ington Post.

orm.
de-
acle
loze
eved
g de-

eeded,
l them.
rnment
Christian
reduced

will be
ties like
ny com-
officials.
-Pacif-
t year
Ameri-

ry of
Latin
ical

Violence on Screen: Desiring What Disgusts Us?

By Mario Cuomo

The writer is governor of New York.

ALBANY, New York — America's television screens are awash in blood. And we're starting to see that the electronic mayhem encourages even more real-life bloodshed in a society that already has at least as much as it can deal with. Americans — a significant number, anyway — want to see something done about it. So it is no surprise that the idea of tough new governmental regulation is beginning to be spoken of seriously in some of the most unlikely and usually clear-minded circles.

But at this point, Americans should ask themselves: Do they really want a thought-police crackdown?

Government censorship — and that is what it would be — would mean seizing an important part of Americans' freedom and delivering it to a government they already distrust; substituting the opinions of faceless and unaccountable bureaucrats for their own judgments about what is valuable or interesting or entertaining.

Even if America could muster a cadre of governmental Brahmins that the people would trust more than themselves, what rules would they apply in censoring radio and television — not to mention, eventually, the printed media? Would the television program "NYPD Blue" be acceptable because its violence seems to have a moral? How about Arnold Schwarzenegger? Or operas? Would artful violence be allowed, but poorly done violence banned? What about news programs that zoom in on the gore and degradation of war?

In the end, government regulation simply does not represent the least intrusive means to the end we all desire. The cure would be worse than the disease.

What choices are left? Maybe we should try a little self-regulation. Can't the rest of us work a little harder at living out the message that violent solutions diminish us as human beings? Can't we work harder at delivering more constructive messages?

Shouldn't we, especially the parents among us, be doing more to reject the violence and filth around us? Can't we keep our children from watching and being contaminated by the poisons of television the way we keep them from the bottles marked with a skull and crossbones? It would surely be part of the solution.

Another alternative would be some kind of self-policing by the broadcasters, a strategy supported by a number of important voices in the industry. Warning labels are already in effect, and "V-chips" that block prelabeled violent shows are being talked about.

All these ideas might help, but they will not be enough in the end. Americans function in a profit-driven, free enterprise system, a system that imposes on the broadcast industry an overriding pressure to produce dividends for its shareholders — no matter what.

This suggests still another possibility. Perhaps the swiftest, most powerful way to improve the quality of radio and television — as well as movies and popular music and advertising — would be the purest kind of legitimate commercial persuasion. A real campaign by the consumers: We will not buy your action-adventure killer robots or your lemon-fresh soap or your cold-filtered beer if you keep purchasing garbage and pouring it into our living rooms!

A grand referendum. A coast-to-coast cooperative campaign — led by Bill and Hillary Clinton — enlisting every thoughtful American, embracing every worried parent, to demand that we aim for a higher standard in what the cables and airwaves pump into our lives, in what we see at the movies or buy on a compact disc.

A campaign that includes young people and government officials and corporate executives and spiritual leaders. Such a campaign could help push the American people, through their own good instincts, to the kind of civility and sensibleness and feeling of community that has been eclipsed by the dark images coming from the television screens.

And if the campaign failed, it would nevertheless serve a purpose. It might prove that the executives of radio and cable and television are not, after all, jamming sex and violence and profanity down people's throats, but that Americans are choosing it from a menu called the program guide. That the truth is, the American people boost the ratings of the overheated, made-for-TV movies about other people's adultery. That we're the ones with the appetite for endless re-enactments of the real, live blood and terror of police work.

If the country does indeed contain this extraordinary contradiction — this desire for what disgusts us, this disgust for what we desire — then maybe we Americans should admit it to ourselves. Admit that as a nation we were born in violence and we will live with it, and all our protestations are mostly pretense.

That kind of look in the mirror on the morning after might shock us into a real commitment to change things.

Los Angeles Times.

---

now do a bit better, in the short run at least. But the long run is different. Employee loyalty is bound to suffer, and ultimately perhaps performance.

Wall Street, of course, does not worry much about the long run. It is the price of the stock tomorrow that concerns it, and its values have now been adopted by corporate America. A schoolyard mentality — the cheap machismo of investors in expensive suits — is at work. Sissies care about workers. Tough is venerated. It has become a word to mask greed.

The donnybrook over the North American Free Trade Agreement should have alerted American corporate leaders to the fact that there is a rising anger within the American working class — blue- as well as white-collar. It has seen its earnings eroded even as the incomes of paper shufflers and number crunchers have grown to obscene levels. (Each partner of Goldman Sachs was recently awarded a $5 million Christmas bonus.)

Americans have begun to ask themselves an age-old question when it comes to efficiency: What's in it for me? They asked that question about NAFTA, but they raised it late and too clumsily. The answer anxious workers got came down to "trust me." Suddenly, corporate America cared about the long run. Eventually, everyone would benefit.

Maybe. But unless the Clinton administration can learn how to jawbone corporate America, unless it can get its dander up about workers being treated like dirt, Perotism and Buchananism — one loony, the other dangerous — will exploit class antagonism and make Bill Clinton's life miserable. Corporate America has its bottom line, but so do the voters. In the — yes! — short run, they are going to collide, and then Wall Street and corporate America are going to ask what happened. The answer is that they got what they had coming.

The Washington Post.

Russian Roulette With Space Shuttles

By James Gleick

NEW YORK — There is a kind of self-deception familiar to gamblers everywhere. You make a rule for yourself ("I'm going to leave the roulette table when I'm down $200"), and when the crucial moment comes you find a reason to break it ("I just remembered that red is my lucky color").

The late physicist Richard Feynman caught the space agency at precisely this game in 1986, when he served on the presidential commission investigating the explosion of the space shuttle Challenger. He found that the National Aeronautics and Space Administration was setting safety standards and bending them at the last minute as needed.

"I read all of these [flight] reviews," he said that April, "and they agonize whether they can go even though they had some blow-by in the seal or they had a cracked blade . . . and they decide yes."

He went on: "For the next flight we can lower our standards a little bit because we got away with it last time . . . It is a kind of Russian roulette."

Seven years later, desperate as ever to keep the shuttle flying, NASA is bending the rules again.

As William J. Broad reported this month in The New York Times, the shuttle's solid-fuel booster rockets have been creating erratic, uneven power thrusts that could tear the shuttle apart. Engineers calculated that a worst-case thrust would exceed the allowable safety margin. NASA's solution: to change its safety margin. This is the return of Feynman's Russian roulette.

As every honest scientist knows, an engineering standard has to be calculated with blind disregard for what happens to meet it. If you use the knowledge that a particular hazard will flunk the test as a reason to revise the test, you have poisoned the test.

Early in the Challenger investigation, Mr. Feynman stunned a national television audience by dunking a piece of rubber from the booster-rocket's seals into a glass of ice water and demonstrating that it lost resiliency in the sort of cold temperatures that prevailed the morning of the launch. It was a simple demonstration that cut directly through jargon and obfuscation to the heart of the matter.

But Mr. Feynman's more profound contribution to our understanding of the disaster was even subtler: his independent investigation of how the space agency calculates risk. He ridiculed the agency's estimates that the chances of disaster on each flight were about 1 in 100,000 — a number that its engineers knew was a product of wishful thinking and fraudulent arithmetic.

NASA now more honestly estimates the chance of a catastrophe on any shuttle flight to be 1 in 78. That is not much less than the chance of dealing the queen of spades off the top of a deck of cards — a staggeringly high risk for a disaster that would cost billions of dollars and the lives of the crew.

But where it matters most, Mr. Feynman's legacy has turned to dust. The agency launches shuttles anyway, bending its own rules.

This is surely the gambler's self-deception — the kind Mr. Feynman had in mind seven years ago when he wrote the prescription that NASA now appears to have discarded. "For a successful technology, reality must take precedence over public relations, for nature cannot be fooled."

The writer, author of "Genius: The Life and Science of Richard Feynman," is founder of the Pipeline, a public access link to the Internet computer network. He contributed this comment to The New York Times.

IN OUR PAGES: 100, 75 AND 50 YEARS AGO

1893: Determined Duel

VIENNA — The environs of Vienna were the scene of a most determined duel, which ended in the death of one of the combatants, an officer. The weapons chosen in the first instance were swords, but though the officer was somewhat severely wounded, the result was not held by either party to be conclusive. A second meeting with pistols took place the following day. The aristocrat fired and struck the officer on the breast, killing him instantly. This sad event has cast a gloom over the whole community.

1918: Musical Mystique

COLOGNE — Cologne is accepting British rule with good grace. There are no troops in the city save a few military police and the posts guarding the Rhine bridges, and the new order of things is being established without an imposing show of force such as marked the German occupation of Belgium and France. The reserve of the people has been broken with bagpipes. When the first Scottish infantry entered the city last Sunday [Dec. 7] afternoon to take over the Rhine bridges, they lifted the inhabitants out of their forced calm, and made them show a real curiosity and even a little mild excitement.

1943: Eden in Commons

LONDON — [From our New York edition:] Great Britain, Russia, China and the United States brought to completion at the Cairo and Teheran conferences their several plans for the destruction of the Axis and greatly strengthened the ties that bind them together for post-war collaboration to ensure world peace, Foreign Secretary Anthony Eden told a crowded House of Commons today [Dec. 14]. In a speech lasting nearly an hour, and acclaimed as perhaps the strongest of his career, Eden gave Commons the first public report on the historic conferences since the official communiques were released.

Mr. Balladur is the strong front-runner.

the former Socialist government, sounded pleased.

said, "The United States will return to the charge."

of the deal for the General Agreement on Tariffs and Trade. But the minority who oppose the move are fierce in their opposition and they made that clear Tuesday.

A small but bitter band of farmers demonstrated in the rain outside the Diet building. Among other incongruities, the farmers, traditionally strong conservatives, cheered for Communist Party leaders who condemned Mr. Hosokawa.

Meanwhile, some members of

SQUADS: *U.S. Officers Trained Civilian Rightists*

Continued from Page 1

tions-sponsored investigation of human-rights abuses in El Salvador as the mastermind of the nation's death squads. Mr. d'Aubuisson died of cancer in 1992.

Another U.S. memo, written by a Defense Department official, argued that the Patriotic Ones "are not the types to compose death squads (fund them, yes, but get blood on their own hands — certainly not)."

The documents are among some 12,000 government papers on U.S. policy in Central America that were declassified and made available to the public this year. They were found by researchers from the National Security Archive, a private foundation that works for the declassification of government documents, and the Center for International Policy, a Washington research group headed by Robert E. White.

Mr. White served as ambassador to El Salvador 1980-81 and later criticized the Reagan administration's support for the Salvadoran government in the face of many reports of human-rights abuses by the government in its war against leftist guerrillas.

Those documents and a UN investigation showed that the Salvadoran Army and security forces were associated with death-squad activities, including the killing of hundreds of civilians during the 1980-92 war. U.S. military personnel worked closely with the Salvadoran armed forces, providing training, equipment and advice.

To our readers in Berlin
You can now receive the IHT
hand delivered to your home or office
every morning on the day of publication.
Just call us toll free at 0130 84 85 85

The IHT Desk Diary - for the time of your life.

Half your life's story — or even more — is inscribed on the pages of your desk diary. Yet when you travel or go to meetings, most desk diaries are too cumbersome to take along.

That's why the International Herald Tribune — constantly alert to the needs of busy executives — had this desk diary especially designed for its readers. Bound in luxurious silk-grain black leather, it's perfect on your desk, offering all the noting space of any standard desk diary. Yet pick it up and you'll find it weighs a mere 340 grams (12 oz.).

No voluminous data and statistics are included in this diary, but on the other hand a removable address book saves hours of recopying from year to year.

Please allow three weeks for delivery.

Personalized with gilt initials on the cover, it's an elegant gift for friends, business contacts and associates — and for yourself.

- Diary measures 22 x 15cm (8.5 x 6 in.), fits easily into the slimmest attaché case.
- Padded black leather cover, with gilt metal corners.
- French blue paper with gilded page edges.
- Blue ribbon page marker.
- Week-at-a glance format with plenty of space for daily appointments.
- With removable address book, neatly fitted in a blue silk pocket.

- Corporate discounts and personalization are available. For details, fax Karen Diot at (33-1) 46 37 06 51.

Herald INTERNATIONAL Tribune
PUBLISHED WITH THE NEW YORK TIMES AND THE WASHINGTON POST

15-12-93

Please send me ______ 1994 IHT Desk Diaries.
Price includes initials, packing and postage in Europe:
1- 4 diaries 312 F.F. (U.S.$53) each
5- 9 diaries 295 F.F. (U.S.$50) each
10-19 diaries 270 F.F. (U.S.$46) each

INITIALS
up to 3 per diary
☐☐☐

☐ Additional postage outside Europe 60 F.F. (U.S.$10.50)

☐ Check here for delivery outside Europe by registered or certified mail: 50 F.F. (U.S.$8.60).

Payment is by credit card only. All major cards accepted. (Please note that French residents may pay by check in French francs. We regret that checks in other currencies cannot be accepted.)

Please charge to my credit card:
☐ Access ☐ Amex ☐ Diners ☐ Eurocard ☐ MasterCard ☐ Visa

Card N° ______
Exp. ______ Signature ______
Name ______
Address ______
City/Code ______
Country ______
Company EEC VAT ID N° ______

Mail or fax this order form to:Karen Diot, Special Projects Division, 181 Ave. Ch.-de-Gaulle, 92521 Neuilly Cedex, France. Fax: (33-1) 46 37 06 51.

also get it at home?
Same-day delivery available
in key U.S. cities.

Call (1) 800 882 2884
(in New York call 212 752 3890)

Herald INTERNATIONAL Tribune.

VIENNA, AUSTRIA. Tel: 713-3374. Are you sad or worried? Lonely or depressed? Are you despairing or suicidal? It helps to talk about it. Phone BEFRIENDERS in total confidence. Mon.-Fri. 9:30 am - 1 pm and every day 6:30 pm - 10 pm.

ALCOHOLICS ANONYMOUS English speaking meetings daily. Tel: PARIS (1) 46 34 59 65 or ROME 678 0320 or FRANKFURT 5974265.

MOVING

AGS INT'L MOVING

A.G.S. LONDON (44-81) 961 7595
A.G.S. PARIS (33-1) 40 80 20 40
A.G.S. BERLIN (49-30) 421 28 65
A.G.S. PRAGUE (42-2) 685 7216
A.G.S. WARSAW (48-22) 562 555
A.G.S. MADRID (34-1) 411 41 77
A.G.S. ABIDJAN (225) 27 78 45

INTERDEAN
INTERNATIONAL MOVERS
FOR A FREE ESTIMATE CALL
PARIS (1) 39569000

REAL ESTATE FOR SALE

FRENCH PROVINCES

RURAL FRANCE near GENEVA, fortified house, fully modernized, 11 rooms. Geneva: ½ hour, airport: 20 mins. FF2,800,000. Tel: (1) 50 42 26 78.

luxury condos. $100K below value. No qualifying financing. Hrs.) 808-665-0660/Fax: 808-669-

LAKE TAHOE NEVADA, pano lake view at Heavenly Valley Ski. remolded triplex, 3 bedrooms, 2 b minutes from casino & lifts. $205, Craig Zager 702 5885937 ERA

PARIS & SUBURBS

1ST, LOUVRE
EXCEPTIONAL VIEW
Old, freestone building with lift, about 177 sq.m. Reception + dinin room + study + 2 bedrooms, balco nies. Justified price. Parking possible.
COGEDIM Tel: (1) 42 66 36 36

VILLE D'AVRAY, West suburb, 15 mins Paris, near German & American schools. High class duplex on 3rd sunny last floor with terrace. Dazzling design, vast living with fireplace, study, 3 bedrooms, 2 baths, fully equipped kitchen. Classy Nordic furniture, at choice. 2-car parking & cellar. Garden + forest. Owner sale US$ 650,000. Tel/Fax: 33-1-47 09 63 05

9th - PLACE ST GEORGES
"sumptuous Grand Siecle" apartment, 210 sq.m. living space + 15 sq.m. balcony, 2 receptions, 4 bedrooms, kitchen, bathrooms, maids'rooms, cellars. FF7 million. Tel:
(1) 43 29 30 95 Fax 43 29 15 35

CENTRAL PARIS, charming 5 rooms, metro stops from Opera and Galeri Lafayette, 3 bedrooms, fully equipp kitchen, very quiet. Very low price to urgent sale. F1,800,000. Tel: 48 78 77 45.

NEUILLY on private street, in house, owner sells 110 sq.m. ment, perfect condition, 2 bed living-dining room, private yard ing. F3,600,000. Tel: (1) 47 63 2

5th, PORT-ROYAL/ GOBELINS on 3 levels, 250 sq.m., charm calm. F5.2 M. Owner tel: 1-46

6th, ON PLACE DAUPHIN floor, ravishing 150 sq.m. price. Tel: (1) 47 43 08 22.

AUTOMOBILE MARKET

SAAB
DUTY FREE
US & EUROPEAN CARS
SPECIAL PRICES
76 bis, avenue de Suffren
75015 PARIS
✆ (1) 47 83 45 22
fax : (1) 47 34 65 50
Your Contact : Gilles Lugan

AUTO RENTALS

RENT FROM DERGI AUTO
WEEKEND: FF 515
SPECIAL OFFER - 7 DAYS: FF 946
PARIS TEL: (1) 45 87 27 04

AUTO SHIPPING

SAVE ON CAR SHIPPING. AMESCO, Kribbestr 2, Antwerp Belgium. To/from US, Africa. Regular Ro-Ro sailing. Free hotel. Tl 32/3/231-4239 Fx 232-6353

AUTOS TAX FREE

ATK WORLDWIDE TAX FREE CARS. Export + shipping + registration of new & used cars. ATK NV, Ternincklei 40, 2930 Brasschaat, Belgium. Phone: (3) 6455002; Telex: 31535; Fax: (3) 6457109. ATK, since 1959.

