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Via Electronic Filing

Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street SW
Washington, DC 20554

Re: *Applications of AT&T Inc. and Deutsche Telekom AG ("Applicants") for Consent to Assign or Transfer Control of Licenses and Authorizations – WT Docket No. 11-65*

Dear Ms. Dortch:

Attached for inclusion in the record of the above-referenced docket is a copy of a report I prepared assessing the validity of AT&T and T-Mobile's claims that their merger would create tens of thousands of new jobs.¹ My analysis included an examination of the Economic Policy Institute (EPI) policy memorandum that AT&T and others have relied on to support their claims about job creation, the historical record from past AT&T acquisitions, AT&T's own statements, as well as other relevant materials. Based on this analysis, I reached the following conclusions:

- The merger will almost certainly lead directly to an overall reduction in jobs for American workers.
- The EPI memorandum's claims that the AT&T/T-Mobile merger will create jobs because of increased capital investment are completely unfounded. EPI ignored the potential reductions in capital expenditures that T-Mobile would have undertaken and the strong likelihood that net capital expenditures would decline as a result of the merger. (Indeed, AT&T has been promising investors that it will cut capital expenditures.) By EPI's own logic, the net reduction in capital expenditures would lead to fewer jobs.
- The past record of employment changes following AT&T's acquisitions of other mobile carriers indicates that these acquisitions led to reductions in employment. Since 2002, AT&T has been responsible for the elimination of more than 100,000 jobs, relative to what would have happened had AT&T's employment simply grown by the number of employees acquired through its various acquisitions.

¹ David Neumark, *The AT&T/T-Mobile Merger: A Recipe for Reducing Jobs for American Workers* (August 2011), attached to this letter as Attachment A.

- AT&T itself has acknowledged that the merger would lead to reductions in its workforce as the joint company rationalized operations.

All of these conclusions are discussed in detail in the attached report.

Respectfully submitted,

/s/ David Neumark

David Neumark

Professor of Economics and

Director, Center for Economics & Public Policy

cc: Jim Bird
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Attachment

ATTACHMENT A

The AT&T/T-Mobile Merger: A Recipe for Reducing Jobs for American Workers

David Neumark^{*}
August 2011

^{*} The author is Professor of Economics and Director of the Center for Economics & Public Policy at UC Irvine, and is a Senior Consultant to CRA. This paper was commissioned by Sprint. The views expressed are the author's own.

Executive summary

On March 20, 2011, AT&T announced an agreement to acquire T-Mobile USA from Deutsche Telekom for \$39 billion (AT&T, 2011a). The Economic Policy Institute (EPI) has analyzed this merger, and predicts that “a plausible range of impact would be between 55,000 and 96,000 job-years” (Pollack, 2011, p. 2). AT&T has parroted this claim, arguing that the merger will “create tens of thousands of new jobs for American workers” (AT&T, 2011b; AT&T, n.d.), as has the Communication Workers of America (CWA), which represents many AT&T employees.

This paper assesses the validity of the claim that the AT&T/T-Mobile merger would create tens of thousands of new jobs, based on an examination of EPI’s analysis, the historical record from past AT&T acquisitions, AT&T’s own statements about the cost savings and synergies from the merger, and consideration of some of the potential winners and losers from the merger. The conclusions can be summarized as follows:

- The EPI analysis claiming that the AT&T/T-Mobile merger will create jobs because of increased capital investment is completely unfounded. It is based solely on a claim by AT&T that it will increase its capital expenditures. But it appears to ignore reductions in capital expenditures that T-Mobile would have undertaken, and the strong likelihood that *net* capital expenditures would decline as a result of the merger. Indeed AT&T has told the federal government and its investors that the merger would lead to *reduced* capital expenditures. By EPI’s own logic, the net reduction in capital expenditures would lead to *fewer* jobs.

- The past record of employment changes following AT&T acquisitions of other mobile carriers indicates that these acquisitions led to reductions in employment among the workforces of AT&T and the acquired company.
- AT&T itself acknowledges that the merger will entail *force reductions*. Given the first two conclusions, there is no reason not to take them at their word.
- The AT&T/T-Mobile merger offers more jobs for the CWA, and probably higher wages for those CWA members employed by the post-merger AT&T who do not lose their jobs as a result of the merger. Overall, though, it will almost surely act to directly *reduce* jobs for American workers.

The merger may or may not have other benefits that have to be weighed against its potential costs. But there is no basis for claiming that job creation is one of these benefits, and the direct effect of the merger is far more likely to be many thousands of lost jobs.

The Economic Policy Institute's claim that the AT&T/T-Mobile merger would create jobs from increases in capital investment is completely unfounded

On March 20, 2011, AT&T announced an agreement to acquire T-Mobile USA from Deutsche Telekom for \$39 billion (AT&T, 2011a). An important issue that has arisen in the debate over this merger is its impact on employment. A policy memorandum produced by the Economic Policy Institute (EPI) analyzes this merger, and predicts that “a plausible range of impact would be between 55,000 and 96,000 job-years” (Pollack, 2011, p. 2); that is, the equivalent of the additional employment of 55,000 to 96,000 people for one year. AT&T has parroted this claim, arguing that the merger will “create tens of thousands of new jobs for American workers” (AT&T, 2011b; AT&T, n.d.).

I have reviewed the evidence on which EPI bases its claim, as well as other materials regarding this merger and other mergers. My conclusion is that the EPI analysis is *completely unfounded*. The EPI analysis rests *solely* on a claim in an AT&T press release that “The acquisition will increase AT&T’s infrastructure investment in the U.S. by more than \$8 billion over seven years” (AT&T, 2011a). Yet the analysis ignores foregone capital investment by T-Mobile, as well as the likelihood – attested to by AT&T executives – that the merger would allow for *reduced* capital expenditures.

Thus, whether by design or by mistake, EPI makes the fundamental error of failing to distinguish between gross and net investment. There may be *some* new investment generated by the merger, and this may be reflected in the \$8 billion figure that AT&T cites in its press release. But this is just a gross figure. There will also be diminished investment elsewhere, and the only thing that matters for job creation from changes in investment that would result from the merger is the *net* change in capital investment. It is a glaring distortion of the effects of the merger to

count only increased sources of investment in projecting employment effects, while ignoring sources of decreased investment. EPI's claim that the AT&T/T-Mobile merger would create jobs is therefore completely unfounded. Moreover, there is ample other evidence described in this paper that indicates that the AT&T/T-Mobile merger is far more likely to result in substantial job losses.

