

Storage

[COMMITTEE PRINT]

81st CONGRESS }
2d Session }

SENATE

THE NETWORK MONOPOLY

REPORT

PREPARED FOR USE OF THE

COMMITTEE ON
INTERSTATE AND FOREIGN COMMERCE

BY

SENATOR JOHN W. BRICKER



Printed for the use of the Committee on Interstate
and Foreign Commerce

UNITED STATES
GOVERNMENT PRINTING OFFICE

WASHINGTON : 1956

76337

74
In 8/3
N 38

U.S. Congress
Senate
3

KSU LIBRARIES
A11900 805589 ✓
0061TV



AY
In 8/3
N 38

COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE

WARREN G. MAGNUSON, Washington, *Chairman*

JOHN O. PASTORE, Rhode Island
A. S. MIKE MONRONEY, Oklahoma
GEORGE A. SMATHERS, Florida
PRICE DANIEL, Texas
SAM J. ERVIN, Jr., North Carolina
ALAN BIBLE, Nevada
THOMAS A. WOFFORD, South Carolina

JOHN W. BRICKER, Ohio
ANDREW F. SCHOEPEL, Kansas
JOHN M. BUTLER, Maryland
CHARLES E. POTTER, Michigan
JAMES H. DUFF, Pennsylvania
WILLIAM A. PURTELL, Connecticut
FREDERICK G. PAYNE, Maine

EDWARD JARRETT, *Clerk*

BERTRAM WISSMAN, *Assistant Clerk*

LETTER OF TRANSMITTAL

APRIL 30, 1956.

HON. WARREN G. MAGNUSON,
*Chairman, Committee on Interstate and Foreign Commerce,
United States Senate, Washington, D. C.*

MY DEAR MR. CHAIRMAN: There is transmitted herewith for your use and the information of members of the Senate Committee on Interstate and Foreign Commerce a special report I have prepared on network monopoly in the television industry.

The information contained herein outlining the economic grip on the TV industry held by two major networks and a selected group of large affiliate TV stations is as foreboding as it is graphic.

The economic picture portrayed is based on 1954 figures, the last year for which complete data was available. I have examined incomplete data for 1955. Without a single exception, these indicate that complete figures for 1955 will show an even greater concentration of economic power in the hands of the favored few.

It is my understanding that responsible officials of the two major networks will testify shortly before our committee in connection with the current overall study of the television industry.

I believe the information contained in this report will be of assistance to our committee in any examination of these officials to pinpoint the ills of the industry.

Sincerely yours,

JOHN W. BRICKER.

LETTERS OF TRANSMITTAL

Very respectfully,
John W. Baker

John W. Baker

THE NETWORK MONOPOLY

Two networks—Columbia Broadcasting System and National Broadcasting Co.—have an unprecedented economic stranglehold on the Nation's television industry.

Effective competition is stifled under this yoke of economic dominance. The result is a private monopoly.

This conclusion, though startling, is in no degree speculative. It is based on incontrovertible evidence in the form of heretofore confidential financial data furnished the Congress at the express direction of the Committee on Interstate and Foreign Commerce.

Television probably is the most important and potentially potent medium thus far developed to bring news, entertainment, education, and opinion to the American people.

It is important that station owners and potential station owners have unfettered freedom in presenting programs in their own individual ways of meeting the public interest.

The Constitution and the Communications Act of 1934, as amended, specifically forbid the Government to exercise any power of censorship over broadcast operations. The Government has denied to itself the power of censorship in the interest of promoting the freest and fullest self-expression by broadcast licensees.

It is ironic that these worthwhile objectives have been minimized—even subverted—by lodging in the hands of two networks an inordinate control of television broadcasting.

Congress has the responsibility to act so that private monopoly does not occur where Government monopoly is avoided. It has the continuing responsibility to insure that law and regulations are kept abreast of the growth of the industry; that procedures do not serve private interests first and the needs of the American people last.

It appears appropriate at this point to restate the objectives and intentions of the Congress as expressed in the Communications Act of 1934, as amended.

Almost forgotten in the turbulent growth of the TV industry, these structural objectives for the privilege of using the public airwaves are threefold:

1. To preserve and encourage competition;
2. To provide meaningful service to the entire country; and
3. To have as many local stations as possible, distributed fairly, efficiently, and equitably among the several States and communities.

These sections, plus other interstitial sections of the act, define what is known as the "public interest" and otherwise make crystal clear the intent of the Congress to serve the American people above any private interest or interests.

It cannot be emphasized too strongly that in a scarce communication medium it is the public's interest which must be protected, and which justifies any regulation of the industry at all.

Free competition is not synonymous with freedom from regulation. Indeed, the history of American regulatory measures demonstrates that such laws have sprung from the evils of monopoly and from the necessity to preserve competition as in the public interest.

Sections I and 307 (b) of the act go hand in hand to assure that as many communities as possible shall have local television stations and that the entire country be served with acceptable quality signals.

A meaningful study of the extent to which these three mentioned statutory requirements are being satisfied demands an examination of the structure and practices of today's television industry. Such examination cannot be restricted to individual stations, which now are under the control of the Federal Communications Commission.

Such an examination must also consider the unregulated television networks.

It will be shown two major networks exercise a stranglehold over the entire industry. It will be shown to what extent this stranglehold perverts the public interest by denying economic opportunity to all but a few selected affiliate stations, thus precluding the establishment or continued operation of other stations striving to fulfill the objectives of the act.

The Federal Communications Commission has furnished to the Committee on Interstate and Foreign Commerce detailed financial data for all reporting television networks and stations through 1954, the latest year available.

It is the purpose of this report to set forth an analysis of this financial data and some of the obvious conclusions which can be drawn therefrom.

It will be shown there is an unmistakable and clear-cut pattern in industry finances which operates to defeat each of the three congressional intentions outlined earlier.

If allowed to continue, it is plain this pattern will bring about the financial bankruptcy of many stations now on the air; will act to prevent others from being established; will cut down on the service now being offered and, finally, will further entrench the two major networks, CBS and NBC. The net result promises to be a chain of superpower affiliates located only in the largest cities of the country.

Analysis of this financial data serves also to disclose corollary causes of this situation. Recommendations are made for its alleviation, so that the congressional intent of a nationwide competitive television industry, with the maximum number of local outlets serving the interests of their cities and adjacent areas, may be realized.

At the outset, there is no point in denying the awesome power of CBS and NBC aside from finances.

The two major networks have a first and binding call on the best time of most of the choice TV outlets in the country; they control a very substantial proportion of the program production; they have contracts with much of the country's outstanding talent and they have a major voice in the practical operation of the advertising business that is the lifeblood of the industry.

What is the effect of this enormous influence on revenues and profits?

CBS AND NBC REVENUES

The Nation's 4 television networks (CBS, NBC, ABC, DuMont), together with their 16 wholly owned television stations, had a gross

revenue in 1954 of \$306,676,653. This amount is slightly in excess of one-half the 1954 revenue of the entire TV industry, including 410 operating stations.

The revenue of the CBS network and its 3 wholly owned stations was \$123,203,847, an amount in excess of one-fifth the revenue of the entire TV industry.

The revenue of the NBC network and its 5 wholly owned stations was \$120,385,255, an amount also in excess of one-fifth the revenue of the entire TV industry.

Combined, the CBS and NBC networks and their 8 wholly owned stations thus accounted for \$243,589,002 in revenue in 1954, or 41.08 percent of the revenue for the entire TV industry.

The remaining 2 networks and their 8 wholly owned stations were able to garner only \$63,087,551 in revenue, representing slightly in excess of 10 percent of the revenue for the entire industry.

Of this \$63,087,551 the American Broadcasting Co. (ABC) had revenue of \$44,519,058, or about 7½ percent of the entire TV industry. DuMont and its 3 wholly owned stations accounted for only \$18,568,493 or just over 3 percent of the entire TV industry revenue.

CBS AND NBC NET INCOME

Gross revenue is important only as it relates to net income.

The Federal Communications Commission advised that the 1954 net income, before Federal taxes, for the entire TV industry in 1954 was \$90.3 million. This net income figure allows for losses in some segments of the industry.

The CBS and NBC networks, together with their 8 wholly owned stations, had a net income, before taxes, of \$41,413,902. This is about 46 percent of the net income of the entire industry, including 4 networks and 410 stations.

The CBS network and its 3 wholly owned stations had a net income before taxes of \$25,377,612, or more than 28 percent of the total net income for the entire industry.

The NBC network and its 5 wholly owned stations had a net income before taxes of \$16,036,290, or over 17 percent of the total net income for the entire industry.

The remaining 2 networks, ABC and DuMont, together with their 8 wholly owned stations, reported an operating loss in 1954 of \$4,791,528.

Since 2 networks lost money in 1954, it can be determined that CBS' net income amounted to 61 percent of all network net income before taxes and that NBC accounted for the remaining 39 percent.

