Behind the Cable TV Rip-Off

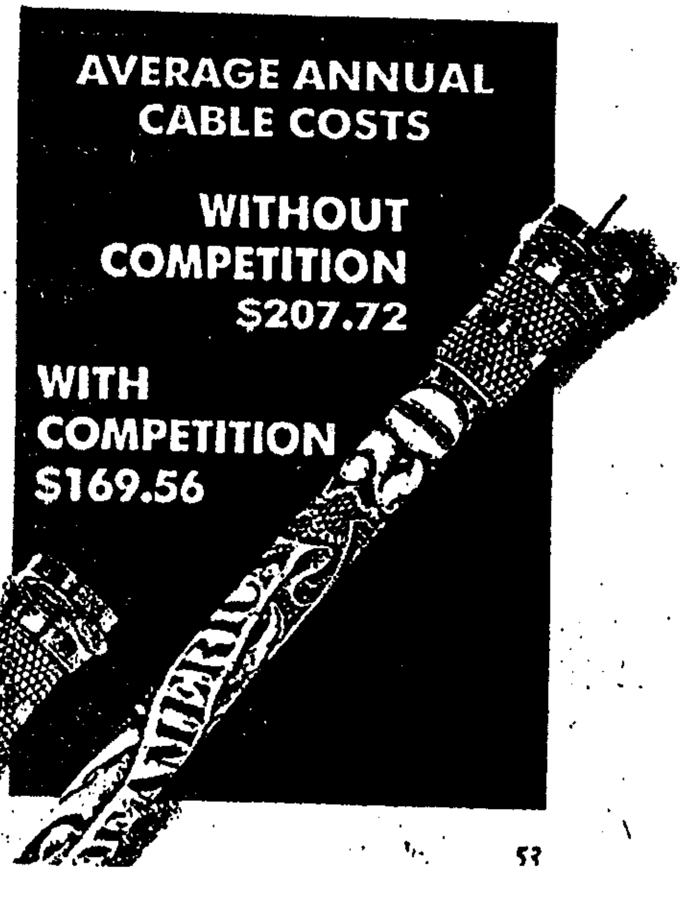
It's time to pull the plug on price-gouging monopolies and get a little healthy competition into the picture

By Daniel R. Levine

Melissa Gazaway has had it with her cable-television company, and there's nothing she can do about it. When the Orlando, Fla., woman moved less than two miles to a new neighborhood, she was shocked to find her monthly cable bill had gone up almost 50 percent. For 36 basic cable channels and one movie channel, she pays $35.86 a month. She had been paying $24.32 for the same channels with the same company. Why the difference? Her new neighborhood is served by just one company. Her prior home was in an area where it competed for customers with another company.

Like millions of Americans, Melissa is a captive of monopoly cable. "Because there's no competition here, they can get away with charging whatever they want," she says. "It's ridiculous and unfair. Everyone should be able to get the same low rates."

When San and Jerry Birch lived in an Orlando-area subdivision where there was no competition, their monthly bill was $28.44 for 35 channels. Two years after they moved to an area where three companies compete, their



monthly bill had dropped by more than $10. "I thought it was a mistake," says San.

Unfortunately, most Americans can relate more easily to Melissa Gazaway than to the Birches. The nation has 11,191 cable systems, but they compete head-on in only about 65 communities. Where competition does exist, bills are 22- to 30-percent lower, channel choices are greater, and service is far more responsive.

Cable is big business, with more than 51 million subscribers and annual revenues of $20 billion—almost two times that of ABC, CBS and NBC combined. Why then is there so little competition for cable dollars?

"Local governments—with the encouragement of cable operators—have thrown up nearly insurmountable barriers to the entry of more than one firm into each market," says John Merline, Washington correspondent for *Investor's Business Daily* who has written extensively on the cable industry.

Not only are the vast majority of America's cable customers at the mercy of government-imposed monopolies, but the awarding of franchises is open to political favoritism and corruption. Just ask Carl and Clinton Galloway, black entrepreneurs who in 1979 sought to bring cable TV to crime-ridden south-central Los Angeles.

Carl, a physician, and Clinton, an accountant, wanted their Universal Cable Company to include shows on health care and child-raising. "I see my race dying in south-central L.A., and it scares me," says Clinton. "We have the opportunity to dramatically change the way people are educated about these issues."

When the Galloways asked the Los Angeles city council for a license, they were told to direct their application to Channing Johnson, an aide to Councilman Robert Farrell. In early 1980, while still awaiting a response, they learned that Johnson had formed his own cable company, Community Telecommunications, Inc. (CTI).

The Galloways demanded an explanation. Several months later, in discussions with Mayor Tom Bradley's office, pressure was put on the Galloways to combine with Johnson's group, which had the mayor's support. It was intimated this was the only way they could share in the cable largess. But the Galloways refused to enter into a sweetheart deal.

Finally, in 1983, Los Angeles awarded the franchise to a company 80-percent owned by the Kaufman & Broad Home Corp., whose chairman, Eli Broad, was a major Bradley fund-raiser. The remaining 20 percent of shares were given to Johnson's CTI, which included two people who were "politically well-connected."

The Galloways sued through their newly formed company, Preferred Communications, Inc., and in January 1990 U.S. District Judge Consuelo Marshall ruled that the city's franchising process was un-

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constitutional. But Los Angeles has still not approved the Galloways' application, which again must go through the entire convoluted and costly licensing procedure.

Those opposed to competition argue that cable TV is a "natural monopoly"—that high construction costs make competition unviable. Politicians defend this argument to protect the largess that flows from licensing—campaign contributions for themselves and "franchise fees" (usually five percent of a cable company's annual revenues) for their local treasuries.