None of this is to deny other potential benefits from mergers. Mergers can result in employment declines, as efficiencies are gained through the elimination of duplicate functions across the merging companies, increases in other technological or marketing efficiencies, or network externalities.¹ The efficiency-enhancing aspects of mergers, even if they lead to employment declines, can – in the longer run – result in the reallocation of labor to more productive uses, which is why, in some cases, mergers may increase economic welfare. Mergers can also reduce employment because the increase in market power from the combination of companies may lead to higher prices, lower output, and lower economic welfare. Nothing in this paper takes a stand on the overall costs or benefits of an AT&T/T-Mobile merger. Rather, the issue at hand is the direct effects of the merger on employment that EPI claims would ensue from the merger, which are widely touted by AT&T. I see *no* empirical basis for the claim that the direct effects of this merger will be to create jobs. In fact, the merger will almost certainly directly result in the loss of thousands of jobs.

¹ For example, Lichtenberg and Siegel (1990) find that mergers lead to reductions in central office personnel. Brueckner and Spiller (1991) develop a model of network externalities in the airline industry in which consolidation can increase welfare. For a general discussion and review of the evidence on employment effects, which varies across studies and also depends on the type of merger and the industry studied, see Gugler and Yurtoglu (2004).

The AT&T/T-Mobile merger will likely result in reduced capital expenditure and therefore fewer investment-related jobs

The *only* evidence on the effects of the merger on capital expenditure that is cited by EPI is the claim in the AT&T press release. However, the statement, even if we accept it at face value, that “[t]he acquisition will increase AT&T’s infrastructure investment in the U.S. by more than \$8 billion over seven years” (AT&T, 2011a), is unclear. When two companies merge, what is relevant is how the *total* capital expenditure at the two companies changes, not how the capital expenditure at one of the two merging companies changes. If AT&T increases capital expenditure by \$8 billion, but \$8 billion in capital expenditure that T-Mobile would have invested *absent* the merger does not then occur, then the effect on *net* capital expenditure is zero. Using EPI’s analysis, that would imply *no* job creation from the merger. If T-Mobile would have invested *more than* \$8 billion in capital expenditure, then the effect on net capital expenditure is negative, and by extension EPI’s analysis would imply *job loss* from the merger.

I have not seen any direct information on the capital expenditure T-Mobile would engage in absent the merger, but it is likely to be on par with its recent capital expenditures. T-Mobile’s capital expenditures were \$2.8 billion in 2010, \$3.7 billion in 2009, and \$3.6 billion in 2008 (T-Mobile, 2010, 2011). Nor do I have any direct information on how AT&T arrived at the \$8 billion figure on which the EPI analysis relies. However, the AT&T statement is couched in such a way as to strongly suggest that it is a gross measure – increasing the amount of spending that AT&T would have done; nowhere in their statement does AT&T suggest that the net change – including foregone investment by T-Mobile, is positive.

In fact, it seems most reasonable to presume that the merger of AT&T and T-Mobile would introduce some efficiencies that permit less total capital expenditure of the combined

company than the two companies would have done separately. Not only does this seem more reasonable, but elsewhere AT&T has referred explicitly to these kinds of capital savings from the merger. First, Rick L. Moore, Senior Vice President of AT&T for Corporate Development, in his declaration included with AT&T's Public Interest Showing to the Federal Communications Commission (FCC), made this quite clear, stating that: "The combined capital expenditure savings, including costs that would have been spent on spectrum acquisition, have an estimated NPV [net present value] in excess of \$10 billion" (Moore, 2011, paragraph 36, bracketed comment added).²

Second, in its same press release that EPI cites, AT&T states "At closing, AT&T will immediately gain cell sites equivalent to what would have taken on average five years to build without the transaction, and double that in some markets. The combination will increase AT&T's network density by approximately 30 percent in some of its most populated areas, while avoiding the need to construct additional cell towers" (AT&T, 2011a). I have no way of knowing whether this lower capital expenditure need is accounted for in the \$8 billion figure AT&T cites – given that they provided *no* explanation of how this number was calculated. Nonetheless, it bolsters the case for there being synergies from the merger that would act, on net, to *reduce* capital expenditures.

Third, an AT&T investor presentation (AT&T, 2011c) refers explicitly to the acquisition of additional cell sites through the merger as "Equivalent to several years of cell-site build in most markets" (p. 20). And the same presentation notes that the merger will allow "Retail store rationalization" (p. 29). Both of these statements point to reduced capital expenditure relative to

² Given that this statement refers to a reduction in the net present value of capital investment, it represents a larger amount if we simply allocate the investment to different years. The latter is closer to what EPI does in its analysis. So this statement, on its own, implies a *negative* effect of the merger on capital expenditures (that is, the merger would result in a *reduction* of capital expenditure).

what the two companies would have done separately.³ Indeed, this presentation repeats the claim from Rick Moore’s declaration about the \$10 billion savings NPV in capital and spectrum costs from “avoided purchases and investments” of capital expenditures (AT&T, 2011c, p. 35).

Finally, I should note the possibility that the distortion of the potential effects of the merger to imply that it would create jobs through investment may not have originated with AT&T, but rather with EPI in its analysis of the merger. EPI states that “The companies have claimed in a press release that this purchase will result in an \$8 billion *net* increase in AT&T’s investment in its domestic wireless infrastructure” (Pollack, 2011, p. 2, italics added). But the word “net” was never used in AT&T’s statement, nor was it used in a subsequent document citing the EPI analysis (AT&T, n.d.). It may be, then, that there is some type of gross investment increase that AT&T anticipates as part of the merger, and it is only EPI that has chosen, without any basis of which I am aware, to interpret this as a net increase in investment.

Nonetheless, AT&T has chosen to parrot EPI’s claim that the merger would create jobs. If in fact AT&T anticipates synergies that create shareholder value by economizing on capital expenditures – as indicated by the other documents cited above – perhaps the company could clarify this and disavow the EPI analysis, instead arguing for the merger on other grounds. Based on the available information, there is no basis in fact for concluding that the merger will increase *net* capital expenditure – the key assumption underlying EPI’s analysis – and the opposite is almost certain to be true. There is thus no basis in fact for concluding that the merger – through its effect on capital investment – will create jobs, and again the opposite is far more likely, with diminished capital investment leading to fewer jobs.

³ Anecdotal evidence reported in the *Wall Street Journal* (Troianovski, 2011) also points to declining investment in T-Mobile retail capacity.

EPI's own reasoning suggests that the AT&T/T-Mobile merger will lead to thousands of lost job-years of employment

EPI's claim that the merger would increase employment is based on an unfounded presumption – which is not even supported by AT&T – that the merger will result in a net increase in capital investment. I have suggested above that a net decrease in capital investment is almost certain to occur. Using the same reasoning that EPI employs in its analysis, this would imply a *decline* in jobs as a direct result of the merger, because net capital investment will fall.