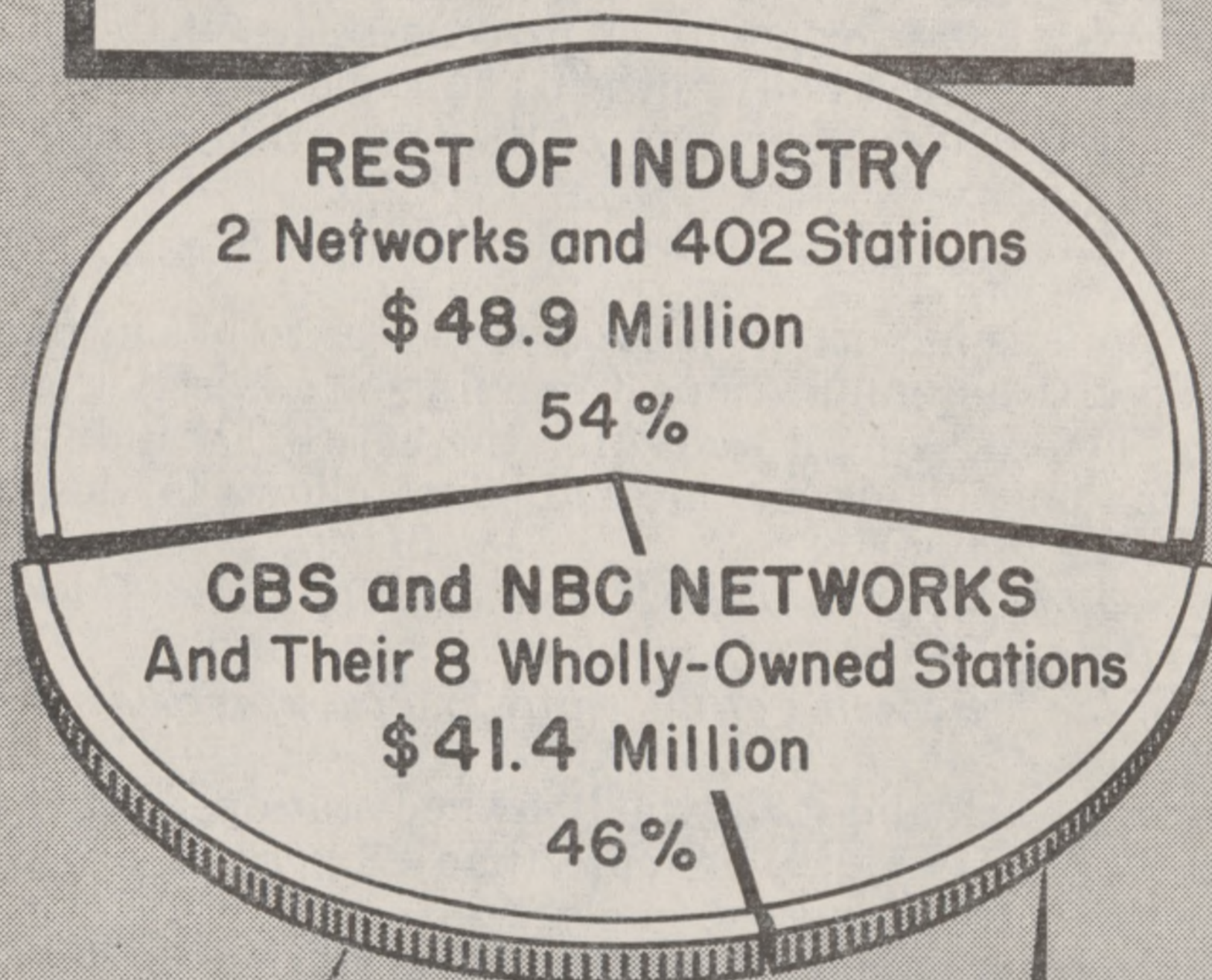
CBS AND NBC PROFITS

No examination of broadcast revenue and net income, before taxes, would be complete for purposes of the Congress without a comparison of the ratio of profit to investment.

The CBS and NBC networks, together with their 8 wholly owned stations, reported a total net investment in property devoted to broadcasting and networking of \$41,711,038 as of December 31, 1953—in the beginning of 1954. As stated, these 2 networks and their wholly owned stations had a total 1954 net income, before taxes, of \$41,413,902.

TV INDUSTRY**Net Income Before Federal Taxes, 1954****TOTAL FOR ENTIRE INDUSTRY**

4 Networks and 410 Stations

\$90.3 Million**CBS NETWORK****\$25,377,612**

28 % of Total

NBC NETWORK**\$16,036,290**

18 % of Total

Thus, it can be seen that CBS and NBC in 1 year's operation recovered 99 percent of such reported total investment.

CBS

The CBS and its 3 wholly owned stations reported a total net investment devoted to TV broadcasting and networking or \$23,358,746 at the start of 1954. *Their reported 1954 net income before taxes of \$25,377,612 represents a return of 108 percent in 1 year.*

On its 3 wholly owned TV stations, exclusive of network operations, CBS reported a total net investment as of December 31, 1953, of \$3,322,023. *These 3 stations reported a 1954 net income of \$12,276,443 or 370 percent of the total reported net investment.*

On its network operation, exclusive of its 3 wholly owned stations, CBS reported a total net investment of \$20,036,723. Net income for 1954, before Federal taxes, was \$13,101,169 or 65 percent of reported total net investment.

In summary, CBS, in 1954, on the operation of its 3 wholly owned stations and its network, earned a 108 percent return on total reported net investment; on its network alone earned 65 percent of net investment and on the operation of its 3 stations earned an astounding 370 percent.

It is difficult to reconcile these official figures with information previously given the committee.

Testifying before the Communications Subcommittee of this committee on June 18, 1954, Mr. Frank Stanton, president of Columbia Broadcasting System, stated:

The television networking business is a complicated and delicate business. Profit margins are relatively small—particularly when one takes into account the enormous investments and operating expenditures involved.

It is easy to upset the balance of television networking and sink it altogether (p. 986, hearings, status of UHF and multiple-ownership stations).

Admittedly, Mr. Stanton did not have 1954 figures available at the time of his testimony. However, the economic pattern for the year must have been well established by the midyear mark in June.

In addition, the financial data since furnished by the FCC reveals that in 1953 the CBS had a net income, before Federal taxes, of \$11,885,153 on the operation of its wholly owned stations and network and a net income, before taxes, of \$4,877,123 from its network operation alone.

NBC

NBC and its 5 wholly owned stations reported a total net investment of \$18,352,292 at the start of 1954. *Their 1954 reported net income, before Federal taxes, was \$16,036,290 or 87 percent of their reported investment.*

On its 5 wholly owned stations, exclusive of its network operation, NBC reported a net investment of \$4,050,920. *These 5 stations for 1954 reported a net income, before Federal taxes of \$12,018,394 or 297 percent of net investment.*

On its network operation alone, exclusive of station operation, NBC reported a total net investment of \$14,301,372. Reported net income for 1954, before taxes, amounted to \$4,017,896 or 28 percent of total net investment reported.

In summary, NBC on the operation of its 5 wholly owned stations and its network, earned 87 percent return on its total reported net investment in TV networking and broadcasting properties; its 5 stations, exclusive

of network operations, showed a 297 percent return on net investment, and its network, exclusive of stations, earned 28 percent of net investment.

ABC-DuMont

Both ABC and DuMont reported a loss on network operations in 1954.

ABC and its 5 wholly owned stations reported a net 1954 income, before Federal taxes, of \$4,318,823 on a reported net investment of \$5,781,282.

DuMont and its 3 wholly owned stations reported a net income of \$2,852,795 on a reported net investment of \$1,556,660, or 181 percent.

However, ABC and DuMont income from stations was insufficient to cover network losses.

The figures cited herein on revenue, income and profits are but one link in the chain of facts which demand regulation of the networks to assure proper equity in the industry.

ACCESS TO NETWORK PROGRAMING

The financial data submitted to your committee demonstrates without question that not merely a network affiliation, but actual access to substantial amounts of network programs, is nearly 100 percent essential to profitable operation of the individual station. The sole exceptions to this are in the largest cities.

Access to network programs and the accompanying national spot advertising represents access to 77 percent of all television revenue, as stated by the FCC in its 1954 report (Public Notice 26134, Dec. 2, 1955).

The situation therein outlined is highlighted by examination of the 1954 FCC financial data with respect to stations actually carrying substantial amounts of network programs.

Zone I

For example, in the FCC's so-called zone I area, which comprises the northeastern section of the country:

The 34 CBS affiliate stations carrying from 41 to 100 percent of CBS's commercial programs earned 34.5 percent of the total net income of all 410 TV stations in the industry.

