Is Cable the Answer?

by Ronald D. Brunner and Kan Chen

"There are grounds for the pessimistic expectation that the newer medium is in transition toward a structure dominated by one or possibly two networks. . . ."

Television is a communications medium that affects the loyalties, beliefs, and preferences of virtually everyone. The American cultural tradition leaves little doubt about basic preferences regarding a medium of communication in which the potential for service and for abuse is so great. Freedom of expression and freedom of the press are affirmed as valid goals.

When the Bill of Rights was adopted, restraint of government through compliance with the First Amendment was sufficient to guarantee a free flow of ideas. Among other things, entry into the publishing business was a relatively feasible option for dissidents who felt they were not being heard, and face-to-face communications played a much more important role in transaction of the public business. The revolution in communications has changed matters. Protection against government abridgment of basic rights no longer guarantees a chance to be heard when economic and technical changes have placed direct access beyond the means of all but a relative few. At the same time, public reliance on personal observation and communications has given way to a relative dependence on mass media in an era where the public business takes place on a continental and global scale. The task is to adapt the goal to current circumstances—and to continue to adapt it as the communications revolution continues.

The flow of ideas depends upon the actions of each participant, and the action of each participant depend upon how the net advantage is perceived. This perception selectively takes into account the resources of various kinds at his/her disposal, the obstacles and opportunities afforded by the structure of the

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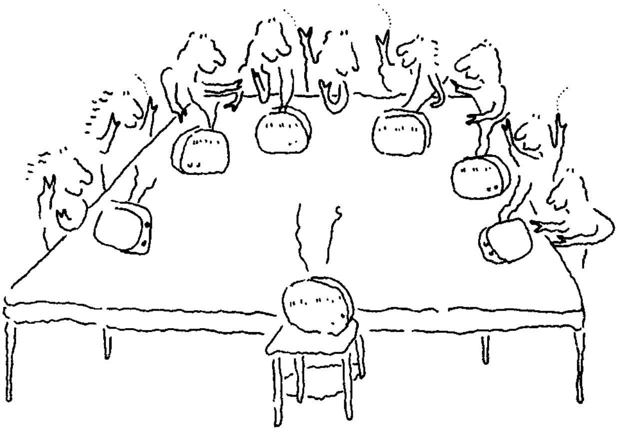

Patti Stren for Pennsylvania Public Television Network

system, and the expected actions and reactions of others. A change in any factor in the system may change the perceived interests of a participant and therefore his/her behavior. The result may be to exacerbate or ameliorate one or more of the multiple barriers to diversity. For research and policy purposes, judgments about the priority of any particular barrier to diversity depend upon an understanding of the structure and functioning of the system as a whole.

Criticisms of commercial broadcast television can be reviewed to illustrate the application of this contextual conception of diversity. The basic allegation is that free speech is subordinated to profitable speech by networks, acting as agents of advertisers, and by broadcasters in general. The trade-off between free speech and profitable speech is rooted in economic considerations. Program revenues are directly proportional to the size of the audience a program can attract. At a given level of program quality (in a technical sense), program costs are insensitive to audience size. Program content is therefore adapted to attracting the largest possible audience (or at least the largest affluent audience, for which an advertiser might pay more per viewer). However valuable or important an idea might be to a small audience, it tends to be deleted in favor of an idea that might attract a large audience.

The advertisers' interests in program creation and production largely coincide with the networks'. The interests of the affiliated local stations also largely coincide with the networks', but in a different way. The affiliated stations can and sometimes do refuse to "clear" a network program, but typically they do not. Network programs relieve the station of the effort and expense of producing its own programs, and make it sufficiently profitable. Moreover, effective mass appeal programs normally are too expensive for local stations to undertake on their own.

The promise of cable as a supplement or alternative to broadcast television is largely technological.

By propagating electromagnetic waves through a coaxial cable, it is feasible to transmit 40 to 100 programs simultaneously from the headend of a cable system into individual homes. It is also feasible to transmit a signal from individual homes "upstream" to the headend of a system. With the use of encoders (scramblers) and decoders, regular cable service consisting primarily of improved reception of marginal broadcast signals can be supplemented by pay-cable service. In the latter, a subscriber pays a per-program or per-channel fee for cable-originated programs, in addition to the monthly fee for regular service. With the use of sophisticated devices, the home television set can become the display unit of a home information processing system linked by cable to a central computer.