The situation is radically different, however, in areas served by more than one company. Here are two prime examples of competition at work:

Allentown, Pa. Service Electric Cable and rival Twin County Cable have co-existed since 1963 in this Lehigh Valley city where municipal regulation is minimal and competition is encouraged. As a result, Allentown's 40,000 cable subscribers receive excellent service and pay reasonable rates. Twin County offers 56 channels for $18.50 a month, while Service Electric charges $19 for 60 channels.

At Service Electric, any call to a service representative is answered within three rings. "We can't keep the customer waiting or he may switch companies," explains general manager John J. Capparell.

Competition is equally fierce at Twin County, where the office is staffed and service technicians are on the road until 11 p.m. "Competition keeps rates down and cable companies on their toes," says Twin County vice president Bill Stone, a 43-year veteran of the business.

Montgomery, Ala. Between December 1986 and January 1989, Montgomery's longtime monopoly operator, Storer Cable Communications, raised rates three times. Then William P. Blount, president of a prominent investment banking firm, formed Montgomery Cable-Vision and Entertainment, Inc., which began competing against Storer in August 1990.

Montgomery offered 60 channels for $16.95 plus free installation and remote control. In less than two weeks, Storer announced it was upgrading to 61 channels and lowering its basic price to $16.95. It even created an economy package of 12 channels for $11.95.

In 1984 Congress passed a law prohibiting cities from regulating cable rates. The results were predictable. The average price for basic cable soared 61 percent after the law went into effect in 1986.

Today, with Americans increasingly angry over monopoly cable service, legislation is moving through Congress that would allow local governments to limit increases in cable rates. But rate regulation cannot eradicate the corrupt franchising process, increase efficiency or make cable companies responsive to their customers.

"Regulation of the cable industry

is a chimera," says economist Thomas W. Hazlett of the University of California at Davis. "There can be no effective regulation of the cable industry beyond active rivalry with other cable companies."

Some lessons for the rest of the nation can be learned from steps taken by Montgomery, Ala. There the city council enacted two ordinances to encourage competition. The first measure, which Storer is challenging in the courts, prohibits discriminatory price-cutting. If Storer Cable wishes to cut rates, it must do so throughout the area, not just where rival Montgomery Cable has service or is about to install it.

In 4½ years, the basic price for cable service soared 61 percent

The second ordinance, also being challenged by Storer, calls for equal access to programming for all cable operators in a given market. If the statute is upheld, programmers will be unable, for instance, to deny Montgomery Cable the right to bid for features such as ESPN's "Sunday Night NFL" or TNT, the Ted Turner channel, which features movies and sporting events.

The FCC has also signaled that increased competition is needed in the marketplace by proposing that telephone companies be permitted to go head-to-head with existing cable companies. Last October, the FCC proposed the adoption of video dial tone, which would enable consumers to receive programming through their telephone companies. It would combine traditional telephone service with video programming and other information services all in a single fiber-optic telephone wire. If the video-dial-tone proposal is adopted, telephone customers could have access to the same programs offered by cable operators and broadcast stations.

Ultimately, however, unrestrained competition is the answer to our cable-TV woes. Waldport, Ore. (pop. 1595), where residents are the beneficiaries of a David versus Goliath rivalry, could serve as a model for cable TV nationwide. Waldport has one traffic light—and two cable companies. Customers can choose between Tele-Communications, Inc. (TCI), the world's largest operator, and Alsea River Cable TV, perhaps the world's smallest.

Alsea River has three employees working out of a three-room house on Waldport's main street. President Dale Haslett takes care of the electrical work and maintenance. Leta, his wife, handles billing and other paper work. Their son Alan hooks up new subscribers and handles trouble calls.

In 1964, Dale was asked to take over a makeshift cable system serving just seven people nearby. He restored third- and fourth-hand equipment to improve the system, and soon word spread of the clear pictures being received from Portland, Corvallis and Salem.

Waldport residents begged Haslett to provide them with a choice. In 1975, after learning that the phone company planned a new underground line to the edge of town, Haslett persuaded the contractor to let him lay his own TV cable alongside the telephone cable.

Liberty Communications Co. was serving the area at the time, and when a clamor arose to grant Haslett a franchise, the city council, under Liberty's influence, voted him down 5–1. Infuriated, Waldport residents petitioned to place the issue on the ballot in a special election. The vote was 266–26 in favor of granting Alsea River Cable a franchise. During more than ten years of competition, Waldport cable customers have been receiving fast, responsive service and a wide range of channels from both systems, while paying some of the lowest rates in the country.

Haslett says that soon after cable giant TCI took over Liberty in 1983, he was told by TCI to either sell out or be put out of business later. TCI denies this. Haslett ignored the proposal, and in 1990 he turned down a $1.35-million offer from TCI. His satisfied customers are glad he did.

Cable subscribers tired of rising prices and indifferent service should write their representatives in Washington. The answer is not to regulate cable prices—it is to remove all barriers that prevent cable competition.

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On the House

AT A NEIGHBORHOOD COCKTAIL PARTY, a new Coronado, Calif., resident who'd just paid $300,000 for a tiny house on a little lot on an alley was seeking reassurance. "Do you think I paid too much?" she asked her host.

"Nah, you can't lose in Coronado," the neighbor replied.

"But $300,000, and it's so small," she persisted.

"If you don't trust me, ask this guy," the neighbor said. "He's one of our top brokers."

"I just bought a house near here, and I'm worried," she blurted out to the real-estate salesman.

"You can't lose in Coronado," he interrupted. "Look, some idiot just paid $300,000 for a tiny house on a little lot fronting on an alley."

—Tom Blair in San Diego *Union*