The 39 NBC affiliate stations carrying 41 to 100 percent of NBC's commercial programs earned 30.8 percent of such net income.

Together, these 73 CBS and NBC affiliate stations earned \$72,377,318 net income in 1954, before Federal taxes, or 65.3 percent of the net income of all 410 stations in the industry. The remaining 35 percent of net income thus was split among 337 TV stations.

1954 INCOME DATA

Zone 1 CBS and NBC affiliates carrying 41 to 100 percent of the CBS and NBC commercial originations

	Income	Percent al stations
All 410 stations in entire industry.....	\$110,728,919	100.0
CBS affiliates 41 to 100 percent.....	38,291,834	34.5
NBC affiliates 41 to 100 percent.....	34,085,484	30.8
Total NBC+CBS affiliates.....	72,377,318	65.3

These percentage figures are based on national profit statistics which do not take into account losses. The percentage of these 73 NBC and CBS affiliate stations goes up to 80.1 percent of the net income for the entire industry if losses are taken into account and the FCC's figure of \$90.3 million net income in 1954 is used.

First 20 markets

The total 1954 net income, before Federal taxes, of the 38 CBS and NBC affiliate stations located in the first rated 20 markets of the Nation was \$62,432,555, of which CBS' 19 affiliates earned \$33,506,328 and NBC's 19 affiliates earned \$28,926,227.

This combined \$62,432,555 in net income of the 38 CBS and NBC affiliates represented 87.29 percent of the total net income of all 73 TV stations located in the first 20 markets, excluding the losses of unprofitable stations. It was 56.38 percent of the entire income, before taxes, for all of the 410 stations in the American TV industry.

The share earned by the 19 CBS affiliates represented 46.85 percent of net income in the first 20 markets and 30.25 percent for all the stations in the country.

The share earned by the 19 NBC affiliates represented 40.44 percent of net income in the first 20 markets and 26.12 percent for all stations in the country.

All of the above percentages are computed on the basis of total income of profitable stations and do not consider losses of unprofitable stations. If such losses are taken into consideration, then the percentage figures cited will go up.

The comparison in the financial strength of the CBS and NBC affiliate stations in the first 20 markets also becomes more pronounced by using the FCC's figure of \$90.3 million 1954 net income, before taxes, and including losses.

The share of the 38 CBS and NBC affiliate stations is equal to 69.1 percent of total net income for the 410 stations of the country, as opposed to 56.38 percent when losses are excluded.

When net income from the CBS and NBC network operation is added to the \$62,432,555 received by these 38 affiliate stations, the combined income skyrockets to \$80,649,643, or 63.1 percent of the total TV industry net income, before taxes, not counting losses, and 89.3 percent if losses are included.

1954 revenue and income (before taxes) for the 38 CBS and NBC affiliates in the 1st 20 markets of the country

	Total broadcast revenues	Per- cent	Total broadcast income (be- fore Federal taxes)	Per- cent
All 73 stations in 1st 20 markets.....	\$208,563,129	100	\$71,522,017	100
19 NBC affiliates.....	71,855,791	34.5	28,926,227	40.4
19 CBS affiliates.....	72,459,589	34.7	33,506,328	46.9
Total, 38 CBS and NBC affiliates.....	144,315,380	69.2	62,432,555	87.3

CBS AND NBC ZONE I AFFILIATES PLUS NETWORKS

As mentioned previously, the 73 CBS and NBC affiliate stations in the FCC's zone I, carrying 41 to 100 percent of the two networks' commercial originations, had a net income before taxes in 1954 of \$72,377,318, or 65.3 percent of such income for all 410 TV stations in the country.

If income from the operation of the CBS and NBC network operations is added to this \$72,377,318 the income figure rises to \$90,594,406. This represents 71.3 percent of the total income of \$127,847,984 for the entire TV industry, exclusive of any consideration for loss operations.

If allowance is made for losses of unprofitable stations in the 410 TV stations of the Nation, it can be seen that the \$90,594,406 combined net income of the CBS and NBC networks and their 73 zone I affiliate stations exceeds the \$90.3 million total net income for the entire TV industry, as reported by the FCC.

This boils down to one fact: Exclusive of the operations of these 73 major CBS and NBC affiliates and the 2 major networks, losses more than offset profits in operation of the remaining 337 stations in the country, plus the ABC and DuMont networks.

That this is economic monopoly cannot be denied.

The significance of the fact that—exclusive of 73 favored stations and 2 major networks—television is a losing proposition on the average becomes even more pronounced when it is considered that large moneymaking metropolitan areas such as Los Angeles, San Francisco, Kansas City, Minneapolis-St. Paul, Seattle-Tacoma, and Houston-Galveston are outside of zone I.

These 7 major markets alone had a 1954 net income before taxes of \$14,774,562. (The CBS and NBC affiliate stations earned \$13,764,168 of this total.)

It becomes plain that the vast majority of smaller stations, lacking network programming, suffered heavy losses.

OVERLAP

It has been demonstrated that the small station depends not alone on a network affiliation, but as well on the actual number of network programs it is furnished. It is the general practice of the network to place their programs on the fewest number of stations to cover the greatest number of people per station.

The effect of this economic stranglehold becomes immediately apparent in any examination of situations involving the furnishing of network programs to stations in neighboring cities of unequal size, where such stations have overlapping service areas; that is, areas where the signal of both TV stations is received.

For example, KMTV, Omaha, Nebr., and KOLN-TV, Lincoln, Nebr., have a substantial overlap area. Both stations had CBS, ABC, and DuMont affiliation in 1954. Both are VHF stations.

Omaha ranks as the 45th market in the Nation; Lincoln the 139th.

KMTV (Omaha) received \$597,734 from its sale of time to networks in 1954; KOLN-TV (Lincoln) received \$6,506, nearly 100 times less.

TV INDUSTRY

Net Income Before Federal Taxes, 1954



**\$90.3
Million**

**TOTAL FOR U.S.A.
4 Networks and
410 Stations**



**\$90.6
Million**

**CBS and NBC
And 73 of Their
Affiliate Stations
In Zone I**

NOTE: Exclusive of the NBC and CBS networks and the 73 affiliate stations in Zone I, losses exceeded net income for the remainder of the TV industry, as an average.

KMTV (Omaha), because it was carrying network shows, received \$577,065 from spot sales to national advertisers who buy time on either side of the so-called big shows. KOLN-TV (Omaha), lacking the large network shows as an inducement, was able to sell only \$56,837 in spot sales.

In the matter of local sales the two stations showed little difference competitively. KMTV, with a city population of 251,117, sold \$385,540 in local time; KOLN-TV, with a city population of only 98,884, sold \$117,689 in local time.

KMTV, because it was served network programs, was able to show a net income for 1954, before Federal taxes, of \$631,103. KOLN-TV showed a loss of \$375,364.

In another area, KMBC-TV, in Kansas City, Mo., and KFEQ-TV, St. Joseph, Mo., have a substantial overlap area. Both stations had CBS affiliation in 1954. Both are VHF stations.

Kansas City ranks as the 17th market in the Nation; Lincoln the 157th.

KMBC-TV (Kansas City) received \$734,561 from its sale of time to networks in 1954; KFEQ-TV (St. Joseph) received only \$46,297.

KMBC-TV (Kansas City), because it was carrying network shows, received \$873,468 from spot sales to national advertisers. KFEQ-TV (St. Joseph), lacking the large network shows, was able to sell only \$176,498 in spot sales.

In the matter of local sales the two stations showed little difference competitively. KMBC-TV, with a city population of 456,622 sold \$225,161 in local time; KFEQ-TV, with a city population of only 78,588 sold \$100,703 in local time.

KMBC-TV, because it was served network programs, was able to show a net income for 1954, before Federal taxes of \$558,559; KFEQ-TV showed a loss of \$38,326.

In a third area, KTNT-TV, in Tacoma, Wash., and KVOS-TV, Bellingham, Wash., have a substantial overlap area. Both stations had CBS affiliation in 1954; Tacoma also had DuMont affiliation. Both are VHF stations.

Tacoma ranks as the 67th market in the nation; Bellingham the 338th.

KTNT-TV (Tacoma) received \$471,007 from its sale of time to networks in 1954; KVOS-TV (Bellingham) received \$1,470.

KTNT-TV (Tacoma), because it was carrying network shows, received \$634,209 from spot sales to national advertisers. KVOS-TV (Bellingham), lacking the large network shows as an inducement, was able to sell only \$69,916 in spot sales.

In the matter of local sales the two stations showed little difference competitively. KTNT-TV, with a city population of 143,673 sold \$107,081 in local time; KVOS-TV, with a city population of only 34,112 sold \$59,852 in local time.

KTNT-TV, because it was served network programs, was able to show a net income for 1954, before Federal taxes, of \$138,053; KVOS-TV showed a loss of \$45,115.

