Start-up Takes Over the Establishment: Will Success Ruin AOL?

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AOL's buyout of Time Warner is the most striking example of the power of the new info tech industry. AOL is a 1990s start-up company built on the idea of connecting people on-line. The explosive growth of the Internet rocketed AOL into America's number one service provider. This put its CEO, Stephen Case, in the position to take-over Time Warner, part of the classic establishment in publishing and media content. The radical upstart of the open access movement walked off with the old guards prize possession after less than a decade on the scene.

With Time Warner, AOL got the second largest cable company in America. So the question now is, will AOL abandon its position as a major defender of open access? Cable is how broadband will reach millions of homes, speed up the Internet by a factor of 50, and carry better video images. Service providers need access to cable, especially the thousands of small independents and non-profits that have built the Internet into the alternative information hotbed that exists today. With the merger of cable, service provider and content provider into one corporation, AOL may decide its in their interests to offer everyone else second-class access at higher rates.

This is already the strategy of AT&T, who isn't just a long distance phone company anymore, but the largest cable corporation in the U.S. since its takeover of TCI. When Portland told AT&T they had to provide open access in return for approval of their franchise license, AT&T decided to challenge the ruling in court. As Daniel Somes, head of AT&T's cable division said, they didn't spend $56 billion on cable "to have the blood sucked out of our vein." Portland's insistence on public access is what AT&T terms "forced access." According to their corporate logic, a violation of their right to set prices through control of the "free" market.

AT&T's legal challenge is opposite of AOL's long standing position on open access. But AT&T and AOL are now joined through Time Warner. AT&T already has a joint venture with Time Warner to offer phone service over TV cable systems in 33 states. Furthermore, AT&T has moved to buy MediaOne, America's third largest cable company, which also has a 25% interest in Time Warner. This links all the 800-pound gorillas together in an info tech/communications industry, which continues to blur the line between what is dot.com and what isn't.

The New York Times has reported that AOL "appears to have changed its tune…and joined AT&T in arguing the free market will eliminate the need for new regulations…" (1)

AT&T's CEO, Michael Armstrong, said…"I was not surprised at the change of heart because they now are us…I think we together now will kill this whole issue of forced access because we both have the same interests… we want everyone to come with us, because if everyone comes with us we'll make the most money." (2) Armstrong would make George Orwell's heart jump as he turns open access into "forced access", and monopoly control into the free market.

The trouble with Armstrong is he believes the whole world is moved by the love of money like himself. As he states…"We are motivated by self-interest and greed just like they are." In turn, Armstrong believes that every service provider "wants to make a return, whether it's from advertising or e-commerce or transactions," so access to his cable service is "something that we would mutually negotiate." (3) Presumably negotiations that would end in a nice profit, with AT&T and AOL holding monopoly control of cable. But where does this leave the thousands of providers that aren't in it for greed, but to provide alternative information and free communication? Obviously in Armstrong's world these providers don't count and should be priced out of broadband cable access.

Those who advocate open and free access have long argued that the decentralized architecture of the net would prevent its capture by corporations whose only interest was turning it into a vast profit driven market. But broadband cable may develop as the new system that circumvents the old phone line carriers. If AT&T has its way the new architecture will be reserved for those who can pay, while the old slower system can be used by everyone else. And AT&T may just have the clout and power to get their way. AT&T generates about $24 to 26 billion in cash flow a year, more than any other nonfinancial institution in the U.S. As Armstrong points out, long-distance is a "cash machine" and "cash will be king." (4)

Notes:
1. New York Times, 1-16-00, BU19. "For AT&T and it's Chief, a Redefined Cable Landscape," by Seith Schiesel.
2. Ibid.
3. Ibid.
4. Ibid.