It is difficult to say by how much capital expenditure is likely to fall. However, a simple hypothetical calculation exhibits how different the reality may be from EPI's claim that the merger will result in strong job creation. For example, suppose we use the \$10 billion reduction in capital expenditures that AT&T says (in different documents from those parroting the EPI claim of job creation) will result from the merger. Some of this may simply reflect savings on spectrum acquisition, which may not have much effect on employment. Suppose, hypothetically, that half of this \$10 billion represents the kind of capital investment considered in the EPI analysis, so that instead of net capital expenditure increasing by \$8 billion, it would in fact decline by \$5 billion. In that case, EPI's analysis would not imply job creation, but rather job *destruction* of between 34,000 and 60,000 jobs.⁴ Moreover, this estimate may be conservative because a \$5 billion decline in the NPV of capital expenditure implies a larger decline in the simple sum of capital expenditure in each year, and EPI's analysis is based on the latter type of

⁴ I am simply multiplying EPI's lower and upper estimates of 55,000 to 96,000 created job-years by $-5/8$, to reflect a hypothetical \$5 billion decline in net investment, rather than an \$8 billion increase.

calculation – simply spreading out AT&T’s claimed \$8 billion in increased net capital expenditure over the next 8 years.⁵

AT&T’s historical track record shows that its acquisitions have led to reductions in wireless industry jobs

The EPI analysis is also of no use in assessing the *overall* direct effects of the merger on employment because it refers *only* to the effect of infrastructure investment on jobs. When mergers occur, other changes are made as two companies are transformed into one. Although no one can definitely say what would happen to employment if AT&T and T-Mobile merged, there is evidence available on what has happened in the *past* when AT&T acquired other mobile carriers. In particular, over the period 2002-2010, AT&T (originally SBC) engaged in five acquisitions of other companies: in 2005 SBC acquired AT&T, becoming AT&T (AT&T, 2005); in 2006 the new company (AT&T) acquired BellSouth (including its share of the ownership of Cingular Wireless);⁶ in 2007 it acquired Dobson Communications; and in 2009 it acquired Centennial Communications.⁷

This track record of acquisitions, and the relationship between acquisitions and employment change, can tell us how previous acquisitions have affected employment. These previous acquisitions provide some plausible guidance in predicting the effects of the AT&T/T-Mobile merger.

Specifically, we can add employment at the acquiring and acquired company to compute what employment would have grown to absent any other changes, and then ask whether

⁵ At a discount rate of 5%, a \$5 billion NPV reduction over seven years amounts to a cumulative \$5.8 billion reduction, or using the same reasoning as above an employment decline of about 42,000 to 73,000.

⁶ Cingular Wireless was a joint venture of SBC (which became AT&T) and BellSouth. When AT&T bought BellSouth, it took control of the part of Cingular it did not already own.

⁷ Henceforth I refer to the earlier SBC, and AT&T, as AT&T.

employment grew by *more* than would have been implied by simply combining workforces, or *less*. The case in which employment grew by *more* than the workforce of the acquired company or companies would correspond to a merger that created opportunities for the merged company to provide better service, price reductions, etc., which generated growth in the company that *increased* combined employment. The case in which employment grew by *less* than the workforce of the acquired company, in contrast, would correspond to synergies from the merger that allowed the company to proceed with fewer employees than the sum of employment from the two companies that combined – consistent with the merger leading to *fewer* jobs.

Figure 1 shows that, in the aftermath of mergers, AT&T employment nearly always rose by less – and often considerably less – than would be implied by simply combining the two companies, which is consistent with job loss. The figure plots three data series. The dotted black line is the sum of AT&T employment at the beginning of each year, plus the employment at companies acquired in that year.⁸ The dashed grey line instead shows actual employment at the end of that year. And the solid black line is simply the cumulative sum of the differences between the black dotted and grey dashed lines and as such it represents the cumulative reduction in employment at AT&T relative to what would have happened had AT&T's employment simply grown by the number of employees acquired. Since 2002, AT&T has eliminated over 107,000 jobs relative to the growth in employment that would have occurred from the acquisitions that occurred during that time period. This evidence is consistent with AT&T's past mergers generating job *loss*.

⁸ Baseline AT&T/SBC employment is employment at the end of the previous year, from 2005-2010 AT&T Inc. Annual Reports. Employment from acquired companies comes from company 10-K reports for the prior period, as documented in Appendix Table A1.

Looking at Figure 1 in more detail, as just noted, AT&T acquisitions occurred in 2005, 2006, 2007, and 2009. In years without an acquisition, actual employment (dashed grey line) can deviate from the sum of baseline employment plus acquisitions (dotted black line) because of other sources of employment change at the company. Thus, for the years prior to 2005, the figure shows that AT&T's employment was declining.

Of more interest are the years when acquisitions occurred. After 2005, employment netting out the effect of acquisitions continued to decline, but AT&T took on many additional employees as a result of acquisitions, which accounts for the jump up in the black dotted line. However, the figure shows that employment generally fell short of what would have been predicted by the acquisition in isolation, as the grey dashed line almost always lies below the black dotted line, with the gap growing in the most recent years.

Figure 2 makes this point more clear. The grey bars show the number of acquired employees in each year. Clearly the large acquisitions were in 2005 and 2006. The black bars show the employment change *net of* the acquisition – that is, the difference between actual employment, and the sum of the previous year's employment plus acquired employees. (This is exactly the vertical distance between the solid and dotted lines in Figure 1.) The figure shows that in three of the four years in which AT&T acquired other firms – 2005, 2006, and 2009 – employment fell relative to what would have been predicted by simply combining the two companies. The only exception is in 2007, in which a very small number of employees (2,500) was added from the acquisition of Dobson Communications, and employment change net of the acquisition was just above zero (2,370). Note, however, that the iPhone was introduced exclusively on the AT&T network in the summer of 2007 (AT&T, 2007, pp. 4, 11), so it is likely that the increase in employment at AT&T in this year had nothing to do with the acquisition of

Dobson, and that absent the iPhone's introduction this year would also have shown a similar employment decline net of the acquisition.

The historical message is clear: Following an AT&T acquisition, employment is *lower* than the combined employment of AT&T and the acquired firm. One interpretation of this evidence is that AT&T's mergers have *reduced* employment. This would, of course, not be a surprising effect of mergers, given that one effect of mergers may be to increase synergies that enable the two combined companies to carry out the same functions as before with fewer workers. Nonetheless, this would belie the claim that the AT&T/T-Mobile merger will *create* jobs, and instead imply that its direct effect would be to *eliminate* jobs.

The data shown in Figure 1, however, call for further investigation before reaching this conclusion. The implication of the data plotted in Figure 1 is that that AT&T's employment excluding acquisitions declined quite steadily over the last decade, suggesting that there has been a general tendency toward employment reductions at this company over this period, and perhaps in the wireless communications industry overall. As such, we need to be careful in calling the behavior depicted in Figures 1 and 2 – whereby employment following a merger grows by *less* than would be predicted simply by the acquisition of another company's employees, as an “effect” of the merger. Rather, it may be that because of technological change or other factors, employment is declining at *all* companies in this industry, so that when employment after a merger grows by less than the number of the acquired employees, this is simply a continuation of that trend.

