April 25, 2005

Marlene H. Dortch
Secretary
Federal Communications Commission
Office of the Secretary
236 Massachusetts Ave., NE, Suite 110
Washington, D.C. 20002

Re: WC Docket No. 05-65; SBC Communications Inc. and AT&T Corp.
Applications for Approval of Transfer of Control

On behalf of the Small Business & Entrepreneurship Council (SBE Council) and its members across the nation, I am writing in support of the proposed merger between SBC Communications Inc. and AT&T Corp. SBE Council is a national small business advocacy organization that works to protect small business and promote entrepreneurship. We have closely followed the telecommunications issue for over the past decade and have remained engaged in representing the interest of small business owners as entrepreneurs, consumers and innovators with respect to the many complex policy changes and challenges that have occurred since passage of the 1996 Telecommunications Act.

Government usually fails to approve mergers between large companies due to fears that consumers, or the "public interest," will somehow lose out due to a potential loss of competition. That is, that a monopoly or monopoly power will somehow result.

Given the dynamic and competitive nature of the telecommunications industry today – including wireline phone, wireless phone, cable, satellite, Wi-Fi, and more to come, no doubt – it's nearly impossible to envision telecommunications consumers,

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including countless small businesses and entrepreneurs, losing out with this proposed merger. Instead, individuals, families and businesses are likely to gain from increased efficiencies, reduced costs, access to enhanced services, and hopefully greater innovation.

It probably helps to think about this merger within the context of the classic definition of a monopoly, and how monopolies work and their effects. A classic economics textbook by two fine economists -- *Economics: Private and Public Choice* by James D. Gwartney and Richard L. Stroup – helps us better comprehend the issue of monopolies. It is worth reviewing their definitions to determine if they apply to this proposed merger.

Gwartney and Stroup defined monopoly as follows: "A market structure characterized by (a) a single seller of a well-defined product for which there are no good substitutes and (b) high barriers to the entry of other firms into the market for the product." Potential barriers to entry listed by the authors are: economies of scale, government licensing, patents, and control over an essential resource.

The single seller issue surely is not a problem here, as the telecommunications industry has been undergoing convergence with telephone companies selling voice, broadband Internet access and even television services, with cable and satellite providers doing the same.

Barriers to entry also is not an issue, as exhibited once again by this invasion of turf by competing industries and firms, including the arrival of satellite, the move by cable into telephony, and so on.

Economists Gwartney and Stroup also noted the ill effects of monopolies. First, monopolies severely limit options available to consumers. The authors wrote about monopolies: “You often have no feasible alternative but to accept poor service, rude treatment, or high prices if that is what is offered. In the presence of monopoly, the option is to buy from the monopolist or do without. This reduction in options greatly reduces the consumer's ability to discipline monopolists." At one time, this might have applied to the world of telecommunications, but it certainly no longer does. My choices for telephone service, for example, have only mushroomed in recent years.

The next issue regarding monopolies has to do with allocative inefficiencies. That is, monopolists have the incentive and ability to understock the market in order to charge a higher price. But to the contrary, the price of telecommunications services have been declining, and often quite dramatically.

Also under a monopoly scenario, profits and losses do not induce firms to enter and exit the market. High barriers to entry prevent other businesses from responding to increasing profits by entering the market. Again, this is not the case given the dynamic changes the industry has undergone in recent years, with firms from formerly distinct industries now competing directly.

In the end, the success of this proposed merger will depend on how well the merged company performs in the marketplace, that is, how well it competes with its now varied rivals, and how well it serves customers. Indeed, the proper venue for evaluating the proposed merger between SBC Communications Inc. and AT&T Corp. is in the marketplace, with individuals, families and businesses providing the final judgment. Government intervention is not needed. The public, through actions in the marketplace, can best determine if this merger serves the public interest.

Sincerely,

Raymond J. Keating

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Small Business & Entrepreneurship Council