarter of 1998, there were 723 instances in which a CLEC held a numbering code in a LATA.<sup>1</sup> It is also estimated that CLECs have together raised \$14 billion from investors since passage of the Telecommunications Act. SBC's investment in the

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<sup>1</sup>. Entry by a CLEC in two LATAs is counted twice for this purpose.

National/Local plan is further evidence that discrimination concerns are greatly exaggerated.

It is inconceivable that entry on this scale would be observed if discrimination were as significant and pervasive a problem as suggested by proponents of discrimination theories.

The only merger-specific discrimination claim is put forward in a theory by Professors Katz and Salop suggesting that ILEC mergers increase the ILECs' incentive to discriminate against CLECs. They argue that ILECs' current incentive to discriminate against CLECs is mitigated because some of the benefit of this discrimination accrues to other ILECs, but that this "externality" is eliminated when ILECs merge.

Professors Katz and Salop present no evidence to support their theory that the combination of SBC and Ameritech will have any impact on incentives to discriminate or will deter entry by CLECs. The theoretical possibility of harm does not make it economically significant. An analogous argument might be that every horizontal merger should be stopped because it would reduce the number of firms in an industry, which as a logical matter increases the risk that prices might rise.

It seems highly implausible that whatever incentives ILECs have to discriminate against CLECs are materially affected by the marginal reduction in this "spillover" resulting from this merger. Moreover, it is highly implausible that ILECs will be able to drive from the market CLECs, such as AT&T and MCI WorldCom, that have already deployed facilities and services.

Although Professors Katz and Salop present no evidence to support their argument, my preliminary analysis of available data provides no support for their theory. According to the Katz/Salop theory, the SBC/PacTel merger and the Bell Atlantic/NYNEX mergers in 1997 should have increased the incentives to discriminate and prevent CLEC entry, but the FCC Local Competition data provide no evidence to support this hypothesis. CLEC activity is no lower in the merged companies' territories following these mergers than one would otherwise have expected.

Opponents express special concern about ILEC discrimination against firms that require new access technologies. Sprint, for example, expresses concerns about discrimination against its ION technology.

As with other discrimination claims, this concern is not merger related. Moreover, market evidence – including Sprint's own behavior – is inconsistent with notion that new technologies are especially vulnerable.

Deployment of Sprint's ION, for example, was announced despite discrimination risks and Sprint has publicly stated that interconnection issues are not significant. Sprint is also well situated to evaluate ILEC discrimination against ION given its role as an ILEC with 7 million access lines, including such cities as Raleigh, NC and Las Vegas.

Furthermore, concerns about discrimination against new technologies are belied by the massive investment already taking place in a variety of new technologies that require novel types of interconnection, including fixed wireless, Internet Protocol, and cable telephony.

In sum, the goal of regulation is to benefit consumers. The goal is not to eliminate all theoretical possibilities of discrimination, no matter how insignificant and without regard to procompetitive benefits. There is simply no evidence that this merger will significantly alter the incentive and ability of RBOCs to discriminate against their rivals.

# FCC Roundtable on the Economics of Mergers Between Large ILECs

Dr. Dennis W. Carlton, University of Chicago and LEXECON, Inc.

Dr. Richard J. Gilbert, University of California, Berkeley and LECG, Inc.

SBC Communications Inc. and Ameritech Corporation

Friday, February 5, 1999

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## *The Evolution Of Telecommunications Markets*

### *Pre-Divestiture*

- No local competition and one principal provider -- AT&T
- Limited long distance competition and one principal provider -- AT&T

## *The Evolution Of Telecommunications Markets*

### *Pre-1996 Telecom Act*

- Local
  - Geographically separate regions
  - No widespread competition
  
- Long distance
  - Three major IXC's
  - RBOCs are barred

## *The Evolution Of Telecommunications Markets*

### *Post-1996 Telecom Act*

- Race to provide packages of services
  - Local
  - Long Distance
  - Data
  - Internet
  - Wireless

## *The Evolution Of Telecommunications Markets*

### *Firms Growing By Acquisition And Developing National And International Alliances To Provide Multiple Services Nationally And Internationally*

#### AT&T

- McCaw
- TCG
- TCI, @Home, Excite
- Time Warner
- Other Cable Alliances
- British Telecom/Concert
- IBM Global Data Network

#### MCI WorldCom

- MFS
- Brooks Fiber
- UUNet
- Avantel
- Telefonica
- Embratel

#### Sprint

- France Telecom
- Deutsche Telekom
- TelMex
- Sprint Canada
- Global One
- Sprint PCS

*Examples Of Business Customers Supporting National-Local Strategy*

- Abbott Labs
- Allegiance Healthcare Corp.
- Amoco Production Co.
- Bank One
- Commonwealth Edison
- Compaq Computer
- Dresser Industries
- Edward Jones
- Emerson Electric Co.
- Huntington Banks
- Levi Strauss & Co.
- Sears Roebuck and Co.
- Shell Oil Co.
- Travelers Group
- Ultramar Diamond Shamrock
- University of Illinois

