

Good Riddance to Cable TV Regulations

by [Thomas W. Hazlett](#)

APRIL 1, 1999 - A furor is rising over the impending consumer doomsday scenario: cable TV rate deregulation. Starting today, pursuant to the 1996 Telecommunications Act, the great majority of U.S. cable subscribers will face unregulated pricing for the first time in seven years.

The predictions are dire -- and bipartisan. Rep. Ed Markey (D., Mass.) has introduced legislation to postpone deregulation, and his aide warns that "market failures need continued consumer price protections." Says Sen. John McCain (R., Ariz.): "We may now be facing the worst of all worlds, which is an unregulated monopoly."

In truth, we know just what will happen due to rate deregulation, and consumers have nothing to fear. Mr. McCain's statement -- that unregulated monopoly is the worst of all worlds -- has been conclusively disproved by the very cable-rate controls now set to lapse. Government caps on cable rates may reduce prices but only by retarding service quality.

How do we know this? The federal government has generously given economists a series of policy shifts -- each a sort of laboratory experiment in the effects of rate controls. Key among them are the 1984 Cable Act's federal pre-emption of local rate controls (which went into effect in January 1987), the 1992 Cable Act's reregulation (starting in April 1993), and the Federal Communications Commission's tacit deregulation (beginning in January 1995). Each time, rate controls proved counterproductive for consumers.

Take the FCC's efforts to regulate cable monopolies in 1993-94. The FCC took Congress's reregulation mandate seriously, ordering additional rate rollbacks of 7% in July 1994 when the 10% cuts of September 1993 proved insufficient. FCC Chairman Reed Hundt confidently predicted that rate regulation "should lead to more sales, which should lead to more growth." Indeed, cable subscribers' bills were about 10% less in the fall of 1994 than they would have been in the absence of controls. Unfortunately, the nominal price reductions were offset when cable operators reacted by furious countermeasures -- changing channel lineups, shifting marketing effort to unregulated premium services (about one-third of revenues), canceling system upgrades.

The controls flunked the market test: consumer acceptance. Lower quality-adjusted prices would have attracted more customers just as the FCC predicted. In fact, the number of new cable subscribers plummeted in 1993-94, and basic networks such as A&E and CNN saw years of ratings growth come to a halt. The 5% subscriber growth rate averaged by the top 13 basic cable networks in the two years prior to the 1992 Cable Act was slashed to 2.5% in the two years following.

The message was so overwhelming that the FCC quietly declared defeat in late 1994. The failure of rate caps had been hammered home, by basic cable networks like A&E, Discovery and C-Span, which adamantly argued that rate controls destroyed quality programming while boosting home-shopping channels (which pay for carriage). The result was that rates, still officially "controlled," were permitted to increase about 5% a year after inflation, almost identical to the "price gouging" under deregulation in 1987-92. But the fig-leaf regulatory plan worked, as subscriber growth bounced back in 1995.

Meanwhile, direct broadcast satellite has signed up more than nine million subscribers in less than five years (cable has 65 million subscribers). The FCC estimates that the typical basic subscriber pays almost 10% more for DBS over cable, prompting the question: How is it that the monopolist charges less than the competitor? The answer is that DBS offers a better product; 200-channel menus, digital signals, programmability.

As the cable TV industry metamorphoses into the broadband modem business, and opportunities for new rivals intensify, regulation becomes ever more dubious. Yet policy makers seem paralyzed, despite the range of proactive competition policies begging for leadership:

- Make it easier for companies to establish cable TV franchises under the federal Open Video System program, which allows would-be competitors to bypass local regulators.
- Providing more spectrum for DBS. A simple plan to increase bandwidth fourfold has been languishing in the FCC's "in" basket since 1997;
- Eliminate "must-carry" regulations, which deprive DBS of broadcast channels.
- Add flexibility to spectrum-based licensees, eliminating episodes like the "wireless cable" industry's recent near-death experience waiting for permission to provide Internet access.
- End the FCC's high-definition television mandate and allow broadcasters to provide unlimited digital TV signals, thus permitting U.S. households to enjoy 50 or more over-the-air TV channels.

So many exciting delivery systems are blossoming that rate regulation ought enter the picture only through programs on the History Channel. Regulators have consistently failed to improve consumer satisfaction even in a monopoly cable market. Regulation is not a substitute for competition. It's just a game they play in Washington.

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