AT&T CEO RANDALL STEPHENSON CALLS FOR ACTION TO STIMULATE U.S. ECONOMIC GROWTH

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Excerpts from Mr. Stephenson's Remarks

Focus of the Business Roundtable [BRT]: After a lot of discussion, we landed on something very, very specific. It was unanimously agreed that 100% of the attention of this organization should be on one thing and one thing alone, and that's U.S. economic growth, period.... Here we sit. And the economy is still growing at about a 2% clip. And, in fact, in the first quarter we hit negative growth, and at this point in the recovery I would suggest that that's unheard of.

So the business community has coalesced. We believe there is nothing in this town that ought to trump growth. Without economic growth, safety nets become irrelevant, health care becomes unaffordable, retirement benefits are, frankly, unsustainable. In fact, just the position as the reserve currency in the world is a function of our economic growth and our economic strength in the global community.

BRT Plan involves four pillars for growth: First and foremost is fiscal stability. Then business tax reform, expanding global trade, and fixing a broken immigration system.

Fiscal Stability: Our government has been chronically just lunging from one fiscal crisis to another and passing last-minute budget resolutions. And when you're a business, and you're evaluating multi-billion dollar capital commitments that span multiple years, sitting in a position where you don't know if the government's going to default on its debt or if you're going to have essential services stopped is not a very pleasant place to be when you're trying to make those decisions.

And so, while that may seem like a radical idea to some, the BRT believes that it makes a lot of sense for the largest institution in the history of the planet, the federal U.S. government, to operate on a budget – a budget that's been approved by both Houses of Congress and the Administration. And when we talk about stability, that's what we're looking for.

Business Tax Reform: Nothing would have a bigger and more immediate effect on investment and hiring than business tax reform. We all know these numbers, but the U.S. is still the highest OECD country in terms of its tax rates. And these capital markets today are liquid. I mean, capital flows very quickly and very easily to the highest returns. And when the United States taxes profits at a level more than anybody else in the world, we shouldn't be surprised when those investments are finding those lower-cost alternatives.

So how do we address that? We think it's really important that we start with getting rid of all the loopholes, the special deductions and the exemptions, and use that to drive these tax rates down to competitive levels.

Global Trade: Expanding global trade is an obvious place where we have to address if we want to get this economy growing and investment stimulated. You know, when you look at free trade agreements around the world, there are 600 of them. And of those 600, the U.S. is

party to 14 of those. And when you represent 4% of the world's population, and you're an economy that has always been dependent upon trade, we find that a bit disconcerting.
The U.S. has the best-run businesses and the best-skilled workforce in the world and we cannot and we should not be afraid of free trade. We believe customers – consumers and workers – both benefit in environments of free trade. So you should assume we'll be actively calling on Congress to pass trade promotion authority for the President and give him the authority to negotiate these deals, just like every President since FDR has had.

Immigration: It's the thorniest right now, immigration. This has become, really, an emotional issue around the country and it's a hard one and I wish it were one that would just simply go away, but it's not going to go away. We're going to have to deal with this. Interestingly enough, in spite of what you see in recent elections and so forth, the American public – 70% of the American public, both Democrat and Republican – support immigration reform. We have 11 million undocumented immigrants in this country right now, and obviously any conversation about immigration has to begin with enforcing the border. That's critical.

But then the next logical question is, what do you do with the 11 million people? And the fact of the matter is, we aren't sending them home. Not only is it impossible to send them home, but I believe it flies in the very face of what we stand for as a country, what we have always stood for. We welcome people here who work hard, who pay taxes and contribute to our prosperity. We have a higher education system that is still the envy of the world. And that system is educating more foreign students each year.

And we have these really strict limits on H-1B visas that are ensuring that these people receiving these world-class American educations are going to work in countries that are competing head-to-head against us. And I just question how that makes any sense for any of us. Immigrants and their children have founded more than 40% of the companies in the Fortune 500. And they have founded 60% of the top 25 tech companies. And immigration has always been a source of strength for us. And if we want to remain a leader in innovation and growth in this country, we think this is an area that has to be addressed and needs to be addressed in short order.

What should the President do first? Immigration.

What's the best part of being CEO of AT&T? Great seat at AT&T Stadium,

What's the worst part? Such a disproportionate amount of our success depends on what happens in this town.

DAVID RUBENSTEIN: Welcome, members and guests of The Economic Club of Washington, to this event at the Mandarin Oriental Hotel in Washington, DC. I am David Rubenstein, President of the Club. As our special guest today, we're very pleased to welcome Randall Stephenson. chairman and chief executive officer of AT&T.

Randall is a native of Oklahoma, went to undergraduate at the University of Central Oklahoma, received a master's in accounting from the University of Oklahoma and, after graduation in 1986, joined SBC fulltime, known as Southwestern Bell at that time. He rose up to be the chief operating officer at SBC, and, when SBC merged with AT&T, remained as the chief operating officer, and then, in 2007, became the chairman and CEO.

He is also chairman of the Business Roundtable, which is an organization of companies that have roughly $11 trillion of revenue in the United States and employ about 16 million employees, and he is here today in that capacity. It's our great pleasure to introduce Randall Stephenson. [Applause.]

RANDALL STEPHENSON: Thank you, David. Good afternoon. It's good to see everybody. I spoke here back in 2009, and I was just speaking in my capacity at AT&T. Today I'm speaking in a little bit different capacity. I'm actually here representing the Business Roundtable [BRT] and speaking in that capacity. And as I was preparing some remarks for this I was just reflecting on when I was asked to join the BRT. It was back in 2008, and Ivan Seidenberg, who was then the CEO of Verizon, gave me a call and asked if I would engage in the BRT.