It should be reemphasized that all of the stations cited above are in the VHF band. This financial impasse facing VHF stations having a service area which is overlapped by a signal from a larger city thus appears as crucial as the dilemma facing UHF stations.

The cases cited above are not unusual but rather are common where the same overlap situation exists. The only exceptions are in the case of the largest cities such as the New York-Philadelphia overlap; Baltimore-Washington and Cincinnati-Dayton.

Continuation of a situation which finds the smaller station barred from access to network programs and holding an affiliation which is of little value unless it can actually receive the programs foreshadows twin results: many such stations will be forced off the air; television broadcasting will be vested in the hands of a few superpower stations serving vast areas.

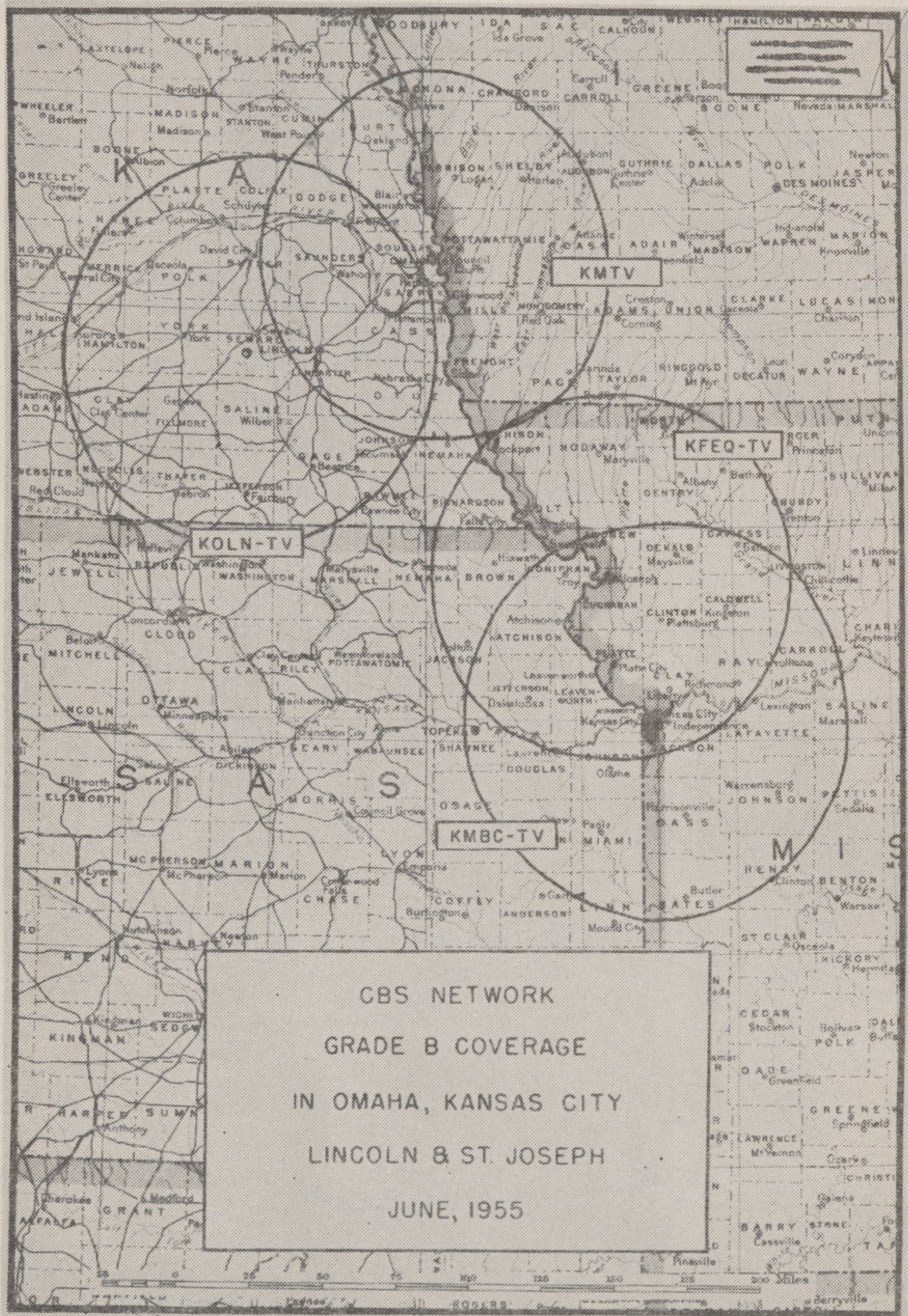
There can be no argument but that it is economically sound for the network to service as many people as possible with as few outlets as possible. But it is equally true these policies act to negate the public interest features of the Communication Act, as amended.

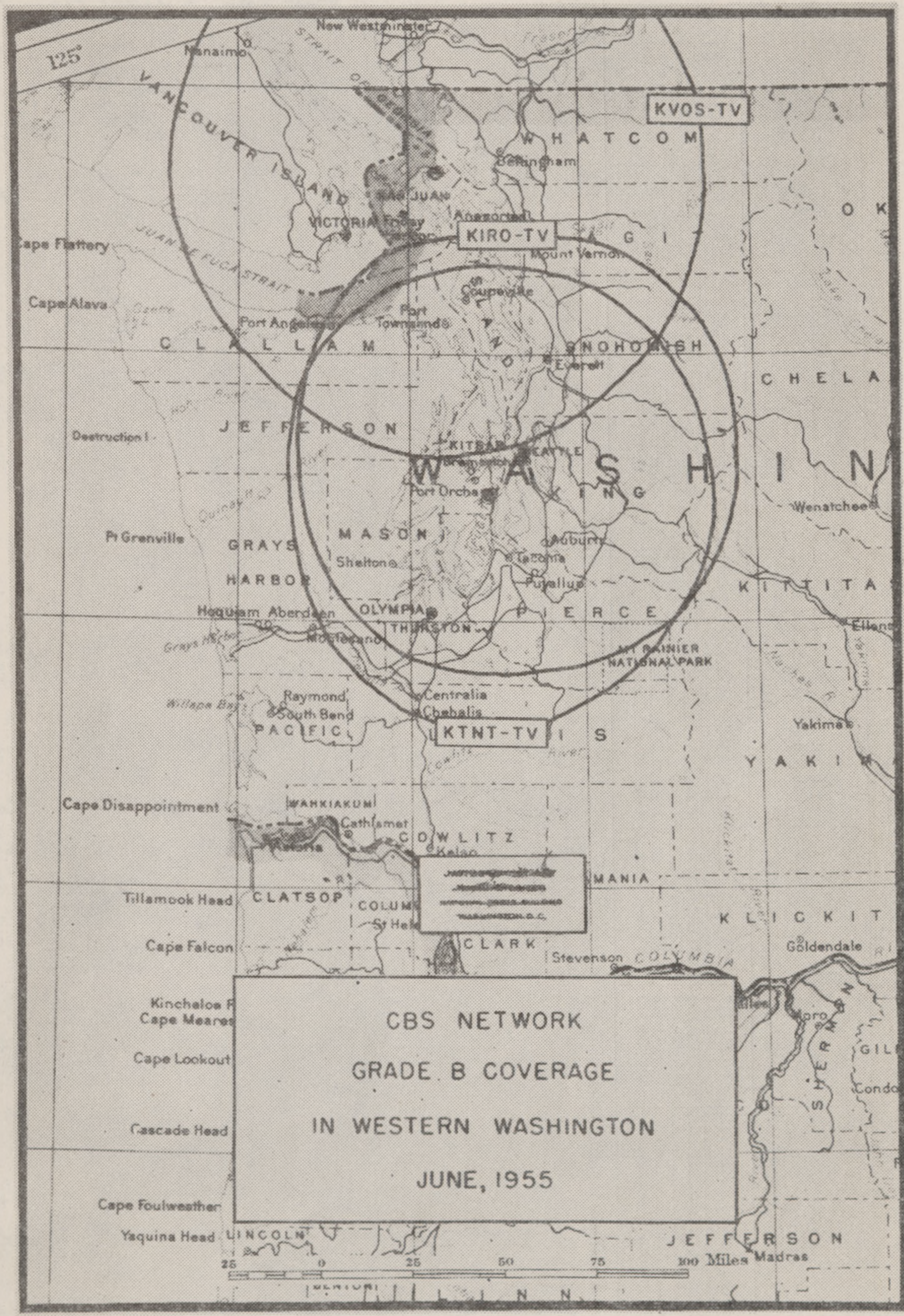
It will be argued that the networks cannot afford to furnish programs to stations with overlapping areas; that such practices will make costs to advertisers prohibitive.

These matters are taken up later in this report in an analysis of superpower station earnings and excessive station rates.

