

Frankenstein Television

by Michael Heberling

The televisions that Americans have loved for over 50 years will soon become obsolete. The Federal Communications Commission (FCC) has mandated that the analog TV broadcast signals be turned off in 2006. After that date all TV broadcasts will be “digital.”

This mandate appears to be at odds with the wishes of the American people. In spite of the outstanding theater-quality picture and sound on the high-definition televisions (HDTV), they account for less than 1 percent of all the TVs in American homes. It is hard to win the digital revolution when there are over 265 million of the primitive nondigital TVs still in use. That’s 2.4 sets per household. Since these TVs have a lifespan of between seven and ten years, most will still be alive and kicking when the federal government flips the “off” switch. So unless the government blinks, Congress can expect to hear from a lot of angry constituents. Thus far the federal government has been hanging tough. In 2006, America will have five choices: Buy a digital-ready TV, subscribe to cable TV, subscribe to satellite TV, buy a set-top box converter so that your old-fashioned TV can decode the digital signal, or start reading books.

Michael Heberling (mheber01@baker.edu) is president of the Baker College Center for Graduate Studies in Flint, Michigan and a member of the board of scholars of the Mackinac Center for Public Policy in Midland, Michigan.

Joel Brinkley of the *New York Times* has noticed the anomaly of government’s ordering a new consumer technology. “No other national technological transition has ever been backed by this sort of government decree. Nobody was forced to trade a horse for an automobile, a Victrola for a radio or a typewriter for a computer.”¹

Why aren’t the people buying these phenomenal government-endorsed TVs? There are two primary reasons. The first is cost. Although the price has started to come down in the last couple of years, HDTVs are still a luxury that few can afford. The price ranges from \$1,300 to \$10,000. It gets worse. You will still have to cough up another \$650 for a set-top box converter to receive the digital signal.² In contrast, the average complete total price for a nondigital TV ranges between \$200 and \$400.

The other reason for not buying an HDTV is right now there is little to watch. For the few who decided to buy an HDTV, their biggest complaint was the lack of high-definition programming.³

Ironically, a surprising number of people use their HDTV just to watch DVD movies. The next time you are at an appliance store and see one of those “gold-plated” HDTVs with the “fabulous” cinema-quality picture and sound, ask the salesman: “Is that a broadcast high-definition picture or is that picture coming from a DVD player?” After a great deal of obfuscation, he will probably say: “Um . . . DVD player.”

As with all products, consumers weigh tradeoffs. There is no doubt that many shows will look fantastic in high-definition color. However, many people (in fact, the overwhelming majority) have decided that it is really not all that important (nor worth the money) to be able to see every pore on Larry King's face or to hear Katie Couric's voice in theater-quality Dolby sound.

Since HDTV is designed to work best with screen sizes of 45 inches or larger, what about all those small TVs in the kitchen? Consumers have apparently decided that a giant HDTV home-entertainment center on the kitchen counter is not very practical. Watching TV on a 13-inch color set first thing in the morning while eating corn flakes may not be the greatest viewing experience possible, but the American people have decided that it is good enough. Unfortunately, this lackadaisical attitude is at odds with what Congress and the FCC think consumers want.

How does the federal government justify its efforts to pawn off digital TV on a public that is clearly not interested? It appears that the ghost of industrial policy past has come back to haunt America. In the case of HDTV, we have an elitist government making policy based on what it thinks will be good for industry and what it thinks an uninformed public really wants. To the FCC, the digital TV revolution is far too important to be left to the inefficient and time-consuming whims of the marketplace. Since there is no individual industry or company that has the wherewithal or long-term vision to win the "digital revolution" by itself, the FCC will use its omnipotent knowledge and its mandate power to insure the correct outcome.

But how smart is the FCC really? Does its track record in choosing winners warrant an "Oracle of Washington" status? Should we entrust the adoption of digital television to the wisdom of the FCC with its heavy-handed mandates? Or, should we simply let the marketplace decide? A review of the last TV revolution provides some interesting insights.