And I reflect back on what was going on at the time. We were headed into the big financial crisis in the country. And, as you may recall, most of us in this room, the political climate was decidedly un-business friendly at that time and fat cat CEOs were being criticized – and some of them deservedly, probably most of them not. And Ivan, to his credit, argued that business leaders really couldn't withdraw. He made a plea to me that it was important that our voice be heard in the public policy debate around the country, and he made a hard sales pitch and I agreed to join the group. And so, 6 years later, I've been asked now to serve as chairman and to represent that organization, which I have agreed to do, and follow in the good work that Ivan laid down and then Jim McNerney, of Boeing, who preceded me.

Before taking the job I spent a lot of time going around, talking to a lot of the CEOs in the BRT. And I was of a mindset that if I was going to do this for a couple of years I really wanted to get really crisp and clear, John and me, on what the priorities should be and where we were going to commit all of the resources of the organization. And I will tell you, if you think it's tough getting something done through Congress, try getting unanimous consent of 200 of the CEOs of the largest companies in the United States. It's an interesting process.

But after a lot of discussion, I will tell you, we landed on something very, very specific. It was unanimously agreed that 100% of the attention of this organization should be on one thing and one thing alone, and that's U.S. economic growth, period. And we were 5 years beyond the financial crisis. Here we sit. And the economy is still growing at about a 2% clip. And, in fact, in the first quarter we hit negative growth, and at this point in the recovery I would suggest that that's unheard of.

So the business community has coalesced. We believe there is nothing in this town that ought to trump growth. Without economic growth, safety nets become irrelevant, health care becomes unaffordable, retirement benefits are, frankly, unsustainable. In fact, just the position as the reserve currency in the world is a function of our economic growth and our economic strength in the global community.

So we're looking at everything that we do through the eyes of growth and growth alone. And there have been, even of late, some people very prominent in this town – some economists – who talk about this 2% growth as being the new normal, and I just think it's important that we not confuse normal with acceptable. And the idea that something is settling into a pattern, and that now becomes normal, to us ignores what is achievable and what is achievable with just some very specific action.

So when we look at this thing, I would tell you that this low growth, it's not a coincidence that it is occurring commensurate with the lowest level of private-sector investment in this country as a percentage of GDP since World War II. The percent of our population that's working is at its lowest level in 36 years. And all of us who run businesses kind of have a thing we live by, and that is: If you're not investing, you're not going to grow. And if you're not investing, you're not hiring. And if we want to get at the core of why the U.S. is not growing, we believe we have to address those areas that are getting in the way of investment and hiring. And so we asked ourselves, through a bit of a process: What public policies are beginning to distort markets and are getting in the way of investment and hiring? And the answer to that became four pillars of growth. It's called the BRT Growth Agenda.

First and foremost is restoring fiscal stability. The second may not surprise you, and that is business tax reform. The third is expanding global trade and the fourth is fixing an immigration system that's flat broken.

I'm going to start with fiscal stability and talk real quickly, because recently there was a politician who picked that pillar of growth out, and he said that that was an example of business trying to preserve the status quo in Washington. And I found that an interesting perspective when you consider that our government has been chronically just lunging from one fiscal crisis to another and passing last-minute budget resolutions. And when you're a business, and you're evaluating multi-billion dollar capital commitments that span multiple years, sitting in a position where you don't know if the government's going to default on its debt or if you're going to have essential services stopped is not a very pleasant place to be when you're trying to make those decisions.

And so, while that may seem like a radical idea to some, the BRT believes that it makes a lot of sense for the largest institution in the history of the planet, the federal U.S. government, to operate on a budget – a budget that's been approved by both Houses of Congress and the Administration. And when we talk about stability, that's what we're looking for. The Murray-Ryan plan? We take our hat off to it. It is the first indication of stability in quite some time and living by regular rule in Congress, and so we believe that this has to become the new normal itself.

We also believe that there is nothing that would have a bigger and more immediate effect on investment and hiring than business tax reform. We all know these numbers, but the U.S. is still the highest OECD country in terms of its tax rates. And these capital markets today are liquid. I mean, capital flows very quickly and very easily to the highest returns. And when the United States taxes profits at a level more than anybody else in the world, we shouldn't be surprised when those investments are finding those lower-cost alternatives.

So how do we address that? We think it's really important that we start with getting rid of all the loopholes, the special deductions and the exemptions, and use that to drive these tax rates down to competitive levels. I think we've all seen it. In February, Dave Camp introduced a proposal that would accomplish exactly this. It would cut the top corporate rate to 25% over 5 years and it would tax income earned abroad like most other countries do that are in the OECD. In fact, John Engler at the BRT commissioned a study to evaluate this proposal, and it's probably not a surprise to you: An econometric model said that it would result in 2.2% higher GDP growth in 10 years and, long term, 3.1%. And the effect on investment was even more interesting, because it said in 5 years investment would stimulate 4.6% and 6.5% over 10 years.

Again, these aren't radical ideas. I think this is kind of blocking and tackling stuff. There's broad bipartisan consensus that this needs to happen. Senator Wyden has announced that his committee's going to take this up in July. President Obama, in his State of the Union address, said that this was an important criterion for growth. And so, you should expect the BRT to remain firm on the need for business tax reform.

Expanding global trade is an obvious place where we have to address if we want to get this economy growing and investment stimulated. You know, when you look at free trade agreements around the world, there are 600 of them. And of those 600, the U.S. is party to 14 of those. And when you represent 4% of the world's population, and you're an economy that has always been dependent upon trade, we find that a bit disconcerting. The U.S. has the best-run businesses and the best-skilled workforce in the world and we cannot and we should not be afraid of free trade. We believe customers – consumers and workers – both benefit in environments of free trade. So you should assume we'll be actively calling on Congress to pass trade promotion authority for the President and give him the authority to negotiate these deals, just like every President since FDR has had.

And then, last, and I'll just be very brief on this, but it's the thorniest right now, and that's immigration. This has become, really, an emotional issue around the country and it's a hard one and I wish it were one that would just simply go away, but it's not going to go away. We're going to have to deal with this. Interestingly enough, in spite of what you see in recent elections and so forth, the American public – 70% of the American public, both Democrat and Republican – support immigration reform. We have 11 million undocumented immigrants in this country right now, and obviously any conversation about immigration has to begin with enforcing the border. That's critical.