Index to CBS affiliates shown on accompanying maps

Call letters	City	Channel	Effective visual power (kilowatts)	Antenna above average terrain (feet)
KVOS-TV.....	Bellingham, Wash.....	12	38.9	2,380
KTNT-TV.....	Tacoma, Wash.....	11	316	801
KIRO-TV.....	Seattle, Wash.....	7	306	817





1954 financial data, overlapping CBS affiliates

Market rank	City	City population	Station channel	Affiliation as of October 1954	Revenues from sale of time to—			Total broadcast revenues	Total broadcast expenses	Total broadcast income (before Federal taxes)
					Networks	National spot	Local			
45	Omaha, Nebr.	251, 117	KMTV 3	CBS, ABC, DuM.	\$597, 734	\$577, 065	\$385, 540	\$980, 822	\$631, 103	
139	Lincoln, Nebr.	98, 884	KOLN-TV 10	CBS, ABC, DuM.	6, 506	56, 837	117, 689	556, 746	1 (375, 364)	
17	Kansas City, Mo.	456, 622	KMBC-TV 9	CBS	734, 561	873, 468	225, 161	1, 200, 336	558, 559	
157	St. Joseph, Mo.	78, 588	KFEQ-TV 2	CBS	46, 297	176, 498	100, 703	375, 430	(38, 326)	
67	Tacoma, Wash.	143, 673	KTNT-TV 11	CBS, DuM.	471, 007	634, 209	107, 081	954, 472	138, 053	
338	Bellingham, Wash.	34, 112	KVOS-TV 12	CBS	1, 470	69, 916	59, 852	183, 491	(45, 115)	

¹ Figures in parentheses indicate losses.

SUPERSTATIONS

Abnormal inequities between the large market and small market stations stem from the fact that the large market stations have preempted service areas extending far beyond any limits imposed by economic necessity.

Twin methods are used to accomplish this.

By locating transmitter sites 25 and 30 miles from the city to which their channel is actually assigned, the large stations often succeed in locating transmitters closer to competing cities than to their own. Coupled with this practice of employing so-called "floating" transmitter sites, such stations use permissible superpower and maximum antenna heights to send their signal into markets other than their own. The effect is to abnormally depress the economic potential of the smaller market, since in most cases of overlap the stations in such smaller markets find themselves barred from network programs.

It cannot be emphasized too strongly that this situation results not from any shortage of channels, even in the VHF band, but solely from the practice of the networks to serve as many people as possible through as few stations as possible.

The financial data supplied by the Commission makes clear that, given the opportunity of network programming, these smaller stations can operate profitably.

Stations in such relatively small markets as Minot, N. Dak.; Great Bend and Pittsburg, Kans.; Kearney, Nebr., and Joplin, Mo., have prospered. These smaller stations have had reasonable access to network shows. The integrity of their market has not been destroyed by ruinous overlap from large-city network affiliates.

The areas mentioned are fortunate because their geographic location is strategic and acts to bar overlapping signals.

In populated areas, the smaller cities are considered by the networks and their large-city affiliates to be nothing more than "population bonuses" to be credited to the audience claims of the large station.

Such "population bonuses," when added to the population in the metropolitan area of the large city itself, permit the affiliate station in question to charge a high station rate and at the same time offer national advertisers and networks a lowered cost per viewer.

The evidence of successfully operating smaller stations in markets where there is no overlap gives reason to believe the large supermarket type of station could continue to operate at a fair profit with a substantially reduced service area.


Abnormal profits accrue to large stations which preempt adjacent territory.

Station No. 1, in New York, made \$8,206,416 net income in 1954, before Federal taxes. This represents 1,834 percent or *more than 18 times its reported net investment*, as of January 1, 1954.


Station No. 2, also New York, made \$6,086,613 net income in 1954, before Federal taxes. This is 1,645 percent, or *more than 16 times its reported net investment* as of January 1, 1954.

By any standard, *such profits must be labeled exorbitant.*


Both of the New York stations mentioned have wide service areas. The effect is apparent on TV facilities and station profits in neighboring cities which are blanketed by the New York signals.



STATION "A"
NEW YORK
CITY



\$447,420
Net Investment
As of Jan. 1, 1954



\$8,206,416
Net Income for 1954
Before Federal Taxes

STATION "B"
NEW YORK
CITY



\$369,873
Net Investment
As of Jan. 1, 1954



\$6,086,613
Net Income for 1954
Before Federal Taxes



For example, Bridgeport, Conn., has two channels assigned; only one station is on the air. This station reported a net loss in 1954 of \$80,669, despite the fact that Bridgeport is one of the top 100 markets of the country. The station in question is denied affiliation with either of the two major networks. These see no reason to grant an affiliation, since their supersignal from New York covers the area. There is no question but that Bridgeport, the 72d market in the Nation could support its two channel stations if the New York signal were to be cut back.

Even further distant from New York, Waterbury, Conn., has one station on the air. This station reported a net loss of \$15,429 in 1954. It has been denied an affiliation with either of the two major networks because its own city viewers can receive the New York signal.

Stamford-Norwalk has a channel allocation but no station on the air; Norwich also.

New Jersey has only 1 television station, although 9 commercial channels are assigned. Stations have gone off the air in Atlantic City and Asbury Park because of the signal overlap from New York and Philadelphia.

In my own State of Ohio, the FCC financial data discloses that the 3 Cleveland TV stations received 43.5 percent of the total income received by all 20 Ohio TV stations in 1954. Signals from these Cleveland stations overlap those of 4 stations in the 3 cities of Akron, Youngstown, and Ashtabula. Of these latter 4 stations, all but 1 lost substantial amounts in 1954. One station showed a \$32,669 profit or 0.3 percent of the Ohio total. The other 3 lost a total of \$403,020.

In Michigan, 1 superstation reported a 1954 net income, before Federal taxes, of \$3,227,138; a second station, \$1,243,586. The signal of these 2 stations overlaps the city of Flint, approximately 50 miles distant. Flint is rated as the 69th market in the Nation.

Because it was denied a major network affiliation, a Flint UHF station went off the air April 20, 1954, after heavy losses.

Subsequently, the FCC granted a construction permit to a new applicant for a Flint VHF station. This applicant proposes to place his transmitter at a location 23 miles north of Flint, where the signal will overlap the service areas of stations in 4 other TV markets. CBS has granted an affiliation to this applicant provided the transmitter is located at such site.

Currently, CBS affiliates are operating in 3 of the 4 overlapped markets. It has been determined that CBS will furnish little or no network programming to the stations in two of such areas, once those areas are overlapped by the new Flint station. CBS already has withdrawn its affiliation with the station in the third overlapped market.

The examples cited are not unusual and can be found in all sections of the country—reflecting the trend of the 2 major networks to superstations covering as many cities as possible with 1 signal, ignoring all rural and sparsely settled areas except those which may fall incidentally within the superstation's service areas.

A corollary effect is a general lowering of quality of signals over much of the entire country. As a TV signal goes out, its strength decreases in proportion to the distance from the station. Naturally, it is therefore desirable to have as many scattered stations in operation as possible, so as to saturate the country with good receivable signals. When

the number of stations is artificially restricted, as is the case today, each station is given credit for extremely wide areas, whereas only the area adjacent to the station's home city receives a good signal. Persons in outlying areas must then go to tremendous expense to erect antennas, rotors, and boosters in order to receive a minimum satisfactory signal.

Financial data on the profits made by individual stations, together with facts on the ratio of profit to investment, is available for examination by the committee but has not been made a part of this report since it is so voluminous.

ANSWER TO ADVERTISER ARGUMENT

It has been argued a reduction in service areas of large-city stations would not solve the problem of unfair distribution of advertising revenues among stations, since the advertisers could not afford to buy time on the additional stations necessary to achieve equal coverage to that now provided by the large stations.

This claim merely purports to defend monopoly, and has no support in economic fact. The financial data examined has shown that the artificially restricted supply of outlets has permitted artificially high station rates in the large markets. This, in turn, has permitted artificially high station profits.

CBS and NBC station affiliates in the large markets now charge up to \$8,400 per hour for station time, with the average running somewhat lower, approximately \$2,000 to \$4,000 per hour. This is opposed to station time rates averaging \$150 to \$400 in the smaller markets. These artificially maintained large-station rates have permitted the large-city stations to recoup their investments many times over in their *annual* profits.

The CBS affiliates in the first 50 markets of the country recouped an average of 233 percent of their net investments in 1954 alone, before Federal income taxes.

It cannot reasonably be suggested that such profits and station rates are normal, reasonable, or desirable.

Neither can it be suggested that advertisers are now paying proper prices for time on the large CBS and NBC affiliate stations.

On the other hand, it is clear that if the large-city affiliates cut back service areas, maintained reasonable station rates, and were satisfied with reasonable profits the advertiser could buy many more stations and cover more persons with the dollars he is now spending. Moreover, additional advertisers could come into the market.