The FCC and the Color TV Standard

In the early days of television there were three competing color standards vying for the FCC's blessing. The CBS Field Sequential System had the inside track. However, it had a major flaw. It was incompatible with the nine million black-and-white sets already in homes across America. Viewers with those TVs would not have been able to watch a show broadcast by that system (even in black and white) without a costly converter. If this incompatible standard were to be adopted and the public refused to buy the converter, color broadcasters would be beaming their signals to a nonexistent audience. The other two competing color systems were compatible with black-and-white sets. Would you like to guess which system the FCC picked?

On September 1, 1950, it approved the CBS system by a 4-to-1 vote. But a year later something strange happened. CBS discontinued its color broadcasts. Maybe the lack of an audience contributed to the decision.⁴

To no surprise, on December 17, 1953, the FCC publicly changed horses and adopted the National Television System Committee (NTSC) compatible color system as the U.S. standard. It was based on one of the black-and-white-compatible designs that the FCC had dismissed as technically inferior. Color broadcasts using the new FCC standard were authorized to begin in January 1954.

Even though the compatibility problem was resolved, the transition from black and white to color was still exceedingly slow. It took 12 years (1954–1966) before each of the three networks would have a full prime-time color lineup. It took 23 years (from 1954–1977) until 75 percent of the homes in America had at least one color television. Although slow, there was little "technology frustration" and there were no government-mandated transition deadlines to elicit the wrath of either viewers or broadcasters. A viewer with a black-and-white TV did not need a set-top box converter to see a color-broadcast program. It simply appeared in black and white.

People could quickly grasp the concept of going from black and white to color. However, the average consumer today doesn't have a clue as to what going from analog to high-definition means. "Walt Disney's Wonderful World of High-Definition" does not have the same ring to it. Most would-be consumers have no idea what "better pixilation" is or really care to know.

In the color-TV revolution 50 years ago, we had a government that eventually acquiesced to the realities of the marketplace. Today, we have a government hell-bent on riding roughshod over everyone in order to make its digital vision of the future a reality.

Opposing Sides in the Digital War

There are clearly two opposing sides in the "Digital TV War." As usual, the consumers are all alone on one side. Aligned against them are the federal government (Congress and the FCC) and its two allies: the National Association of Broadcasters (NAB) and the Consumer Electronics Association (CEA). The TV manufacturers, represented by CEA, clearly had the most to gain from the digital war. If crawling in bed with the federal government would force every family in America to buy a \$1,500 TV, why not go for it? In contrast, it was a mystery why the broadcast industry was also crawling in the federal bed.

As if part of a horror movie, this bedroom scene turned into a nightmare. The first bed-fellow to start screaming when the lights went out was the broadcast industry. The TV manufacturers would be next.

From the earliest days of the digital revolution, the NAB has been fighting (against the consumer and even against its own constituents) to make the government's vision of HDTV possible. The TV manufacturers' business model is obvious: "Sell millions of HDTVs to make billions." In contrast, the broadcaster's business model for HDTV makes absolutely no sense. It appears to be: "Spend billions to make millions." Advertisers pay to have viewers watch their commercials. If just a few viewers will see their commercials with a great high-definition picture,

how appealing can this be to advertisers?

In April 1997 the FCC mandated that all TV broadcasts would be digital by 2006. As a result, each station would be forced to meet an aggressive digital-transition schedule. By May 1, 2002, all commercial TV stations were to be online with at least "some" of their programming in digital format.

And how successful were the commercial stations in meeting their deadline? Of the 1,240 commercial stations in the country, 68 percent failed to meet it. The FCC was clearly not amused. Although 772 stations were granted a six-month extension, another 71 stations had their requests denied. Those recalcitrant stations that choose to flout the authority of the FCC run the risk of having their broadcast licenses revoked.