PROKURA WORLDWIDE EXPORT Great savings; all '94 cars & jeeps. US Tel: 516-749-0908, Fax: 516-749-0769

Iczkovits
tax free cars
Alfred Escher - Str
CH-8027 Zuric
Tlx: 815915. Fax: 01/2
Tel.: 01/202 76
new TAX-FREE
Range Rover + Chevro
Mercedes + BMW + Au
Cadillac + Jeep + Jagu
Same day registration
renewable up to 5 y

TAX FREE CARS
ALL MAKES & MODELS MOTORCYCLES WORLDW MENT AND DELIVERY. Let u specific make(s) and model(interested in and by return w you your full color person **PACKAGE** (variable inform price package) containing about the vehicle of your cho **SHIPSIDE TAX FREE W WHEELS BV,** PO Box 43 Hoofddorp, The Netherlan +31.20.6533333. Fax +31.20 **SHIPSIDE TAX FREE CARS ING Corp.** 600 B. Lake Stre New Jersey 07446, US +1.201.8180400. Fax +1.201

FRED OPERT RACING W
NewUSmodels FreeEurope
PorscheC2Cabrio black17"
Suzuki Vitara4X4softopABS
HondaCivicCRX DelSolTarg
JeepCherokee4x4 stereo 2
JeepCherokee4x4 stereo 4
JeepGrandCherokeeLimited
Fax for quotes on othe
Phone1-201-3271111 Fax1-2

BUY ANY NEW OR USED 100% guaranteed lowest autos sold for export on USA: 908-354-7621 Fax: 90

WILLIAM SAFIRE

On Media Giantism

WASHINGTON

You won't find a movie nominated for an Oscar with the heroine — fighting to expose the dominance of media conglomerates in the distribution of entertainment — crushed by the giant corporation that controls film financing, distribution and media criticism.

You won't find television magazine programs fearlessly exposing the broadcast lobby's pressure on Congress and the courts to allow station owners to gobble up more stations and cross-own local newspapers, thereby to determine what information residents of a local market receive.

Nor will you find many newspaper chains assigning reporters to reveal the effect of media giantism on local coverage or cover the way publishers induce coverage-hungry politicians to loosen antitrust restraints.

Old trustbusters now trust-trusters.

Should we totally deregulate the public airwaves and permit the dwindling of major media down to a precious few? Should we reduce choices available to cantankerous individualists who do not want their information and entertainment limited by increasingly massive mass media?

"Luddite nonsense," answer many merging movie mogul and media magnates, as they point to the seemingly fierce competition from the Internet and the proliferation of cable channels.

Tell that to the purchasers of political advertising: the big bucks go into broadcast TV, with its unmatchable cost per thousand viewers. And stop to examine the highly hyped "competition" that consolidating media profess to fear: The leading 20 Internet sites and biggest cable channels are already owned by the expansive likes of G.E.-NBC, Disney, Fox, Gannett, AOL Time Warner, Hearst, Microsoft, Cox, Dow Jones, The Washington Post and The New York Times. (Is there anyone I haven't offended?)

Ah, counter the trust-trusters, but most people want the conglomerates they trust to provide the content they watch and read. As for diversity — don't 16,000 local radio stations provide much of the vaunted diversity of views and tastes that Americans want?

Take a listen to what's happened to local radio in one short wave of deregulation: the great cacophony of different sounds and voices is being amalgamated and homogenized. (The following figures were published by Gannett's USA Today, which kind of blunts my point about big-media squeamishness, but its account of the F.C.C.'s ruination of independent radio is damning.)

Back in 1996, the two largest radio chains owned 115 stations; today, those two own more than 1,400. A handful of leading owners used to generate only a fifth of industry revenue; now these top five rake in 55 percent of all money spent on local radio. The number of station owners has plummeted by a third. Yesterday's programming diversity on the public's airwaves has degenerated to the Top 40, as today's consolidating commodores borrowing public property say "the public interest be damned."

Granted, Rush Limbaugh's views differ from those heard on liberal NPR, just as an indie movie producer can make money for a cookie-cutter conglomerate with a film going against the grain. But while political paranoids accuse each other of vast conspiracies, the truth is that media mergers have narrowed the range of information and entertainment available to people of all ideologies.

Does this make me (gasp!) pro-regulation? Michael Powell, appointed by Bush to be F.C.C. chairman, likes to say "the market is my religion." My conservative economic religion is founded on the rock of competition, which — since Teddy Roosevelt's day — has protected small business and consumers against predatory pricing leading to market monopolization.

One of the Democrats on the F.C.C., Michael Copps, is concerned that "we're relying on institutions to cover this debate which have interests in the outcome of the debate." That inherent conflict of interest is why I have long been banging my spoon against the highchair.

Republicans in the House, intimidated by the powerful broadcast lobby, don't admit that some regulation can be pro-business; neither does the D.C. Court of Appeals, which wants further "granulating of evidence" that endless merging harms competition. In the Senate, Kay Bailey Hutchison, Republican of Texas, grasps this. Perhaps Commerce Chairman John McCain will see T.R.'s trust-busting light and start heavy granulating in hearings — before merger mania afflicts TV and film the way it is debilitating local radio. ☐

E-mail: safire@nytimes.com

The dea

U

4

1

10

To

mob

the

E

All

$39

Motor

Your wirel
as good as th

And Verizon Wireless has t

CALL 1.800.8

VERIZON WIRELESS C

NEW YORK

BRONX
153 E. Fordham Rd.
718-733-2292

BROOKLYN
8524 5th Ave.
& 86th St.
718-491-6680

5100 Kings Plaza
718-377-5041

146 Montague St.
718-246-4117

MANHATTAN
157-161 E. 86th St.
btwn. Lex. & 3rd Ave.
917-492-2583

2268 Broadway
btwn. 81st & 82nd St. NEW
212-712-8040

1266 3rd Ave.
& 73rd St.
212-606-4700

57 W. 57th St.
btwn. 5th & 6th Ave.
212-980-4860

Drive responsibly.
Call with care.

Night & weekend hours: Mon.-Fri. 9:01pm-5:59am, Sat. 12am-Sun. 11:

IMPORTANT CONSUMER INFORMATION: The America's Choice net
next full minute. Unused allowances lost. All lines on accou
available in all areas. Calls placed while off the America's Ch
10-12 weeks for rebate check. For rebate, must be a custo
advantages. See http://www.verizonwireless.com/bestnetw

Limiting Cable Porn, Privately

By David Andrew Price

There is much to be said for the civil libertarian maxim that if you don't like pornography, don't buy it. The free market corollary would seem to be that if your customers don't like pornography, don't sell it. But a recent federal court decision has taken that option away from cable television companies.

In a 1992 act, Congress had permitted—not required—cable operators to ban indecent programming from public- and leased-access channels. Congress did so in response to complaints about explicit sexual images that a viewer was likely to encounter on even the most innocent sampling of cable channels.

On Nov. 23, 1993, in *Alliance for Community Media v. FCC*, a three-judge panel of the U.S. Court of Appeals for the D.C. Circuit ruled that Congress had violated the First Amendment by permitting cable operators to take those measures. Last Friday, the Clinton administration petitioned the full court to reconsider the case. If the panel's decision is not overturned, the result for many viewers—especially parents—may be to make cable seem more like a minefield than a superhighway.

Public-access and leased-access channels are part of a cable subscriber's basic service package. The Cable Communications Policy Act of 1984 gave municipalities the right to negotiate for public-access channels as part of their franchise agreements with cable operators. The act essentially provided that public-access channels must be open at no charge to all local residents who want to broadcast noncommercial matter. Also, the act directly required operators to reserve a number of leased-access channels for commercial use.

Problems arose because the 1984 legislation prohibited operators from exercising any editorial control over public-access or leased-access channels. The predictable result was that, in some areas, nudity and sex acts became part of the basic cable package—especially on leased-access channels, which featured explicit advertisements for "adult" films, phone lines and the like. Under federal law, the operators were powerless to respond to subscribers' complaints by keeping that material off.

When Congress reacted to the situation in 1992, one step it took was to restore some editorial control to the operators. The Federal Communications Commission was then promptly greeted by a First Amendment challenge in the D.C. Circuit from programmers and civil liberties groups. But the First Amendment restricts only *government* censorship, not the editorial decisions of private companies. What Congress had done in restoring editorial control was to reduce government's involvement in content, not increase it.

In striking down the change in the law, the D.C. Circuit treated it, in the panel's words, as "deputizing cable operators" to censor on behalf of the government. Because the change in the law had the effect of "significantly encouraging" private censorship, any editorial decisions of the operators to ban indecent material on the access channels were "state action" attributable to the government.

The panel based its decision on a 1967 Supreme Court case, *Reitman v. Mulkey*, the high-water mark in the expansion of "state action." In that case, Californians had enacted a state constitutional amendment to allow racial discrimination in housing and to override the state's fair housing laws. The question was whether the Equal Protection Clause of the U.S. Constitution made the amendment invalid.

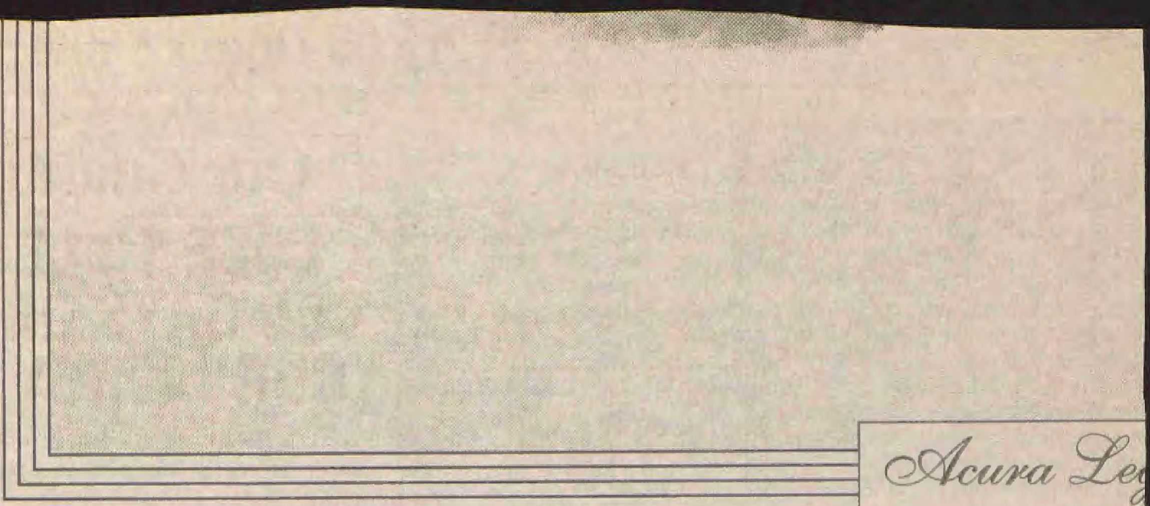
The Equal Protection Clause had long been held not to control private discrimination; at the federal level, only civil-rights statutes do so. The Supreme Court found, however, that the California amendment encouraged private discrimination and involved the state in it, making private acts of discrimination into illegal state action. In its decision, the D.C. Circuit regarded the 1992 cable act permitting private censorship as analogous to the amendment in *Reitman* permitting private discrimination.

The panel's equation of a cable company's editorial control with state action may not, however, adequately reflect the Supreme Court's state-action decisions in the 25 years after *Reitman*. Most notably, the Supreme Court's 1976 decision in *Hudgens v. NLRB* made clear that the First Amendment did not forbid the National Labor Relations Board from allowing a shopping center to exclude picketers, even though such a decision would authorize private censorship. By implication, the *Hudgens* decision seems to indicate that government authorization of private editorial decisions, unlike government authorization of racial discrimination, is simply not a constitutional issue.

Yet the practical consequences of the D.C. Circuit's decision are real, and they extend beyond cable television. The Clinton administration's plan for the "national information infrastructure"—touted by Vice President Gore in Los Angeles earlier this week—calls for the federal government to have an activist role in, among other things, setting technical standards, funding research and development, and ensuring "universal" access to information resources such as computer networks. At some point, federal involvement in this infrastructure could be held, under the D.C. Circuit's model, to transform the content decisions of service providers into illegal censorship. That would frustrate the will of information consumers who pay, in part, for just those editorial judgments.

Of course, the market may ultimately reject the censoring of sexual or other material from information services—if people want the material. But the votes for and against that type of editorial control should be cast by customers voting with dollars, not by federal judges.

Mr. Price is an attorney in Washington.



ANNOUNCING TWO recent developments that just might
precipitate a move on your part into an Acura Legend. One is the precipi-
n the form of snow and sleet. It's that time of year again and
own fact that, for most drivers, a front-wheel-drive vehicle
nuch better in these hazardous conditions than a comparably
icle with rear-wheel drive. And an interesting point we'd like to
for people with an unswerving desire to stay on the road,

ACU

CALL 1-800-TO-ACURA FOR

ipating Acura dealers to qualified lessees approved by American Honda Finance Corp. Subject to availability. Advertised lease rate of $39
insurance and optional equipment and services not included. Advertised rate based on a consumer payment of $1,999 as a prepaid rent
fect actual rate. Due at lease signing are consumer's $1,999 down payment, first month's lease payment, refundable security deposit equ
nts is $14,364 (plus tax as applicable). Option to purchase at end of lease for purchase price of $19,701.90 plus applicable tax and official
and excessive wear and use. Mileage charge of $.15/mile over 15,000 miles per year due at end of term. A disposition fee of no more than
uction and option-to-purchase price different in AK and HI. See your participating Acura dealer for details. Legend Sedan GS shown. ©

me.
major downsizing, em-
emain at the company often
what psychiatrist Manfred
Vries calls "layoff survivor sick-
a syndrome characterized by
, depression, fear, guilt, risk aver-
, distrust, vulnerability, powerless-

ple who don't fit. In co
companies in the U.S., Europe
have found innovative ways to
their cultures and maintain trust even during cutbacks.

- BankBoston created its Transition Assistance Program for people whose jobs disappeared after its 1996 merger with

The
jects from
eliminated or
merger. It will focus

f-
in
c-
ib
nt
on
est
's
ro
an-
ver
eral
ally
ctor
ors,
the
de-
fare
aily
sent
now,
late
hoice
ublic
guys
boys.

y $1.5
s hop-
siness
ssment
equally
court,
be paid
of puni-
illion?
ve been
ly of TV
"

TV Ratings: 'I' for Inadequate

By Newton N. Minow
And Craig L. LaMay

In the early days of NBC's situation comedy "Family Ties," the writers received a letter from a young mother in Buffalo, N.Y., who praised the program for its sensitivity toward young children. The program, she said, was one of the very few on television to which she could entrust her children when she had to be out of the room. The writers posted the letter on the office wall. Thereafter, whenever they considered controversial script material, they would judge its appropriateness by what became known as the Woman From Buffalo Test. The story is relevant today, as parents wonder whether the new TV ratings system will prove adequate to protect their kids from violent and sexually explicit programming.

Few industries are as protective of their constitutional rights as broadcasters, who have an exclusive license to speak on the nation's most valuable property, the public airwaves. So it was a delicious irony when broadcasters demanded three years of silence from Congress and children's advocacy groups as the price of their agreement to revise the ratings system, which will now include specific advisories on program content. As one industry spokesman put it, "For three years we will keep the jaguars and bobcats off our backs and have a diminishing of carping and criticism in the marketplace."

Of course, any ratings system should be given time to work in conjunction with the V-chip, and television sets with the chip won't be available until next year. But should the discussion of how the ratings work and whom they should serve really be shelved for three years? Of course not.

Offended? Let broadcasters know.

Now it's the public's turn. In all the controversy over what kind of ratings system is best, almost no one has noticed a relevant item tucked away in another corner of the 1996 Telecommunications Act, far away from the V-chip provision. Section 204 of the law requires that broadcasters keep in their files for public inspection, and attach to their applications for license renewal, a record of all letters received from the public that comment on violent programming.

In itself this requirement is a thin reed. Under the law's terms, broadcast licenses are now longer, lasting eight years instead of five; and the public's ability to challenge renewals on the basis of a broadcaster's public service performance is virtually gone. It is unlikely that broadcasters will lose licenses on the basis of violent programming.

Nor should they. The premise behind screening technologies like the V-chip is that in time they will allow broadcasters to offer *more* choices to viewers. Inevitably those choices will include adult fare, some portion of which will undoubtedly contain gratuitous violence and strong sexual content, especially as digital television makes it possible to target ever narrower audiences.

Thus congressional concern over the suitability of the current television rating system is amply justified. Whether this system proves helpful to parents and whether it will be adequate in the future are both questions that Section 204 opens to public debate and discussion. If Congress really wants to explore this issue, it should publicize the law's requirement widely. Under the law, the ultimate responsibility for rating programs lies with the license holders—individual stations—and they will be the first to complain if their files become swollen with hundreds of letters from parents and grandparents declaring the ratings system a sham.

Not all programming should meet the Woman From Buffalo Test, of course, but the story illustrates the power of a single letter. Imagine the power of hundreds of thousands of them.

Mr. Minow is a Chicago attorney and former chairman of the Federal Communications Commission. Mr. LaMay teaches at Northwestern University's Medill School of Journalism. They are co-authors of "Abandoned in the Wasteland: Children, Television and the First Amendment" (Hill & Wang, 1995).

Notable & Quotable

From an essay by Adam Garfinkle in the Summer issue of The National Interest:

Between 1989 and 1992, several symbolically charged arguments that we once feared might never be settled due to the standard secrecy and stealth of communist regimes were in fact resolved. . . .

Did South Korea trick North Korea into invasion in June 1950, as many revisionist historians have argued, or did South Korea even attack first? We got the answer in 1990 directly from North Korean officials: Stalin knew about and encouraged North Korea's aggression, and so did Mao Tse-Tung.

Did the Soviet Union abet international, and especially Middle Eastern, terrorism? The Soviet government always denied it, but five years ago the Russians revealed that the Soviet government gave aid and arms to the Popular Front for the Liberation of Palestine for use against Americans and Israelis. . . .

The Soviet Union denied ever having an offensive biological weapons program, and Soviet sympathizers in the West cited Moscow's accession to the 1972 Biological and Toxins Weapons Convention as proof. But a defector revealed in 1990 that the Soviets had a program that was more than twice the size of the highest U.S. intelligence estimates.

ing employe
ment of those
engender trust is no
first place.

Ms. Kanter is a
Business School an
Moss Kanter on th
ment" (Harvard B
1997).

THE WALL S

Peter R. Kann
Chairman & Publisher

Paul E. Steiger
Managing Editor

Byron E. Calame
Daniel Hertzberg
Deputy Managing Ed

Vi

Danforth W. Austi
Paul C. Atkinson
William E. Casey
Michael F. Sheeha
Charles F. Russel
F. Thomas Kull J

Publ
DOW JO

Peter R. Kann, C
Kenneth L. Bure
Officer; CEO,
Senior Vice Pre
Chairman, *Ottaw*
Magazines; Peter
President, *Televisi*
Affiliates, President
Vice Presidents/C
House, President,
Palsho, President,
Vice Presidents:
Officer; Julian B. C
Richard J. Levine,
Employee Relation

Editorial and Cor
Street, New York,
Subscription Serv
Directory of Service

…uonal

…iost respected …ons in the world focus- …ocks, market strategy and mar- … newsletter. This is the research organization …e largest world-wide institutional investors turn for invest- …on and advice. 1 Yr.,$298. *(Note: Publisher sends only 12 …er this special SIE introductory offer. Also, not available to persons previously subscribed during the past 2 years.)*

…INGER'S CAPITAL GROWTH LETTER. Just a few strong stocks …extraordinary price appreciation potential are chosen in each issue … Bollinger, CNBC TV's popular financial commentator. …iations are typically chosen from the strongest industries and sup- …risp technical research. 1 Yr., $225.

