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À la carte cable TV: Pro

By Lawrence Spiwak

In a free market, consumers should not have to pay for something they don't want. Unfortunately, as one could hardly with a straight face characterize the cable industry as "competitive," consumers are increasingly forced to pay for programming that they don't want - particularly programming that they might find offensive or inappropriate.

One solution to this problem floating around Washington is that Congress should impose traditional "broadcast" indecency standards on cable operators. However, this notion should be strongly resisted in a democratic society, as we are not talking about the public airwaves but a voluntary subscription service. Indeed, it is wholly improper for government to monitor and censor programming for which people have voluntarily paid good money because once government crosses this boundary, efforts to censor other subscription services - including a free press - cannot be far behind.

Rather than imposing the heavy hand of government censorship on the industry, as many would prefer, Federal Communications Commission Chairman Kevin Martin has been advocating a market-based solution to this problem by calling for the cable industry to offer a "family tier" of programming.

While one would think that the cable industry would embrace this voluntary option rather than face potential onerous indecency regulation, they have not. Instead, being the monopolists that they are, the cable operators have dug in their heels against a family tier and à la carte programming by claiming that Mr. Martin's proposals are not economically viable or in consumers' interests. However, the cable industry is picking the wrong fight if it expects to win on the merits.

First, it must be understood that Chairman Martin is not advocating that cable operators build out their networks to a consumer who only wants to take a single channel. He has simply posited that if the cable industry were to respond to market demands by offering such packages as a basic "must carry" broadcast package or a package where consumers would be allowed to choose a specific number of channels from available programming for a fixed price (e.g., 10 channels for $20 per month, 20 channels for $30, etc.), then this would not automatically lead to financial ruin.

Second, Mr. Martin - unlike his predecessor Michael Powell - is taking on this fight with sound and honest analysis. Indeed, as Chairman Martin bluntly proved to the Senate Commerce Committee, the November 2004 report on this subject that Powell submitted to Congress "relied on problematic assumptions and presented incorrect and incomplete analysis."

Chairman Martin pointed out that Powell's flawed report, among other things:

•Improperly relied on a study that assumes that a move to à la carte pricing will cause consumers to watch nearly 25 percent less television.

•Improperly relied on a study that grossly understated the number of cable channels consumers could purchase under à la carte pricing without their bills increasing.

In a direct but reluctant response, the cable companies recently began offering what the Wall Street Journal reports as "thin" family-tier, à la carte packages. Will these new offerings be sufficient to quell the current political uproar? Who knows, and more importantly, who cares?

This whole cable à la carte battle is really a bellwether of why we need more head-to-head competition among existing cable operators. (Sorry to say, but there is no empirical evidence to show that satellite television services have any meaningful effect on cable companies' prices). Indeed, the real solution is for Congress and state legislatures to enact policies that lead to real head-to-head cable overbuilding, the industry term for when cable competitors overlay a given area and fight for the same customers. This means passing legislation that both reforms the outdated local cable franchise system and shores up existing legislation that prevents cable companies from tying up key programming, such as regional sports networks, via anti-competitive exclusive distribution contracts.

As the current franchise reform experiment in Texas bears out, soon after phone company Verizon rolled out its video service, the incumbent cable provider lowered its rates nearly $20. After all, it doesn't take a Ph.D. in economics to recognize that pro-entry policies will allow consumers finally to have the program choices, competitive prices and new innovations they deserve.