## *IXC Statements Validate Reason for Merger*

- **Mr. William Esrey, Chairman and CEO of Sprint**

“I think at a minimum, they [BellSouth] are going to have to partner with somebody because the regional presence will not be enough.” (Atlanta Journal and Constitution, Jan. 20, 1999)

- **AT&T Marketing Materials**

“AT&T maintains a nationwide presence, unlike regional local service competitors.” (AT&T Digital Link Service Benefits - Web Page)

- **MCI WorldCom Marketing Materials**

MCI WorldCom “can carry all the data traffic of all the other carriers combined to more places around the world than any other network.” (MCI WorldCom TV ad, first aired 9/15/98)

***SBC-Ameritech's Representations Regarding And Commitment To A National Local Strategy Deserve The Same Credit And Acceptance Given To Similar Statements By MCI WorldCom, AT&T, And Sprint***

**MCI WorldCom Order**

- “These letters from Messrs. Ebbers and Roberts represent a commitment from WorldCom and MCI not to abandon the residential long distance market, to augment their efforts in the residential local market, and to offer residential customers a total package of services including local, long distance, wireless, international, and Internet. We expect parties to be forthright in their communications with the Commission, and to take seriously commitments they make in proceedings before us.” (¶ 192)
- “We also find persuasive Applicants’ assertions that the merger will allow them to service multi-location customers over their own networks, and that this will enable such customers to receive higher quality and more reliable services than each company is currently able to offer separately.” (¶ 199)

***SBC-Ameritech's Representations Regarding And Commitment To A National Local Strategy Deserve The Same Credit And Acceptance Given To Similar Statements By MCI WorldCom, AT&T, And Sprint***

**AT&T/TCG Order**

- “Although Applicants have not quantified or substantially supported the public interest benefits that may result from the merger, we are persuaded that, as a result of the merger, the combined entity likely will be able to expand its operations and enter local markets more quickly than either party could do absent the merger. . . . Even though the record is sparse, we believe these benefits warrant approval of the merger in light of our finding that the merger is unlikely to result in any anticompetitive effects.” (¶ 48)
- “Moreover, in their applications, Applicants have explicitly identified a set of residential customers that will be served immediately, and thereafter, by the merged entity -- customers that live in ‘multiple dwelling units in high density markets.’” (¶ 50)

***SBC-Ameritech's Representations Regarding And Commitment To A National Local Strategy Deserve The Same Credit And Acceptance Given To Similar Statements By MCI WorldCom, AT&T, And Sprint***

***Sprint/DT/FT Order***

- “There likely are many reasons behind Sprint's choice to raise capital through equity partners rather than through the world's financial markets. . . . In any event, we find no reason to question Sprint's representations that it needs these investments to participate fully in various sectors of the U.S. communications market, as discussed below.” (¶ 78)

***The Commission Has Approved Acquisitions Designed To Provide  
End-to-End National And Global Service***

**MCI WorldCom Order**

- “Applicants assert that, as a result of the merger, the merged entity will be able to offer multi-location customers seamless door-to-door or end-to-end connectivity over their own fiber transport and intelligent network facilities.” (¶ 194)
- “[W]e conclude that WorldCom and MCI have made a sufficient showing that, as a result of combining certain of the firms’ complementary assets, the merged entity will be able to expand its operations and enter into new local markets more quickly than either party alone could absent the merger. For example, the Applicants claim that MCI Metro and Brooks Fiber will accelerate local city network deployment in secondary markets by 1-2 years.” (¶ 199)

***The Commission Has Approved Acquisitions Designed To Provide  
End-to-End National And Global Service***

***Sprint/DT/FT Order***

- “In addition, we expect the transaction to have a procompetitive effect in the global seamless services market. Global seamless services is an emerging product market of worldwide geographic scope . . . . This end-to-end service offers the advantage to customers of ‘one-stop shopping’ and single-source billing. The principal customers are high-end users such as multinational corporations, but individuals and carriers may also be customers.” (¶ 184)

***The Commission Has Approved Acquisitions Designed To Provide  
End-to-End National And Global Service***

***Sprint/DT/FT Order***

- “We believe Sprint's entry, through the Joint Venture, into the global seamless services market will yield significant competitive benefits for U.S. customers. The establishment of a new, viable competitor in this area should result in more competitive options for U.S. customers, particularly in terms of pricing and variety of services available for large scale, high-end customers such as multinational corporations. In addition, the Joint Venture should offer a number of efficiencies for Sprint, such as greater economies of scale, easier entry into new markets and the sharing of risks.”  
(¶ 87)