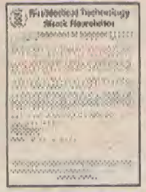
… PRUDENT SPECULATOR. Al Frank's newsletter was incredibly …p stock-picking newsletter and the top market timer rated by Mark … the 15 year period ending August 31, 1996. Fifteen years is the … most meaningful period for which Hulbert rates the 130 plus …he currently monitors. 1 Yr., $175.

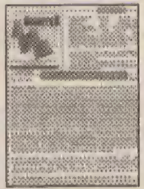
…ow did you do it? I obtained …ensive publications I would … never received if it were …or SIE!"

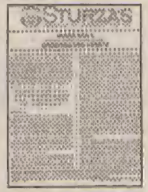
…AL INVESTING. Vivian Lewis analyzes and recommends foreign … ADR's trade in U.S. Markets. Identifies strongest foreign markets …nd short term investments and then picks the strongest industries … stocks trading in those countries. Investing in foreign markets …vian speaks eight languages, and has a spectacular performance …ing a 4,000% return on her Japanese investments. 1 Yr., $425.

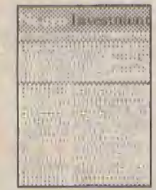
…VEIS SUPER GROWTH STOCKS. From over 130 different …rt follows, Oberweis had the best track record for the 8-year …/31/96, which represents entire period in which he was tracked. …lentifies pint-size companies in which both sales and earnings … lease 30% annually. With those firms that meet Jim's highest …ocks' prices often increase 4 times or more. 1 Yr., $139.

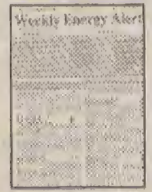
… STOCKS REPORT. Identifies small-cap growth stocks, pos- …nary fundamentals, evidence of stock accumulation and fea-











… read publication. 1 Yr., $499. *(Note. … under this special SIE offer.)*

…OWTH STOCK WATCH. Focuses on little known companies with … less than $100 million, with a minimum 2 to 1 current ratio, minimal long term debt, rapid earnings growth for a period of at least two years, having niche products or service, in a relatively recession resistant industry, innovative management, and in many cases, strong acquisition candidates. 1 Yr., $299.

AI-99 OTC INSIGHT. Jim Collins' widely acclaimed publication is consistently ranked among the best performers by Mark Hulbert and was ranked #1 by HFD for the 8 years ending February '97. Utilizes a sophisticated statistical formula to select OTC stocks possessing outstanding growth potential. Recommended stocks have outperformed all standard stock indexes by a wide margin. Provides calculated indicators of risk and returns for each recommended stock. 1 Yr., $295.

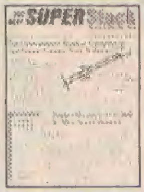
AK-01 BIO MEDICAL TECHNOLOGY STOCK NEWSLETTER. Identifies undervalued biomed and biotech stocks. Buy and sell recommendations include address, phone numbers and company profiles. Researched by scientists working within the biomed and biotech industries and published by veteran analysts and investment bankers. 1 Yr., $240.

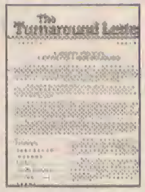
AK-11 SHORTEX. Identifies overpriced companies technically ripe for selling short. Includes full technical analysis, price to go short with stop loss for all short positions, also market strategy and market timing. 1 Yr., $279.

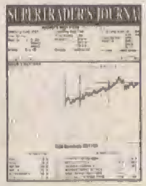
AK-12 STURZA'S MEDICAL INVESTMENT LETTER. Uncovers dramatically undervalued medical technology stocks selected by medical doctors and research specialists. Seeks scientific breakthroughs, promising drugs and grossly undervalued situations. A weekly goldmine of investment opportunities. 1 Yr, $295.*(Note: Only a 4-month subscription to this weekly is offered under this special SIE offer.)*

AK-13GROWTH TECHNOLOGY STOCK WINNERS. Institutional investment advisory screens more than 1,600 high tech companies to select just a few recommendations possessing outstanding investment opportunity. Accelerating revenue growth, expanding profit margins, earnings surprises are just a few of many investment criteria employed. Outstanding profit record in growth and technology stocks. 1 Yr., $225.

AK-16 NEUROINVESTMENT. No biotech sector has greater potential for







m…

AK-4… stocks … Usually, … undertaken … breakthrough, … remarkable new p… otherwise materia… id price appreciati… til the position is …

AK-49 TURNA… both up and do… Magazine. 230… 1997, accordin… od. Seeks out … cies and other … low-priced stoc… educated Georg… ners among the…

AK-52 SUPER… sophisticated p… overpriced and … Increase your pr…

AK-59 OPPORT… option strategy co… month. How to re… valued options and …

AK-61 OPTIONETI… OUT WORRY). Supe… scribers exact, easy …

Also FREE if you act NOW!**

…XTRA BONUS!

Latest Issue of the Wall Street Transcript Worth Over $175 -Yours FREE!

Here's the "Stock-Pick bible" smart Wall Street pros rely on! They pay $1890 …price $175. Yet there's not a penny's cost to you under this special SIE offer. But you …deadline. Complete and mail No-Risk money-saving Certificate at right TODAY!

MAIL THIS CERTIFICATE - OR FOR FASTEST SERVICE.... OR FAX 212-247-7326 TODAY!

THIS MONEY-SAVING CERTIFICATE I… IF MAILED WITHIN T…

☐ **YES** Send your bargain-packed offer worth up to $1,100. for full 5-month subscriptions to four titles of my choice (See exceptions in title descriptions). Send me the latest issue of the Wall Street Transcript (a $175 value) and the 1997 SIE Guide as **free bonuses.** Enclosed is $69 as full payment. **There is NO further cost. NO further obligation.** *(Offer not available to current subscribers. Also, you must choose newsletters or newsletter packages not previously received by you under this special $69 introductory offer) NY residents add appropriate sales tax.*

How To Order

1. Print clearly your name and address, including your ZIP.
2. Write clearly the catalog number of each of the 4 publications to which you will receive full five month subscriptions. (See descriptions for exceptions.)
3. Make out a check for $69 and mail it and the order form to:

SIE, 244 West 54th Street, New York, NY 10019

Select Trial Plan*

Write clearly and please list your 4 selections by catalog number (e.g. AB-44, AD-74, AB-79, etc).

1 ________ 2 ________ 3 ________ 4 ________

WSJ071097-ALL-E

SIE Select Information Exchange

244 West 54th Street • …

A…
h…
s…
pu…
le…
1 —
☐
Car…
Plea…
Nam…
Addr…
City…
Home ____
Pho…

ns
2
ss
Capitol
ked by
nocrat,
rden of
ness.
under-
erica,"
matter-
a GOP
sses.
an non-
political
Clinton
usband
offered
better
for just
ucracy,
also told
h seems

ndor is a
ide—the
he polit-
choice,
nest.
compro-
m their
not mis-
political
ich they
to create
hat puts
nder the
of politi-

er broad-
a larger
erybody,'
ote Stan
r and ad-
ding and
ives that
es rather
at protect

electorate
ay for the

Vatch
A. Gigot

voters, lib-
niddle class
he poor) for
he political
dency, and

y designed
mpromise"
ugh left to
objections
he seniors'
-the-canary
ennedy and
the loud si-
ary Lloyd
more influ-
ate.) Now the
move right
ost cherished

: Liberal Re-
Democrats
e "employer
uire all busi-
oyees' health
gree to drop
worst (but
regulation.
care bene-
l policy, at
't ap-

Why Your Cable Bill Is So High

By Thomas W. Hazlett

A year ago this week, Rep. Ed Markey (D., Mass.), chairman of the House Telecommunications and Finance Subcommittee, told his colleagues: "A vote for the cable bill today has the effect of giving a $6 billion tax cut to Americans across this country." The House and Senate went on to override a Bush veto—for the first time—and enact the Cable Consumer Protection and Competition Act of 1992. Press accounts heralded champagne and caviar for the American cable consumer.

REGULATORY CHOKEHOLD

But just one year later, the party's over. Cable customers have discovered their bills staying the same or, more outrageously, going up. Consumer anger has spurred Mr. Markey to begin hearings to investigate how the Cable Act went wrong. He won't have to look far.

The re-regulation of cable rates, reversing Congress's 1984 deregulation, went into effect on Sept. 1. The Federal Communications Commission, working diligently to reinvent regulation in the spirit of the 1992 law, has set various "benchmark" prices for basic cable service. The claim was that, under such guidelines, basic rates would drop by 10%—or about $1 billion. In reality, even that modest fraction of Mr. Markey's "$6 billion tax cut" will prove illusory.

Regulations by the Pound

The specifics of the 1992 Cable Act would confound even regular viewers of the Learning Channel. The FCC has already handed down 22 complicated rulemakings pursuant to the act, each of which typically involves several rounds of notices and public comment. These have generated "gigareams of paper," according to Washington communications lawyer Nick Allard. He took the trouble to weigh the paper generated by the commission and private commenters in just one of the FCC's dozens of proceedings and found the scales topping 40 pounds.

What is the fruit of all this labor? To meet the new benchmarks, almost all cable companies are reshuffling lineups and repricing their various packages, to the consternation of consumers. This is known as retiering, as cable operators predictably respond to rate controls by changing the product delivered. For instance, the price of basic service (consisting essentially of just the over-the-air broadcast channels) is often being raised, while that of higher tiers (including basic cable networks like CNN and USA) is being lowered. The net result is usually a wash—except for those low-income consumers who can only afford limited basic service.

If you subscribe to Continental Cablevision in Los Angeles, for example, you are no doubt ecstatic over the news about the price restructuring in your area:

SERVICES	OLD RATE	NEW RATE
Basic	$2.10	$9.85
Standard	$19.90	$13.50
Remote Control	$2.10	$0.75
TOTAL:	**$24.10**	**$24.10**

This is the sort of "consumer protection" only Congress could concoct.

In one area, the Cable Act does indeed reduce rates—by limiting those ridiculous charges cable companies extract for remote controls, converter boxes and additional outlets. The second or third TV may now be hooked up to basic cable at no monthly charge; and remotes and converters get rented at cost.

Is there a catch? Take a guess. First, only one-third of cable subscribers (mainly the more affluent) now pay for a second outlet, so most customers realize no savings. For those who now wish to sign up for outlets, cable companies are attaching "cost-based" installation charges; what had been a free hook-up now isn't. Or companies are exploiting certain loopholes that say that they can charge for additional outlets if pay channels (like HBO or Playboy) are on the additional TV. And many systems are now tacking a monthly maintenance charge onto their bills.

But the most popular end-run around the FCC's attempts at price control will again be retiering. Systems are experimenting with various combinations to see how to make the new "regulated" package "revenue-neutral." The favorite ploy: putting newer, cheaper, less-watched channels on basic tiers, and shifting popular networks to "a la carte" (unregulated) status. Since the controls are levied on a price-per-channel basis, adding four "fireplace networks"—channels nobody wants to watch, like one showing burning logs 24 hours a day—can reduce rates 10% on a 40-channel basic package.

> *The re-regulation of cable rates was an inept attempt to put a lid on market forces without freeing those potential competitors that are willing and able to move monopolists out of the consumer's way.*

There are more than 11,000 cable systems in America, and every one of them is ready to play this nickel-and-dime game. A perennial problem in enforcing price controls is that there are so many variables and so few bureaucrats. The cable industry is even advising local officials not to bother helping the FCC. As a trade journal reported in mid-August, the industry is telling cities that the process is "complicated, time-consuming and expensive" and "could very well force them to dip into franchise fees to cover regulation costs."

When the dust settles over the next few weeks, cable companies do stand to lose some revenue. Wall Street analysts now forecast Tele-Communications Inc., the largest cable operator in the country serving more than 20% of U.S. subscribers, will see revenues drop 4% due to the re-regulation. A $6 billion price cut for the industry as a whole would have amounted to a revenue loss of 30%. So the reality of the rollback is one-seventh of the promise.

At most. In fact, prices are only one side of the issue. What about the other—cable TV quality? Because the operator has virtually complete discretion over programming, that 4% price "rollback" only needs to be matched by a 4% reduction in program quality to nullify any effective price reduction. Cable firms were increasing program expenditures by 11% annually under deregulation. The money went to produce new movies, sitcoms, documentaries and talk shows, and to start up new networks such as Court TV and the Cartoon Channel, as well as to tie up high-profile sporting events such as NFL football, NBA basketball and Major League Baseball. By simply cutting back on the rate of increase for program expenditures, operators can lower quality by 4%, before regulators can even find the remote control.

Cable companies are actually hoping that new technologies will allow them to circumvent controls altogether, before they are prompted to lower program quality. The easy way to do that is to upgrade systems to hundreds of channels with smart interactivity, creating the opportunity for new—unregulated—tiers of video programming as well as brand-new telecom services.

So cable re-regulation amounts to nothing? Not true. There is much sound and fury, and it signifies vast quantities of billable hours for industry attorneys. In the end, the cable industry will survive: healthy, strong, armed with lawyers, and charging about the same rates—at monopoly levels.

The great irony of what was labeled the 1992 Cable Consumer Protection and Competition Act is that the readiest competitors to the established cable companies have had to sue the federal government since the act was passed for the right to compete head-to-head. In a stunning federal district court ruling on Aug. 24, the 1984 Cable Act's measure barring telephone companies from offering competitive video in their local service areas was overturned on First Amendment grounds. The barring of telco-cable competition was suspiciously overlooked by the 1992 act, which left the anticompetitive rule intact.

Market vs. Monopolists

What everyone knows, and even Rep. Markey concedes, is that only marketplace rivalry will effectively keep prices down for consumers. It is truly amazing the ways in which competition polices rapacious monopolists. In fact, while ordering a so-called 10% rate reduction, the FCC has data showing that the actual difference between the prices charged in competitive cable markets and monopoly ones is 27%. And while the "rolled" cable company will figure out ways to sidestep any "rollback," consumers in competitive communities actually get better service—and cable systems that answer their telephones.

When Congress re-regulated cable television last year it was widely acclaimed as a prudent reversal of the tide of deregulation that swept Washington in the 1970s and 1980s. That erroneous lesson would constitute a socially harmful bit of TV violence. We now know that the world is not so neat as we once supposed, and that stuffing dynamic industries into crude regulatory boxes is a fool's retreat. The re-regulation of cable rates will one day be known as a politically inept attempt to put a lid on market forces without freeing those potential competitors that are willing and able to move transient monopolists out of the consumer's way. The sooner the policy process grasps this inevitable conclusion, the sooner the American public may enjoy its $6 billion, and a whole lot more.

Mr. Hazlett teaches economics and public policy at the University of California, Davis, and formerly served as chief economist of the FCC.

Barbarians at th Gate

By William V. Healey

An insidious destruction of patient care is occurring now, never mind the future of e Clinton health plan. Gatekeepers, Os and insurers are tearing apart the tor-patient relationship.

et me be specific. A 52-year-old man
total hip rep Thursday.
s later the

to file a formal complaint agai
pany with the State Insura
sion, nothing more was he
physician or the company,
hospital bill in full.

What we seem to have
discussion of hea
that the phys
costs of heal
who recogni
away—qui
nd judgm
ow

er thar family practitioners
b. There are al-
nd large the
eater the
dgm

LEISURE & ARTS

Son of ESPN: New Fix for Sport Junkies

By Frederick C. Klein

New York

ESPN, the 24-hour, all-sports national cable television station, began broadcasting in September 1979, and three months later Steve Bornstein went to work in the programming department. Filling air time sometimes was a challenge, he recalls. "If a college'd have a hockey game scheduled for the evening, we'd call and ask it to make a tape so we could put it on the next night."

Ah, but that was then and this is now. And now, with the sports calendar full past bursting, ESPN's cup runneth over to the extent that, beginning Oct. 1, it'll launch (ta-da) ESPN2, *another* 24-hour, all-sports national cable television station.

A second ESPN will pose problems for sports junkies who have only one pair of eyes, which is to say most of them. For that type, the first ESPN was nothing less than revolutionary, permitting total submersion at will in the objects of their desire.

The question of whether ESPN played chicken or egg to the burgeoning sports-junky phenomenon (plague?) probably is academic. Suffice it to say that when many people today say they watch "the news," they mean they tune in to ESPN's nightly "SportsCenter" show.

On Sports

ESPN2

It would appear that, given the advent of local cable sports channels almost everywhere and all the sports the national over-the-air networks carry, ESPN2 amounts to wretched excess. Wretched it well might be, but the bespectacled, slightly bulky Bornstein, now the station's president at age 41, believes it isn't excessive. "The additional programming certainly is available, and we think the audience is, too," says he. "At least, that's what we're betting."

Publicity surrounding the new station suggests it will be a kind of ESPN Lite, catering to younger viewers who don't fit the stereotypical sports-nut mold. "Youth sports" such as surfing, snowboarding, motorcycling and beach volleyball will be aired prominently, along with a large dose of fitness programs. There'll be "Sports-Call," a nightly call-in talk show, and something called "Jock and Roll," a late-night feature in which box scores, league standings and other statistics will pass before the screen accompanied by rock-n-roll music.

Among the "contributors" ESPN2 has signed is "Downtown" Julie Brown, an MTV personality who, before the last several pro-football Super Bowls, has trotted around interview sessions miniskirted, camera crew in tow, asking players questions like how they keep their buns so trim.

President Bornstein, however, assures that ESPN2 also will carry healthy dollops of such staples as National Hockey League games and college basketball. The station already has announced it will broadcast the plum Duke-North Carolina basketball game on Feb. 3.

"Bread-and-butter sports are our bread and butter," the cameraman-turned-executive smiles. "We're proud to say we've never gone for things like refrigerator races or dwarf tossing—unlike some others I could mention—and don't intend to."

Indeed, it is bread and butter, not quiche, that has made ESPN what it is, which is the nation's largest cable station. It reaches 61.7 million American homes, or 65% of those with television. The station was conceived in 1978 as a New England regional entity by Bill Rasmussen, a Bristol, Conn., entrepreneur. He took it national only after he discovered he could get national satellite time for little more than the cost of a local plug-in. ESPN's studios, now a grand affair, remain in Bristol.