But then the next logical question is, what do you do with the 11 million people? And the fact of the matter is, we aren't sending them home. Not only is it impossible to send them home, but I believe it flies in the very face of what we stand for as a country, what we have always stood for. We welcome people here who work hard, who pay taxes and contribute to our prosperity. We have a higher education system that is still the envy of the world. And that system is educating more foreign students each year.

And we have these really strict limits on H-1B visas that are ensuring that these people receiving these world-class American educations are going to work in countries that are competing head-to-head against us. And I just question how that makes any sense for any of us. Immigrants and their children have founded more than 40% of the companies in the Fortune 500. And they have founded 60% of the top 25 tech companies. And immigration has always been a source of strength for us. And if we want to remain a leader in innovation and growth in this country, we think this is an area that has to be addressed and needs to be addressed in short order.

So in closing, look, I come to this town and I talk to a lot of people and they talk about how the U.S. has lost its step. And I don't agree with that. In fact, I believe the opportunities in front of us are very, very exciting. We lead the world in the industries that matter. I mean, think about energy, telecom, tech, health care. Those are industries that are driving the next productivity and prosperity booms around the globe. And we are leading in every single one of those in this country.

And so the opportunity is there. I do not believe our economic leadership is a given. It's not going to be handed to us. But we believe all the bones are here and all the basics are here for us to lead the globe over the next century. And so that's why we're calling on these reforms. It's why we're going to be adamant on these four pillars. And I appreciate your time and your attention. And, David, I'd be glad to take questions, thank you. [Applause.]

MR. RUBENSTEIN: OK, thank you very much. I hate to be like the reporters at the White House who, after a President gives a speech they ignore the speech and ask him questions about something else. [Laughter.] Maybe some of you have seen this phenomenon. So I am interested in what you had to say, and I'm going to ask you some questions about it, but I would like to ask a few questions about AT&T, a company you're obviously familiar with.

So I always saw AT&T as a telecommunications company, telephones and so forth. The other day you announced that you were going to spend roughly $50 billion to buy DirecTV, so –

MR. STEPHENSON: $67 billion.

MR. RUBENSTEIN: OK, $67 billion. Well, I was trying to get you a discount. [laughter] –

MR. STEPHENSON: You're late for that. I wish you'd been around a couple weeks ago. [Laughter.]

MR. RUBENSTEIN: OK. So $67 billion. Why are you going to spend that much money for a television programming company? [Laughter.]

MR. STEPHENSON: The answer may surprise you because the mobility business here in the U.S. has been – it's been stunning what's happened over the last 6 or 7 years. I started this job in 2007. And at that time, not a one of you in this room owned a smartphone, because they really didn't exist. And we spent 6, 7 years – we poured $150 billion into these networks, all about delivering a mobile Internet, right, and so making sure that you guys can all access the Internet, data and information you need on these mobile devices and tablets, and spent a lot of money creating that.

And what is happening now, and we announced a year ago that the shift has happened and the mobile Internet – mobile data is no longer what's going to drive this industry, and what's going to drive your industries. It's mobile video, the ability to deliver video over all of these devices is just happening at an alarming rate. You look at our networks today, and well over half of the traffic that flows across our networks is coming from video. And so as you think about a business that is going to be video-centric and video-focused, you want to have scale in video at the programming side to be able to take advantage of this.

And so we're buying DirecTV. DirecTV comes with a lot of assets and great things. First of all, they have 20 million video customers. And that's a great place to start if you're going to build a mobile video business.

MR. RUBENSTEIN: OK. So today as I was trying to describe the history of your company, you were originally SBC, which was a regional operating Baby Bell. Today what percentage of your revenues or earnings comes from wireless and what percentage comes from fixed, which was your original business?

MR. STEPHENSON: I don't split the two that way. I think of wireless and broadband, all right, wireless and high-speed data, because that's what drives our business today. And the whole business is about those two areas. And so when I started in 1986 the company had no mobile phones and we had no broadband customers. Those services really didn't exist at that time. Today those services represent 82% of our $130 billion revenue stream.

MR. RUBENSTEIN: So is it an urban myth or is it true that AT&T really invented in its labs the wireless system for wireless telecommunications, but decided there was no market for it and so it didn't really pursue it. Is that true or not?

MR. STEPHENSON: [Laughs.] There's been a lot documented about it. At the time of the divestiture that you talked about, when AT&T was split and the seven regional Baby Bells were created, when the assets were being divvied up, this wireless spectrum which, you know, is what is required to be in this business – they were saying, where does this go?

And it was kind of not given a whole lot of consideration. And it was given to a lot of the Baby Bells at divestiture. That wireless spectrum became the basis on which we built our mobile businesses. And so the rumors and so forth, the stories you hear go back to that. There wasn't a lot of value attributed to it. And if you had to recreate that spectrum today, it would be billions.

MR. RUBENSTEIN: In the original AT&T there was Bell Labs, which did a lot of the research, R&D. And they had eight Nobel Prize winners work there and so forth. What do you do for R&D now? Do you have an equivalent of Bell Labs that helps you with new technology ideas?

MR. STEPHENSON: Yeah, we have – it's called AT&T Labs. And we have a lot of different areas of the labs where they focus on some original research, some on new product capabilities, some just on product certification – the classic labs function that you would expect. But then what we've created in this world of mobile Internet we were talking about, is there – think about where the research for the mobile Internet happens. It happens out in Silicon Valley. And it happens in Israel – big time in Israel.

And so we have opened foundries. And these are places where we set up our latest and greatest technology, our fiber-deployed technology, our latest wireless technologies. And we set these up in these foundries, and particularly the one in Palo Alto, and all the Silicon Valley folks bring their new capabilities in, they test, they trial on ours, and we work together to create a lot of new capabilities. And we've launched some really exciting services out of these areas.