There are, though, two reasons why this interpretation is less plausible, and instead it is appropriate to view past AT&T mergers as spurring declines in jobs. First, as shown in Figure 3, years in which AT&T has made acquisitions have generally been years of sharper employment

declines. Figure 3 shows the employment change net of acquisitions as a percentage of baseline plus acquired employment. For example, if AT&T's employment was 100,000 in a given year, and it then acquired a company with 20,000 employees, its baseline plus acquired employment would be 120,000. Suppose, though, that after the acquisition it only had 105,000 employees. Then employment change net of the acquisition would be negative 15,000 since there are now 15,000 fewer jobs than there were before the acquisition. Then the number shown in Figure 3 for that year is negative 12.5% ($\{-15,000/120,000\} \times 100$). In non-acquisition years, the graph simply shows the percent decline in employment. The graph shows that the two years with the largest percentage employment declines were acquisition years (2005 and 2009), and moreover that of the four years with the largest percentage declines, three were acquisition years (2005, 2006, and 2009).

A second reason to attribute the job losses to AT&T mergers, rather than to a general employment decline in the industry, is because employment *has not* been declining across the industry. In particular, calculated the same way as in Figure 3, T-Mobile employment grew quite steadily over the same time period, as shown in Figure 4.⁹ I do not claim to know all the reasons why T-Mobile has generally been creating jobs, while AT&T has been shedding jobs. But the transfer of employment and ownership from a company that has been creating jobs to one that has been destroying jobs should be troubling, and has to make one seriously question the basis for EPI's claim that this particular merger with AT&T will create jobs.

⁹ The T-Mobile employment data are for U.S. employment, and come from Deutsche Telekom's annual reports. There was an acquisition by T-Mobile of SunCom Wireless Holdings Inc., in 2008, which added 1,924 employees (2006 10-K report). These are treated the same as AT&T acquisitions in computing employment change net of acquisitions.

AT&T's public statements about the T-Mobile merger indicate that it intends to repeat history by cutting wireless industry jobs

Although these data imply that it is most likely that the AT&T/T-Mobile merger would result in job loss from the combined workforces of the two companies, the future need not be the same as the past. Additional information, however, suggests that the prediction of future job loss based on past behavior when AT&T has acquired other firms is warranted. In particular, AT&T's recent public statements to its investors strongly indicate that it intends to eliminate jobs as part of the T-Mobile merger. For example, the same AT&T investor presentation on the merger cited above (AT&T, 2011c) lists a number of reasons why the merger will deliver "Synergy opportunities across marketing, customer support and operations" (p. 29). These include the retail store rationalization mentioned above, as well as billing system consolidation. Moreover, AT&T's press release announcing the merger (AT&T, 2011a) notes that the merger will deliver "...cost savings coming from network efficiencies, subscriber and support savings ...". All of these potential gains from the merger sound like gains that will come about through reduced employment.

Cementing the view that the merger would reduce employment among the AT&T and T-Mobile workforces, Robert L. Moore's declaration as part of AT&T's Public Interest Showing says that the synergy opportunities

"... include cost savings that will result from combining and optimizing customer support functions, including call center and billing operations, while maintaining a high level of support (overall we expect most force reductions will occur from natural attrition). There will also be cost savings from removing redundancy in corporate and overhead functions" (Moore, 2011, paragraph 37).

There could scarcely be a more explicit statement that the merger would result in diminished employment relative to the combined workforces of the separate companies. That is

what “removing redundancy” means. Indeed *the anticipated job losses are confirmed elsewhere by AT&T*, as the AT&T investor presentation discussed earlier notes that they “*Expect most of required force reductions to be achieved through natural attrition*” (AT&T, 2011c, p. 29, italics added).

The discussion of employment effects based on AT&T’s past mergers, and the predictions they suggest for the employment effects of the AT&T/T-Mobile merger, may refer to different jobs than those created (or more likely destroyed) because of the effects of the merger on infrastructure investment – the focus of EPI’s analysis. EPI explicitly states that their jobs estimates are for “direct jobs within the primary industries that meet the additional demand for goods and services and supplier jobs in the secondary industries that supply those primary industries with intermediate goods and services” (Pollack, 2011, p. 2). That is, some of the jobs associated with changes in infrastructure investment are *not* jobs held by AT&T (or T-Mobile) workers – for example, the jobs that manufacture the raw materials that go into these investment projects.

However, the earlier discussion shows why EPI’s analysis is invalid, on its own terms. Moreover, the overall employment effects, *including* those on workers at the two companies, are most germane to any claims about job creation. And there is some information available on the basis of which to link up the analysis in this section with EPI’s analysis; this information only acts to further discredit claims that the merger would create jobs.

First, AT&T acknowledges that some of the jobs involved in infrastructure investment would be with the companies. AT&T’s documents (AT&T, n.d.) note that, of the job growth predicted by EPI’s analysis, some will include “Direct jobs with the carriers.” EPI suggests that,

on a yearly basis, 29.2% of the jobs are “direct,” which I take to mean with the companies, although admittedly this point is not addressed directly in the EPI analysis (Pollak, 2011, p. 2).

I do not have any better information on the share of jobs associated with infrastructure investment that are held by the companies. The implication of the above acknowledgements and claims, though, is that the combined job losses from the merger would almost surely be *larger* than those reflected in the analysis of AT&T’s past mergers, as they would include the loss of jobs among former employees of the two merged companies, and what seem likely to be *additional job losses* outside the companies from reduced infrastructure investment.

The job growth that EPI projects – and AT&T touts – would be extraordinarily different from what happened after AT&T’s past mergers

Bringing all of these issues together, it is instructive to contrast the job growth from the merger predicted by EPI with the evidence from AT&T’s recent mergers. Figure 5 shows that that the job growth predicted by EPI would be very different from what happened following AT&T’s recent mergers; in particular, the strong positive job growth they project would be out of line with what has happened in the past.

Panel A of Figure 5 uses the same information as in Figures 1 and 2, but calculates the percentage shortfall between the employment gains that actually occurred and those that would have occurred solely from the merger(s), in the years when mergers occurred. Thus, for example, the first black bar shows a percentage shortfall of nearly 50%. This comes from comparing the employment change that actually occurred in 2005 (27,250) to the number of employees acquired in that year (47,600); the figure reports the difference between the actual employment change relative to acquired employees, as a percentage, minus 100%. In three of the four merger years, employment grew by less than the number of acquired employees: in other

words, *employment of the combined companies was reduced following the merger*. These employment reductions were fairly large in 2005 and 2006, and huge in 2009.¹⁰ Only 2007 is an exception, where a modest employment gain (2,500, see Figure 2) from a small merger was accompanied by a small but nonetheless bigger overall employment gain (4,870).¹¹

Panel B, in contrast, shows the same calculation using predicted employment changes from EPI's analysis. Four estimates are presented. The black bars simply use the lower and upper ends of the range of overall job growth that EPI attributes to the merger – 55,000 and 96,000 – relative to 2010 T-Mobile employment of 37,795.¹² The grey bar adjusts these downwards to count only what EPI labels “direct” jobs (as opposed to “supplier jobs” and “induced jobs”), which it computes as 29.2% of the total job gains. This adjustment should, in principle, at least, move us closer to an “apples-to-apples” comparison based on company employment, although it may go too far. In particular, I do not know the basis for dividing jobs between “direct” and “supplier,” but simply use the EPI estimates. According to EPI, together these account for two-thirds of the overall projected job gains. Nonetheless, the qualitative conclusion is the same. The job gains that EPI projects are completely at odds with what has happened in three of the four past years when AT&T had mergers.