The major reason for the failure to meet the deadline was cost. It is easy for the federal government to make mandates—they don't have to pay for them. For the small broadcast stations in "fly-over America," this digital mandate presents a severe financial hardship. The conversion price tag, for all stations, both large and small, starts at around \$3 million.⁵ High-definition broadcasting thus causes capital and operational expenses to skyrocket without any increase in revenue. It would appear that the concept of "making a profit to survive" is totally alien to the FCC bureaucrats since they operate in a taxpayer-funded bankrupt-proof environment.

The Next Victim: Television Manufacturers

While the nightmare for the broadcasters is ongoing, the nightmare for the TV manufacturers is about to begin. On August 8, 2002, the FCC voted 3 to 1 to require electronics manufacturers to include digital tuners in all new television sets by 2007. The actual phase-in date will depend on the size of the set. TVs with screens 36 inches or wider would be required to include the digital tuner by July 1, 2004.

The TV manufacturers feel that this mandate is absurd. The FCC's own data shows

that only 14 percent of viewers watch TV using an over-the-air broadcast. The other 86 percent get their TV from either cable or satellite.⁶ Since the overwhelming majority of viewers will never use the \$250 tuner, why is the federal government forcing all TV consumers to buy a product they clearly do not want? Answer: the federal government feels that by manipulating the market, it can artificially create a demand for HDTVs where one does not currently exist. In theory, this will lead to a groundswell of real consumer demand for HDTVs. The CEA estimates that the federal government's mandate to stimulate that demand will cost \$7 billion. The *Detroit News* calls this a "TV tax on consumers."⁷

The federal government's latest attempt at industrial policy has been, and continues to be, a fiasco. It is very clear that it has lost the digital TV war. Based on the incredibly slow pace of the transition to digital TV, it is

incomprehensible that the American people will accept 2006 as the end of TV as we know it. The federal government did not mandate an end to black-and-white TV, and it should not impose a mandate this time either.

But don't expect the bureaucrats to learn the right lesson: on October 10, 2002, the FCC unanimously approved a new standard for broadcast digital radio.⁸ □

1. Joel Brinkley, "The Dawn of HDTV, Ready or Not," *New York Times*, October 26, 1998.
2. "TV Sets," *Consumer Reports*, October 2002, search "HDTV" at www.consumerreports.org.
3. "DTV Owners Survey," *HDTV Magazine*, November 2000.
4. Karla Robinson, "H is for Headache," *Ace Weekly*, September 14, 2000.
5. David Lieberman, "Order to Go Digital Staggers Small TV Stations," *USA Today*, July 17, 2002.
6. "Many Broadcasters Will Not Meet 2002 DTV Deadline," General Accounting Office Report, GAO-02-466, April 23, 2002.
7. "Stop FCC's Stealth TV Tax," *Detroit News*, August 13, 2002.
8. Barnaby Feder, "FCC Approves a Digital Radio Technology," *New York Times*, October 11, 2002.

BACK IN PRINT!

The Ultimate Foundation of Economic Science

An Essay on Method

By Ludwig von Mises

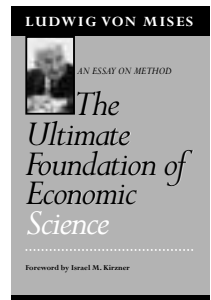
Foreword by Israel M. Kirzner

Mises' last book, which appeared in 1962, offers reflections of a lifetime. He explains in plain language the theoretical basis for all the amazing insights of the Austrian School. He discusses the methods of empirical sciences and focuses on the dynamics of a priori logic.

Most timely today are Mises' comments about intellectual crises of Western civilization. Mises displays his trademark devotion to liberty. For instance, he writes, "What transformed the world of horse-drawn carriages, sailing ships, and windmills step by step into a world of airplanes and electronics was the laissez-faire principle." Bravo!

(from a review by Jim Powell)

Foundation for Economic Education, 2002
LV8630, Paperback, 155 pages



List Price: ~~\$18.95~~

Our Price: \$14.95 + \$3.75 shipping

You Save: \$4.00 (21%)

LAISSEZ FAIRE BOOKS

Orders out to you in 24 hours — Satisfaction guaranteed
Order toll free: 800-326-0996, or online at www.laissezfairebooks.com