MR. RUBENSTEIN: Can you tell us anything that you're going to announce in the future that you haven't announced yet, that you might want to give us a – [laughter] – watch telephones or anything?

MR. STEPHENSON: [Laughs.] No, I can't.

MR. RUBENSTEIN: Not today?

MR. STEPHENSON: It's not – I can, but I won't.

MR. RUBENSTEIN: OK. [Laughter.] All right. Well, there was a rumor that you might announce something with Amazon tomorrow. That's just a rumor?

MR. STEPHENSON: I read that same thing. It's exciting, isn't it? [Laughter, applause.]

MR. RUBENSTEIN: All right. OK. So – well, explain this to me: Sometimes when I'm in third-world countries, or emerging markets as we now call them, the telephone service is great. I never have – I never lose – drop a signal. When I'm in New York or Washington, the signals drop. Why is that? Why – whose fault is it? The government, is it the regulators? Who deserves the blame for the fact that I can't get things in Washington, D.C. to work without dropping the signal?

MR. STEPHENSON: The biggest problem is probably your perception. [Laughter.]

MR. RUBENSTEIN: OK. All right.

MR. STEPHENSON: [Laughs.] We obviously study this. And we do a lot of testing around the globe. And I've had a very strong interest in Europe for quite some time. And one of the reasons I'm so intrigued by Europe is because this mobile Internet thing is still yet to emerge. And you go to Europe and you try to use your mobile Internet device and it is – it's getting better, but it's still not up to standards of most places in the world. I would tell you, if you want to go to third parties, talk to the vendor communities about the performance of the mobile Internet here in the United States. We are well ahead of anybody else in the world.

MR. RUBENSTEIN: OK. Well, if you drive out to Dulles today, right before you get to Dulles you'll notice it's not going to work. But OK. [Laughter.]

MR. STEPHENSON: If you tell me it's Exit 13, I know that's been fixed. [Laughter.] Because I will drive out there with you. I bet you a hundred dollars. [Laughter.]

MR. RUBENSTEIN: All right. Well you probably will win. So, like, I have a couple devices I carry. What do you carry? What do you use? I mean, you're the chairman of AT&T. What do you use?

MR. STEPHENSON: I know the gentleman from ZTE is here, so I'm embarrassed to do this, but this is an HTC device. I love this device. It's an android-based device. And then you'd be surprised if I weren't carrying a iPhone. But this is – this is a larger screen. Obviously I carry an iPad with me everywhere I go, so –

MR. RUBENSTEIN: OK, all right. So you have all these devices. And your favorite is that phone?

MR. STEPHENSON: Yeah, yeah.

MR. RUBENSTEIN: OK. So when you did the original deal with the iPhone, you had exclusivity. Did that turn out to be good for you, good for Apple, or who got the better of that deal, or you both did well?

MR. STEPHENSON: Well, I'll say it again. In 2007 we had no smartphone customers, and today we have over 70 million smartphone customers. We ignited what we think is a global revolution, and it's a revolution that has really changed how commerce and business is done. And try to imagine any of you doing your jobs or even interacting with your families without having one of these devices on you. And so 2007 was the initiation of it. We think we've done quite well. We have no doubt that Apple did quite well. It served both of our interests. Churn is down. Revenue per customer is up. Customer satisfaction is up. So I feel like it's been good for us, as well.

MR. RUBENSTEIN: So who was trying to convince you to do that deal? Was Steve Jobs trying to convince you it was good for you, or were you trying to convince him it was good for them to have exclusivity?

MR. STEPHENSON: [Chuckles.] Well, you've negotiated many deals. You just articulated how it was going on, right?

MR. RUBENSTEIN: All right. All right, so, mutually – it's mutually beneficial.

MR. STEPHENSON: Yeah.

MR. RUBENSTEIN: OK. So let me ask you this. Today do you consider yourself more of a U.S. company or a global company? Because most of your revenue still comes from the United States; is that not right?

MR. STEPHENSON: Yeah, it does. The lion's share comes from the United States. So in the consumer market segment, we're almost exclusively a U.S. company. DirecTV changes that. They have 18 million video subscribers in Latin America. But when you talk about serving the companies that each of you run or work for in here, if we cannot deliver your traffic around the globe, we're not relevant to you. And so we have significant global presence. We operate in 168 countries around the world. We have thousands of people on our payroll around the world. And so from that standpoint, in terms of serving large enterprise B-to-B customers, it's a global business.

MR. RUBENSTEIN: But you're going to try to grow your percentage overseas, of your revenues overseas, I assume?

MR. STEPHENSON: Yeah. In fact, the day we close the DirecTV deal, that percentage will shift dramatically, yeah.

MR. RUBENSTEIN: OK. So a number of years ago, you tried to buy a company called T-Mobile.

MR. STEPHENSON: Why would you bring this up? [Laughter.]

MR. RUBENSTEIN: Well, I just thought you – you know, everything can't be perfect. Everything can't work out perfectly. So in that case –

MR. STEPHENSON: Let's talk Apple some more. [Laughter.]

MR. RUBENSTEIN: So I assume you think that government made a mistake, but now it's rumored that Sprint is going to buy T-Mobile, and they've been, you know, leaking it out for – there for quite a while. Do you think the government should approve that one or do you think the government will approve that?

MR. STEPHENSON: Should and will are probably two different questions. Obviously, if I thought they should have approved ours, it would be hard for me to suggest that they shouldn't approve that one. The problem, as I see it, is the way the government shot our deal down. They wrote a complaint, and it was a very detailed complaint, a very specific complaint that the issue with our deal with T-Mobile was, you are consolidating the industry from four national competitors to three national competitors. They were very clear about that. It wasn't – there were no other major issues. That was the issue and that's what they came after.