Finally, relative to the other acquisitions that occurred in this period, a merger with T-Mobile and its 37,795 employees as of the end of 2010, seems more likely to generate effects similar to the years with relatively large mergers (2005 and 2006, see Figure 2), as large mergers

¹⁰ Clearly the entire employment decline in 2009 has to be due to factors other than the small merger with Centennial that occurred in that year. The longer-run effects of earlier acquisitions may have continued to play out. Of course the economy slowed substantially in this period. But as discussed below, T-Mobile employment grew strongly in 2008 and 2009.

¹¹ As explained above, the employment increase at AT&T in 2007 was likely due to the introduction of the iPhone exclusively on the AT&T network in the summer of 2007.

¹² This comes from the 10-K report, like the employment numbers used earlier.

presumably present much greater opportunities for integrating functions and removing duplication.

Would the merger be good for *some* workers?

Any workers who lose his or her job as a result of the AT&T/T-Mobile merger – whether because of reduced capital investment or other employment changes stemming from the merger – would be unambiguously worse off. Are there, nonetheless, workers who might benefit from the merger? AT&T's unionized workers are represented primarily by the Communications Workers of America (CWA). T-Mobile is a nonunion company that the CWA has been trying to unionize (De La Merced, 2011). Thus, it is possible to identify workers and their representatives who might benefit from the merger.

First, the merger would benefit the CWA by increasing its membership.¹³ Even with job losses relative to the combined workforces of the two companies, it is likely that employment at the merged company would increase relative to AT&T's current employment,¹⁴ and hence CWA's membership would grow. Consistent with this reasoning, the CWA has strongly advocated for the AT&T/T-Mobile merger (Communications Workers of America, 2011a), and has, like AT&T, parroted the EPI study claiming that the merger would create jobs (Communications Workers of America, 2011b). So the CWA may be willing to trade an overall loss of wireless industry jobs for the opportunity to increase its own membership.

Second, some of AT&T's current workers would likely gain – but only if they keep their jobs. The incorporation of T-Mobile's workforce into AT&T would result in a higher percentage

¹³ The arguments below apply equally well to the International Brotherhood of Electrical Workers (IBEW), which represents a much smaller number of AT&T employees, although my impression is that the CWA has taken a much more prominent stance in favor of the merger.

¹⁴ Referring to Figure 2, only in 2009 did AT&T's merger activity correspond with employment reductions larger than the number of employees acquired.

of the wireless industry's workforce being unionized. This, in turn, typically implies a higher wage premium for unionized workers in the industry, because the greater percentage unionized reduces the elasticity of demand for unionized workers.¹⁵

Third, some of T-Mobile's current workers might gain. Those T-Mobile workers who retained their jobs would presumably become unionized, which typically entails higher wages and other protections. Then again, the CWA and other unions have made almost no inroads at T-Mobile, only recently organizing their first unit (Hall, 2011). Their lack of success may be attributable in part to workers not wanting to unionize, which would suggest that even those who retain their jobs might not be better off after the merger, and after unionization. On the other hand, there are also accusations that T-Mobile has worked hard to keep unions out (e.g., Parks, 2011). I have no direct evidence on which characterization is more accurate.

Overall, then, the AT&T/T-Mobile merger would most likely create winners and losers, with job losses among the combined current workforces of AT&T and T-Mobile, but wage (and perhaps benefits) gains among those who remain employed. The merger may be good for many of AT&T's currently unionized workers. And it may be good for some of T-Mobile's current workers.

There can be a legitimate debate about the tradeoffs between more jobs overall, and fewer jobs a greater share of which are union jobs. But it should be a legitimate debate, not one based on false premises. The fact that there would likely be both winners *and* losers should not be ignored, and when we are told that the merger will be good for workers, we need to ask "which ones?" and "how many?," and we need to weigh these gains against costs to other workers (and against other costs and benefits of the merger). Policy decisions regarding the

¹⁵ Freeman and Medoff (1981) present the argument – which goes back to Alfred Marshall – and evidence of the predicted effect.

merger are best served by accurate identification and estimation of these costs and benefits, and not by distorted claims of benefits (or costs). Job gains from increased investment should *not* be counted as a potential benefit of the merger, and, as this paper argues, job declines are far more likely.

Summary

Thus, to summarize:

1. The EPI analysis claiming that the AT&T/T-Mobile merger will create jobs because of increased capital investment is completely unfounded, and the opposite conclusion is more consistent with the logic of mergers, and, more important, with what AT&T says will happen to capital investment.

2. The past record of employment changes following AT&T acquisitions of other mobile carriers indicates that these acquisitions led to reductions in employment among the workforces of AT&T and the acquired company.

3. AT&T itself acknowledges that the merger will entail *force reductions*. Given conclusions 1 and 2, there is no reason not to take them at their word.

4. The AT&T/T-Mobile merger would deliver benefits to the union that organizes AT&T workers – primarily the Communications Workers of America (CWA) – through increased membership. It would also likely benefit current unionized AT&T employees – as long as they do not lose their jobs as part of the merger – because the increase in the percent of the workforce that is organized would likely let them earn a higher union wage premium. T-Mobile workers who do not lose their jobs and become unionized would also likely gain by earning higher union wages and benefits. So the merger offers more jobs for the CWA, and probably higher wages for

those CWA members employed by the post-merger AT&T who keep their jobs. Overall, though, it will almost surely act to directly *reduce* jobs for American workers.

The merger may or may not have other benefits that have to be weighed against its potential costs. But there is no basis for claiming that job creation is one of these benefits, and the direct effect of the merger is far more likely to be many thousands of lost jobs.

