

Monopolies grow ever bigger: US telecom merger tops \$100 billion mark

Martin McLaughlin
7 October 1999

MCI WorldCom, the second largest US long distance telecommunications company, announced Tuesday it would acquire Sprint, the third largest US long distance company, in the biggest corporate takeover in history, valued at \$129 billion in cash, stock and debt. The resulting firm will be second only to AT&T in the US telecommunications industry, a company with \$65 billion in annual revenue, 142,000 workers and 40 million business and residential customers.

MCI WorldCom—itself formed from a \$40 billion merger last year—outbid BellSouth to acquire Sprint. After reports first surfaced of a combination of MCI WorldCom and Sprint, BellSouth jumped in with a \$100 billion hostile takeover, compelling MCI WorldCom chief Bernard Ebbers to raise his offer to \$115 billion in cash, \$76 for each Sprint share, plus an additional \$14 billion in stock, debt and deferred payments.

The enormous size of the combined company demonstrates the increasing monopolization of the telecommunications industry, 15 years after the court-ordered breakup of the old AT&T monopoly. AT&T has 43 percent of the long distance market and the new MCI WorldCom-Sprint will have 37 percent, giving the two companies effective control.

A key turning point in this process was the passage of the Telecommunications Deregulation Act in 1996 with the bipartisan support of the Republican-controlled Congress and the Clinton administration. Democrats and Republicans alike claimed that this law—for which the telecommunications industry spent tens of millions in lobbying fees and campaign contributions—would promote competition and lower costs to consumers. The result instead has been runaway price increases for services such as cable TV and record industry profits.

A major provision of the deregulation bill was to

remove legal barriers to local and long distance phone companies acquiring each other, and the results were immediate and massive. In 1996 there were eight major US companies providing local telephone service—GTE and the seven "Baby Bells," the operating companies spun off from the old AT&T—and five significant long-distance companies—AT&T, MCI, Sprint, LDS WorldCom and Qwest. In only three years, these 13 companies have merged into five telecommunications giants, in a series of record-breaking merger deals.

LDS WorldCom acquired MCI and now has acquired Sprint. Three of the Baby Bells—Southwestern Bell, Pacific Telesis and Ameritech—have been combined to form SBC Corp. Two more Baby Bells, Bell Atlantic and NYNEX, merged, and the new Bell Atlantic acquired GTE. Qwest acquired the smallest Baby Bell, US West, and is now expected to merge with BellSouth, the last remaining independent Baby Bell, after BellSouth's failure to acquire Sprint. Meanwhile AT&T, which retains the lion's share of the long distance market, acquired two huge cable television and Internet access companies, TCI and MediaOne, as well as McCaw Communications, a leading cellular phone company.

In each of these mergers, a vast corporate restructuring has followed in which telecommunications workers paid the price of consolidation through the loss of tens of thousands of jobs. The deal between MCI WorldCom and Sprint will be no different. Ebbers estimated that operating cost savings of \$1.9 billion would be achievable by 2001, rising to \$3.0 billion by 2004—figures which translate into the elimination of at least 20,000 to 30,000 jobs.

The deal was immediately criticized as anti-competitive by William Kennard, the chairman of the Federal Communications Commission, and by the

Communications Workers of America, which represents some workers at both of the merged companies. But neither government regulators nor union bureaucrats will have the slightest impact on the latest merger. They have neither the power nor the desire to oppose the plans of the giant telecommunications monopolies.

More substantial opposition to the merger exists among the overseas rivals of the huge American firms. Deutsche Telekom and France Telecom, the semi-privatized telecommunications companies of Germany and France, each owned 10 percent shares of Sprint, and Deutsche Telekom at one point sought to enter the bidding to acquire the entire company. Now both European firms will sell their holdings because MCI WorldCom is in competition with them in the European market.

It is the second time that WorldCom chief Ebbers has spiked an attempt by European telecommunications companies to break into the US market, following last year's contest between WorldCom and British Telecom to take over MCI. British Telecom has since formed an alliance with AT&T.

It was also the second defeat for Deutsche Telekom in two months, after its failed effort to merge with Telecom Italia, whose board of directors accepted a rival bid from the much smaller Italian firm Olivetti, preventing the formation of a German-Italian telecommunications giant with a dominant position on the continent.

Ebbers has been able to use the vastly inflated value of American stocks as a weapon in this competitive struggle against foreign rivals. A former basketball coach and motel operator, Ebbers took over LDDS, a small long distance provider based in Jackson, Mississippi, a dozen years ago, and used it as the basis for more than 60 takeover bids, all of them utilizing complex stock swaps made possible by the booming US stock market.

The increasing scale of mergers and takeovers is a characteristic not only of the telecommunications industry but of world capitalism as a whole. Of the 10 largest mergers in US corporate history, all 10 have taken place in the last 18 months. But even this record pace has been dwarfed by the merger and acquisition activity in Europe.

In the first nine months of 1999, total worldwide

mergers and acquisitions hit a record \$2.2 trillion, 16 percent above the figure for the year-earlier period. Mergers and acquisitions in the third quarter alone were \$780.9 billion, up 45.8 percent from the year before. European merger activity in the third quarter accounted for nearly half, \$374.6 billion, triple the figure of a year earlier and exceeding the \$322 billion in mergers among US-based companies.



To contact the WSWS and the
Socialist Equality Party visit:

wsws.org/contact