And as you think about Sprint and T-Mobile combining, I struggle to see how that is not four going to three. And the government talked extensively about T-Mobile being the maverick in the marketplace, and I think by any definition you'd have to say T-Mobile is still the maverick in the marketplace, and they didn't want to see that go away. And so I don't know where the government will come out on it. It seems like it would be a stretch for them to get to yes when the complaint filed against us was four to three.

MR. RUBENSTEIN: Well, when you were not able to complete that deal, you had to pay a breakup fee of a few billion dollars, and it's rumored that if Sprint and T-Mobile go together and that deal doesn't work out, that once again T-Mobile will get a couple-billion-dollar breakup fee.

MR. STEPHENSON: Pretty good business model, isn't it? [Laughter.]

MR. RUBENSTEIN: I wonder if that's their specialty. [Laughter.] OK. All right.

So there's another deal that actually has been announced, and that is the acquisition by Comcast of the Time-Warner cable business. Do you think that deal should be approved?

MR. STEPHENSON: I don't see why it won't be approved. I mean, just a, you know, technical antitrust review – you know, they don't overlap with each other. There are some precedents and practices in the past about no cable company should own more than 30% of the U.S. cable subscribers. They've agreed to sell down below that. So I don't see why it would not pass antitrust muster. I suspect, like most of these deals, it will have some conditions hung on it, programming access and so forth, but I really don't see why it would not get approved.

MR. RUBENSTEIN: OK. So you've mentioned the regulators, sometimes they don't always do what you think is a good idea, but what about regulators outside the United States? How do you compare regulators outside the United States with those in the United States? Who is more talented, more efficient? [Laughter.]

MR. STEPHENSON: Well, look, I would tell you, in terms of just pure regulatory oversight, Canada may be the best place going right now. And in tax law, regulation, it's actually – you know, we kind of look at Canada and we find it an interesting place and a good place to do business, and they're attracting a lot of investment. You heard my opening comments. You know, my view is I evaluate a regulatory environment based on how much investment is attracted into that environment. And so Canada is demonstrating that they can attract a lot of investment.

We complain a lot about the U.S. regulatory environment, and I would suggest to you, in telecom we have to be doing something right, because there is more investment happening in telecom in this country than anywhere else in the world. There is no place running even close. And in fact, the telecom industry in the U.S. is investing more than any other industry in the United States of America. So there's a lot of good going on here.

And, you know, I'm sure you're going to ask about net neutrality, and I'll just beat you to the punch line. My worry about net neutrality is, what are you trying to fix? Right? I mean, what problem are you trying to solve? You've got just billions and billions of dollars of investment pouring into this country, the innovation capital of the world in Silicon Valley, that's centered around the U.S. mobility business. And I just think we ought to be very cautious about tinkering with this thing.

MR. RUBENSTEIN: So over the past 6 years, I think AT&T has invested about $116 billion in infrastructure and other things in the United States. What kind of rate of return are you looking for when you invest that kind of money?

MR. STEPENSON: I'm not going to give you what our hurdle rate is, obviously, what our cost of capital is, how we assess it internally. But look, what I would tell you is, in this industry, if you're not a top-tier investor, it's not that you don't succeed; it's that you may not survive. And you miss one technological innovation cycle in this industry, and it's ugly. I mean, you know, you can look at examples – BlackBerry, for example. And so you cannot afford to miss an innovation cycle in this industry, and it requires a significant amount of capital to do that.

MR. RUBENSTEIN: I said at the beginning that you started in 1986 after you graduated from graduate school, but you actually started in 1982 at Southwestern Bell. You were working part-time. What was your job when you started? I assume you weren't at the top at the beginning. [Laughter.]

MR. STEPHENSON: I was close. [Laughter.] Does anybody know what these nine-inch computer tape reels – remember those? My job was I was working the late-night weekend shift while I was going to school, and I went and looked at a computer screen that said "Mount Tape 3Q1422 on Drive 5." So I'd go find Tape 3Q1432 (sic) and I'd go put it on Drive 5 and I'd hit "Load/Start." And I'd do that 12 hours. [Laughter.]

MR. RUBENSTEIN: And that qualified you to be the CEO of AT&T ultimately, right?

MR. STEPHENSON: They saw promise. They saw promise. [Laughter.]

MR. RUBENSTEIN: So when there were seven Baby Bells, how did it turn out that Southwestern Bell, the one you joined, turned out to be the winner? What was the thing that they did that nobody else did, and how did they emerge to be on the top?

MR. STEPHENSON: You talk about innovation cycles and market trends. My predecessor, Ed Whitacre, I give him all the credit on this. In the mid-'80s, he was one of the first guys to kind of lay hold to this wireless revolution; that what would happen if you mobilized voice and if you mobilize data. And he went out and made a big acquisition, Metromedia, and gave us the wireless assets that are now the core of our Washington, New York, Boston properties and so forth up here, went and spent a lot of money back in those days on buying this. I remember our stock went down $7 a share the day he announced that. It was, what are you thinking? They overpaid for this, right? But that became the platform on which we grew the mobility business.

Then Ed, after the Telecom Act of 1986, said that scale is going to be critical. And he set a path. He brought me back from Mexico in 1996 and went and acquired Pacific Telesis in California and Nevada in 1996. In 1997, we acquired Ameritech, a $70 billion deal; before that deal closed, announced we were acquiring SNET; and then 2004, acquired AT&T wireless within Cingular; and then BellSouth. And he just said, look, scale and mobility are going to be the critical elements, and just went headstrong and headlong into those industries and built this business.

MR. RUBENSTEIN: So when you joined, presumably you didn't think you would be the CEO of AT&T. It's –

MR. STEPHENSON: No, I did. I actually did.

MR. RUBENSTEIN: You did. [Laughter.] You did think – all right. Right.

MR. STEPHENSON: [Chuckles.]