It follows that free competition for advertising revenues does not exist in the television industry today. By restriction of station affiliation and artificial maintenance of exorbitant station rates, the advertiser is prevented from buying time on as many stations as he desires. Conversely, the smaller television stations are precluded from participation in network affiliations, national advertising revenues, and in profits.

If free competition were allowed to exist, through the reduction in service areas and restoration of small-market integrity, it is obvious that the economic laws of supply and demand will operate to adjust station time rates to reasonable proportions in the large cities, and that the advertisers will then be able to purchase time on as many stations as they desire.

When that situation occurs, the television industry will be truly competitive and free from the rate regulation now practiced by those few private parties presently in control of the industry. Moreover, the industry will then be given the opportunity to become truly nationwide, with local outlets available to provide the many and varied services to their audiences which can only be furnished by local stations.

CBS ALLOCATION PLAN

This report has demonstrated the economic stranglehold of the favored and the trend to establishment of a limited number of stations serving the country.

In this regard it is appropriate to consider at this time a so-called "100 market plan" document recently filed by CBS with the FCC.

CBS's proposed solution to the problems of small market operators, both UHF and VHF, apparently is amputation at the neck. In this document, CBS candidly confirms its intention to create a chain of a few wide-circulation and highly profitable station affiliates.

CBS has told the FCC that this country's economic resources can support only 588 television stations at most, and probably far fewer. It also states that there are only 100 "market areas" in the country that can support a CBS affiliate station, and it has furnished a map delineating these CBS "market areas."

A copy of this CBS map is reproduced and attached hereto in an appendix.

It requires only a mere glance at this map to convince even the most skeptical of the arrogance of CBS' plan and of the correctness of the conclusions and predictions of this report.

It is CBS' obvious intention to cover only the most densely populated portions of the country via 100 superstation affiliates with wide service areas, tailored to include maximum circulation per station. Wide areas of the country will receive no service or poor service from CBS affiliates because their geographic and population characteristics are not suitable to the CBS network; i. e., because CBS cannot make as much money from coverage of these areas as in the large cities, where annual station income has been shown to be as high as 1,834 percent of net investment, and where CBS station time rates are as high as \$6,500 per hour.

It is only reasonable to expect that the NBC and the ABC networks, in order to maintain their competitive positions, will seek to establish similar chains of supermarket stations.

The net result could only be the virtual elimination of small market television stations and the drying up of television service to sparsely settled and outlying areas of population.

It is impossible to conceive of a more direct frustration of the intent of the Congress to see that as many towns as possible have television stations and to insure that the entire country receives acceptable television service.

Any acceptance of the proposed CBS' 100-market plan requires acceptance of its basic premise; i. e., that the size of its suggested "market areas" is the minimum required to support a station.

The financial data supplied by the Commission clearly demonstrates the exorbitantly unwarranted nature of such basic premise.

The smallest CBS designated "market area" in the FCC's Zone I is the Erie, Pa., area which contains a population of 298,336 persons,

according to information supplied by the Bureau of the Census. The vast majority of the 89 proposed market areas in the zone I area contain well over 500,000 persons and 35 areas contain over 1 million persons, as determined by the Bureau of the Census.

The financial data supplied by the Commission clearly reveals that markets of much smaller size can support television stations. Moreover, in its plan filed with the FCC, the CBS does not explain why it equates the Erie, Pa., market (298,335 population) with the Pittsburgh market (3,499,339 population) in ability to support a station.

Clearly, the CBS-suggested market areas were determined on the basis of units for the convenience of an unregulated enterprise rather than to reflect the mandates and objectives of the Communications Act.

SUMMARY

The heretofore secret financial data made available to the committee and outlined herein demonstrates conclusively a concentration of economic wealth and power in the hands of two TV networks and their selected affiliate stations in the large cities.

The financial data has disclosed that—

1. CBS and NBC, together with their 8 wholly owned stations, had a net income in 1954, before Federal taxes, equivalent to 46 percent of the net income of the entire TV industry, comprising 4 networks and 410 stations.

2. CBS and its 3 wholly owned stations had a net income in 1954, before Federal taxes, equivalent to more than 28 percent of the net income of the entire TV industry.

3. NBC and its 5 wholly owned stations had a 1954 net income, before Federal taxes, equivalent to more than 17 percent of the net income of the entire TV industry.

4. CBS and NBC, together with their 8 wholly owned stations, recovered in 1954 alone, in net income, before taxes, an amount equal to 99 percent of their total reported net investment as of January 1, 1954.

5. CBS, together with its 3 wholly owned stations, had a net income in 1954, before taxes, equivalent to 108 percent of total reported net investment as of January 1, 1954.

6. NBC, together with its 5 wholly owned stations, had a net income in 1954, before Federal taxes, equivalent to 87 percent of total net investment as of January 1, 1954.

7. CBS, for its 3 wholly owned stations, had a 1954 net income, before taxes, equal to 370 percent of its total reported net investment as of January 1, 1954.

8. NBC, for its 5 wholly owned stations, had a 1954 net income, before taxes, equal to 297 percent of its reported net investment as of January 1, 1954.

9. Network operations alone, exclusive of its 3 stations, earned CBS \$13,101,169 in net income, before taxes, or 65 percent of its total reported net investment as of January 1, 1954.

10. Network operations alone, exclusive of its 5 stations, earned NBC \$4,017,896 net income, before taxes, or 28 percent of its total net investment reported.

11. CBS and NBC networks, together with 73 of their affiliate stations in zone I, had a 1954 net income, before taxes, of \$90.6 million,

an amount exceeding the total \$90.3 million net income for the entire industry. In other words, total losses exceeded profits for the balance of the industry, comprising 2 networks and 337 stations.

12. Profits of large network affiliate stations in 1954 alone ran as high as 1,834 percent of reported net investment.

It cannot be argued too strongly that the circumstances outlined constitute an unhealthy condition. Unless the Congress acts forthwith and forthrightly, the situation is one which may well presage the exclusion of a nationwide competitive television system.

To reemphasize, network affiliate stations in the larger markets are garnering a disproportionately large share of revenue at the expense of the smaller cities. Not content with this lion's share, such stations are moving to further expand their coverage and compound the injury to the smaller markets.

The dollar sign has so obstructed the vision of the networks and large stations as to constitute a violation of the public trust. The airwaves belong to the people, but have been converted to a money-making grab.

It appears that reductions in power, lower antenna heights, and reasonably selected transmitter sites offer one avenue to bring about a more competitive economic climate. This will permit the free competition which will result in additional stations and a more equitable distribution of advertising revenues.

It cannot be argued but that the two major networks are exercising good business judgment in attempting to make the maximum income possible at the least expense possible, so far as outlets for their programs are concerned. Under ordinary circumstances this is commendable.

However, it is equally true that in this case the exercise of this good business judgment acts to contravene, even destroy, the intent and objectives of the Congress to preserve competition and prevent monopoly in a truly nationwide and competitive system of television.

"Nationwide" refers to service to all the people and envisions that a television station should be an important local institution and a medium of local self-expression. This is a function which cannot be accomplished by a superstation located in another community.

I, therefore, urge that the Committee on Interstate and Foreign Commerce:

1. *Proceed to consideration of S. 825, which I introduced January 28, 1955, to authorize the Federal Communications Commission to establish rules and regulations with respect to networks and their activities.*

It has been stated the Commission already possesses this power. However, passage by the Congress of S. 825 would remove the question from any doubt and serve also as a directive.

I also urge that the Congress or the commission take the following actions:

2. Reduce permissible service areas of VHF stations in the zone I area of the Federal Communications Commission, and in other areas with similar characteristics of high population density and large-city incidence, in order to restore the integrity of all smaller television cities through reductions in maximum powers and/or antenna heights.

3. Impose restrictions on the location of station antennas to reasonable distances from the stations' assigned cities and barring the use of

“floating” transmitter sites designed only to preempt markets of adjacent smaller television markets.

4. Eliminate the Commission-dictated numerical limit upon stations which may be owned or controlled by any one person and substitute therefor a more realistic population criterion, thereby opening the door to the establishment of competing network organizations and additional sources of vital program material to small market stations.

Coincident with release of this report, I am introducing proposed legislation to implement my recommendations to (a) eliminate the five-station ownership rule and substitute therefore a more realistic population criterion.

The proposed bill on the five-station ownership rule is as follows:

S. —

To amend section 307 of the Communications Act of 1934, so as to place certain restrictions upon ownership or control of broadcast stations, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 307 of the Communications Act of 1934, as amended, is amended by adding at the end thereof the following new subsections:

“(f) No person, or persons directly or indirectly controlled by such person, shall own, control, be the licensee, or hold an instrument of authorization for the operation of television broadcast stations which, in the aggregate, provide television service or coverage recognized by the rules and regulations of the Commission to more than 25 per centum of the population of the United States, its Territories and possessions, as determined by the last preceding census.

