What is Good For Verizon & AT&T is bad for American Consumers

This summer, the very big wireless carriers in America, Verizon (106 million subscribers) and AT&T (99 million), are poised to get even bigger. As they move towards squashing cheap data substitutes for expensive voice minutes, consider charging application providers to reach subscribers, layer on fees for additional devices, and collect overage charges for data usage, they will bulk up on customers and revenue. This is good for them, but not good for the rest of us.

Continued growth for the nation's largest wireless carriers hinges on offering access to data. That is the commodity they are selling. The problem, however, is that there are very few sources for this commodity, even though it is an essential ingredient of 21st century life.

Imagine having just two companies selling salt, or blue jeans, or light fixtures. That couldn't happen, because it's relatively easy for a new competitor to manufacture those products and make a modest profit. But it can happen in the wireless world, because these two carriers have built enormous moats protecting their businesses: They have vastly greater access to capital, airwaves, and towers as well as vastly greater numbers of subscribers than the two stragglers on the national scene, Sprint (50 million) and T-Mobile (35 million).

Verizon and AT&T undoubtedly recognize the political and public relations value of tolerating marginal competition, and so Sprint and T-Mobile will continue to exist; no oligopolist wants to spark consumer resentment. But the Big Two are dramatically solidifying their advantages as gatekeepers this summer.

Consider the Apple FaceTime/AT&T story. AT&T has a number of problems: Voice calls and texting services account for the vast majority of its wireless revenues and all of its profits. The carrier charges extraordinary amounts per megabyte for this stuff, but users are spending less of their time on these legacy services. Instead,

users are eating up mountains of data. But users aren't interested in paying a lot for data, and expect charges per megabyte that are far lower (1/2000s) than charges for texting. Users still want to connect and communicate to other human beings more than anything, and so they're finding data substitutes (like Skype and FaceTime) for voice and text.

The resulting explosion in data use is too much for AT&T's physical network to stand, but AT&T doesn't want to invest more in this network than it absolutely has to. It needs to keep its stock price up by paying rich dividends and buying back stock; building many more towers and connecting all of them to fiber would bring down the value of its shares.

The solution to both of these problems? AT&T, following Verizon, has decided to acknowledge users' yearning for data and eliminate the opportunity for arbitrage by moving them into tiered shared data plans and making voice and texting free. (Quiz: Which of the two called it Mobile Share and who called it Share Everything? Right, it's hard to remember.) These plans have the gorgeous side benefit of using family/group pressure to drive Sprint/T-Mobile rebels into the AT&T/Verizon camp. Result: Many more subscribers will join the Big Two.

If you put shared data plans together with overage charges, you've got the power to make users worry about each additional application they use – will it push them over their data limit? This enforces scarcity, keeping usage down and prices up. Presto: Capital expenditures in network hardware can stay low, and "pricing discipline" can keep profits high.

Charging a separate fee for use of FaceTime over its cellular networks, as AT&T will now have the power to do with the new iPhone and iOS 6, is a natural outgrowth of all this. Now that it's clear that users are paying for buckets of bits, everything they do can be either inside those buckets or in addition to them – and so subject to

an additional charge. No competitive pressure will drive AT&T to decide whether or not FaceTime should be allowed to be inside the bucket; this is a business decision that is within the carrier's control. Before iOS 6, FaceTime was Wi-Fi only; Apple was (in effect) avoiding the power of the carriers. Now Apple, likely in exchange for some other concessions from the carriers in connections with its devices, is joining in.

Apple has a history of deferring to carriers when it is interested in broader distribution for its devices. When Apple replied to the 2009 FCC inquiry as to its relationship with AT&T, Apple stated:

"There is a provision in Apple's agreement with AT&T that obligates Apple not to include functionality in any Apple phone that enables a customer to use AT&T's cellular network service to originate or terminate a VoIP session without obtaining AT&T's permission. Apple honors this obligation, in addition to respecting AT&T's customer Terms of Service, which, for example, prohibit an AT&T customer from using AT&T's cellular service to redirect a TV signal to an iPhone."

It's unlikely that Apple itself will be paying in any way for FaceTime to reach AT&T subscribers; Apple is too valuable to AT&T. But Apple will share in the fees paid by AT&T's 100 million-plus users for the privilege of using FaceTime. Meanwhile, also-ran Sprint is stuck with buying about 30.5 million iPhones from Apple over the next four years and paying $500 to subsidize each phone. So Sprint will continue, and continue to struggle, both states that are useful for AT&T and Verizon.

In the end, it's as if legacy voice and texting services have been reincarnated as data services. You can bet that AT&T will be making it very difficult for other connectivity services (modern-day versions of voice and text) to reach subscribers without paying tribute to AT&T. Indeed, AT&T's inadvertently-announced "1-800″ toll-free applications idea is exactly this: Applications that pay AT&T will not be subject to

users’ data caps and will “feel” free. But applications that try to run over the top will trigger usage caps and may be digitally roughed up in other ways.

We should be talking about fiber networks that enable rich clouds of nomadic connectivity and commodity devices that can access those networks and any content or application they want. Wireless policy is fiber policy, and abundant network capacity should be our common goal. Instead, we’re navigating through a thicket of press releases this summer that all signal the carriers’ power to charge whatever they like for uses of their platform by everyone involved. The bottom line could not be clearer: AT&T and Verizon plan to get even bigger in 2012, and users will pay in the long run.