MR. RUBENSTEIN: Well, as I said, as I knew you thought you would be the CEO – [laughter] – what was your skill set? You were in the finance side more than a technology side as you rose up? Is –

MR. STEPHENSON: Yeah, so – started out, obviously, as I said, in the computer room, and then after mounting tapes for a couple of months, they said, well, maybe you can do more, and they put me into programming. And so I'd spend a late night, you know, fixing programming errors when you're trying to run jobs, which – [chuckling] – I tell people that was one of my favorite jobs I did, all right? Late night, you know, fixing programming errors – that's really geeky, I know, but God, I loved that job. [Laughter.]

But I graduated with this Master in Accountancy, as you said, and so this was right after divestiture of AT&T. And so AT&T left the Baby Bells without a lot of what I'd call professional talent. And so, you know, a guy with accounting skills and financial perspective brought into that environment was what you call a target-rich environment. And so it was just a wonderful opportunity to come in and start things from scratch.

MR. RUBENSTEIN: Now in the wireless business, it was rumored years ago that wireless telephones might cause brain cancer, and no one's talking about this much – you obviously don't believe that's the case, I assume, right?

MR. STEPHENSON: Well, we've not found any scientific evidence that would suggest that it does.

MR. RUBENSTEIN: No – OK. So has that scare, concern gone away, largely, you would say? You haven't, you know, heard about it?

MR. STEPHENSON: Yeah. I mean, I – you know, out of FCC – Julius is here. He could speak to this. But the FCC has some standards, and they do a lot of work in this area. And so, you know, we obviously do our own research and our own studies, and we work with the FCC, and we feel comfortable with where we are.

MR. RUBENSTEIN: Let's talk about some Business Roundtable issues, if we could. You've mentioned there were four pillars. Let's go through each of them, if we could.

You have a very radical idea, which is that the Congress of the United States should pass appropriation bills on time. Where did you get that idea? [Laughter.] Why do you think that's a good idea?

MR. STEPHENSON: We thought we ought to think big.

MR. RUBENSTEIN: Right. OK.

MR. STEPHENSON: So think big. [Laughter.]

Look, we'd come through a couple of years of this lunging – I said this – we were lunging from one fiscal crisis to another. And it has a stagnating effect on investment. I mean, it affects us. You catch yourself frozen in terms of, are you willing to kind of make the next billion-dollar investment? You know, next quarter are you going to wait to see how the capital markets respond? And it's just a huge uncertainty on business when you're trying to day in and day out, you know, make capital investment decisions. We said, look, if you want to get investment moving – and keep in mind, all of this is about drive investment, because if you're not investing, you're not hiring; if you're not hiring, you're not growing. And so it starts with investment. And we said, you got to get that cleared out, get the underbrush out.

MR. RUBENSTEIN: Well, in Washington, D.C., I would say that the concern about the deficit is not as great as it was a couple years ago, as we've gotten it down to only about $500 billion a year. It's not $1.3 trillion. So do you detect the same lack of concern about the deficit today?

MR. STEPHENSON: Yeah. We've got lackadaisical about it because there isn't this pressing sense of urgency. And it is still very, very relevant. And you can't look at these entitlement programs 10 years out and get yourself comfortable that we have a sustainable formula here. And so that's another part of what the BRT continues working on fiscal stability, working, as we've got to get this entitlement system restored.

MR. RUBENSTEIN: Right. So you come to Washington a reasonable amount of time, I assume, to talk to regulators, government officials, and Congress. How would you say it's changed over the last 7 or 8 years? Is the atmosphere worse than when you first became CEO, or is it about the same?

MR. STEPHENSON: It's more polarized. And you know, the ability to work on core issues where there is general agreement is the part that frustrates me. If you think about these areas, tax reform, if I were to go sit down in Senator Wyden's office this afternoon, walk across and go over to Dave Camp's office later in the afternoon, I could walk out of that meeting and think, we're going to get a deal done tomorrow, OK, because there is just general agreement on the big issues, what needs to be done – get rid of the preferences and the special deductions and the loopholes, get rid of all of that, and invest it into getting the tax rate down to a competitive level, so you stop seeing companies move offshore and then so forth.

MR. RUBENSTEIN: Right.

MR. STEPHENSON: General, basic agreement on that.

And it comes to starting to pass legislation, and you can't get past square one. And so that's part of the frustration.

MR. RUBENSTEIN: So does it tempt you ever to say, well, if the government doesn't work so well, I should join the government and make it better? Do you ever think you should go into government? You were very young to be the – you were CEO at 47. Now you're 54. So you have a long time to be the CEO or go into government. Would you like to be in a Cabinet position or a Senator or something else? Do you have any aspirations in that direction?

MR. STEPHENSON: No, I honestly don't have any aspirations in that regard. I – you know, when I was asked to take on this role, chairman of BRT, and I spoke to Jim McNerney, and you know, the big part of this is a civic responsibility. You know, I do believe in the virtue of business. I mean, I can't tell you how strongly I believe in the virtue of business; that when we invest, we create prosperity and we create jobs and we create growth, and that's a good thing.

And so to the extent that I can make a difference working with John Engler and the other CEOs of the BRT and help drive an agenda that drives growth, I feel like that's a great civic responsibility and something I take very seriously.

MR. RUBENSTEIN: The growth rate that you would like to see or the BRT would like to see – would that be closer to 4% or is that unrealistically high? Three –

MR. STEPHENSON: It has to be over 4%.

MR. RUBENSTEIN: Over 4% or 5% –

MR. STEPHENSON: There is no fundamental reason why this economy cannot grow in excess of 4% right now.

MR. RUBENSTEIN: OK. All right. Let's talk about the second pillar, which was tax reform. You addressed it a little bit, but the chairman of the Ways and Means Committee has announced he's retiring, and the former chairman of the Senate Finance Committee left to become Ambassador to China. So we have a new chairman, Ron Wyden. Do you think that there's any realistic prospect that together Camp and Wyden can get a bill through – tax reform bill this Congress, or are you really talking about next Congress?

