

THE FINANCIAL PAGE

Free Air

by James Surowiecki

In the late nineties, Washington policymakers took up a noble cause. There was a new technology, digital television, that almost everyone agreed would eventually revolutionize TV, but—*quelle horreur*—almost no one was adopting it. Among other things, local TV stations couldn't transmit digital signals on their existing analog channels. They needed digital spectrum. (If you think of the electromagnetic spectrum as a highway, digital and analog signals travel in different lanes.) So Congress decided to give the stations a leg up—or, rather, a handout. Instead of auctioning off the digital spectrum (which might have brought in new competitors, not to mention money), or simply asking broadcasters to pay for it (it was worth, conservatively, tens of billions of dollars), Congress offered it to them free. It was, as Reed Hundt, who was the F.C.C. chairman, said at the time, “the largest single grant of public property to . . . the private sector in this century.” Senator John McCain was a little more blunt. He called it “one of the great rip-offs in American history.”

To be fair, Washington did insist on some quid for its quo. In exchange for the new spectrum, the broadcasters would accelerate their move into digital programming, and they would return their old analog channels. This was the important part; technological innovation had made those channels extremely valuable, for high-speed wireless connections and public-safety radio transmissions, among other things. Of course, the government had given the broadcasters these channels in the first place, so it wasn't exactly driving a hard bargain. But it was getting something, at least.

Something is starting to look more and more like nothing. When the deal was made, in 1997, Washington anticipated that it would get all the old spectrum back by 2006. But now broadcasters have come up with a new plan: they'll keep the new spectrum and hold on to the old spectrum, too. And Congress appears to be going along with it. Last month, the Senate Commerce Committee killed a bill that would set a reasonable but firm deadline of 2009 for the return of the analog channels. In its place, the committee adopted a bill—backed by the broadcasters, naturally—that could enable them to hold on to most of their spectrum indefinitely.

The broadcasting industry is well acquainted with political favoritism and corporate welfare. Local TV stations have consistently been among the most lucrative businesses in the country, but they have never been asked to pay for their use of the public airwaves. In a sense, broadcasters are the modern equivalent of the railroads. In the nineteenth century, the railroads were given tens of millions of acres of land (adding up, eventually, to roughly ten per cent of the country); now broadcasters have been given billions of dollars' worth of electromagnetic real estate.

The government subsidized the railroads because it believed that America's economy needed a modern transportation system. It has subsidized TV stations because it wanted the media to serve the public interest. Broadcasters get their licenses free, and, in exchange, they're supposed to keep the citizenry informed. Commendable as this mandate may seem, it has very little to do with the business of broadcast television. Today, most Americans—ninety per cent or so—have cable or satellite TV. The airwaves are used less and less. Nor is there any evidence that the public interest is better served by broadcasters than by cable channels. That the major networks showed just an hour of coverage per night of the national political conventions suggests that it is not. (And it's unclear who is to blame, exactly, for the fact that two out of five Americans think Saddam Hussein was behind the September 11th attacks.) If people would rather watch an episode of

“Survivor” than a speech by Al Gore, the network will air “Survivor.” This is a sound business decision. But taxpayers shouldn’t be footing the bill for it.

Getting the spectrum back raises some esoteric technical issues, such as the application of must-carry rules, but the lawyers can iron those out. And then there are those holdouts whose sets can’t receive digital signals or who don’t have cable or satellite TV; they’ll be out of luck. But that’s a small percentage of the population, and it will be even smaller by 2009. Still, for some reason we seem to believe that free commercial television is an inalienable right. We may not be willing to pay for all Americans to have health insurance, but we’re content to pay for them to watch “Scrubs.” One plan that’s been floated would have the government put aside money to buy set-top devices that would allow any television, no matter how boxy and rabbit-eared, to receive digital broadcasts. Silly and impractical as that may seem, it would be worth trying if it would help get back the tens of billions of dollars’ worth of analog spectrum that the broadcasters are hoarding.

In fact, the fight over spectrum has little to do with what people watch and a lot to do with what economists call “rent-seeking.” “Rents,” in econo-speak, are the excess profits that monopolists reap in the absence of competition. By endowing local broadcasters with free channels, the government effectively made them little spectrum monopolists, and the one thing we know about monopolies is that they do not disappear of their own volition. The broadcasters, thanks in large part to their monopolies, have enormous lobbying resources, and their control of the airwaves has made local television—and, in particular, local television news—a powerful weapon to wield against politicians who cross them. Politics drives the business, and the business shapes the politics. As for the public interest—does “Desperate Housewives” count?