Getty Oil bought out Rasmussen before the station went on the air. Later, ABC would buy out Getty Oil.

ESPN got its programming where it could, mostly catch as catch can, until 1982, when it enlisted the fledgling U.S. Football League. It outlived that entity and currently has deals with Major League Baseball, the NFL, NHL, CFA, NCAA, NASCAR, PGA, LPGA, PBA, AFL-CIO and ASCAP (just kidding about the last two). The only big-time sports league it hasn't snared is the National Basketball Association. Ted Turner's cable station has that. Turner also owns the NBA's Atlanta Hawks.

The station owes its first real coup to tenacity: In 1982 it broadcast, in its entirety, the 6½-hour Davis Cup tennis match between John McEnroe and Mats Wilander, as part of a telecast that lasted 9½ hours. Its presentation of the 1988 America's Cup yacht races from Perth, Australia—using cameras in helicopters and on the competing boats themselves—still is cited as an example of television sports coverage at its best. ("The Australians let us on their boat for free, but the Americans made us pay," says Bornstein. He adds: "I'm not sure I should be telling you that.") The graphics on its "SportsCenter" news shows have come to define the state of that art.

ESPN's other contributions to American culture include sportscaster Chris "Back-Back-Back" Berman, who's made an art of nicknaming; Dick Vitale, the effusive college-basketball maven; and the discovery that people will sit in front of their TV sets all day watching an administrative exercise, namely the National Football League's annual college-player draft. "We take credit for Chris and the draft. Dick takes credit for Dick," Bornstein notes.

ESPN presents some 4,500 hours of "live" or original sports programming annually. ESPN2, which will have an initial potential viewership of about nine million homes, will start out with 2,500 hours of same, with plans to expand. ESPN International distributes sports programming to stations in more than 75 countries. The ESPN Radio Network has 235 U.S. outlets. ESPN video games are in the works.

"When I first came to the station, there were Fridays when we weren't sure we'd still be in business on Monday," says Bornstein. "As it's turned out, we were underestimating Americans' appetite for sports. There seems to be no end to it."

Alas, he's probably right.

Facelift for Folies Bergere

By Judy Fayard

Paris

It took a lot of courage to break with a half-century of tradition at the Folies Bergere, but Helene Martini and Alfredo Arias have done just that. They have thrown out the standard topless-and-feathered formula of Paris revues since the 1930s, and in its place concocted a delirious banana sundae of a show.

Ms. Martini is the director general of the Folies, and the first person in the business to publicly recognize that the staircase-and-headdress spectacular had become "*depasse*, *demode* and uninteresting." Mr. Arias is an Argentine director who has been enchanting audiences here for more than 20 years with the slightly corkscrew, low-budget productions of his Groupe TSE, an assemblage of mostly South American performers of ambiguous gender.

Given carte bl

will only des

movie," M

Bergere

instead of barely animate showgirls. With the help of minimalist sets, masterful lighting and 350 dazzlingly witty costumes by Francoise Tournafond, he reinvents Folies history with a Latin American magic-realist twist.

He pushes the old revue penchant for exotic locations and incongruous characters right over the top. In one extended sequence, Marie Antoinette (wearing roller skates, giant skirt, giant white wig, granny glasses) takes a Charleston lesson from Josephine Baker (wearing a pineapple bustle but singing "Don't Touch Me Tomatoes"), after which they are both whisked off by Esther Williams (bathing cap shades and flippers) to an undersea party where Chevalier is looking for "Titine Ma Titine."

Mr. Arias's concession to feathers is a singi -and-dancing sextet composed of a

ti low-tufted canary (the showgirls

all sizes), a black-and-white

n iridescent-blue bird of par-

red sequined shoes and pasties,

nder an overload of plumes, a

row on stilts (doing a basso

My Man") and a bespecta-

mbo bird in fluffy pink

indeed, ideally

alist flights of

dsome young

eat shock of

d sopra

on a

By St

Wi

starts

much

wakir

works

cat k

tally,

phone

desk

is on

or th

by sta

Inforn

Desk

pages

tions

this b

disk,

ence

Ha

vestm

would

the pas

started

newsle

him—i

most m

ing co

beat th

ters ha

In t

Hulbert

(Dearbo

gives a

ket lette

analyzes

formanc

market.

letters t

mutual

mutual-f

dividual

success

pressive

THE UNITED STATES OF ENTERTAINMENT

WHAT'S THE DIFFERENCE BETWEEN 'THELMA AND LOUISE' AND 'NIGHTLINE'? NOT A WHOLE LOT THESE DAYS

This summer, Arnold Schwarzenegger brought us "Last Action Hero," a film about a boy who's blasted into the movie screen to join his idol on a make-believe adventure, and then both of them step out of the screen to continue the action in real life. This movie blurs the lines between what's real and what's not, what's entertainment and what's not, in a way we haven't seen since—well, since we got up this morning and came downstairs to read the paper.

On any given day, the news is full of what I call double-take items: President Bill Clinton is doing lunch with Sharon Stone. Basketball star Shaquille O'Neal is releasing a rap video. Katie Couric and a gaggle of other female news stars are guesting on "Murphy Brown." Literary agent Owen Laster is selling movie rights to a food column. David Koresh is heating up the small screen before he's cooled in Waco. Robert James Waller, author of *The Bridges of Madison County*, is cutting an album of songs about his book characters. Newsweek is doing a science cover story on dinosaurs to tie in with Steven Spielberg's film "Jurassic Park." The guys at Fox are so pleased with their movie based on "The Beverly Hillbillies," they're thinking of spinning it off into a TV series.

And we used to think blended families were shocking.

BY JAMES MORGAN

ILLUSTRATION BY JOSH GOSFIELD

THE KING AND QUEEN OF THE AIRWAVES ARE TOM AND ROSEANNE ARNOLD, WHOSE LACK OF TASTE EXCEEDS ALL BUT THAT OF THE AUDIENCES WHO LOVE THEM.

Now politics, business, religion, medicine, manufacturing, the arts and show biz all run together. The only gap between them is the Gap Pocket T, as worn by, say, Mack McLarty. This blending of entertainment with every other segment of life—including, in the case of the item about "The Beverly Hillbillies," with entertainment itself—has become troublesome to a good many thoughtful people. My friend Bob recalls that author Graham Greene made a distinction between his "novels" and his "entertainments." "Entertainment used to be clear-cut, recognizable," Bob says. "Now it's like air." Steve, another buddy, laments the effect entertainment has had on sports. It's true. If you've been to a major league baseball game this season, you know that the actual innings of sport are mere interludes, separating wacky promotional antics from mascot activities from blaring rock virtuosos.

My next-door neighbor, John, was concerned when Tina Brown, the former editor of entertainment-oriented Vanity Fair, took over the New Yorker. He had seen that magazine as the last refuge of literate America. When Brown opened a Hollywood bureau, I had real fears for John's blood pressure.

Writers have been warning us about the "entertainmentizing of America." In his book *Amusing Ourselves to Death: Public Discourse in the Age of Show Business,* Neil Postman argues that we've shifted from a word culture to an image culture, thanks to television, with the result that "the content of much of our public discourse has become dangerous nonsense."

For pretty much anybody who's likely to respond to the theme of this essay, television is probably already a lost cause. It's been taken over by no-brainer made-for-television movies and cheesy reality-based programming. The incessant jockeying of shows to see what the audience will accept has helped turn us into a nation of short-sighters who get bored fast and lack the internal resources to deal with it. We used to lead lives of quiet desperation; now, in our constant clamor for whatever's latest, newest and hottest, life doesn't even have the virtue of quiet. Good taste has passed too: The king and queen of the airwaves are Tom and Roseanne Arnold, whose lack of taste exceeds all but that of the audiences who love them. The term "small screen" never seemed so apt.

And the irony of all this is that so many of TV's writers are now fresh-faced Harvard and Yale grads, the very people who, in a less cynical age, would've been called the best and the brightest. Now they're the hip and the hungriest, out to make their quick kill by giving us what they think we want.

But speaking of the public discourse, last year in Rolling Stone author Jon Katz took the traditional media to task for being "pooped, confused, and broke." He then showed how that's paved the way for a shift from what he calls Old News—straight, objective reporting on Weighty Subjects—to New News, "part Hollywood film and TV movie, part pop music and pop art, mixed with popular culture and celebrity magazines, tabloid telecasts, cable and home video." Katz reported that most adolescents, and an increasing number of the rest of us as well, get our news and form our opinions from these sources, and he basically said it was all for the better. As Old News editors and publishers bemoan the lack of seriousness loose in the land, America plugs in at new outlets. "Bart Simpson's critique of society is more trenchant than that of most newspaper columnists," Katz said.

So, for that matter, is Roseanne's.

Before I go any further, I should lay my own credentials on the table. For years I was the top nonfiction editor for a magazine labeled "entertainment for men"—until I quit, tired of assigning movie star profiles, to start a different kind of magazine (which would've sold better had it published more movie star profiles). Now, as a writer, I've committed movie star profiles for money—but I've also written serious pieces for this and other magazines, such as the Atlantic. My wife and I have written a screenplay *not* for money, but we'd be happy to rectify that (it's about a New Age private eye and the organist for the Chicago White Sox—call if you're interested). She and I have even dabbled in TV movies, but we found we don't have the stomach to race all of Hollywood's bottom-feeders to every crisis du jour.

So I have some very conflicted feelings about "the entertainmentizing of America." I have two stepdaughters, and I think you make a big mistake—to quote Arnold—if you try to cut them off completely from the popular culture. Peer pressure will prevail. And yet, one of my daughters, 12-year-old Blair, stands there in her Guns N'Roses T-shirt referring to Truman Capote as "that dude that wrote *Breakfast at Tiffany's.*" I suppose I should be happy she knows it was once a book. The other daughter, Bret, age 9, is a great fan of "Wayne's World," and when I told her recently that something unpleasant was going to happen to her if she didn't stop doing whatever it was she was doing, she responded with a classic Wayneism: "Sha," she said, "like monkeys'll fly out of my butt." I do think the pervasiveness of entertainment makes raising children harder than it used to be. For example, when Bret said that I laughed like a ninth grader.

A COUPLE OF YEARS AGO, MY WIFE AND I made a business trip to Las Vegas. Vegas was like going back in time, a more innocent time, actually: Every hotel had some show to see, and it seemed that every one of them featured a juggler and a gang of three gauchos who danced while they twirled their bola balls. I hadn't seen entertainment like that since Ed Sullivan died.

When you really think about it, entertainment is, or used to be, a peculiar concept. My Webster's dictionary defines entertainment as "something diverting or engaging." *Diverting* is the operative word: It implies that there's a world aside from entertainment, and when you want a break from that world you go out and find somebody or something to "entertain" or "divert" you. A gaucho act, for instance.

I never saw the point of that kind of entertainment. It was distant, arm's length, objective. It had nothing to do with me. After it was over, I was still the same person stuck in the same world with the same problems. I feel the same way about cards and parlor games and even video games. Whether with other people or alone, I don't need to be entertained: I'd rather talk, or listen, or think.

As much as that, however, I'd rather *feel.* And this is where the entertainmentizing of America might not be such a bad thing after all.

ENTERTAINMENT HAS BECOME MORE THAN MERE AMUSEMENT. AT ITS LEAST, IT'S BECOME SMART MARKETING. MORE AND MORE, IT'S BECOME A WEDGE INTO THE HUMAN HEART.

At every magazine I've been a part of, I've bored the staff silly with my dictum that readers need to be hit at "gut level." Life, I would argue until their eyeballs started rolling, life is lived beneath the surface. Fear, anger, jealousy, guilt, pride, envy, lust—these are the kinds of forces that make us do what we do. Intellect seldom starts the ball rolling, though it may kick in to help keep the ball on course. I'm convinced most people don't pick up magazines or books looking for pure, objective information; they pick them up looking for a *connection*, the way lonely people read the personals. Even newspapers are read that way by most of us: We scan the headlines until we zero in on a subject that hits us somewhere below cranial level. Admit it: Did Bosnia get your attention before they started reporting the rapes?

Up until 30 years ago this society was a world of relatively neat little boxes, of rational limits, recognizable boundaries, observed hierarchies. Entertainment was entertainment, politics was politics, sports was sports, social issues were social issues. That didn't suit us baby boomers, so we took the system apart. Sometimes when I've had a bit too much to drink and I'm trying to provoke my much-younger wife, I say that everything started getting blurry with the Beatles, and that's not a joke about drugs. In the early to mid-'60s, rock stars became political, and politicians became like rock stars. Internal attitudes—feelings—became the center of the national dialogue, and it soon became apparent that attitudes couldn't be contained in airtight boxes with neat black-and-white labels. One night during the '70s, I went to dinner at William F. Buckley's house, and one of the guests was Timothy Leary.

It amuses me that some people refer to this world we've created over the past three decades—this rushing, boundaryless blend of subjects and disciplines and media, including movies, music, theater, TV, cable, books, newspapers, video, talk shows, movie stars, rock and rap artists, comic characters, talking heads, authors on book tours, CD-ROM writers, virtual realists and God knows what else—as "the information age." Seems to me the Old News that Jon Katz wrote about was the information age—the gathering of stuff we were supposed to read because, well, because we should have, or because a few people in Brooks Brothers suits *thought* we should.

The problem with their information was that it was bloodless, and Americans are passionate. I once read a remarkable article in the now-defunct magazine American Film. Called "Entertaining the Issues," the piece made the simple but often-forgotten point that if you want an audience to care about a serious issue, you have to sugarcoat it a bit. You don't just say, come watch this movie (or read this book or article) on the plight of the homeless; you create a story, with characters people can care about, and you give the audience the medicine that way. Some people hate the thought that we humans are so shallow that we can't care about something without first being entertained. But entertainment has become more than mere amusement. At its least, it's become smart marketing. More and more, though, it's become a wedge into the human

WHAT WE REALLY NEED ARE NINTENDO PROGRAMS THAT TEACH KIDS ABOUT, AND RESPECT FOR, HISTORY. MAYBE SUPER KENNEDY BROTHERS, OR IKE BLASTS THE AXIS.

heart, the way comedy and tragedy have been for centuries.

Rather than the information age, this new age strikes me as more appropriately the visceral age—the age of connection and impulse and feeling. In the era of Walter Lippmann, Mable Dodge's New York apartment may have been America's Salon; now, thanks to this integrated, interconnected, egalitarian web of image and ideas, every dinner table in America is a salon. We're not just passively receiving the words of a select group of "opinion makers" anymore. Sure, for some of us grayhairs, their dry reports and analyses get thrown into the pot with everything else, but that pot holds a richer mix now. Nourishment for the gut, not just the mind. The rap music my daughter Blair wants to buy with her allowance may annoy me no end, but it does bring the eternal quandary of race relations—and gangs and peer pressure and urban violence—right to our dinner table. And more people had more gut-level discussions about the anger between men and women after seeing "Thelma and Louise" than after reading any gray Op-Ed piece in any paper or watching any balanced report on "Nightline."

I SUPPOSE WHAT REALLY BOTHERS SOME OF us about the popular culture today is our loss of control.

That Jurassic Park where all the solemn Old News heads roam is certainly on the endangered list. Not only are those people losing control professionally in terms of market share, but most of them are white males, as am I, and we're losing control in lots of other ways too. Speaking of "Thelma and Louise," it occurs to me that what this society has also become is more feminine, in the traditional, stereotypical sense of the word: more integrated and less hierarchical, more gut-level (read intuitive) and less reason-based. The old joke of the American male taking charge of the TV remote control goes deeper and is more pathetic than most comedians know: Frightened men may cling to the gadget in their hands, but true control via remoteness is fast becoming a thing of the past.

Fortunately for me, I'm a husband and a father and a freelance writer, so I'm no longer used to wielding any control. Maybe I'll weather the storm better than most.

But I too wrestle with the uneasiness of various losses—of a sense of limits, especially. I'm sure it's human nature, but the older I get the more nostalgic I become for the Good Old Days—in my case, the late '50s, before my generation created the world we're so quick to whine about today; I yearn for a time when life didn't run together so much, when there were limits and they were clearly defined. Back then, when you wanted to rebel you had an idea of just how far you had to go. I worry about my children now. For example, judging from the role models on music videos, I wonder if there's any body part that it's still unacceptable to hang an earring from. Will Blair know when the time comes? More importantly, will she know that even if she makes the money Michael Jackson makes, it won't necessarily result in happiness? Lack of limits causes a heady skewing of perspective, and no matter how smart you are, you're not above falling prey to it. Consider Harry Thomason, for example.

And loss of context: If you get your news from MTV, does Nick at Night become your history? You fight this battle on lots of fronts, but in Bret's case we've also countered video with video: Thanks to the VCR, she does watch movies such as "Wayne's World" five or six times, but her mother has also introduced her to '40s musicals, and Bret's overall favorite movie now is "Singin' in the Rain." In terms of values, we could do worse than that; would Gene Kelly *ever* have said, "Sha, like monkeys'll fly out of my butt"? He'd rather have been a wallflower. We need to remind children, especially, that there have been worlds other than the one that tolerates Axl Rose and Ice-T.

I read recently about a former teacher named Jan Davidson who runs a California company that develops entertainment-oriented interactive software for educational use. For example, she has a program called Math Blaster, in which kids shoot aliens out of the sky by working equations. She also has another program called Reader Rabbit. Math and reading seem like relatively easy subjects to adapt to a Nintendo format, but what we really need—if this is to be the education of the future—are programs that teach kids about, and respect for, history. Maybe Super Kennedy Brothers, or Ike Blasts the Axis.

Other than that, we shouldn't let anyone ever forget that the word "library" isn't always preceded by the word "video." There *are* still books, and they can even be entertaining. That dude Capote wrote some pretty good ones. ■

James Morgan last wrote for the Magazine about candidate Bill Clinton.

TUESDAY, SEPTEMBER 28, 1993

Scrambled Picture

How Cable-TV Firms Raised Rates in Wake Of Law to Curb Them

The 1992 Act Was Drawn Up Without Industry Help, And FCC Was Hobbled

But Some Consumers Benefit

By MARK ROBICHAUX
Staff Reporter of THE WALL STREET JOURNAL

When Congress passed the Cable Act of 1992 last Oct. 5, many cable-television subscribers expected to see an end to the increases in their monthly bills, some of which had surged 60% since the industry was deregulated in 1987. The Federal Communications Commission promised an average rollback of up to 10% for two-thirds of the nation's cable customers.

But a year later, cable companies are finding loopholes in the new law to raise rates rather than reduce them – in many cases, even for low-income customers with the least service.

How did "the most important consumer victory of the past 20 years," as one congressman called the law, go so bad?