MR. STEPHENSON: I don't see it happening this Congress. I hate to concede that, and you know, you're afraid to let your foot off the gas pedal and to take the pressure off, but I cannot see it happening this Congress.

That said, you know, these tax extenders, bonus depreciation, these look-through provisions and the R&D credits, all of these expired January 1. Corporate America, all of our tax bill – and it's all taxes tied to investment, bonus depreciation – all of our taxes went up significantly January 1.

And I hear the economists talking about weather and the effect of the weather on Q1, and it did have an effect. We saw it in our business. But that did not take us to negative growth in first quarter. We went to negative 1%. And I will tell you, investment has slowed, and investment has slowed up across corporate America. And it's illogical to think that it happened for any reason – many other reasons other than these tax benefits going away.

And I was asked this morning by the press my view on this, and I said, you've got to pass these extenders. Extend these provisions as a bridge to tax reform.

I think those provisions all have to go away, but they go away with line of sight to real tax reform, and then the investment will not go away.

MR. RUBENSTEIN: One of the biggest issues in Washington taxation recently deals with something called inversion, where an American company will buy a foreign company and then reincorporate. And it's reported in the press today that Medtronic is doing an acquisition in, I think, Europe, and they're going to do an inversion.

MR. STEPHENSON: Right.

MR. RUBENSTEIN: What is your view about the political problems associated with that? And do you think the tax laws should be changed to prevent that from happening?

MR. STEPHENSON: It's not a political problem. It's an incentive problem. That's symptomatic that you've got a really bad tax environment right here. Look, we're CEOs, right? And when I start losing market share to Verizon or Sprint or T-Mobile, I don't think about what do I have to do to my customers to keep them from leaving, right? I think about what do I need to do differently, what's my value equation that allows me to keep the customers here.

Well, the U.S. has a value equation problem. Our tax system is uncompetitive. And these companies leaving are leaving for a fundamental reason: that there are better tax environments and better investment environments in other countries. And if we want to stop that, we've got to ask ourselves, what is the right tax environment that attracts companies rather than detracts companies?

MR. RUBENSTEIN: So AT&T has more of its business in the U.S. than overseas, but do you have a lot of cash that's so-called trapped overseas?

MR. STEPHENSON: No.

MR. RUBENSTEIN: Or not that much?

MR. STEPHENSON: No.

MR. RUBENSTEIN: So let's talk about the third pillar, which was trade, if we could. Right now, you pointed out, we don't have that many trade agreements, relatively speaking, but do you think that it's realistic for a foreign country to want to negotiate a trade agreement with us when they know our Congress is unlikely to approve them?

MR. STEPHENSON: There's the reason that we think you need trade promotion authority for the President – and basically you know this better than I do – but that is basically giving the President the authority to negotiate a deal, and the deal that's negotiated is given an up-down vote in Congress.

MR. RUBENSTEIN: Right.

MR. STEPHENSON: You can't alter it. You can't amend it. It's up or down.

And to that point, it's hard to believe that Mike Froman could go negotiate a European trade deal if he thought it's going to come back and that Congress would just pick it apart. So every President since FDR has been given this authority to go negotiate these deals, and we can't even get this through Congress.

MR. RUBENSTEIN: Right. They used to call it "fast track" –

MR. STEPHENSON: Right.

MR. RUBENSTEIN: – but I guess that was not considered a good term. So they call it "trade promotion authority." But that doesn't –

MR. STEPHENSON: [Chuckles.] Same thing.

MR. RUBENSTEIN: Same thing. OK.

Last of the pillars: immigration. With the defeat of Eric Cantor in the House primary recently in Richmond, it is said that immigration reform is dead for this year in Congress. Do you agree with that?

MR. STEPHENSON: I hope not. I think there is a narrow window here right now. It's probably no more than a 40- or 50-day window. Or if you were to get something, now is the time to get it done. And so we are all about right now trying to push Congress to deal with this. I mean, you can't look at this situation down on the border right now, 11 million undocumented folks here in the United States, and think this isn't a crisis. It's a first-rate crisis that needs to be dealt with. And to just keep punting this and pushing it off, just feels irresponsible to us.

MR. RUBENSTEIN: So if the President was watching today and he said, you have some good ideas, why don't you come down to the Oval Office and let's talk about it, what would you recommend the President do first among the various things you've talked about? What should he do that he could realistically do among the four pillars, something that you would recommend to him?

MR. STEPHENSON: The one thing that there is probably some chance of getting done would be immigration, and I would suggest championing immigration. And there is going to have to be some give-and-take on both sides of this, obviously. You know, it's not direct line of sight to citizenship, but there is some kind of path to legalization. They're going to have to compromise on that issue and get border security done. But I would say that is first and foremost. That ought to be the focus for the next 60 days.

The issue that I believe moves the needle and allows us to achieve this 4% growth, the issue is business tax reform, getting these tax rates at competitive levels with other countries. There is nothing that will move the needle more. I just tell you from my standpoint, AT&T for the fifth year in the row this year will invest more in the United States than any other company. And line of sight to tax reform, even we would take our investment up if we had line of sight to tax reform. There is more to be done, and there is more capital that we would invest in the right investment climate.

MR. RUBENSTEIN: The problem in tax reform seems to be that – let's say one party would like to see more revenue come in; another party would like to see no enhanced revenue. Where do you come out? If there is tax reform, do you think there should be more federal revenues coming in, or should we keep the revenue where it is but just change the way we collect it?

MR. STEPHENSON: Look, I fundamentally believe that tax reform done right, all right, can be done pretty close to a revenue-neutral basis. If you did that, that is a positive revenue equation for the government over the next 10 years. Just there is more economic growth, there is more prosperity, there is more individual taxation, more business taxation. I think that is the big windfall, and that's why I don't think you can continue to sustain these entitlement programs and health care programs without growth.

