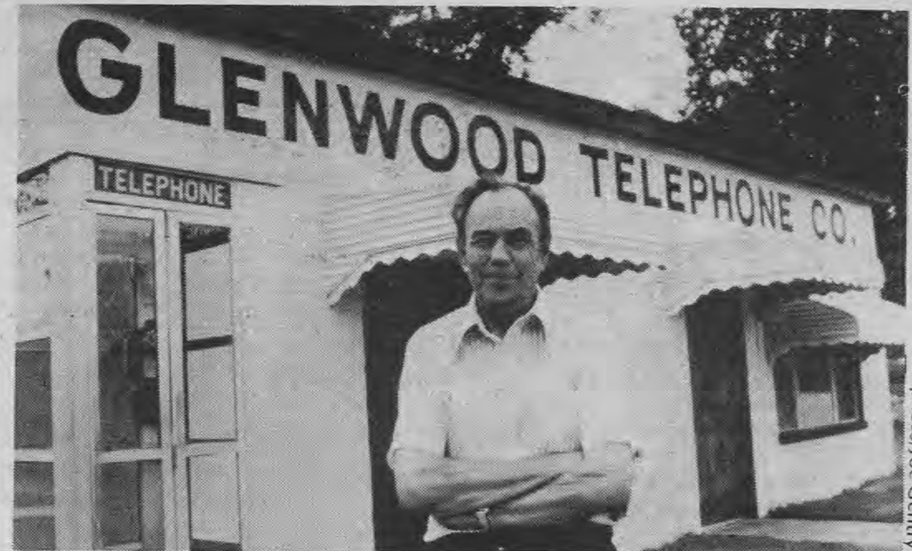
The Rural Connection

New legislation would double small-town telephone rates, jeopardize local companies

by Richard J. Margolis



L.B. Adams, president of Glenwood, Georgia's, telephone company

In the course of gathering information for this story, I made several long-distance telephone calls to persons living in thinly populated regions of the country. The rates were reasonable, the service was excellent—equal in all respects to the prices and services I enjoy when dialing persons who reside in more thickly settled areas. But some of our leaders in Washington are now considering measures that could eventually wipe out adequate telephone support in places inhabited by 60 million rural and small-town Americans.

Like so many Washington scenarios, this one is both complicated and obscure. It involves the plans of such telecommunications behemoths as AT&T, ITT and Southern Pacific and, not incidentally, the survival of thousands of small, relatively independent telephone companies, including 235 cooperatives.

The central issue pertains to the distribution both of our wealth and of the blessings our wealth can bring. Should every American citizen have an equal opportunity to reach for the telephone? If so—if we care to have a truly universal telephone system that Graham Bell said to his assistant in the next room, "Watson, come here; I want you." That was the first complete sentence ever spoken and heard over a telephone, and after Bell and Watson hung up they lost no time spreading the news. In the next four years, Bell established 148 separate telephone companies operating 34,000 miles of wire that extended as far west as Milwaukee. The network eventually became the American Telephone and Telegraph Company (AT&T). By the end of the century, with Americans already using more than a million telephones, AT&T was in firm control of the national switchboard.

Very quickly, Americans grasped the meaning of Bell's miracle; everyone wanted to be "hooked up," the sooner the better. Farm families, especially, saw the telephone as a device that might take the curse off their isolation. It could be a lifesaver. An old farmer named Walter Burkhart, in Grainger county, Tennessee, has reminisced about his family's phoneless life on the farm. One night his child contracted a painful ear infection: "I'd have given anything I owned if I had only been able to pick up a phone and call for help. . . . When Jimmy recovered, we vowed able albeit little-noted phenomenon in our social history.

Still, it was population density, not user enthusiasm, that ruled the telephone market. Thanks to economies of scale, AT&T could net more dollars per long-distance call placed in Chicago than it could per long-distance call placed in, say, Clarksville, Illinois. So the dilemma we now confront arose very early—namely, should Clarksville be made to shoulder the burden of its own higher costs, or should Chicago subsidize Clarksville?

The man at AT&T who made the case for subsidy was Theodore Newton Vail, a telegrapher from Minerva, Ohio, who became AT&T president in 1885. Vail lost his initial fight for uniform long-distance rates—rates based on mileage rather than on locale—and had to resign the presidency in 1889. But eighteen years later he regained the job, and his policies triumphed. From that day to this, AT&T's rate system has for the most part been geographically nondiscriminatory.

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The central issue pertains to the distribution both of our wealth and of the blessings our wealth can bring. Should every American citizen have an equal opportunity to reach for the telephone? If so—if we care to have a truly universal telephone system that links every crossroad and hamlet—who will pay for it?