For one thing, Congress wrote the legislation with little help from the industry and in terms so narrow and strictly defined that the FCC had little discretion to make desirable changes.

In addition, the FCC had too little time and staff to draft rules for enforcing the new act. Nevertheless, FCC staffers churned out more than 500 pages of arcane, sometimes-conflicting regulations. And in setting benchmarks for what constitutes fair rates, the FCC – partly because of the way the law was written – relied on questionable data that inflated prices.

And many cable companies worked to undercut the law. Some used lapses in the law to raise a variety of charges to offset any rate reductions. Some urged local governments to forgo the law's new powers of regulation in favor of incentives and side deals. Some provided incomplete and inaccurate information to the FCC when it was drafting the regulations.

While opposing the bills in Congress, cable operators had predicted that rates would go up, not down, if the bills were passed. Since then, they have labored to make that prediction come true, raising rates and telling consumers the cable law is to blame.

Dismay in Congress

"Clearly, something has gone wrong with the implementation of the regulations," says one of its chief architects, Rep. Ed Markey. The Massachusetts Democrat recently sent acting FCC Chairman James Quello a letter, signed by 130 members of Congress, urging the FCC to reconsider its approach.

Today, a Markey-headed House subcommittee is expected to grill FCC members about how and why cable operators could jack up rates so soon after the law was passed. The FCC, meanwhile, is surveying the top 25 companies, which cover two-thirds of the nation's 58 million homes with cable service, to demand rate cards and channel lineups to determine how much and where rates have risen.

The fiasco surrounding cable-TV reregulation provides fodder for critics who say Congress has no place regulating a fast-growing, consumer-driven industry whose products are MTV and SuperStation TBS – hardly the necessities of life as provided by other regulated industries such as electric utilities. While cable certainly has monopolistic characteristics, they argue, it should be kept in check by aggressive antitrust oversight and encouragement of competition from new players such as the regional telephone companies.

Meanwhile, Congress blames the FCC. FCC staffers blame Congress. Cable companies blame both parties. And although many consumers have obtained rate cuts, many others just want rate relief.

"It's an outrage," says Leroy Hunt, a low-income senior citizen in Plainville, Conn., whose bill has just more than doubled to $25.41 a month for service on a system owned by Tele-Communications Inc. The system wrapped in 15 more channels to help justify the increase, but Mr. Hunt isn't mollified. "It's over the limit. This law just gave them an excuse to raise our rates," he fumes. "How can they get away with this?"

Various Maneuvers

A TCI spokesman in Plainville says the company has stopped discounts for senior citizens such as Mr. Hunt, added the 15 channels and raised its rates to the new FCC benchmarks. "We don't have the flexibility to charge the low-income residents lower rates because of the other restrictions," he says. For example, TCI no longer charges for additional outlets, which previously cost $4.70 a month, and now charges only a dime for remote controls, which had cost $3.60 a month.

Local systems have sidestepped big reductions thanks to the way the rules were written. For example:

THE NEW YORK TIMES, WEDNESDAY, SEPTEMBER 29, 1993

G.O.P. Scorches Democrats Over Rising Cable Charges

By EDMUND L. ANDREWS

Special to The New York Times

WASHINGTON, Sept. 28 — In what could emerge as an unexpected embarrassment for Democrats, Republican members of Congress are now trying to bludgeon them over soaring cable television prices.

Amid a chorus of gleeful I-told-you-so's, Republican lawmakers accused their rivals today of causing higher cable rates through the very law that Democrats pushed through last year to bring rates down. The F.C.C. rules mandated by the law went into effect Sept.1.

Calling the law a "monstrosity," a "failure," a pot of "fool's gold" and a host of other names, House Republicans effusively argued that they were right all along about the folly of having Government try to regulate prices.

"I predicted that this would lead to higher rates, less programming and confusion, and, suffice it to say, that has come to pass," said Representative Michael Oxley of Ohio, one of the top Republicans on the House Energy and Commerce subcommittee on telecommunications..

Leading Democrats, stung by hundreds of complaints from constituents about bills that are going up rather than down, demanded answers from the Federal Communications Commission at a Congressional hearing today. The agency's three commissioners, who predicted six months ago that the new rules would lead to $1 billion in rate reductions, acknowledged that prices for many customers had gone up but stuck by their estimate that most monthly bills would go down.

The dispute centers on the Cable Television Consumer Protection and Competition Act of 1992, which the Democratic-controlled Congress passed last year by overriding a veto by President George Bush. One of the chief Democratic authors of the legislation, Representative Edward J. Markey of Massachusetts, predicted it would produce an effective $6 billion tax cut for consumers.

Lean Costs, Lush Saves

Now, less than one month after the F.C.C.'s new regulations became effective, many customers have already seen their monthly bills go up. The biggest increases are to customers with the most bare-bones package, while the biggest declines are to customers who buy expanded services and multiple cable hookups for their homes.

At a hearing before the subcommittee, of which Mr. Markey is chairman, Republicans spared little effort in pinning the blame for higher prices on the Democrats. The coordinated nature of their attack suggested that the issue could emerge as a campaign issue in 1994 — the same way Democrats used the cable issue as a middle-class vote-getter in 1992.

"Let me be absolutely clear about the point of blame," said Representative Jack Fields of Texas, the subcommittee's ranking Republican. "It's not implementing the terms of the law that's the problem. It's the law itself."

Bugs in the System

Mr. Markey and others defended the law, though he has been fielding complaints from some of his own constituents and acknowledged that bugs still need to be worked out. "A lot of the problems are correctable, and they can be corrected in a relatively short time frame," he said today.

About the only thing that is undisputed right now is the state of confusion. F.C.C. officials have said they think more rate cuts will materialize, but they have begun a new price survey of the 25 biggest cable operators and say they cannot be sure about the bottom line on prices.

"If all complaints of creative pricing and rate increases prove true, the cable industry is again open to the charge of being the monopolistic evil empire of the telecommunications world," said James H. Quello, acting chairman of the F.C.C. But he added that the commission was still looking at the evidence and "will not be placed in the position of issuing the verdict first and holding the trial afterward."

'Frustrated Congress's Intent'

Meanwhile, 130 members of Congress — most of them Democrats — have asked the F.C.C. to take a fresh look at the commission's regulations and suggested that the agency's processes "may have frustrated Congress's intent."

Defenders of the F.C.C. point out that Mr. Quello is himself a Democrat and publicly supported the cable bill as it was working its way through Congress.

Mr. Quello added that some of the key details of the commission's rules, which may have inadvertently given cable companies valuable loopholes, were dictated by the language of the law. For example, the law required the F.C.C. to set price guidelines based on fees charged in the handful of markets where cable systems compete head to head.

But the law also forced the agency to define "effective competition" in a way that includes many systems that sign up only 30 percent of the potential customers in their service areas. Often, these are systems that have no real competition and so tend to have high prices.

(KCSJ: BTC930826GG, KNKN: BTCH-930826GE, KYZX: BTCH930826GF).

WXXZ-FM Port Matilda, Pa. ☐ Purchased by Steven S. Seltzer and Jeane V. Singer from Phyllis J. Thaler and Marjorie G. Spivak of STS Broadcasting Inc. for $20,000. **Buyer** and **seller** have no other broadcast interests. WXXZ-FM is on 107.9 mhz with 350 w and antenna 469 ft. Filed Sept. 7 (BTCH930907GF).

WRQT-FM Bear Lake, Mich. ☐ Purchased by Roger Lewis Hoppe II from Julie A. Ware-Nezki, Linda Morrison and Winona VanBrocklin for $5,000. **Buyer** owns CP for WMNW-FM Beulah, Mich. Seller has no other broadcast interests. WRQT-FM is on 100.1 mhz with 3 kw and antenna 328 ft. Filed Aug. 23 (BALH930823GE).

Radio station resale values drop

Most broadcasters who sold radio stations between January 1991 and June 1993 received less than what they paid for them, according to a study of station trading published by the National Association of Broadcasters.

Tracing the sales history of 282 stations sold during the two-and-a-half-year period, the survey finds 171 (60.6%) dropped in price, 103 (36.5%) rose and eight stayed the same.

Altogether, the survey says, the stations depreciated at an average annual rate of nearly 1%.

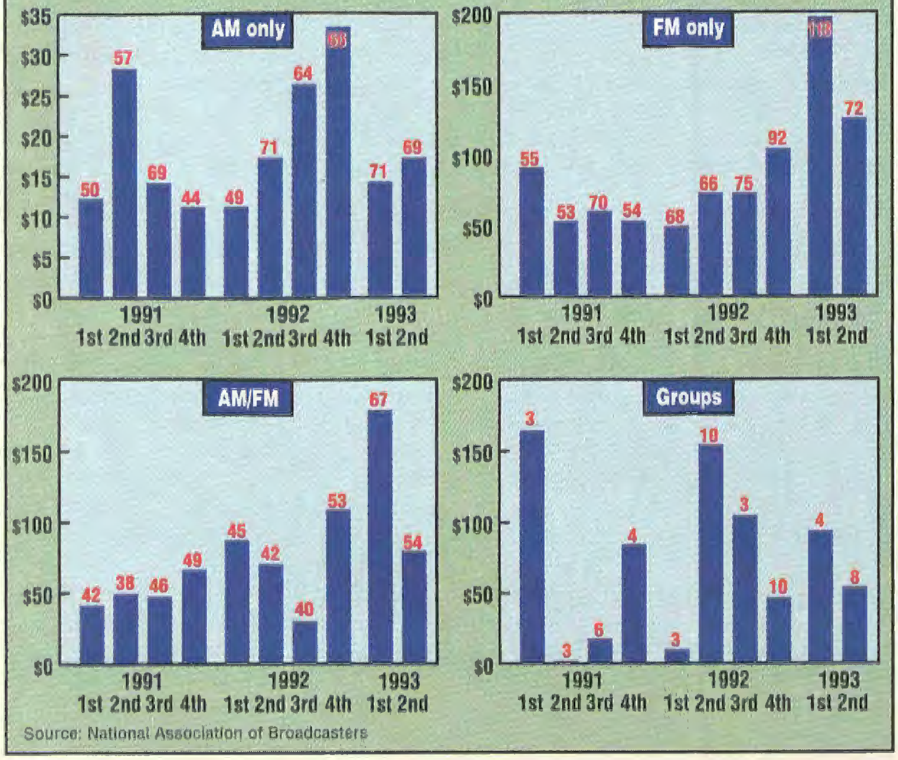
As for duopoly purchases (owners buying a second station of the same service in the market), author David Schutz of Hoffman-Schutz Media Capital Inc. finds that the most trading occurred in the smallest markets. Unranked markets accounted for 29.8% (one-third) of duopoly sales, and 101-plus markets were close behind with 25.6% (one-quarter). Of the 238 purchases, more than half (54.6%) have been FM stations.

"Trends In Radio Station Sales: 1991–1993" also breaks down the volume, size, market, state listing, seller financing and non-compete agreements of radio sales. To order, call the NAB Services Department at (800) 368-5644. The cost is $140 for NAB members, $290 for non-members. **–JAZ**

Dollar Volume of Radio Station Sales By Quarter

(In Millions of Dollars)

Total number of transactions in red



Source: National Association of Broadcasters

Who's to blame for cable rereg mess?

Markey says it's the FCC, but Republicans point finger at Markey and other architects of 1992 Cable Act that mandated regulations

By Kim McAvoy

House Telecommunications Subcommittee Chairman Ed Markey (D-Mass.) called the three FCC commissioners to Capitol Hill last Tuesday to explain why the agency's cable regulations seem to be producing more confusion than savings for subscribers.

But it was Markey himself who ended up on the hot seat.

Republican critics of the 1992 Cable Act that spawned the regulations blasted Markey as one of its chief architects, saying that he and other Democratic proponents sold the public a "bill of goods."

"We're here today because of a perverted regulatory result," said Jack Fields (R-Tex.), the ranking Republican on the subcommittee. "The blame for the failure of the cable law does not fall at the FCC's feet; the problem is the law itself."

"We knew this law would lead to higher rates, less programing and consumer confusion," said Michael Oxley (R-Ohio).

"The real culprits are the proponents of this legislation, especially those members who micromanage the process at the FCC."

Representative Markey is under fire

Joe Barton (R-Tex.) promised to introduce legislation repealing the law, except for retransmission consent, which gives TV stations the right to negotiate for compensation from cable systems that carry their signals.

The Republicans cited a stinging *Wall Street Journal* editorial that slammed Markey for his role in passage of the Cable Act. Titled "Cable Malarkey," the editorial says Markey will "try to blame all of this mess on the FCC, but the truth is the regulators already effectively answer to him.

"Our own view is that the cable bill is a case study in what happens when Congress decides to run an industry," the *Journal* says.

Some of Markey's fellow Democrats defended the Cable Act, which they had supported last year. But others such as Ron Wyden (Ore.) and Jim Cooper (Tenn.) said they were now backing legislation that would open the cable business to competition from telephone companies. "Folks want us to fix this," Cooper said. "Competition is the way to go."

Both subcommittee Democrats and Republicans say that they are being flooded with letters and calls from constituents complaining that rates are going up, not down, as a result of the regulations. In adopting the rules last April, the FCC said the rules would save consumers as much as $1.5 billion a year.

Acting FCC Chairman James Quello defended the regulations. A survey of 25 cable companies will show that rates have gone down as intended, he predicted.

Markey sent a letter signed by 130 members to the FCC two weeks ago asking the commission to reconsider its rate regulations. "We are distressed...that the commission's processes have frustrated Congress's intent to make cable rates reasonable," it says.

"If cable operators have instituted rate increases that are not justified by costs, the FCC must eliminate these kinds of abuses," Markey told the commissioners last week.

But Quello said that the FCC wants to make sure it has "factual evidence" before taking any action. "If all complaints of creative pricing and rate increases prove true, the cable industry is again open to the charge of being the monopolistic evil empire of the telecommunications world.

"That contention," Quello said, "is in the process of being either proven or dispelled." ■

Fairness doctrine fever cooling?

The tide may be turning on the fairness doctrine. Reports from Capitol Hill indicate that the issue may no longer be on a legislative fast track. Some Hill insiders believe that Congress may have been "scared off" by the nation's radio talk show hosts, specifically Rush Limbaugh, who has already attacked lawmakers for wanting to revive the doctrine. Fairness proponents such as Senate Commerce Committee Chairman Ernest Hollings (D-S.C.) and House Commerce Committee Chairman John Dingell (D-Mich.) had originally vowed to re-enact the doctrine, but neither has made a move. Sources say the House won't move a fairness bill until the Senate does.

And apparently the Senate is waiting for the House to act first, although last week House Telecommunications Subcommittee Chairman Ed Markey (D-Mass.) told reporters that he is committed to "putting fairness back on the books." He said that Congress will focus on the issue but that it is currently preoccupied with the issue of cable rates. **—KM**

Senate telecom bill: slow down

Hollings questions telco provisions; broadcasters troubled by telco entry

By Kim McAvoy

The Senate's so-called infrastructure bill, which would open local telephone and cable markets to competition, is bogging down.

Not only has Senate Commerce Committee Chairman Ernest Hollings (D-S.C.) indicated his dissatisfaction with the measure, but sources say broadcasters have begun working behind the scenes to "slow down" the legislation.

The bill's backers, Senate Communications Subcommittee Chairman Daniel Inouye (D-Hawaii) and John Danforth (D-Mo.), were hoping that Congress would pass the legislation by the end of 1994.

And the Clinton administration last month said that it would work with Congress on legislation to break up the telephone and cable monopolies with an end-of-1994 target.

But two weeks ago at FCC Chairman-nominee Reed Hundt's confirmation, Hollings said he was troubled by opening the long-distance and local telephone businesses to competition—an effect of the Danforth-Inouye measure.

Hollings is "focusing" on the bill but has not taken a position on it, says an aide to the senator. "He wants to insure that the public interest is served," he says. Hollings is also waiting to see what the administration's position will be, he says.

But one Hill source believes that Hollings's doubts about the bill may also stem from the lobbying efforts of broadcasters. And some sources say that even Inouye's enthusiasm for swift action may be waning as a result of broadcaster opposition.

Broadcasters deny they are trying to slow down the bill. They say they have concerns and want to make sure that if the measure moves, it permits telcos to get into the cable business only as common carriers. The bill now says telcos could provide programing.

Broadcasters also want to make sure telcos are unable to buy out incumbent cable systems in their telephone service area. "We don't want to trade one monopoly for another," says one broadcast lobbyist.

As now crafted, the Danforth-Inouye bill does prohibit buyouts of cable systems. But telco and cable forces are expected to seek revisions permitting some type of buyout.

Senate staffers were admitting last week that the infrastructure bill was in trouble, although there was some conjecture that Hollings would not stand in the way as long as the long-distance provisions were removed. However, such a move would not sit well with the regional Bell operating companies, which have long sought to enter the long-distance telephone business. ■

Washington Watch

Edited By Kim McAvoy

The Supreme Court weighed in on must carry last week, agreeing to consider whether the 1992 Cable Act's must-carry regime violates cable operators' First Amendment rights.

Cable had asked the Supreme Court to decide the issue after a three-judge federal district court upheld must carry as constitutional last April. "We've always believed these must-carry rules are unconstitutional, and we're delighted we'll have our chance to plead our case," says Peggy Laramie, spokesperson for the National Cable Television Association.

Broadcasters are convinced the rules will survive the high-court review. "We expected that the Supreme Court would want to have a full briefing and oral argument in the case because it involves an Act of Congress," says Jeff Baumann, executive vice president and general counsel for the National Association of Broadcasters. "We fully expect the court will affirm the decision of the district court."

It's hearsay, but since the Clinton administration isn't commenting about the furor over the FCC rate regulation, it will be admitted. Representative Thomas Manton (D-N.Y.), in defending the FCC rate regulations at last week's oversight hearing, said the administration informally "expressed to me its strong desire not to interfere with the rate regulations."

House Republicans at the oversight hearing last week accused Acting FCC Chairman Jim Quello of deleting from his prepared testimony a passage critical of House Telecommunications Subcommittee Chairman Ed Markey (D-Mass.) due to pressure from him.

The paragraphs, which were in a draft sent to the Hill prior to the hearing, cited a Republican "dear colleague" letter that implied Markey was trying to "shift the blame" for the 1992 Cable Act debacle from himself to the FCC.

Quello told the Republicans that he had not heard from Markey and that he had removed the language because it conflicted with his support for the Cable Act. Quello's chief of staff, Brian Fontes, confirmed he had had a conversation with the Markey staffer about the testimony, but denied reports he was pressured to delete the reference to the Republican letter.