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Figure 1: Employment at AT&T Grows by Less than the Number of Employees at Acquired Firms, Implying Job Loss

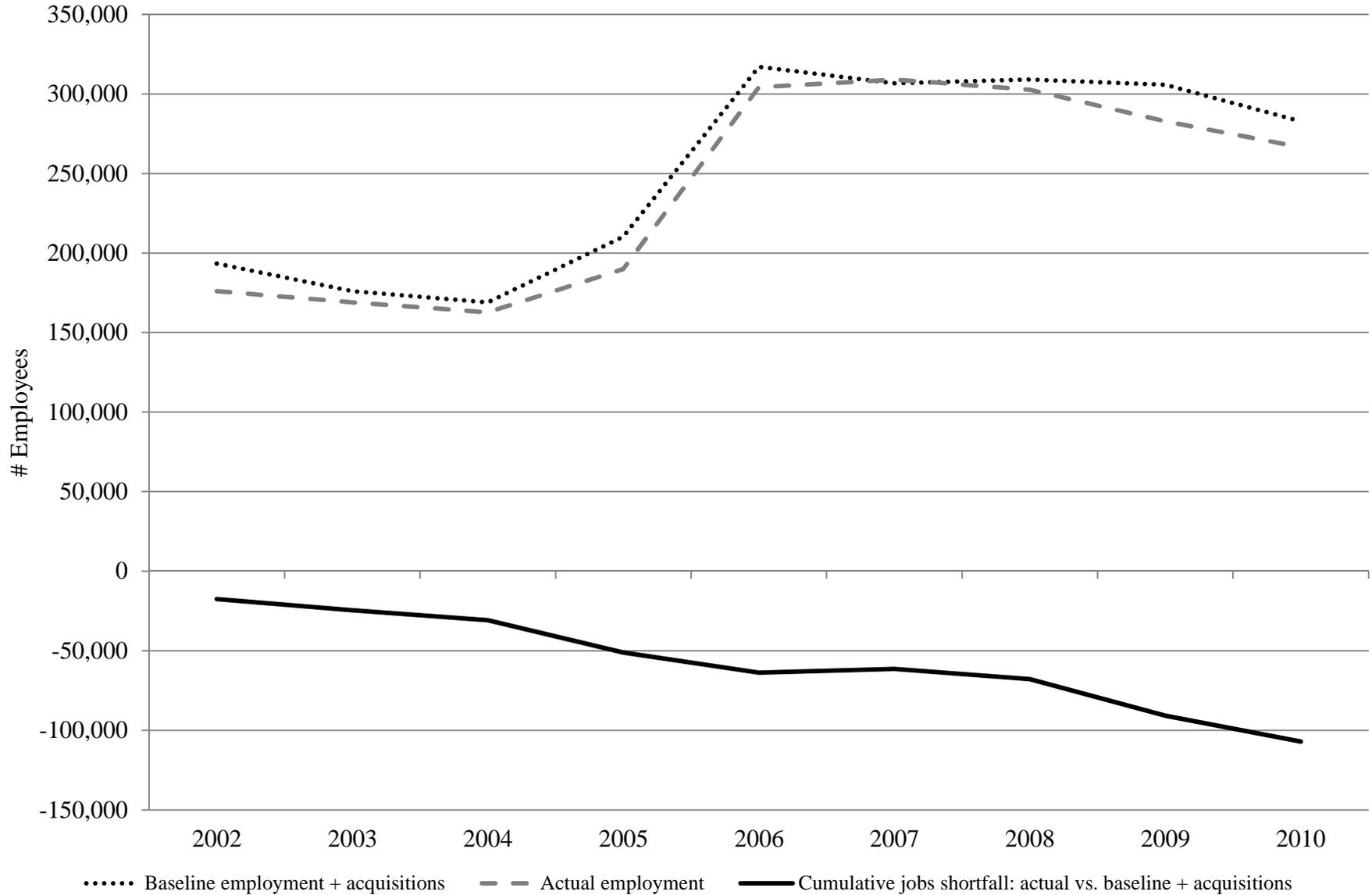


Figure 2: In Most Years When AT&T Acquired Other Firms, Employment Fell Relative to the Combined Employment of AT&T and the Acquired Firms