Until several years ago it was sometimes assumed that the technically possible in cable was virtually inevitable. Society needed a supplement or alternative to broadcast television, as well as new communication services; hence the technical possibilities would be realized. A two-way capability would be installed, permitting the audience to talk back and permitting the audience to assert more control by paying only for individual programs (as opposed to the per-channel package selected by someone else). In addition, the monthly subscriber fee for regular cable service, and particularly the additional fee for pay-cable service, would provide an alternative financial foundation for the medium. Advertiser influence would be reduced in the cable-originations covered by the regular subscription fee and eliminated by FCC regulation in pay-cable orginations. Since revenues per viewer would be much higher in pay-cable than in broadcast television, programs of high technical quality could be produced for smaller audiences.

These optimistic expectations for cable TV have been undermined in recent years.

As of September, 1976, only 23 percent of the nation's 3,715 cable systems had more than 12 channels.[1] Two-way channels were extremely rare. Thirty-five percent of the cable systems did not originate programs at all, but simply relayed broadcast television signals. Another 37 percent provided only automatic originations such as time and weather or a stock market ticker. The remainder provided some non-automatic originations such as live local programs, syndicated television re-runs or rejects, or tapes prepared for a public access channel. These originations continue to be marginal in many respects, including audience attractiveness and large amounts of unprogrammed time. The major exception is pay-cable, which charges extra for special programs viewed by cable television subscribers who already paid monthly for the ordinary cable service.

Home Box Office, a Manhattan-based subsidiary of Time, Inc., became the first operating pay-cable network in November, 1972.[2] It offered a monthly package of programs, primarily recent movies and sports events, to cable system operators who were willing to invest in a decoder to be installed in subscribers' homes. The cable operator sold the service to his subscribers for a per-channel monthly fee, which he split with Home Box Office. Since the beginning of operations, Home Box Office has expanded from regional microwave distribution to nationwide satellite distribution; and it has contracted with large MSO's to provide pay-cable service. The largest of these is Teleprompter, with over 1.1

[1] These percentages have been calculated from statistics in (4, pp. 73-a and 75-a).

[2] Reviews of recent developments can be found in (2) and (3).

million subscribers as potential customers for pay-cable service. By July 1977, Home Box Office (HBO) had signed 350 cable affiliates, which reach a total of 700,000 subscribers spread out among 45 states (*Broadcasting*, July 18, 1977, p. 40); and, according to the president of Time Inc., HBO should have reached one million pay-cable subscribers by year-end 1977 (*Broadcasting*, January 2, 1978, p. 59). Optical Systems, based in Los Angeles, is the nearest competitor, a distant second in terms of subscribers.

An important factor in the growth of pay-cable, and particularly Home Box Office, is that both the network and the cable system operator have an incentive to add subscribers, since revenues rise faster than costs.

Moreover, the cost to deliver per-channel service to a home is considerably less than the cost to deliver per-program service, and satellites have reduced the cost of nationwide distribution to the point that it becomes economically feasible. Home Box Office began operations with per-channel service and was the first pay-cable network to begin satellite distribution, backed by the financial muscle of Time, Inc. It also took care to nurture a competitive advantage in "software." On the one hand, it gained the expertise and good will necessary to ensure a supply of popular programs, particularly movies. This may turn out to be particularly important, since "the biggest obstacle in pay television's way is a shortage of movies" (1). Time has invested $4 million in the making of 20 feature films by Columbia Pictures, a move that has been linked with the need to insure a supply (1). On the other hand, Home Box Office has considerable marketing experience and has access to cable systems serving lucrative markets. Optical Systems has recently complained to the FCC that cable operators are stifling competition by denying access (*Broadcasting*, January 31, 1977, pp. 57-58). Even the motion picture industry, represented by the Motion Picture Association of America, expressed concern over HBO's growing monopoly, pointing out that HBO now has 80 percent of the pay-cable programming market (*Broadcasting*, December 5, 1977, p. 51). The oligopolistic trend in cable television has been further strengthened by the recent announcement of Time Inc. to merge American Television & Communication Corporation (ATC), one of the nation's largest multiple system operators in cable television, into a Time subsidiary (*Broadcasting*, January 2, 1978, p. 59).

In short, there are grounds for the pessimistic expectation that the newer medium is in transition toward a structure dominated by one or possibly two networks. Under these circumstances, free speech might once again be subordinated to profitable speech, and for many of the same reasons.

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