A computer error has put Time Warner Cable on the spot in Malden and Medford in Massachusetts. It seems the company miscalculated basic cable rates in those markets and overcharged customers. Both cities happen to be in the congressional district represented by House Telecommunications Subcommittee Chairman Ed Markey.

Time Warner, in a letter to Markey staffer Kristen Van Hook, says it caught the error and customers will receive a credit on their next bill. The cable operator also notes that Malden and Medford customers will be advised that their new basic rate "is, in fact, lower than earlier notices indicated."

Cable programers soon will have an even stronger voice at the National Cable Television Association. NCTA's board voted to increase from six to eight the number of seats programers hold on the board. They agreed to add two more programers not only to give them increased representation but also to make sure their voice on the board is more in proportion with their dues. Programers now on the board: Showtime's Tony Cox, USA Networks's Kay Koplovitz, Ted Turner, HBO's Michael Fuchs, The Family Channel's Tim Robertson and Landmark Communications' John (Dubby) Wynne. The board will appoint two programers at its November meeting. At NCTA's annual convention next May, programers will vote to fill the two seats.

The FCC used flawed data in arriving at the benchmarks for its new cable rate regulations. That's the finding of a study released last week by the Aerie Group. Aerie, which represents local governments, maintains that if the FCC used correct data it could reduce rates for basic cable services by 22%. The report says errors in data entry and sampling are the reason that consumers are paying more for basic service. For example, it says the FCC's database states that Prime Cable of Needville, Tex., collected $10,314 in monthly revenue from each subscriber and that the agency miscoded 81 "monopoly" systems as "competitive."

Satellite operators and broadcasters are gearing up for a possible fight in the House Judiciary Committee, which is considering extending satellite's copyright license allowing operators to retransmit over-the-air signals for a fixed fee. Satellite operators are pushing for, and broadcasters are opposing, changing the six-year extension to a permanent grant, matching the protection afforded cable. At the same time, satellite operators are trying to remove—and broadcasters trying to preserve—a provision that eliminates the fixed fee in favor of the undefined "fair market value" in 1996.

Word had it late last week that the bill could be marked up as early as this week. Meanwhile, Senator Dennis DeConcini (D-Ariz.) introduced a bill extending the license permanently, saying that satellite operators deserve the same protection as cable. He said he would like to see the entire system, for cable and satellite alike, reformed or repealed completely. Broadcasters and satellite operators say they are concentrating first on the House bill and haven't paid much attention yet to DeConcini's bill.

FCC Commissioner Ervin Duggan last week warned public broadcasters not to allow themselves to be bypassed by the "information superhighway"—the high-capacity "network of networks" the Clinton administration is trying to foster. The superhighway "will buzz with commercial traffic," he told members of the Southern Educational Communications Association. "My challenge to you is this: fight to insure that poetry, art, science, cultural knowledge and the essential tools of education are allowed to travel that highway as well."

Public TV is "underfunded rather than overfunded," CPB board nominee Diane Blair told senators at her confirmation hearing last week. Blair, a member of the Arkansas Educational Television Commission, is expected to quickly win Senate approval following committee vote this Wednesday.

school completion rates has improved somewhat, but the gaps between black and white achievement remain large. Blacks on the whole do worse than Hispanic groups despite the very large numbers of new, non-English-speaking immigrants, and far worse than the Asian groups. One can record substantial black achievement in politics, in the armed forces, in the civil service, and in some high positions in the private economy, but alongside these successes a host of social problems afflicting a large part of the black population have, by some key measures, grown, not declined, in the past 20 years.

One might have expected that the multicultural debate would be fueled by the large new immigration of the past 20 years. But that is really not the moving force. The Asian immigrants, almost half the number, seem quite content with the education they get. Nor are Hispanic immigrants making demands on the public school system that necessitate radical change. Mexican Americans would like to see their children do better in school, to have more of them graduate. But they have no strong commitment to the idea that this objective will be enhanced by more teaching in Spanish, more Mexican cultural and historical content. Puerto Rican leaders do call for more bilingualism, more Puerto Rican content, but they do not approach the militancy of black advocates.

In short, I do not believe we would see the present uproar over multiculturalism were it not for the frustration among blacks over widespread educational failure, which leads them to cast about for alternatives, new departures, new approaches, anything that might help, including special schools for black boys featuring an Afrocentric education.

What Is the Goal of Multiculturalism?

For the critics of multiculturalism, the issue that ultimately determines its acceptability is a judgment as to the underlying purpose of the curriculum reform. Is it to promote harmony and an acceptance of our society? Or to portray our society as so fatally flawed by racism, so irredeemably unfair and unequal that it must be rejected as evil? The critics fear that the second vision underlies the strong multicultural position. On one level, they are right. But if we look more deeply into the objectives of those who promote a strong multicultural thrust, and who in doing so present a somewhat lopsided view of our history, we will find that they promote multiculturalism not because they aim at divisiveness and separation as a good, not because they—to put it in the strongest terms possible—want to break up the union, but because they aim at a fuller inclusiveness of deprived groups. In the short term, their vision may well mean more conflict and divisiveness, but they see this as a stage on the way to a greater inclusiveness. They are no Quebec separatists, Croatian nationalists, Sikh or Tamil separatists. They seek inclusion and equality in a common society.

Critics of the new multiculturalism will see my judgment as far too benign. Undoubtedly one can point to some leading advocates of multiculturalism whose intentions are not benign. Leonard Jeffries, for example, would like to accentuate the split between Jews and blacks, and both Jeffries and Asa Hilliard III would teach a racial interpretation of history, reviving the worst of 19th-century racist anthropology. But I would emphasize that we deal with a spectrum of views in multiculturalism, some mild enough to gain the endorsement of Ravitch, Schlesinger, and Shanker, and some as extreme as those of Jeffries or Hilliard. In the middle there is much to argue about.

The Constitution: Stability amidst Change

What sort of students do multicultural schools turn out? The Catholic schools of the mid-19th century, so fearful to many as a threat to national unity, produced Americans as patriotic or more patriotic than the norm. Nor did the German-language schools do badly in molding upstanding Americans, though equally upstanding Americans were doing their best to stamp out those schools. Even Amish, Hasidic, and Black Muslim schools, while I do not know whether they produce patriots, turn out, I think, citizens as good by many measures as the public schools. Our diversity has one major binding force in the Constitution under which we live and which still, through the procedures that it first laid down and that have been further developed in our history, governs at the margin what we can and cannot do in our public schools. The Constitution guarantees that Amish children need not attend schools after the age when their parents feel they will be corrupted, and that Mormons and Black Muslims can teach their own version of the truth, which is as fantastic to many of us as the furthest reaches of Afrocentrism. Even the most dissident call on the Constitution for protection, yet few people are ready to tear it up as a compact with the devil. This common political bond keeps us together—nationalists and anti-nationalists, Eurocentrists and Afrocentrists—and may continue to through the storms of multiculturalism.

No question, America's educational system has changed since the middle of the 19th century and since the days I went to school—and is changing ever faster. Today's multicultural debate has a different edge to it than some of America's earlier school wars.

America too has changed. It is not God's country anymore. We can lose wars—real ones—and we can be beaten in economic competition by the Japanese. We have become only one of a number of economically powerful, democratic countries, and not in every respect the best. And America exists in the larger reality of the non-Western world. A good deal of that world is sunk in poverty and political disorder, but some of it is teaching lessons in economic effectiveness to the West. Western hubris can never again be what it was in the late 19th and early 20th centuries.

Finally, America's population is changing in its racial and ethnic composition. Its values are changing. Its notions of the proper relation of groups and individuals to the national society are changing. As hard as it may be for veterans of the educational system of earlier decades to wrench free of their own schooling, it is even harder to see how such a system can be defended in the face of these changes. ■

FAKE BLOOD Why Nothing

Martha Bayles

The first congressional hearings on media violence were held in 1954; the most recent, last spring. During the intervening four decades, social scientists were developing new and better ways of studying the problem; the makers of media violence, new and better ways of destroying the human body on screen. Yet every time Hollywood and Washington sit down to debate the violence issue, no one seems to have developed a new and better way of understanding it. In particular, the current debate pays too little attention to the dramatic changes in American media—and culture—since 1954.

Until recently, the social-scientific research has focused on the short-term effects of violent entertainment, such as higher rates of physical aggression in children exposed to television violence in a laboratory setting. Researchers could only speculate about long-term effects, such as criminal behavior. So entertainment industry leaders have responded by dancing a familiar two-step: first, insisting that the research is wrong, that television violence really has no impact; and then, embarrassed either by the data or by their manifest faith in the power of the medium to sell products, adding that if violence does have an impact, it's probably positive—"a release of built-up tension," as Disney president Michael Eisner puts it.

Now, however, several recently published longitudinal studies suggest a link, perhaps even a causal one, between an entire population's exposure to television violence and its propensity toward violent crime. The best known study, reported in both the *Journal of the American Medical Association* and the *Public Interest*, was conducted by Brandon S. Centerwall of the University of Washington. Centerwall found that, controlling as well as possible for other variables, the homicide rate among whites in the United States, Canada, and (most recently) South Africa doubled over the 10- to 15-year period after the advent of television, with its standard violent programming fare.

In response, industry leaders are changing their tune. The four networks (ABC, CBS, NBC, and Fox) and 15 cable channels have agreed to label programs containing a high degree of violence. And many executives and producers who once opposed the Motion Picture Association of America ratings system, which classifies movies as G, PG-13, NC-17, R, and X, now defend it as the best way to keep violent material off-limits to children. Indeed, many industry leaders point out that

Gets Done about Media Violence

they, too, are parents. As ABC programming chief Ted Harbert commented, his three-year-old daughter Emily "totally changed the way I look at television."

Censorship vs. Regulation

It must be said, however, that these leaders do not support labeling because it works (in a moment we shall see why it doesn't), but because they are terrified of "censorship." Their fears are not groundless: Hollywood's most outspoken critics, from the Reverend Donald Wildmon on the religious right to Professor Catherine MacKinnon on the feminist left, have proposed expanding the legal definition of obscenity (as laid down in the 1973 Supreme Court decision *Miller v. California*) to include everything from Satanic rock lyrics to television dramas about rape. Civil libertarians and free marketeers still deplore legal censorship in any form. But a surprising number of voices, both liberal and conservative, support it.

Yet legal censorship is unlikely to have any effect on violence in the modern electronic media. The end product of a long battle over obscenity in the print media, *Miller* is exceedingly narrow. It exempts everything with the least claim to "serious literary, artistic, political or scientific value" and confines itself to sex, all but ignoring violence. It is also spottily, even arbitrarily, enforced. As both Wildmon and MacKinnon have discovered, decades of First Amendment precedent block any attempt to reclassify media violence as unprotected speech. Thus, the most effective anti-violence activists reject legal censorship in favor of "corporate responsibility." Tipper Gore, for example, took a visibly anti-censorship stance in her famous mid-1980s campaign against sadistic rock lyrics. Yet, as her critics hastened to point out, her approach was hardly anti-regulatory. Indeed, it carried the clear implication that "irresponsible" corporations would invite the wrath of the Federal Communications Commission. As a veteran of Action for Children's Television, which succeeded in regulating violence on Saturday-morning cartoons in the 1970s, Gore's push for voluntary labeling was backed by veiled threats of an FCC crackdown.

Today's anti-violence activists also pin their hopes on regulation. Many are doctors, psychiatrists, and teachers, who tend to see violent entertainment in the context of public health, as a harmful commodity, like cigarettes. Hence their often unquestioned assumption that once the harmfulness of this particular commodity has been scientifically proven, the government has every right to yank it off the shelves.

If these activists do not see FCC regulation as censorship, it's for a good reason: the First Amendment freedoms hard won by the print media have yet to be extended to their electronic counterparts. Indeed, the history of the latter is fraught with government oversight, predicated on the belief that broadcast spectrum, unlike paper and ink, would always be a scarce resource. As Ithiel de Sola Pool has written, the electronic media first gained ascendancy as "great oligopolistic networks of common carriers and broadcasters," sufficiently different from the print media that "regulation was a natural response."

Martha Bayles, former television critic for the Wall Street Journal, *is the author of* Hole in Our Soul: The Loss of Beauty and Meaning in American Popular Music *(Free Press, 1994).*

ILLUSTRATION BY ELIZABETH WOLF

Too often, the critics of media violence allow themselves to be intimidated by charlatans wrapped in the protective cloak of "art."

It is high time we ripped off that cloak and exposed the philistinism underneath.

Free Media, Free Markets

But as the entertainment industry well knows, those same "oligopolistic networks" are rapidly becoming obsolete. Even if the FCC restricted violence on network television, the torrent would continue through other media outlets, notably cable. Unlike broadcast spectrum (itself less scarce than was first supposed), cable is potentially unlimited. To de Sola Pool, this means that cable should be as free and unregulated as print—a proposition that makes perfect sense until it collides with worries over what cable is carrying into the American home. Like movie theaters, most cable outlets display MPAA ratings. But that doesn't keep violent movies such as *Die Hard* and *Friday the 13th* from reaching children. With 62 percent of all American homes that have television now cabled, most of our children live in a wide-open media environment beyond the reach of existing regulatory mechanisms. Few video stores prevent children from renting R- and even X-rated features. And there is always MTV, with its fusillades of kinky, titillating, often sadistic images.

What is more, looming technological changes, such as interactive multimedia, fiber-optic "information highways," computer bulletin boards, and home satellite services, promise an even more wide-open future. As de Sola Pool sees it, government should get out of the regulation business altogether—or risk eroding freedom of speech in all media, print included. The "era of the giant media," he warns, "has embedded a permanent set of regulatory practices on a system whose technical characteristics would otherwise be conducive to freedom."

Our dilemma is profound. On the one hand, mounting social-scientific evidence impels us toward some kind of regulation, if not censorship, of media violence. On the other, the media are becoming harder to monitor, much less regulate or censor, without unacceptably draconian measures. Ironically, the same untrammeled flow of electronic information that helped liberate the Eastern bloc is also flooding our homes with bloody brutality.

For libertarians and free marketeers, the solution is clear: stand back and let the free market do its thing. After all, a 1992 Associated Press survey found that 82 percent of Americans feel that feature films are too violent, and a 1993 Times Mirror poll found that 72 percent feel that entertainment television has too much violence. Surely the weight of this public opinion will make itself felt in the marketplace? Some argue that the proposed "v-chip," a device allowing viewers to block out violent programs, will be the free-market solution to the problem.

But the "v-chip" might backfire by increasing the violence in feature films, especially the "action" blockbusters that are so easily promoted and sold overseas, where half the film industry's profits are now made. And, domestically, the market for "action" films, in both theatrical exhibition and video rental, is not the polltaker's random sample of the American public, but a specific segment—young people—whose tolerance for media violence is doubtless higher. Such competing market forces paint a darker scenario.

A recent report of the American Psychological Association suggests that, along with increasing aggression, exposure to media violence increases "fearfulness about becoming a victim of violence," "callousness toward violence among others," and "self-directed behavior that exposes one to further risk of violence." In other words, people habituated to media violence show signs of becoming habituated to the real thing. These effects cannot be definitively proven, but they stand to reason. At the very least, they raise doubts about the market's assumed benevolence.

The fact is that market forces are neither benevolent nor malevolent, but neutral. The market amplifies, magnifies, and multiplies the cultural trends of the moment; it does not create them. This point is lost on those who, reversing the libertarian position, blame the profit motive ("greed") for all that is wrong with popular culture. Forty years ago, the profit motive was blamed for the *avoidance* of sex and violence—for television shows depicting married couples sleeping in twin beds, or movies tacking happy endings onto the plots of tragic novels. Today, greed is blamed for the *indulgence* in sex and violence. Instead of using a constant (the profit motive) to explain a variable (the amount of sex and violence), why not use another variable—namely, the deeper cultural changes that have occurred over the same period?

The Heart of the Problem

Most parties to the present debate would rather not talk about culture, preferring to stick with the hard facts gathered by the social scientists and the hard choices facing the policymakers. But playing it safe will only stymie the debate, because, although violent entertainment is manufactured, bought, and sold as a commodity, it is also a form of artistic expression, however debased. Like all popular culture, it claims our attention in ways that are always tangentially, and often directly, related to the claims of art. We simply cannot avoid this dimension of the problem.

Indeed, the anti-violence activists pay a price for avoiding it. Underlying their cause is a deep moral and aesthetic revulsion at the constant barrage of violence. But like most of us, they hesitate to act solely on the basis of such "subjective" feelings. Hence their reliance on "objective" social-scientific data. Yet the methods used by social scientists tell us little about the dramatic or artistic uses of violence. Instead, they skew the discussion in the direction of "content analysis"—that is, of tallying up violent incidents without regard to context, as though they were quantifiable toxins. The danger of this approach is that it will founder on sheer philistinism. For example, if some researchers get their way, the "v-chip" will block out all violent incidents, regardless of whether they occur in *The Civil War* or *The Texas Chainsaw Massacre.*

Needless to say, such philistinism is ripe pickings for Hollywood's "creative community," whose typical response to anti-violence activism is to seize the high ground of "art" against all those lowbrows who think movies should be judged on either a social-scientific or a moral basis. Invariably the activists are reduced to stammering, "Gosh, we don't know very much about art, but we know what we don't like."

The creative community doesn't know much about art either. But it does know that ugly, gratuitous violence has an artistic pedigree, reaching back to such avant-garde movements as expressionism, futurism, dada, surrealism, the Theatre of Cruelty, and "happenings." Beginning in the late 1960s, this European aesthetic of shock entered American popular culture when "fringe" comedians, filmmakers, and rock performers such as Lenny Bruce, Andy Warhol, and Frank Zappa sought to outrage, rather than please, their audiences. Now it is part of the mainstream, as luminaries from David Lynch to Ice T, Oliver Stone to Madonna see the sole purpose of art as "pushing out the envelope," being "in your face," or, as Baudelaire urged a century ago, "shocking the bourgeoisie."

Dropping an avant-garde name or two gives Hollywood a huge, if undeserved, advantage over its activist critics. After all, who wants to be bourgeois? This is precisely why the battle must be joined on cultural grounds. The irony is that most Hollywood poseurs are only a tad less philistine than their critics. Scratch the surface, and you'll find precious little awareness that the aesthetic of shock is not the sum total of modern art.

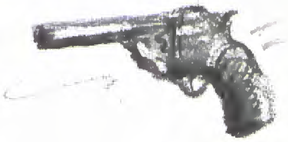
The worst thing about the shock aesthetic is that its ultimate target is genuine art. More than anything, it provides a refuge for the mediocre and untalented—as when the poseurs complain that nonviolent films would be "safe," "bland," and "boring." As many critics have noted, the heavy hand of the old Production Code, initiated by the major studios in 1920 and administered through the "Hays Office" between 1934 and 1966, hardly stifled the creation of classic films. Indeed, the so-called Golden Age of Hollywood came in the late 1930s, when the code was at its strictest.