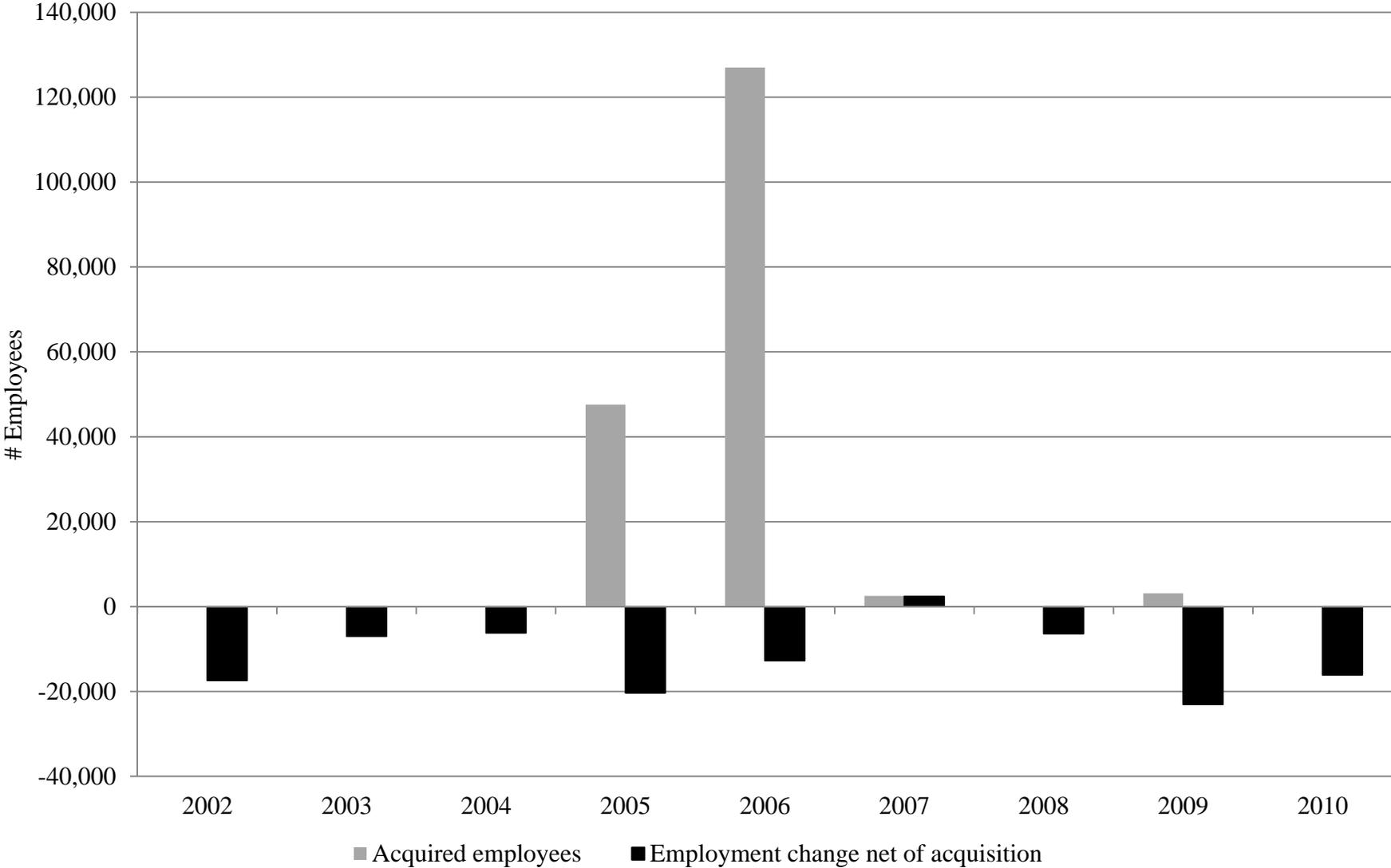
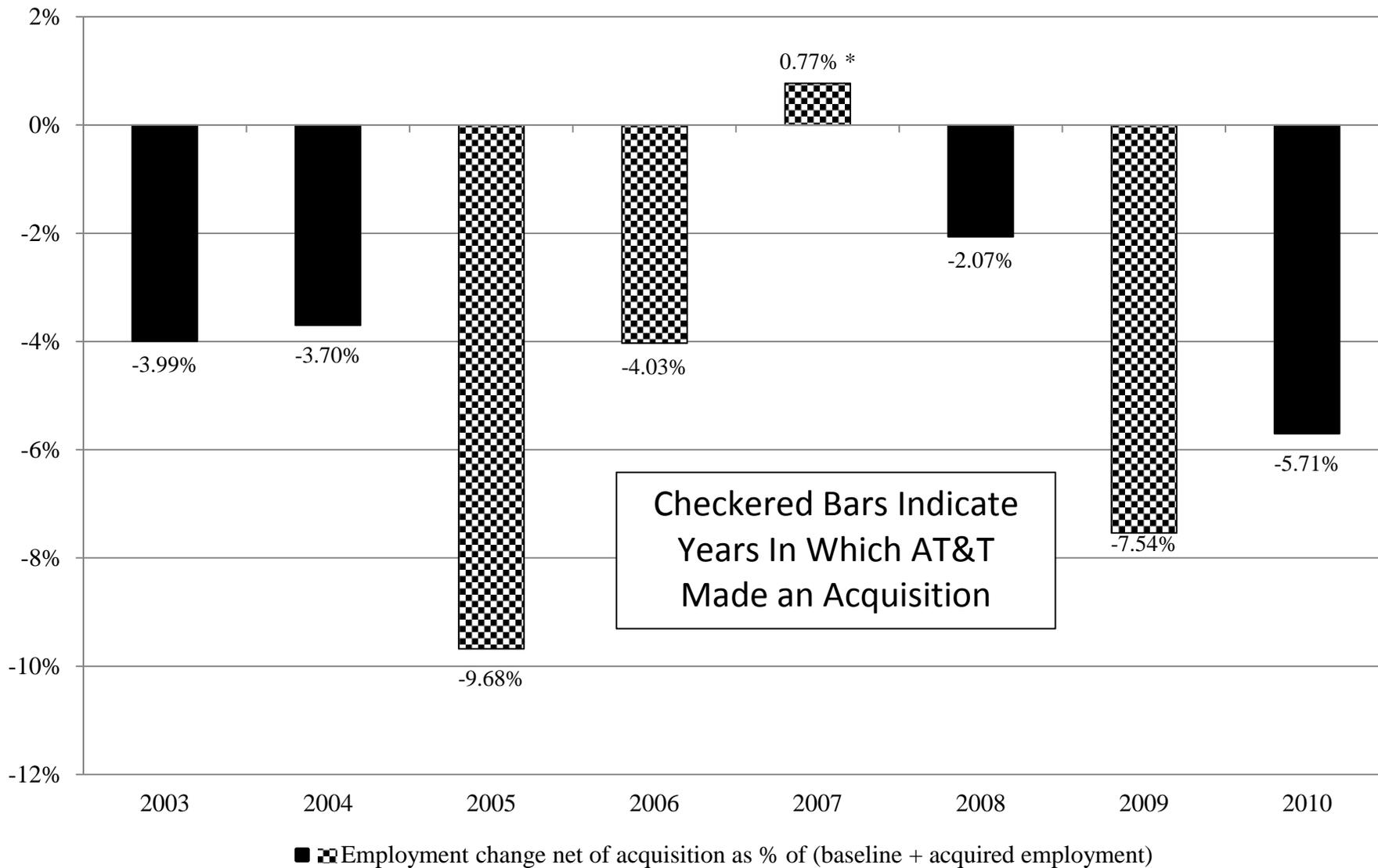


Figure 3: AT&T's Merger Years Have Tended to be Years with the Largest Employment Declines



* iPhone exclusively offered on the AT&T network beginning in the summer of 2007.