“(g) In considering applications for station licenses and construction permits, or for renewals and transfers thereof, the Commission shall, except as provided in subsection (f), make or adopt no rule, regulation, or policy of general applicability the effect of which would be to establish a fixed numerical limit to the number of broadcast stations which may be owned or controlled by any person, or persons directly or indirectly controlled by such person: *Provided*, That in determining whether the public interest, convenience, or necessity will be served by the grant of a particular application, the Commission may consider whether the effect of such grant may be substantially to lessen competition or tend to create a monopoly.”

EXPLANATION OF THE ATTACHED PROPOSED AMENDMENT TO SECTION 307 OF THE COMMUNICATIONS ACT IN AID OF INDEPENDENT TELEVISION STATIONS

These amendments are intended to require the Federal Communications Commission to exercise its television license granting functions in such manner as to encourage competition in the national television industry by facilitating the growth of independent station operations and removing the restrictions which now preclude them from achieving competitive equality with station owners presently dominating and controlling the industry. This would be accomplished by prohibiting the Commission from adopting rules or policies setting abstract numerical limits upon the number of stations which any one person may own or control, entirely unrelated to factors of populations and markets covered by such stations, and by substituting for such sterile abstraction a realistic and workable public interest criterion of maximum coverage or service to 25 percent of the country's population.

Subsections (f) and (g) are designed and intended to permit independent television operators to acquire sufficient television outlets to

become competitive with the few dominant licensees in the industry today, without the meaningless and arbitrary restrictions upon ownership presently enforced by the Communications Commission.

Section 3.63 (a) (2) of the Commission's rules now limits to five the number of VHF television stations which any one person may own, control, or hold any stock or office in. This limit of 5 stations inflexibly applies whether such stations are located in the 5 largest cities of the country or in the 5 smallest cities, and whether the 5 stations in the aggregate cover 50,000 or 50 million persons.

The history of the television industry has shown that the three national television networks (NBC, CBS, and ABC) have been able to build or purchase their 5 stations in the country's top markets, thus permitting each network to cover from 25 to 40 million persons with its owned stations. Such stations have been built or purchased as allegedly necessary adjuncts of the companies' networking businesses. Through their station ownership in the top markets and through their networking operations, such networks now receive far greater amounts of advertising revenues than any independent operators.

Very few independent television operators, for financial reasons, are able to purchase large market VHF stations. If they desire to purchase stations they must do so in the smaller markets and receive smaller population coverage per station. Accordingly, an independent operator purchasing his limit of five VHF stations in the smaller markets cannot hope even to approach the coverage of any one of the three national networks.

These amendments would invalidate the Commission's limit of 5 VHF stations to 1 person, and substitute therefor a more realistic and beneficial criterion of maximum total net coverage of 25 percent of the country's population by stations controlled by 1 person. Inasmuch as relative financial position of station operators is determined by reference to total net populations covered, rather than total number of stations, population coverage is the only realistic and meaningful criterion available.

By substituting maximum net population coverage for the arbitrary maximum of five stations as the public interest criterion of multiple station ownership, the independent operator would then have the opportunity to become competitive in size with the networks, even though he cannot afford to buy the lucrative stations in the top markets. As a byproduct an independent operator can then become a network operator and thus a competitor of the present networks, thereby making available an additional source of network program material so vitally necessary to the life of television stations presently without network affiliation. The maximum figure of 25 percent would not render unlawful the holdings of any present licensee. NBC, the largest station owner in terms of populations covered, includes 23 percent of the country's population within the service areas of its owned stations.

Although these amendments would establish an upper limit of coverage to 25 percent of the country's population, it provides that the Commission is nevertheless still permitted to make the public interest determination of whether, in working toward such goal, an applicant's proposal would substantially lessen competition or tend

to create a monopoly. The retention of this power by the Commission is believed necessary to restrain applicants taking undue advantage of the removal of the numerical limitation on station ownership by concentrating too many stations in a limited area.

The total end result intended to ensue from the enactment of these amendments would be a regulatory climate permitting and encouraging increased competition in the entire industry, with a more equitable and broad-based distribution of available television advertising revenues, and the formation of additional new competitive network organizations to provide for the programing needs of existing and future independent television stations.

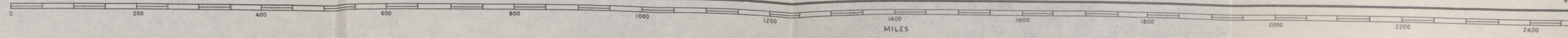
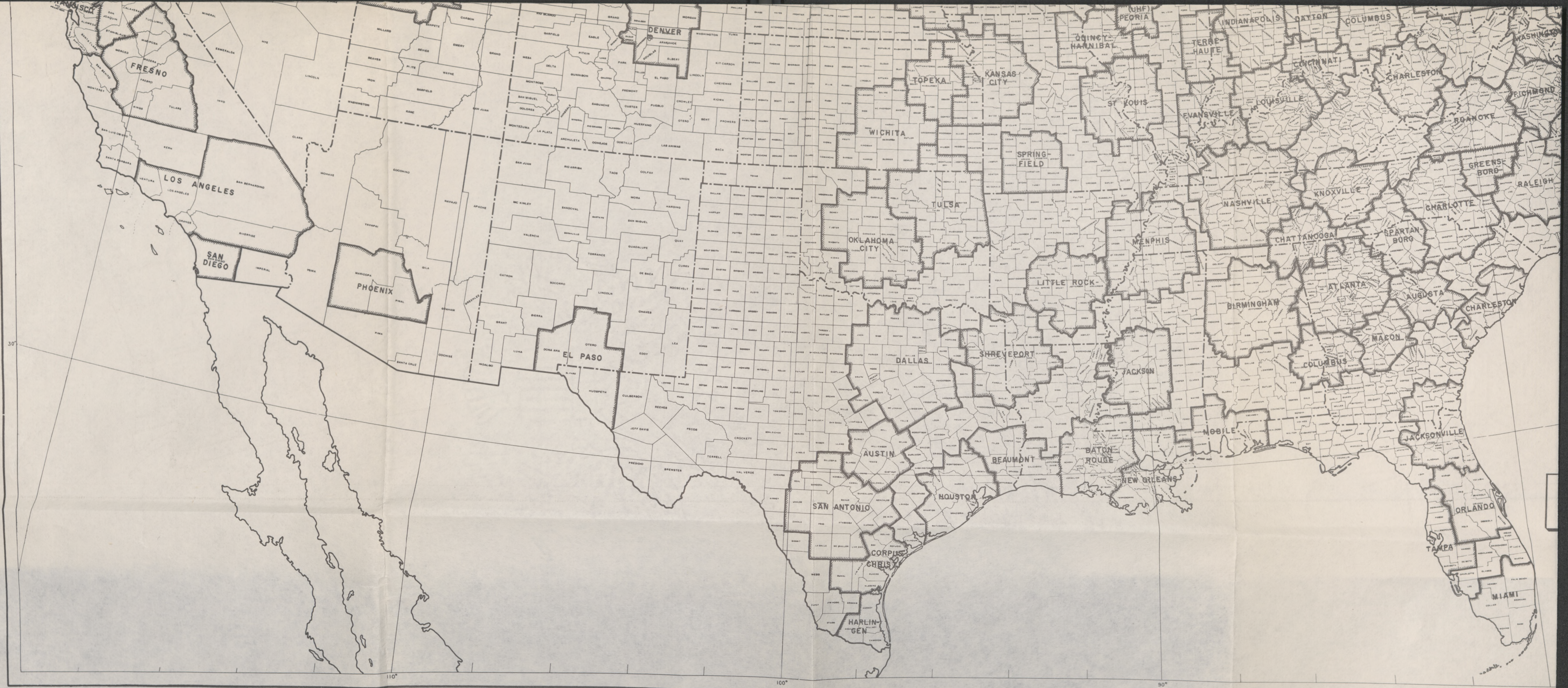
APPENDIX