Taking on the Philistines

When the major studios broke up, so did the Hays Office—more evidence for de Sola Pool's argument that regulation is "natural" only when the media are structured as an oligopoly. To be sure, the Hays Office was not a government body. But its effectiveness, like that of the MPAA ratings or the measures being proposed by the networks, depended on centralized power. Anyone who is serious about controlling contemporary media violence should forget about the television networks, which are suffering a fate similar to that of the great Hollywood studios, and focus on those areas where power is still centralized.

One such area is trade policy, where television and film companies appeal to the Office of the U.S. Trade Representative to batter down the import barriers erected by foreign governments, some for cultural reasons, others out of pure protectionism. But the motives of the foreign governments are beside the point. The real problem is that our government, while threatening to restrict media violence at home, is pushing to open markets for it overseas. The anti-smoking lobby has protested this strategy with regard to tobacco. But, although the motion picture industry has featured prominently in the latest round of multilateral trade negotiations, the anti-violence lobby has raised no outcry.

Another area neglected by the anti-violence activists is funding for the arts. In recent years, the National Endowment for the Arts has become a stomping ground for everyone who would sermonize about the state of American culture. Yet regrettably, most of these circuit-riding highbrows ignore the connection between the aesthetic of shock as practiced by a handful of "cutting-edge" NEA grantees and popular culture's cult of brutality and obscenity. Or, if they note the connection, they blame popular culture for having debased art, instead of the other way around.



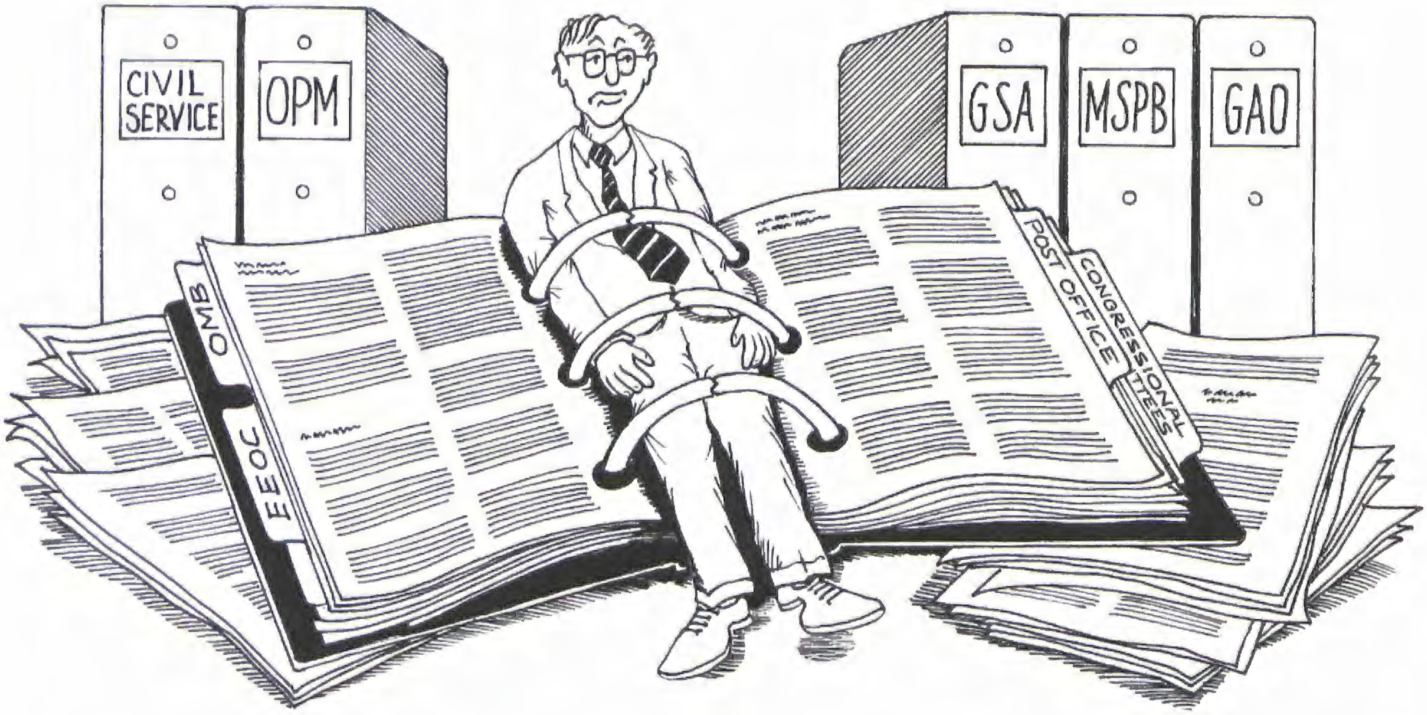
If the elites are confused, the public must be bewildered. The admirable impulse of the anti-violence activists is toward "prevention" at the grassroots, and the efforts they mount, from public-service advertising campaigns to anti-violence counseling in the public schools, are commendable. But again, something is missing. By defining violence as an "epidemic," and focusing only on its negative consequences, these efforts ignore its aesthetic attraction—in a word, its stylishness.

Otherwise, the aesthetic of shock will continue to provide the spiritual fodder for our children's self-destruction.

In the suburbs, the stylishness of violence is still largely a decadent fantasy. In the inner cities, it has become a death-dealing reality. Yet in both settings, young people desperately need to be educated, not just about the physical damage done by bullets, but about the psychic damage done by the seductive voices of popular entertainers who know how to sell shock. This is why, even at the grassroots, the problem must be addressed in cultural terms.

How to do this? In the inner city, the lead has been taken by religious leaders. But although clergy are better equipped for the job than social scientists, they cannot reach all of the most vulnerable. In recent years, the debate over educational reform has focused on the need to set "world-class standards" in key subject areas, such as math, science, and English. Art should be added to the list—not because it is "uplifting" (the usual genteel reason), but because it is, in the present context, degrading. A truly "world-class" arts curriculum would teach that "gangsta rap" comes out of the stale avant-gardism of British punk as much as out of Afro-American music, and that the antics of "hard-core" rockers and "shock-jock" comedians are anything but original. A proper introduction to art history would enable young people to resist the forces that make hatemongering and sadism look stylish.

The most passionate voices now being raised against media violence are those of the public-health activists. Their grassroots campaign is commendable, but their faith in regulation is, at best, misplaced, and, at worst, the harbinger of a possible backlash against the hard-won freedoms of all media, new and old. Meanwhile, their campaign is doomed to sputter out in frustrated censoriousness, because they cannot tackle the essential cultural problem. Too often, the critics of media violence allow themselves to be intimidated by charlatans wrapped in the protective cloak of "art." It is high time we ripped off that cloak and exposed the philistinism underneath. Otherwise, the aesthetic of shock will continue to provide the spiritual fodder for our children's self-destruction. ■



DEREGULATING the FEDERAL SERVICE

Is the Time Finally Right?

Constance Horner

Calls to unburden the federal manager of gratuitous and counterproductive regulatory constraints governing personnel, budget, and procurement decisionmaking go back at least a decade. They are a staple of the expert's and insider's critique of government, but remain insufficiently answered by action. Recent changes, both political and economic, simultaneously raise the stakes for continued failure to give federal managers a freer hand in doing their jobs and present a rare opportunity for reform.

The stakes are raised because strong performance by federal managers has taken a quantum leap in importance to the American economy. Not only has the Clinton presidency ratcheted up the degree of federal intervention in the domestic economy—the list of regulatory initiatives in its first few months alone ran to five single-spaced pages—but American business confronts intensified global competition. Now more than ever, economic growth is either assisted or impeded by the quality and character of government action.

At the same time, if longstanding barriers can be overcome, the opportunity for reform of federal management practices is greater than at any time in the past decade and a half.

The Political Context

As the Ross Perot campaign showed, public demand for better government, however defined, is strong, and the public is newly attentive to the *processes* of government. Public attentiveness is a *sine qua non* of congressional willingness to act. President Clinton, with only 43 percent of the vote in 1992, not only must make a record of reform to respond to Perot supporters' demands, but also needs to defend his reputation as a "New Democrat" with the "reinventing government" element within the Democratic Leadership Council. Public employee unions that have historically opposed any reforms designed to cut employee pay or

ILLUSTRATIONS BY RICH [illegible]OTTERN

THE Brookings REVIEW

October 15, 1993

Mr. Tom Whitehead
1124 Waverly Way
McLean VA 22101

Dear Ms. Whitehead:

Enclosed is a copy of the fall issue of The Brookings Review, which includes an article by Martha Bayles entitled "Fake Blood: Why Nothing Gets Done about Media Violence."

Would you be interested in writing a letter to the editor of approximately 300 words responding to any of the points made in the article? I will make every effort to publish your letter, edited as necessary only to fit space limits, in the next issue of the Review.

To meet our deadline for publication, I would have to have your letter in hand by November 5.

I look forward to hearing from you.

Sincerely yours,

Brenda B. Szittya

Brenda B. Szittya
Editor

1775 MASSACHUSETTS AVENUE, NW • WASHINGTON, DC 20036-2188
TEL: (202) 797-6000 • FAX: (202) 797-6004

Editorial Views

HARVARD MAGAZINE
November-December 1993

SYSTEMATIC PLANNING

In his grand plan for Harvard's future, summarized in this issue (see page 75), President Neil Rudenstine includes this passage from a report of the Faculty of Arts and Sciences:

> Increasing numbers of scientists are turning their attention to the study of how systems—be they of natural or of human design and construction—are organized, and how their behavior can be explained, controlled, and modified. Many of these investigations of natural and human-made systems require the collaboration of scholars from several disciplines, and many are motivated by societal needs.

The academic planning process that shaped the president's recommendations was astutely designed to focus on Harvard as a "human-made system." The participants, drawn from all ten faculties and the central administration, brought a range of analytic techniques and the viewpoints of many disciplines to their deliberations. The end result is a document of extraordinary thoroughness and detail—too much detail, perhaps, for some of us to assimilate at a single sitting—which projects a unified, internally consistent strategy for the years ahead.

The president does not propose large-scale expansion or the creation of new departments. On the contrary, he favors consolidation when possible. His watchword seems to be "smarter, not bigger." Most notably, his report calls for a coordinated effort to realign physical spaces, people, even bodies of knowledge in ways that appear to be sensible and productive.

Harvard can pride itself on a process that has exemplified—in the fullest sense—systematic planning.

THE GREAT WAR

Marking the 75th anniversary of the armistice that finally ended World War I, this issue includes the recollections—still searingly vivid—of alumni who took part in that terrible conflict. In presenting their stories we are reminded that one purpose of a great university is to enrich experience by memory, individual as well as institutional, thereby lengthening the perspective of the past for each new generation.

In the fall of 1929, a decade after the war's end, an *Alumni Bulletin* editorialist observed that

> the men who are this week entering the College and Professional Schools at Harvard were boys between the ages of eight and twelve when the Treaty of Versailles was signed. They may faintly recall it, but they did not understand it. Of the world as it was before 1914 they know nothing except what they read in books or hear from the tedious reminiscences of their elders. The hopeful liberalism of pre-war days and the passionate idealisms or bitter partisanships of the War itself mean little or nothing to them. The world of bolshevism, of the new nationalism of the East, of post-war disillusionment, of radio, aeroplane, and investment trusts, of short skirts, bobbed hair, and the one-piece bathing suit, of petting and bootlegging, of recurrent disarmament and reparations conferences is the only world they have ever known.

If the First World War was a remote event to those students of 1929, it must seem as distant as the First Punic War to their counterparts of 1993. For older generations it has largely been overshadowed by later wars. But the causes and consequences of "the Great War" demand our continuing attention. The fires that ignited that war are still burning in Bosnia.

95 AND COUNTING

With this issue we round out 95 years of continuous publication. Such longevity is still rare among ordinary mortals, rarer still among magazines.

This one began life as the *Harvard Bulletin*, a four-page weekly paper. With successive alterations in format, three nameplate changes, and gradual stepdowns in frequency, we have published continuously since November 7, 1898. At that time the Charles River was tidal, the Spanish-American War was just over, and Buffalo Bill's Wild West Show was packing them in at Madison Square Garden.

Over the years our staff members showed remarkable endurance. Perhaps it rubbed off on the magazine. From 1922 to 1967, Jane Howard Hall was the indispensable assistant to five editors, writing the alumni notes, compiling book listings, marking up copy for the printer, correcting galley proofs. Eleanor Riley, who began as the business manager's secretary in 1920, was a mainstay of the business side until her retirement in 1968. Henry Mahon '23 was business manager for 32 years; Joseph Hamlin '04 put in 28 as publisher. Walter Flewelling, manager of the Crimson Printing Company, was not technically a staff member, but for more than half a century he set the *Bulletin*'s type and locked up its pages.

In the electronic era, we no longer "lock up" pages. Editors set type themselves, on computer keyboards, and are hip-deep in other production functions. Our predecessors would marvel at some of the typographic stunts we can pull with a single keystroke. Now and again we pause—startled to notice that ink-stained wretch reflected in the display screen—and marvel too. We occupy the interface between a familiar technology, requiring paper and ink, and a new one requiring silicon chips and an unlimited supply of electrons. Where will the new technology lead? We're not sure, but at 95 we hope we are not too old to find out.

Harvard Magazine *is editorially independent; for views expressed on this page the editors alone are responsible.*

by DAVID BARRY

SCREEN VIOLENCE: IT'S KILLING US

There's no question that violence on-screen leads to violence off-screen. The question is, what will we do about it? Studio heads are already talking about their First Amendment rights.

The films *Blackboard Jungle* and *Rebel Without a Cause*, so shocking in 1955, seem almost quaint today, especially in Los Angeles where they were made and where teenage-gang killings now make the front page only if they're unusual.

Unless you lived through the Eisenhower era, it may be hard to imagine the impact of the on-screen sight of sneering high-school students challenging adults with switchblades. But in '50s America, killing was still seen as something rare and horrible, something done by soldiers in battle, by lawmen, by gangsters, or by the occasional psychopath.

Homicides in movies, even those considered violent, were infrequent. *On the Waterfront,* for example, had only two killings, *Rebel Without a Cause* had one, and *Blackboard Jungle* had none. Those films presented juvenile delinquency more as the threat of rebellion and disobedience than of outright violence. The idea of American teenagers as killers was beyond comprehension.

That changed in 1957 when a wave of teen-street-gang killing in New York City (22 in the first six months of the year) spurred the emergency deployment of six hundred Police Academy cadets in a war on teen street crime. Though teen violence soon lost its place in news headlines to other crises, it did not go away.

Thirty-five years later America is in the grip of a violence epidemic that has transformed the country from one of the safest to one of the most dangerous nations on earth. The national homicide rate, corrected for population growth, increased almost exactly 100 percent from 1950 to 1990. In major cities the increase has been much higher.

Detroit's homicide tally climbed from 130 in 1953 to 726 in 1992, while the population declined. That's a five-fold increase. New York City recorded 321 homicides in 1953 compared with 1,665 in 1993, again, with a population decline—an increase of close to 500 percent. In Los Angeles County the 1953 homicide total was 82. In 1992, with a population almost exactly doubled, the total was 2,512—an increase of over 1,000 percent. These are staggering increases by any measure, with the one-year toll for L.A. County exceeding the deaths in over fifteen years of conflict in Northern Ireland.

Youth crime accounts for a disproportionate number of these killings, with eight hundred of the L.A. County killings listed as gang related. That's more than twice the number recorded a decade earlier, reflecting the fact, according to FBI reports, that the number of youths who committed murder with guns was up 79 percent in one decade.

Clearly something has gone horribly wrong. In looking for a root cause, one of the most obvious differences in the social and cultural fabric between post-World War II and pre-World War II America is the massive and pervasive exposure of American youth to television. Since the 1950s, behavioral scientists and medical researchers have been examining screen

One solution:
Kill your television.

ILLUSTRATION BY EVZEN HOLAS

violence as a possible causative element in America's spiraling violent crime rate. There is compelling evidence of a direct, demonstrable link.

You've seen statistics about national TV-viewing habits and the violence quotient—children aged 2 to 11 log an average of 28 hours per week, which means they've seen more than five thousand murders by the end of elementary school. These viewing habits go on in a country where homicide has become the second leading cause of death of all persons 15 to 24 (auto crashes are the first) and the leading cause among African-American youth. In 1992 the U.S. surgeon general cited violence as the leading cause of injury to women ages 15 to 44, and the U.S. Centers for Disease Control consider violence a public health issue, to be treated as an epidemic.

These issues were brought into public view during hearings held last June by Senator Paul Simon in Washington, and later in Beverly Hills, on the effects of screen violence on behavior. With the veiled threat of possible federal regulation, TV-network heads promised to make reduction of violence a high priority.

Barbara Hall: "I think these theories linking violence to TV watching are very specious. They don't prove anything."

At both conferences TV spokespeople made the claim that the networks had already cleaned up the violence content considerably. Statistics show the claim is true. Nevertheless, TV executives, producers, and writers at the Beverly Hills conference were openly skeptical of the evidence presented by researchers and behavioral scientists linking TV violence to violent behavior.

"You can find a study to support any theory you have," says TV writer-producer Barbara Hall. "I think these theories linking violence to TV watching are very specious. They don't prove anything."

Hall's viewpoint is widely shared by writers and producers in both the TV and the movie industries, where the claim is often made that the studies are inconclusive and that the research community is divided on the issue. This opinion flies in the face of the written record.

A recent study authored by Ron Slaby of the Harvard Education Development Center; Ed Donnerstein of the School of Communications, University of California; and Leonard Eron, professor emeritus at the University of Illinois, specifically addressed those charges, examining the research work in roughly thirty years of study and mapping out what has been done with it.

One project studied was a thirty-year tracking of a rural school from 1960 by Leonard Eron, producing the finding that TV viewing at age 8 was an accurate predictor of violent behavior in adolescents and adults. Eron found a 150 percent increase in conviction for criminal behavior among those who preferred and regularly watched violent TV shows.

Another study cited was by George Comstock at Syracuse University's Center for Research on Aggression. Comstock concluded that 188 research studies from 1957 to 1990 showed clearly that exposure to violent images is associated with antisocial and aggressive behavior.

