No. 1222:
BREAKING THE MONOPOLY

by John H. Lienhard

Today, two minor coincidences change life in America. The University of Houston's College of Engineering presents this series about the machines that make our civilization run, and the people whose ingenuity created them.

John Steele Gordon tells how a lunch-time stroll, and a lost overcoat, brought down the old AT&T monopoly [1]. By the late 1940s, AT&T had absolute control of American telephones. Then, one of their lawyers passed a store window on his lunch break and saw an advertisement for something called a Hush-a-Phone.

The Hush-a-Phone was a minor attachment that fit over the mouth of a telephone. It was like a mini-megaphone -- a purely mechanical gadget that let you speak quietly and still be heard.

The lawyer didn't realize that Hush-a-Phone had been in business since 1920. All he saw was someone selling a telephone-related item without going through AT&T. He set out to squash it. He filed a suit with the FCC claiming the Hush-a-Phone mouthpiece would cause catastrophic failure of the phone system.

The FCC did what AT&T told them to do -- they ruled against Hush-a-Phone. But Hush-a-Phone went to the Court of Appeals and proved their device could have no effect on any telephone system. Suddenly the armor was cracked. The Hush-a-Phone suit was a precedent every other company could use from then on. That lawyer on his lunch break had made a devastating blunder.

Pressure against the monopoly built. Then, in 1963, a small two-way-radio service called MCI tried to set up repeater stations along the highway so they could sell more radios to truckers. AT&T saw that as a competing service. They told the FCC that MCI's prices would be too high. Then Jack Goeken, from MCI, heard AT&T had a confidential report on prices. But how to get a copy? In desperation, he decided to fly to New York and simply ask for it.

He landed on a snowy day and then forgot his overcoat at the airport. He showed up at AT&T without a coat and he asked an employee where the report might be. Because he had no coat she took him for an in-house colleague. She directed him to the library and gave him a request form. He simply checked the report out.

There he found AT&T had estimated far lower MCI pricing than it'd claimed. It took six more years of legal maneuvering for MCI to get its license. But when it did, the old monopoly came apart. A whole array of technologies was poised to revolutionize telephone systems. Now they could do so in a wide-open marketplace.

So two coincidences caused dramatic improvement in telephone service. We made 23 million long-distance calls in 1970, 200 million in 1980, 3.7 billion in 1994. In 1970 an average overseas call cost eleven dollars. It was barely over two dollars by 1994.

Because of a raincoat and a store window, you can now turn on your TV and find AT&T going toe-to-toe with MCI, Sprint, and more. AT&T did, after all, bring the telephone to maturity. It is certainly qualified to run today's race. But no longer can any one company sort through today's blur of radically evolving technology.

I'm John Lienhard, at the University of Houston, where we're interested in the way inventive minds work.

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1. Gordon, J. S., The Death of a Monopoly. *American Heritage*, April 1997, p. 168.