Another Casualty

While the new and growing industry segments saw significant investments during the boom, there were other, smaller, segments of the telecommunications industry that began to wither after the ’96 Act.

One corner of the telecommunications market that became a victim of the changing market was the pay phone industry. Payphone providers Ameritel Communications, Amnex, and PhoneTel Technologies all went bankrupt in 1999. Even before competition from mobile phones came about, they had to contend with cheap pre-paid phone cards and heavily promoted collect calling services such as 1-800-CALLATT and 1-800-COLLECT.

The number of pay phones in service peaked at 2.12 million units in 1999. Over the next four years, from 2000 to 2003, 29% of the pay phones in America disappeared. The rate of disconnection accelerated as well. Less than 60,000 payphones were removed from service in 2000, but more than 215,000 were taken out in 2003. Verizon’s territory saw the most pay phones disappear. Other than New York, every state where Verizon is the dominant local phone company saw at least a 15% reduction in the number of pay phones over the four-year period. The rate of disconnection was particularly high within the old Chesapeake and Potomac Telephone Company area that included Maryland (31%), the District of Columbia (28%), West Virginia (25%), and Virginia (24%).[1]

Why did the payphone begin to disappear? In addition to the competitive factors already in place, the Telecommunications Act of 1996 gave the RBOCs an additional reason to begin exiting the payphone business. As pointed out in Chapter 3, the ’96 Act had more words covering pay phones than it had about the Internet. But it was only a few of those words that began the end of the payphone business. Section 276 of the Telecommunications Act of 1996 states:

> ‘SEC. 276. PROVISION OF PAYPHONE SERVICE.
> (a) NONDISCRIMINATION SAFEGUARDS- After the effective date of the rules prescribed pursuant to subsection (b), any Bell operating company that provides pay phone service--
> (1) shall not subsidize its pay phone service directly or indirectly from its telephone exchange service operations or its exchange access operations; and (2) shall not prefer or discriminate in favor of its pay phone service.

The RBOCs could no longer subsidize pay phone service. They claimed for years that many pay phones didn’t cover their cost. Most observers thought that the industry was just crying wolf in order to get rate hikes. But with the passage of the ’96 Act, it was no longer possible for the RBOCs to support pay phones that didn’t make money. So the practical effect of the ’96 Act was that, if the local regulators wouldn’t grant the appropriate rates, RBOC-owned payphones had to come out.

As demand for pay phones decreased, more phones became unprofitable. Proof that the disconnection burden lay more heavily on the ILECs is shown by the relative disconnect rate for pay phones. Within the overall decline in the number of pay phones, the RBOCs disconnected 38% of their pay phones between 1999 and 2003. The independent pay-phone providers only disconnected 23% of their phones and the independent (non-RBOC) phone companies disconnected less than 6% of their payphones.

[1] “Trends in Telephone Service”, Industry Analysis Division, Wireline Competition Bureau, FCC, August 2003

If the number of pay phones continues to decline at these rates, it is likely that the pay phone will soon all but disappear from the telecommunications landscape, a relic to go alongside party lines and black rotary dial desk phones.