Questions of this kind have been asked before, and shrewdly answered. Let me put you on hold while I sort out the history.

It began on March 10, 1876, when Alexander

Tennessee, has reminisced about his family's phoneless life on the farm. One night his child contracted a painful ear infection: "I'd have given anything I owned if I had only been able to pick up a phone and call for help. . . . When Jimmy recovered, we vowed that we would do everything we could to get service in this area."

Such vows were encouraged by the Bell system, which needed local exchanges to link up with its long-distance network. The result was thousands of farmer-organized telephone cooperatives—a remark-

policies triumphed. From that day to this, AT&T's rate system has for the most part been geographically nondiscriminatory.

This situation, in one way or another satisfactory to nearly everybody, might have continued forever, had it not been for the introduction of new technology in the '60s and '70s. The technology—mainly computer circuitry and space satellites—has made it possible for corporate telephone users to bypass the old Bell system. They can now transmit and receive long-distance information by bouncing it off the satellites, and they can buy the necessary equipment from any number of AT&T competitors, including ITT, Southern Pacific and an outfit called Microwave Communications, Inc.

It is largely these companies that are pushing in Congress for new legislation. Their purpose is to deregulate the telecommunications industry—to deprive AT&T of its most-favored, monopoly status, and in the process to enshrine what they are pleased to call "an alternative long-distance rate structure." That would lead to "cream skimming"—the offering of cheap rates wherever the market is dense and rich, and the substitution of exorbitant rates wherever the market is thin and poor. It could mean the unvailing of America.

Congress is considering three such measures, and there is little difference among them. The one that has attracted most attention is the proposal of Rep. Lionel Van Deerlin, a conservative Democrat from California. Van Deerlin originally proposed a total revision of the Communications Act of 1934, but that massive undertaking was tabled by a House subcommittee. A more modest proposal dealing mainly with telephone deregulation will be introduced by Van Deerlin sometime this month—but the effect on rural phone service of this bill and two others like it now before the Senate, S. 611 and S. 622, will be largely the same (see box).

All three proposals will be dealt with by their various subcommittees and committees when Congress reconvenes in September. If you want to let your congressmen know how you feel about them, don't be diffident. They're as close as your nearest telephone.

How the System Works Now

On the face of things, telephone service in rural areas should cost much more than comparable service in urban areas. Rural telephone companies have far fewer customers per mile than their urban counterparts, while the cost of serving each customer is about the same as in an urban area — the same phone lines must be put in and the same facilities installed back at the exchange.

Since the 1930s, however, a rate-sharing system regulated by the government has been in effect that guarantees that all telephone users pay about the same amount for telephone service, no matter where they live. It is this system which the congressional bills discussed in Mr. Margolis' article would radically revise. Here is a short explanation of how the system works:

For our purposes, the telephone business can be divided into two basic parts: local exchanges, which provide our local service; and long-distance services, which allow us to call from one local exchange to another. Often, these parts are run by separate companies; many local exchanges in rural areas are run by small companies (there are 1,500 of these small rural companies in the country today); and most of the long-distance service is provided by the American Telephone and Telegraph Company (AT&T).

A long-distance call usually passes through many local exchanges on its way to its destination. When your local exchange collects your bill for long-distance service, therefore, some of that money goes to the long-distance company, and some is distributed to the local companies for the use of their lines to complete the call.

But a telephone is used by a customer only about one percent of the time, which means that 99 percent of the time the telephone line is not being used. Somehow, the cost of this unused time must be divided up between the local exchange and the long-distance service — both of which share the line.

The way things work now, these costs are divided to ensure that all local exchanges (small telephone companies) receive enough revenue to cover their costs, plus make a reasonable profit. To achieve this, the long-distance companies often pay more than the actual use of the local exchange's line would dictate. In effect, rural telephone companies, whose costs are higher than urban companies, are subsidized somewhat by the long-distance companies that use their services. This subsidy ensures that the rural company will be able to survive without charging its rural customers unreasonable rates.

The new technologies that Mr. Margolis mentions in his article, however, are now allowing some specialized long-distance companies to pay a greatly reduced rate for the use of the local exchange. (These are companies that provide special "private line" services to corporations, etc.) The conventional long-distance companies are consequently pushing for a lowering of *their* rates so they can compete with these specialized services. But if this occurs, the subsidies to small companies would shrink and the rates charged to rural residents would more than double to make up the difference, according to a survey conducted by the Organization for the Protection and Advancement of Small Telephone Companies (OPASTCO).

An an alternative, OPASTCO and other groups representing rural telephone companies are recommending that the new specialized long-distance companies and the more established firms pay the same rates to local exchanges. Competition, they claim, can then come in the form of improved service rather than reduced prices at the expense of rural customers.