



Mr. T's Nightmare: WiMax

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Six years ago, by way of lecturing Washington on how it was lousing up the telecom business, we offered a short explanation of the phone wars: Ed Whitacre wins.

That forecast has held up pretty well given this week's merger of his company, now called AT&T, with the last unattached Baby Bell, the estimable BellSouth. Let's call him Mr. T -- after AT&T's stock symbol, itself an emblem of a corporate heritage dating to the century before the last.

Mr. Whitacre, aka Mr. T, now runs the nation's biggest communications company by far. As such, his next war is just beginning, over how and how much to regulate the new communications revolution.

Already the professional "consumer advocates" are accusing Mr. T of trying to reassemble the Ma Bell of old. You can seldom go wrong betting on the ignorance of the average congressperson, and this tack is nothing if not a bold bet that Washington still isn't paying attention to what's going on with the Internet.

One log on the fire is cable a la carte. When polled, viewers say they like the idea, illusory as it is, of "only paying for the cable channels they watch." Notice that nobody ever suggests billing TV by the minute, though this would be even "fairer" to those who watch little TV but end up paying for the habits of those who watch a great deal.

In fact, how programming is presented and paid for is on the verge of a total transformation, and Washington would be crazy to believe it has the answer right now. Look for most of the industrial-strength lobbying to focus instead on a newly conceived sacred cow: "net neutrality."

It's become clear that network operators are going to find ways to prioritize traffic over their networks and seek payment from those with stringent bandwidth demands. This is inevitable, to some extent, when the same pipe is carrying packets that represent voice, video, email and Web pages, which all have inherently different urgencies (a phone call

has to get there all at once to be intelligible, while a static Web page can arrive in herky-jerky fashion).

Too, those like Verizon and AT&T that are spending billions to deliver Internet TV surely intend to reserve a big part of their pipes exclusively for their own services.

But it's silly to frighten the children that this represents the "end of the Internet as we know it," as Google, Yahoo, Microsoft and others have been doing. The real question is: Will there be sufficient competition to keep network operators from blocking sites and services that consumers want?

You'll hear a lot about a cozy, fat duopoly of cable and Bell. Don't bet your kid's inheritance on it. Cable has already spent \$100 billion to upgrade its systems for broadband and digital TV. The Bells are spending billions of their own to match and raise them. That's a lot of capital that has to be earned back somehow. Price wars are looming as the mad scramble for households becomes madder.

Worse, throw in the likelihood of a new entrant of uncertain but possibly large disruptive potential. That's WiMax, a wireless broadband protocol that will do for a whole county what your WiFi router does for your home network.

Here resides the biggest snake in the woodpile for the new AT&T and its trenchbound competitors. Hanging over companies that just spent billions to dig up the streets and unspool thousands of miles of broadband fiber is the awful prospect of wireless competitors offering identical services without any of the expensive ditch digging. InStat, a market research firm, estimates that 90% of U.S. homes could be reached by such a network for a paltry investment of \$2.8 billion.

And wireless, when you come down to it, is better suited to where the digital age is taking us: towards a world in which communications chips are embedded in dozens or even hundreds of devices in the home and office.

Though it's seldom spelled out, the consumer nirvana that technologists see coming is quietly premised on householders' willingness to set up and manage their own wireless networks to keep all their devices -- computers, PlayStations, TVs, stereos -- talking to each other digitally. WiMax could potentially take much of the hassle out of the consumer's hands. He'd just bring the stuff home and it would find its own wireless network.

Phillips Electronics, for one, says it sees a day this decade when more TV chips will be going into phones than into TV sets. If so, consumers will quickly be using up the dinky amounts of Internet wireless capacity that today's cellular operators are rolling out. WiMax, or some other form of wireless broadband, is the answer here too.

And just as people cut the phone cord when they got their wireless phone, once people have a wireless broadband on their phones, why not use it for everything else in the house too?

It's not often that a 232,000-strong company merges with a 91,000-strong company and analysts pronounce the result a more "nimble" operator. This applies only to Cingular wireless, jointly owned by the two companies. Only one management -- Mr. T's -- now would have to be consulted about its future.

Otherwise, Mr. T is adding to his collection of declining local phone businesses, though gaining a billing relationship with 14 million BellSouth homes. He can hope this means a leg up when it comes to dangling a full menu of the new digital services in front of them, but victory is guaranteed to no one in the marketing battles to come.

In short, the phone wars are far from over.