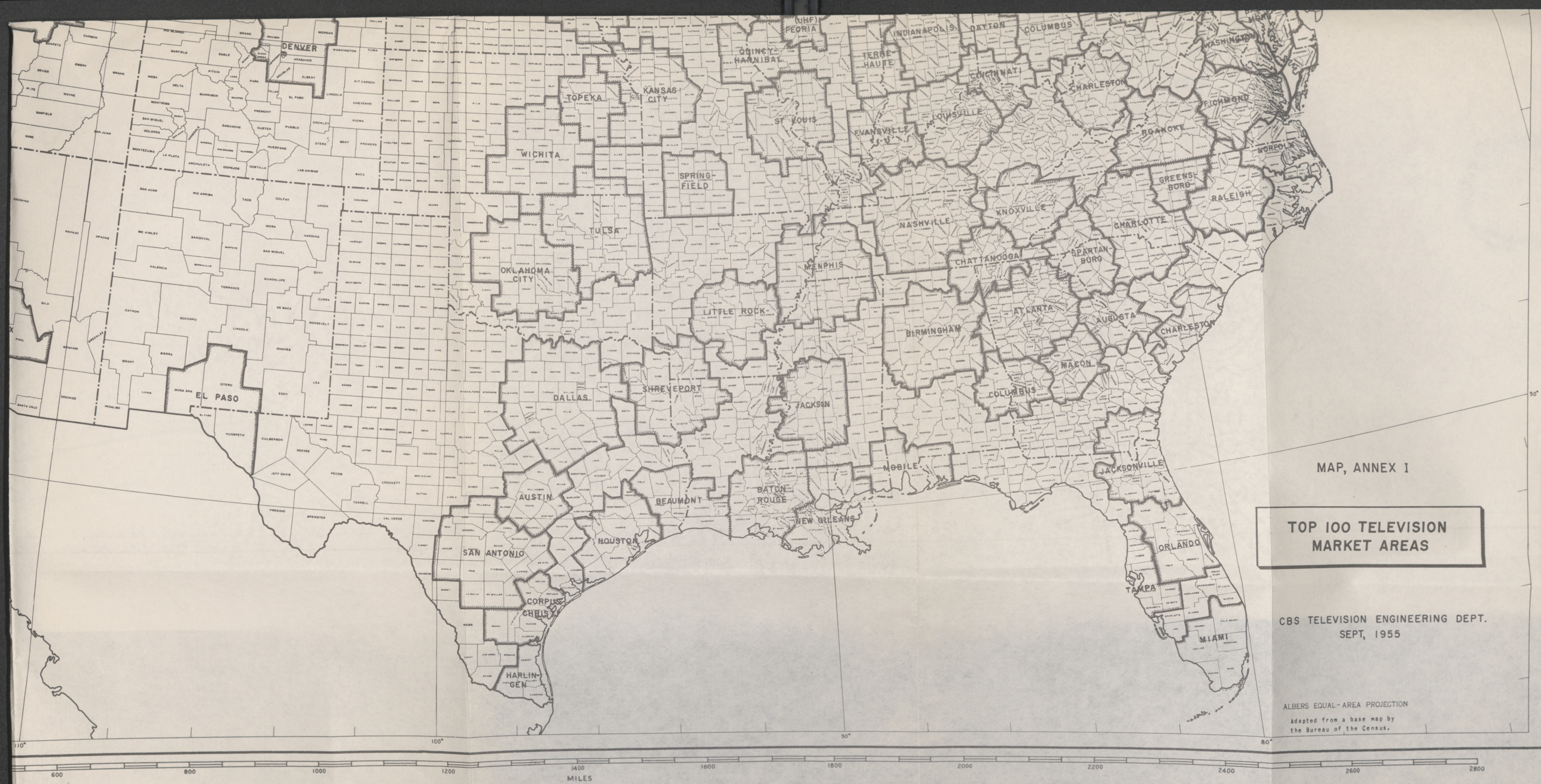
CHART I

Broadcast revenues, expenses and income of the entire TV network industry (1953-54), broken down by TV networks, TV network-owned TV stations, and TV networks plus their 16 network-owned stations

	Broadcast revenues of 4 TV networks				Broadcast expenses of 4 TV networks				Broadcast income (before Federal income tax) of 4 TV networks				Ratio of 1954 income to total investment in broadcast property as of Dec. 31, 1953	
	Amount	Percent of TV networks	Percent of all TV stations	Percent of entire industry	Amount	Percent of 4 TV networks	Percent of all TV stations	Percent of entire TV industry	Amount	Percent of TV networks	Percent of all TV stations	Percent of entire TV industry	Investment	Ratio
1954														
CBS and NBC network operations	\$188,065,883	85.00	-----	31.71	\$170,946,818	79.2	-----	33.99	\$17,119,065	100.00	-----	19.00	\$34,338,095	0.50
4 TV network operations	221,117,717	100.00	-----	37.29	215,961,798	100.00	-----	42.94	5,115,919	29.88	-----	5.93	135,690,325	.14
CBS	97,394,599	43.8	-----	16.42	84,293,430	39.0	-----	16.76	13,101,169	76.50	-----	14.54	20,036,723	.65
NBC	90,671,284	41.2	-----	15.29	86,653,388	40.2	-----	17.23	4,017,896	23.50	-----	4.46	14,301,372	.28
ABC	24,750,893	11.2	-----	4.17	31,573,978	14.6	-----	6.28	(6,823,085)	-----	-----	-----	(2)	-----
DuMont	8,300,941	3.8	-----	1.41	13,441,002	6.2	-----	2.67	(5,140,061)	-----	-----	-----	1,352,230	-----
CBS- and NBC-owned stations	55,523,219	64.89	14.93	9.36	31,228,382	57.73	10.87	6.21	24,294,837	77.20	28.60	26.96	7,372,943	3.30
16 network-owned TV stations	85,558,936	100.00	23.00	14.43	54,092,481	100.00	18.81	10.75	31,466,455	100.00	37.04	34.91	14,710,885	2.13
CBS (3 TV stations)	25,809,248	30.17	6.94	4.35	13,532,805	25.01	4.72	2.69	12,276,443	39.00	14.45	13.62	3,322,023	3.70
NBC (5 TV stations)	29,713,971	34.72	7.99	5.01	17,695,577	32.72	6.15	3.52	12,018,394	38.20	14.15	13.34	4,050,920	2.97
ABC (5 TV stations)	19,768,165	23.11	5.31	3.33	15,449,342	28.56	5.39	3.07	4,318,823	13.70	5.08	4.79	5,781,282	.75
DuMont (3 TV stations)	10,267,552	12.00	2.76	1.74	7,414,757	13.71	2.55	1.47	2,852,795	9.10	3.36	3.16	1,556,660	1.83
CBS and NBC plus 8 owned stations	243,589,002	79.4	-----	41.08	202,175,200	74.9	-----	40.19	41,413,902	100.00	-----	45.95	41,711,038	.99
4 TV networks plus 16 network-owned TV stations	306,676,653	100.00	-----	51.72	270,054,279	100.00	-----	53.68	36,622,374	88.43	-----	40.64	50,401,210	.73
CBS plus 3 TV stations	123,203,847	40.2	-----	20.78	97,826,235	36.2	-----	19.45	25,377,612	61.40	-----	28.16	23,358,746	1.08
NBC plus 5 TV stations	120,385,255	39.2	-----	20.30	104,348,965	38.7	-----	20.74	16,036,290	38.60	-----	17.79	18,352,292	.87
ABC plus 5 TV stations	44,519,058	14.5	-----	7.51	47,023,320	17.4	-----	9.35	(2,504,262)	-----	-----	-----	5,781,282	-----
DuMont plus 3 TV stations	18,568,493	6.1	-----	3.13	20,855,759	7.7	-----	4.14	(2,287,266)	-----	-----	-----	2,908,890	-----





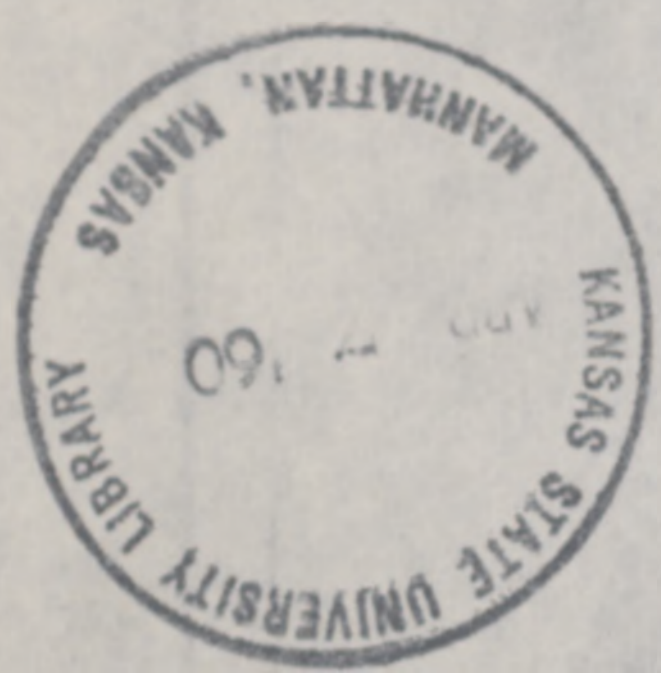


MAP, ANNEX I

TOP 100 TELEVISION MARKET AREAS

CBS TELEVISION ENGINEERING DEPT.
SEPT, 1955

ALBERS EQUAL-AREA PROJECTION
Adapted from a base map by
the Bureau of the Census.



TOP 100 TELEVISION
MARKET AREAS

MAP, ANNEX I