Figure 4: T-Mobile Has Been Generating Jobs While AT&T Has Been Destroying Them

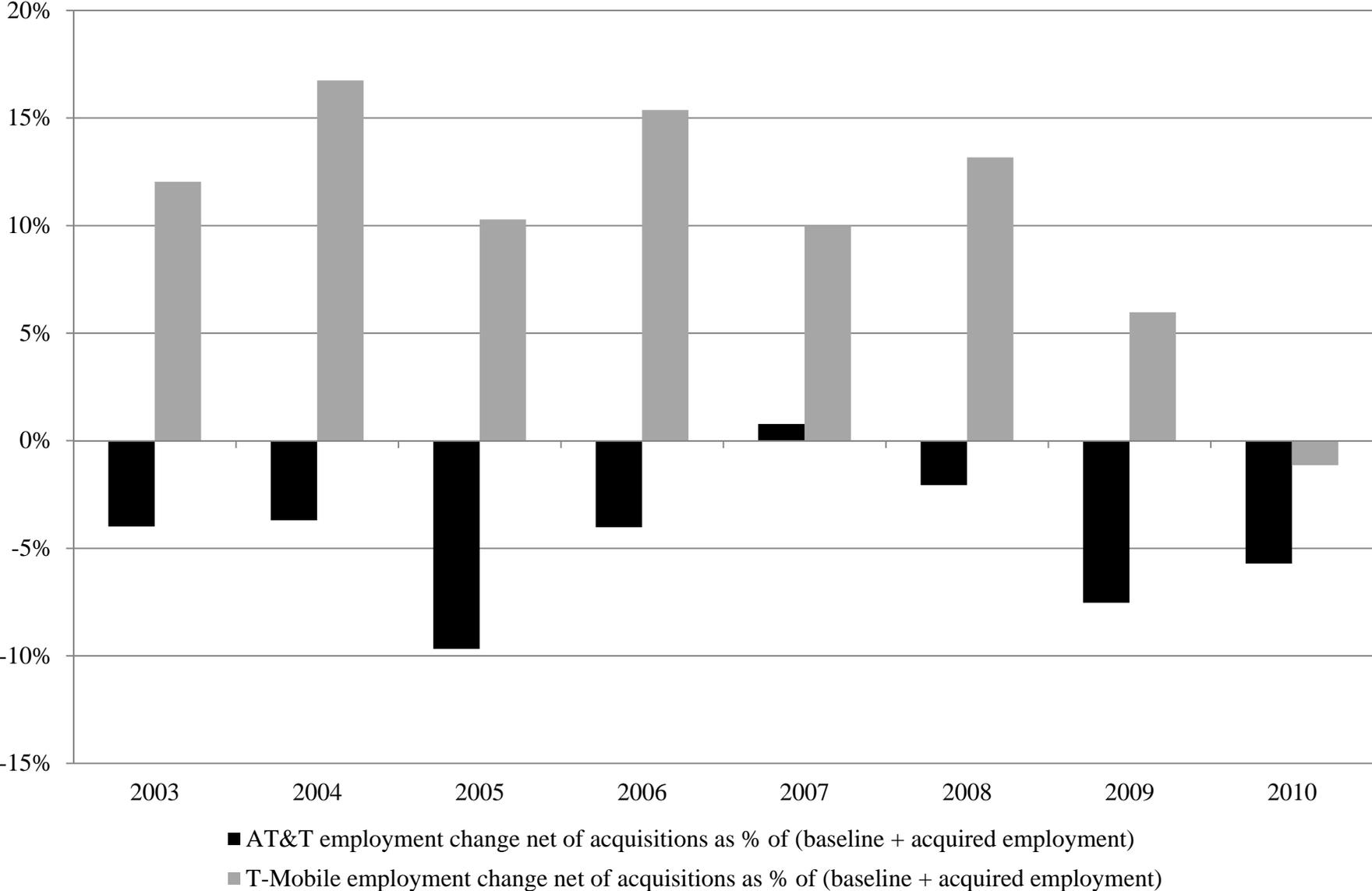
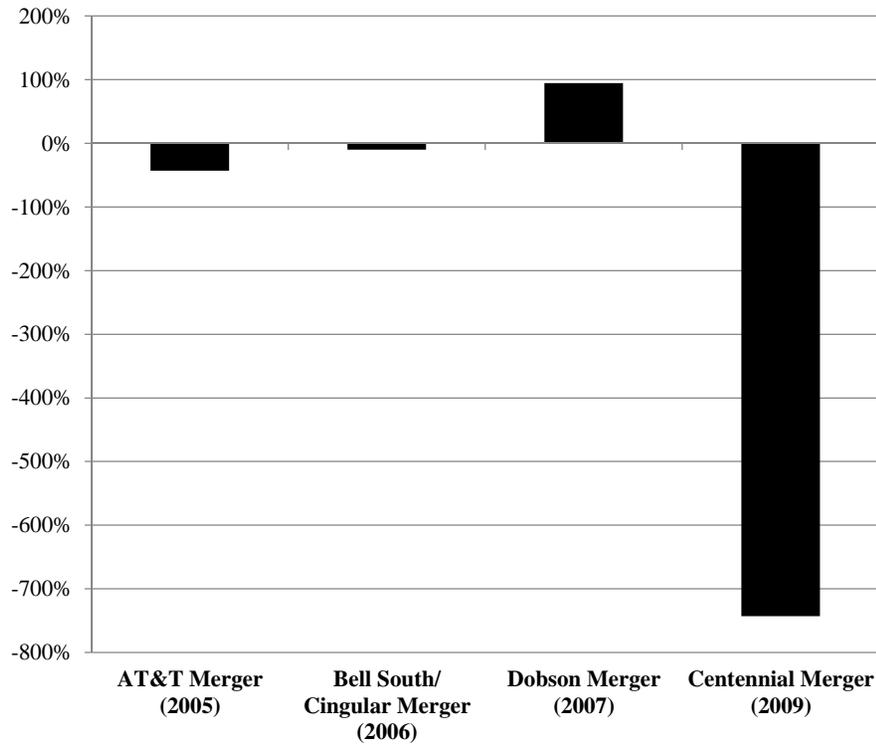


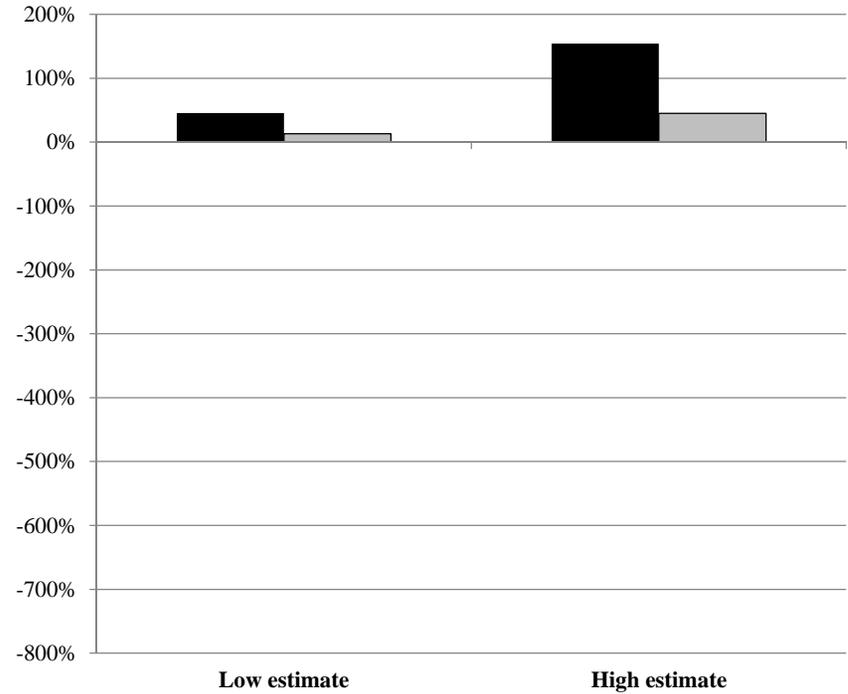
Figure 5: The Job Growth Predicted by EPI Would Be Much Different from What Happened After Past AT&T Mergers

A. In three of the past four years with mergers, employment rose by less than the number of acquired employees, implying net job losses



■ % shortfall of actual employment gain relative to employment gain from acquisition

B. EPI's estimated employment gains from the merger would be very different from what happened after AT&T's recent merger



■ % by which EPI's predicted employment gain exceeds employment gain from acquisition

▒ % by which EPI's predicted direct employment gain exceeds employment gain from acquisition

Appendix Table A1: Employment from Companies Acquired by AT&T

Employees Acquired	Source
47,600	AT&T Corp. 10-K Annual Report, year-end December 31, 2004, p. 14.
63,000	BellSouth Corp. 10-K Annual Report, year-end December 31, 2005, p. 3.
64,000	Cingular Wireless 10-K Annual Report, year-end December 31, 2005, p. 17.
2,500	Dobson Communications Corp. 10-K Annual Report, year-end December 31, 2006, p. 18.
3,100	Centennial Communications Corp. 10-K Annual Report, year-end May 31, 2008, p. 16.