MR. RUBENSTEIN: So when you go to see Members of Congress and you're one of the biggest employers in the United States, do they basically listen to what you say? And you have a lot of employees in every district, I assume. So do you find Members of Congress understand these issues, or they're sympathetic, or they're just not that interested in what you have to say?

MR. STEPHENSON: I'll say it again: If I were to have this conversation you and I are having in the office of Chuck Schumer and independently Paul Ryan, we would all be nodding our heads in agreement on these conceptual issues.

MR. RUBENSTEIN: So what's the greatest pleasure about being CEO of AT&T? I assume you get your calls returned quickly and so forth – [laughter] – and – what is the greatest pleasure that you find, and what is the greatest downside other than having to do interviews like this? What would you say is the greatest downside to being CEO?

MR. STEPHENSON: Greatest benefit is I have a great seat at AT&T stadium. [Laughter.] Now, I'm pushing Jerry Jones to get a team worthy of the name. But he's very close. He's very close.

No, seriously, the advantage of being CEO of AT&T, I can't fathom another industry that I would work in after this. I get to deal in a lot of industries. And a lot of you CEOs out there, you're my friends and I love you, but I would find most of your industries very boring. [Laughter.]

This is an industry where, as I said, if you're not investing, you're going to die. The obsolescence cycles in this industry are stunning. I mean, 3G technology that the iPhone was launched on, it's obsolete now. I mean, that was 6, 7 years ago. That was a multibillion-dollar investment. And that technology is obsoleting and going away. You know, you have to work with labor unions, you get to work – you know, believe it or not, the public policy stuff is intellectually energizing and so forth. And so it's just a great industry. It touches every facet of the society and the economy. That's the good part.

The downside of being CEO of AT&T is so much of our success, a disproportionate amount of our success today, is dependent upon what happens in this town. And I just think – you know, when we're here and we're doing this type of work, we're not creating new products, we're not investing in new services, we're not taking care of customers, you know. And we're not contributing to the GDP of the country, all right?

MR. RUBENSTEIN: So I take it from your comments that the highest calling of mankind is not one that you would pursue, private equity. You would not – [laughter] – if you ever leave AT&T, you wouldn't go into that highest calling. Is that right?

MR. STEPHENSON: The next couple years. I'm happy where I am, yeah.

MR. RUBENSTEIN: OK. Right. OK. So what do you do for relaxation? Are you a golfer? Do you ride bikes? What do you do that – you know, when you want to let off some steam?

MR. STEPHENSON: I play a really bad game of golf. I love the sport. I really do. I have a passion for the sport. I sit on the PGA Tour board just because I like being around the sport. I like the players. I got a lot of friends in there. So I play some golf. But I can't play enough to get any good at it, so it frustrates me, but I love the game.

MR. RUBENSTEIN: Well, a CEO who has a very low handicap is not a good thing for the shareholders probably, so – [laughter] –

MR. STEPHENSON: I agree. Yeah.

MR. RUBENSTEIN: So one final question. I – you know, last Q – I'm – did you ever envision, when you were growing up, to be serious, that you would come to the position where you're really the head of the corporate establishment more or less, the head of the Business Roundtable, the head of AT&T? You came from modest circumstances, I assume. What do you think propelled you to this? Was it just hard work, intellect, drive? How do you think you managed to come from where you did to where you are today?

MR. STEPHENSON: Someday I'll probably pause and reflect on that. Nobody is more surprised about the position I'm privileged to hold at AT&T than I am. Well, that's not true. My mom probably is more surprised than – [laughter] –

So I honestly do not know, David. It's like I said, someday I'll reflect on it. But I've been very, very fortunate. I've been given great positions. I've got to see every piece of this company, of AT&T, at one time or another. If I could give any counsel or guidance to young people it is, don't worry about your next job, just make sure the next job is you see another piece of the business and learn the business from the ground up. So it's a great privilege.

MR. RUBENSTEIN: Thank you very much for being our guest. The Club has a gift for you: a framed copy of the first map of the District of Columbia.

MR. STEPHENSON: Well, thank you. [Applause.]

Randall L. Stephenson
Chairman and Chief Executive Officer
AT&T Inc.

Randall Stephenson became chairman and chief executive officer of AT&T Inc. in 2007, and in the years following he has transformed the company into a global leader in mobile Internet services and IP-based business communications solutions.

Under Mr. Stephenson's leadership, AT&T has dramatically expanded its nationwide U.S. wireless business and enhanced its advanced enterprise capabilities, serving millions of business customers including multinational companies on six continents. The company also has expanded its fast-growing AT&T U-verse platform for integrated TV, data and voice services to reach some 30 million living units. AT&T is today the world's largest telecommunications company with more than $127 billion in 2012 revenues and 29 consecutive years of dividend growth. Over the past 5 years, AT&T has invested more capital into the U.S. economy than any other public company.

Mr. Stephenson began his career with Southwestern Bell Telephone in 1982 in Oklahoma. From 2001 to 2004, he was the company's senior executive vice president and chief financial officer, and from 2004 to 2007, he served as the company's chief operating officer. He was appointed to AT&T's board of directors in 2005.

Under Mr. Stephenson's leadership, AT&T has undertaken the largest education initiative in the company's history – AT&T Aspire, a philanthropic program to help improve college/career readiness for students at risk of dropping out of high school. Launched in 2008, Aspire I invested more than $100 million to support educational initiatives, and in 2012 AT&T announced Aspire II, a new and expanded financial commitment of $250 million planned over the next 5 years.

Mr. Stephenson also has led AT&T's breakthrough "It Can Wait" campaign – an education and awareness program encouraging people to never text while driving. He is a member of the board of directors of Emerson Electric Co., a member of the PGA TOUR Policy Board and a National Executive Board member of the Boy Scouts of America. Effective January 1, 2014, he will be chairman of the Business Roundtable. He received his B.S. in accounting from the University of Central Oklahoma, and his Master of Accountancy from the University of Oklahoma.