***The Basis For Predicting The Efficiencies Of The  
SBC-Ameritech Merger Is Well Established***

***The Post-Acquisition Experience With Pacific Telesis Shows That The  
Promised Efficiencies Were Delivered***

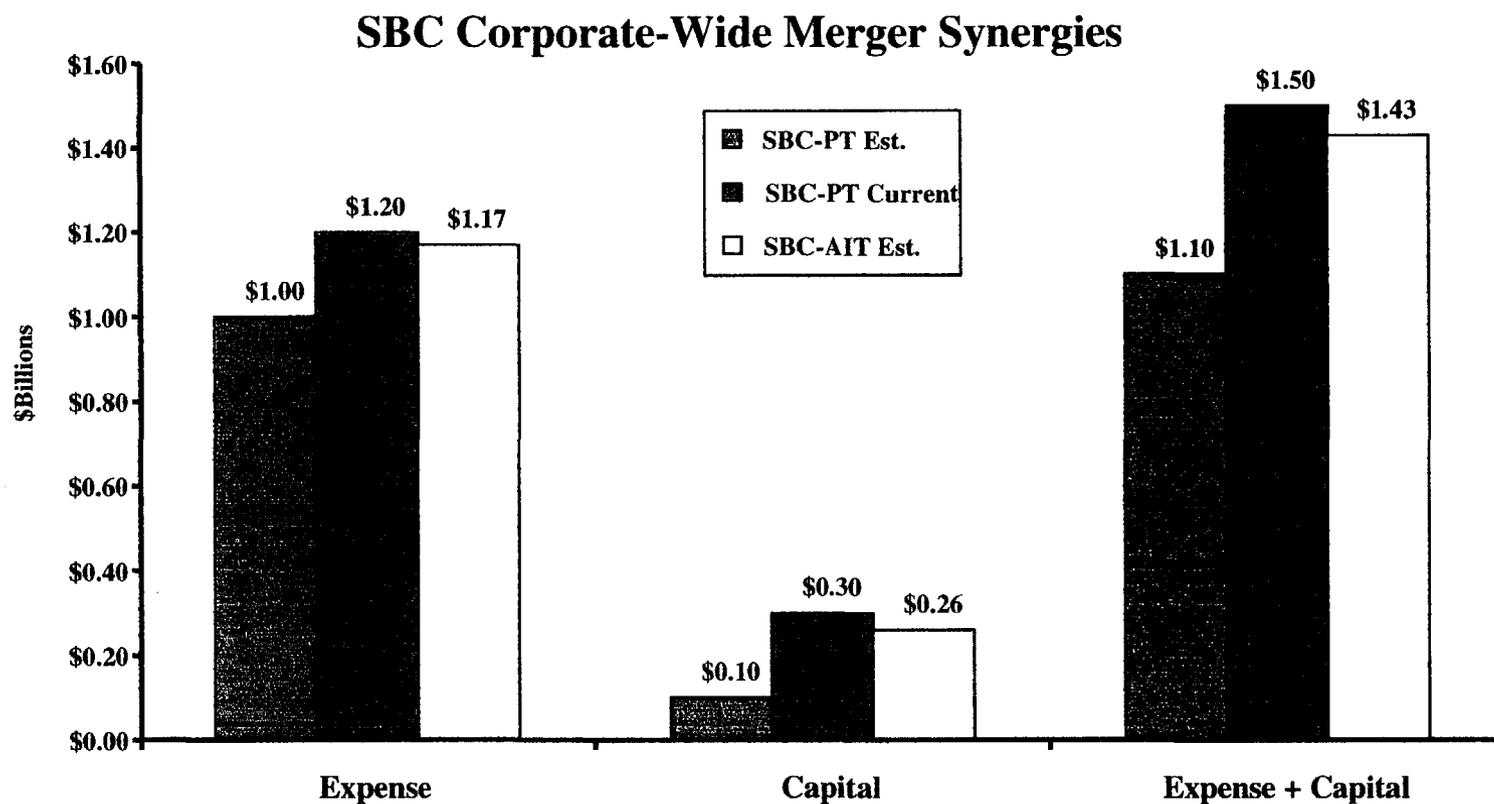
- Successful roll-out of new products and services to PacTel customers
- Accelerated build-out of PCS network; expanded and lower-cost rate plans for wireless customers
- Significant cost savings from shared “best practices” in network design and operations of customer services
- Expanded output of vertical services

***The Basis For Predicting The Efficiencies Of The  
SBC-Ameritech Merger Is Well Established***

***The Merger With Ameritech Will Deliver More Efficiencies***

- Innovation synergies from combining research and development efforts
- Faster, more efficient deployment of ADSL services
- Significant cost savings from shared “best practices” and elimination of duplication
- Increased output of vertical services and improved directory publishing
- Efficiencies in the development and roll-out of long distance services

## *Merger Benefits Are Real*



Note: SBC-PacTel estimated synergies were calculated at a Year 2000 run rate. SBC-Ameritech estimated synergies were calculated at a Year 3 run rate.