Slaby, Donnerstein, and Eron reported the finding of a clear consensus in more than one thousand studies done over a thirty-year period. The 1968 National Commission on the Causes and Prevention of Violence, for example, cited screen violence as a major component of the problem. The 1972 Surgeon General's Report on TV and Behavior cited clear evidence of a causal link between TV violence and aggressive behavior by viewers. A ten-year follow-up to the Surgeon General's Report by the National Institute of Mental Health stated unequivocally, "The opinion held by most of the research community is that TV violence does lead to aggressive behavior by children and teenagers who watch the programs."

The consensus includes the American Medical Association, the National Institute of Mental Health, the Surgeon General's Office, the American Academy of Pediatrics, the American Academy of Child Psychiatry, the American Psychiatric Association, and the Centers for Disease Control. Nevertheless, the report goes on to say that evidence of the effects of TV violence has "for decades been actively ignored, denied, attacked and even misrepresented in presentation to the American public, and popular myths regarding the effects have been perpetuated."

Slaby describes it as a major education gap. "In most research areas," he says, "when there's new evidence developed, the practitioners learn of it, incorporate it, and do something about it. But in the area of screen violence, there is a greater education gap than in almost any area. You could compare it to the tobacco industry's reaction to studies showing the disease risk of cigarette smoking.

"Still, with tobacco," Slaby continues, "you can count on Mike Wallace to be there to ask embarrassing questions of cigarette makers. But you can't count on the TV industry to examine itself. You can count on it to ignore, redirect, or smokescreen the issue when it comes to their own industry."

Slaby takes encouragement from the industry's recent pledge to tone down violence, but he thinks the pledge was a long, long time coming. "This is two decades after the surgeon general pointed out the problem," Slaby says, "and four decades after research indicated a problem. That's quite a long time. And during that time, there has been an active campaign to distort the issues."

TV writers and producers, in their turn, feel persecuted and wrongly held responsible for a situation they believe is itself gravely misrepresented. In fact, the most recent research indicates that prime-time TV programming is not the culprit in the violence problem.

Last April a Washington, D.C., nonprofit activist group—the

LOU JONES

Deborah Prothrow-Stith: "We teach our children that violence is funny, is entertaining, is successful, is the hero's first choice, is painless, is guiltless, is rewarded."

Center for Media and Public Affairs—monitored the violence in eighteen hours of TV programming. Their survey, which included cable and pay channels, showed an average of one hundred acts of violence per hour, for a total of nearly two thousand acts of violence overall. Most of the violence involved a gun, with murder making up one tenth of the total. Cable proved to be far more violent than network broadcasting: WTBS clocked in at nineteen violent acts per hour; USA had fourteen; and MTV, the youth-oriented music video channel, and HBO each had thirteen.

Hall says responsibility for screen violence has to be shared—by the people who create it and the public that supports it by paying to see it.

The networks (except for CBS, whose violence content was skewed by the reality show "Top Cops") were almost as low in violence content as PBS, which had two violent acts per hour. (ABC showed three per hour, NBC two.)

Since almost no one would accuse PBS of excess violence, clearly prime-time network programming is no longer the source of violence activists believed it to be. In fact, only one eighth of the violence occurred in prime-time TV programming. That's the good news.

The bad news is that the bulk of the violence occurred in children's programming, with cartoons and toy commercials registering a staggering 25 violent acts per hour. TV writers and programming executives defend cartoon violence as fantasy not likely to be confused with reality. But Deborah Prothrow-Stith, M.D. '79, assistant dean of the Harvard School of Public Health, says cartoons teach children to laugh at violence.

"From their very first cartoon all the way through the latest super-hero movie," Prothrow-Stith said at a forum on violence in Los Angeles last May, "we teach our children that violence is funny, is entertaining, is successful, is the hero's first choice, is painless, is guiltless, is rewarded. . . . If you watch little children watch their first cartoon, they literally learn when to laugh. It's not a natural response to violence to laugh. But they learn, because the other children around them laugh. Because there's a laugh track, because there is music that tells them when to laugh." The effect, Prothrow-Stith says, is that children see violence as the way to solve problems.

Prothrow-Stith, who became involved in the cause of violence prevention through her work in the emergency room at Boston City Hospital, does not single out media violence as the sole or even prime offender. Rather, she sees it as one of several interlocked causative factors.

Barbara Hall counters by saying that responsibility for screen violence has to be shared by the people who create it and the public that supports it by paying to see it. "If the public wants good TV programming," she says, "then it should support the good shows that come on." Similarly, Hall believes that the public's enthusiasm for violent films is an endorsement of them. "It's a consumer society," she continues. "The studio heads are just business people."

True. But what about children in low-income, inner-city families with only one parent, or no parent, at home? Studies show that such children watch significantly more television (including cable and movies via VCR) than children in more advantaged households. Who takes responsibility for what those children watch?

Paul Juarez: "TV and movies have replaced church and schools in the sense of shaping the way kids are developing."

Paul Juarez, of the Department of Family Medicine at Martin Luther King Hospital in Los Angeles, believes screenwriters need to share the responsibility. "I think there's the danger that film producers and writers, who are in a position to really shape attitudes, may not recognize their role," he says. "For those who live on the West Side [an affluent sector of L.A.], the reality may be that screen violence doesn't affect their children much. But for kids in disadvantaged homes, the media has a much stronger impact."

In fact, Juarez says, "with what's going on in our society—the changing nature of families, class differences, income disparity, less church attendance, deterioration of schools—the traditional social institutions are not responsive to the needs of youth." So, he says, young people increasingly rely on TV to set standards. "The media has come to fill a void in terms of shaping attitudes and opinions," says Juarez. "TV and movies have replaced church and schools in the sense of shaping the way kids are developing, in terms of presenting reality and the way things are supposed to be."

Studies examined in the report by Slaby, Eron, and Donnerstein describe immediate behavioral changes in children who watch violent TV shows: they become aggressive. Los Angeles TV and movie producer Alan Marcil had precisely that experience with his three-year-old son and the cartoon series "Teenage Mutant Ninja Turtles," which is heavy on exaggerated, karate-style, nonlethal violence.

"My son is a sweet guy," Marcil says. "But right after watching 'Ninja Turtles,' he punched his sister. He'd never done that before. He began kicking, too, and he attacked the piano with a hammer. Now all kinds of toys have become weapons and have to be locked away. The wiffle bat—watch out; it's now a Ninja sword."

"My son is a sweet guy," Marchil says. "But right after watching 'Ninja Turtles,' he punched his sister.

To Marcil, the gloomiest aspect of the situation is the change in his son's TV-watching appetite. "He used to like Mister Rogers and 'Sesame Street,' " he says, "but he's not interested in those shows anymore. I turn them on and he wants something futuristic, with lots of violent action."

There is a report mentioned in the Washington hearings that goes far beyond other studies in terms of postulating a causal link between TV and real-life violence. The report, by Dr. Brandon Centrewall of the University of Washington Department of Epidemiology and Psychiatry, appeared in the June 1992 *Journal of the American Medical Association.*

Treating violence in the United States as an epidemic, Centrewall sought its causes as he would any medical epidemic, looking for statistical connections between the change in homicide rates following the introduction of TV in three countries. He studied the United States and Canada, where TV was introduced in 1945, and the Republic of South Africa, where it was introduced thirty years l.a.ter. Centrewall sees the three countries as having simil.a.r cultural bases, with strong Christian religious influences.

Canada serves as a control on the study of homicide rates in the United States in that it was spared the upheavals of antiwar protests and civil rights struggles that may be thought to have influenced U.S. statistics. To rule out the effect of South Africa's racial tension, Centrewall used only white homicide statistics throughout his study.

What he found is this: homicide rates in Canada and the United States increased almost 100 percent between 1945 and 1970. In both countries TV-set ownership increased in almost the same proportion as the homicide rate. In South Africa, he found that the (white) homicide rate had been in gradual decline between 1945 and 1970. When the government allowed TV in 1975, the homicide rate (again, white only) exploded, increasing 130 percent by 1983 after decades of decline.

There are other controls in Centrewall's study to rule out firearms, alcohol, drug abuse, and urban population shifts as prime causative factors in the homicide rate increase. The statistical implication is that TV is a cause of violence.

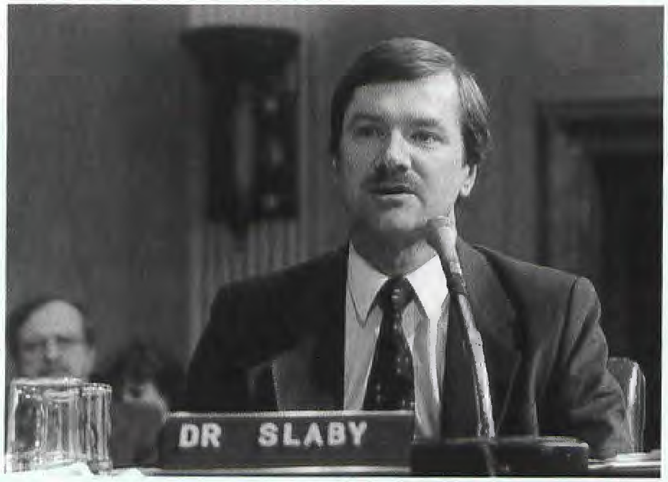
"Given that homicide is primarily an adult activity," Centrewall says, "if television exerts its behavior-modifying effects primarily on children, the initial "television generation" would have had to age ten to fifteen years before they would have been old enough to affect the homicide rate. If this were so, it would be expected that, as the initial television generation grew up, rates of serious violence would first begin to rise among children, then several years later it would begin to rise among adolescents, then still later among young adults, and so on. And that is what is observed."

Centrewall's study shows TV as the prime causative agent in the doubling of the American homicide rate over the past forty years. That means, he says, that without TV, we would have had 50 percent fewer homicides over the past four decades. "People who commit murder are a very small fraction of the population," Centrewall says, referring to the 1950 murder rate: about four and a half per hundred thousand people. "By 1990 the rate was twice that. Still a tiny fraction of the population, but twice as large a fraction as before."

Although action films like *Total Recall* and *Die Hard* have a huge impact on audiences (judged by ticket sales alone), they represent only a small piece of annual movie production. Activists concerned about screen violence tend to be equally concerned with the high body counts of such films: *Total Recall* boasts 74 deaths; *Robocop II*, 81; *Rambo III*, 106; and *Die Hard 2*, 264.

What's the responsibility to the public of writers and moviemakers? "I think writers have a responsibility to write honestly and write well," says Barbara Hall. "In terms of the effects it might have, it's almost impossible to predict that." Harlan Ellison voices a similar opinion. "You can't feel a responsibility for the effect of what you write. You have to be true to the art. You have no allegiance to producers, editors, or audiences."

Other writers disagree. "TV and wide-screen movies combine into the greatest influential force in the history of the



Ron Slaby: "You can't count on the TV industry to examine itself. You can count on it to ignore, redirect, or smoke-screen the issue." Slaby is shown here testifying at a congressional hearing.

Ben Stein: "The people who make tens of millions of dollars each year increasing the level of youth violence should really be ashamed."

human race," says TV and movie writer Michael Graham. "We as writers have an awesome responsibility in how we use that force, and there should be a collective examination of conscience about it."

Graham, a one-time officer of the Wayne County Prosecutor's Office in Detroit, got his fill of violent crime before becoming a screenwriter. "I've watched kids die from bullet holes," he says. "When violence is shown on-screen, it should be horrible, the way it really is—not slick and superficial, the way some movies show it."

Although writer Robert King worries about the notion of movie or TV story content being analyzed or graded for violence, he believes it's obvious that screenwriting affects people. "Writers can't just throw up their hands and say we have no effect, because to do so would be to say our writing didn't mean anything," King says. "I think the minimum of what we should be doing as writers is talking about this issue. But when I try to get a conversation started with other writers, I hear the argument that just talking about it is putting yourself in the hands of censors."

Some might consider that to be an odd escape route from a discussion of the subject, since movies and television are the most heavily self-censored industries in the world. Networks exercise absolute veto power over the scripts of their TV writers, with any element, including the entire story, subject to rejection on almost any basis at all. Feature film scripts, often created under a development contract to a studio or production company, are written to the taste of the producer, who writes the checks and who has veto power on any issue, including aesthetics, conscience, taste, or anything else.

That's the nature of the business of writing for hire, yet it doesn't get called censorship. What does bring that cry is the request for a discussion of writers' responsibilities. Similarly, when asked about their responsibility on the issue of violence, studio heads take cover behind the issue of artistic freedom for their moviemakers. "The issue is not one of freedom of speech," says TV and movie writer Ben Stein. "It's freedom to make a lot of money. I think it's been proven beyond any doubt that screen violence affects children," Stein adds. "Now TV violence seems to have diminished, but violence in movies is totally out of control. I believe moviemakers have a responsibility to consider the consequences of their work. People who make the culture have as much responsibility to think about its effect as people who make cars have to think about the effect of their product."

Nevertheless, Stein continues, "it's wrong to blame studio heads for the violence; they don't write the material. Writers write it. But the people who make tens of millions of dollars each year increasing the level of youth violence should really be ashamed. There's no difference between them and people who sell guns."

Stein is probably on safe ground when he tosses the argument into the pit of profits, since the returns from the most violent pictures—*Total Recall, Robocop, Terminator,* and *Die Hard*—run into the hundreds of millions of dollars.

But if violence in prime-time TV programming has already been addressed as a problem (and I think it has), the violence in children's TV programming and in the feature films that make their way into America's homes via cable TV or VCR remains relatively unexamined.

How to sway the minds of those who make violent films? The heads of movie studios, unlike heads of TV networks, have so far refused to credit the evidence of a link between screen violence and violent behavior. Furthermore, they invariably cite artistic freedom as an absolute right to be enjoyed by filmmakers.

That position, like the anti-censorship argument of TV writers, ignores the fact that there's no constitutional violation in a studio head rejecting a film project out of concern for its possible harmful effect on society. Studio executives reject film projects all the time, usually because they fear the movie won't make a profit. Without even hinting at anything so odious as a regulatory body, it's not hard to imagine activist groups exercising their First Amendment rights by bringing pressure on corporate heads of studios to examine the possible harm done by extremely violent films.

Studio heads cite artistic freedom as an absolute right to be enjoyed by filmmakers.

Although many writers see the availability and proliferation of guns as the culprit in America's escalating violence, Jeff Silverman, a screenwriter and journalist, is convinced that screen violence is related to criminal violence. "Guns on-screen lead to guns off-screen; and a gun that's loaded has a way of going off," says Silverman. He sees the cinematic use of firearms defining character on-screen and fashion on the street. "Guns have become lethal and illegal versions of Air Jordans," he says. "There's a reason that Los Angeles—the capital of the movie industry—is the capital of kids getting caught with guns in school." ▽

David Barry '63, a journalist and screenwriter, is a resident of Los Angeles and a member of the Writer's Guild of America.

THE NORMAN CONQUEST


MUGGS STUMP

In 1925 a Harvard freshman spends too much time with the Spee Club and the Black Shirts football squad and too little on his studies. As a result he is put on probation by the dean. For his punishment the student suggests he be sent away for a year to assist Dr. Wilfred Grenfell in his missionary work in Labrador, Newfoundland. Grenfell is ministering to the sick in a remote Inuit fishing village at the southwest tip of Newfoundland, accessible only by dogsled—a trip of three hundred miles. The fact that he has never handled a dog team is a mere technicality as far as the youth is concerned. To his astonished delight, the dean assents to his proposal. What's more, he'll be receiving credit for his year off!

Norman Vaughan '29 has relished adventure since he was a child. "Anything that wasn't out-of-doors I accepted with some degree of resistance," he says with a diplomatic wink. Born December 19, 1905, to George Cutts Vaughan, a wealthy leather tanner from Peabody, Massachusetts, and Elizabeth Norton Dane, whom he describes as "a typically proud

Will the Real America Please Stand Up?

Global View

By George Melloan

NEW YORK—As we tool along the FDR Drive, a taxi driver responds to a grateful comment about the soothing music on his car radio by telling a bit about himself. He is from the Indian state of Benares and he is happy to be in America.

"You think you have racial discrimination here," he says. "It is nothing compared to where I came from. I love this country."

Critics of the United States often forget how the country looks to foreign visitors. After having lived abroad for nearly four years I have some perspective on that subject. With each return visit, I am reminded that the U.S. is a liberal society. That is the source of its strength as well as some of its more troubling conflicts.

In the suburbs of New York, Washington, D.C. and Indianapolis, there are renewed signs of the vigor that characterizes the American economy. In these regions, the economic recovery appears to be stronger than nationally.

But the most distinctive thing about 1993 America, at least to my eyes, is the way the communications revolution manifests itself, not just technically but socially. With the proliferation of cable channels and direct satellite broadcasting, America is tuned in as never before to a vast electronic forum. There seems to be no limit on what viewers might see or hear. The sensitive issue of racial conflict, which newspaper editors once handled like dynamite, was brought forth with all its rancor last week in the endless discussion of the acquittal of two black men on the most serious charges having to do with the beating of white truck driver Reginald Denny during the April 1992 Los Angeles riots.

"Interactive" political discussion between talk show hosts and their listeners and viewers has become a more prominent part of American life in four years, giving rise for example to what might be called the Rush Limbaugh phenomenon. Mr. Limbaugh seems to have been propelled by his large interactive audience into becoming a national poltical figure. It wasn't so long ago that politicians were shielded to some degree from direct attack in the broadcast media by the Federal Communications Commission's "Fairness Doctrine" that in theory gave them a right of reply. That protection has been eroded steadily over two decades but it is nonetheless a bit of a shock to an infrequent visitor to witness Mr. Limbaugh ridiculing a president and his policies so directly, attracting a large viewing audience and even commercial sponsors. It's no wonder there has been a "Hush Rush" effort in Congress to bring back the Fairness Doctrine.

Judging from my conversations with Europeans, non-Americans often find the openness of American society refreshing. A comparable candor in the media is not at all present in many European countries because the electronic media often are state controlled and newspapers often in the grip of political parties.

Europeans are struck as well by America's entrepreneurial activity on every hand. The fast food restaurants, the fitness clubs, the vast malls. They marvel at the low prices and good quality that are the fruits of intense competition.

But all these manifestations of the liberal society are not without their anomalies. Indeed, there is not one culture in modern America, but many. They often are out of touch with or in conflict with each other. The fact that Mr. Limbaugh can flail the president with such impunity suggests the degree of alienation that now separates many members of the working middle class from the political class. Americans can tune in to Congress by means of the C-Span network, but they have little idea of what the lawyers who run that place are doing as they make laws and conduct public business through the arcane rituals they have developed to make their work less and less transparent.

Visits to Virginia and Indiana bring into focus what some have chosen to call the "religious right," which is a categorization largely without meaning because it tends to sweep together people who are merely concerned about teaching their children moral values with fringe groups that practice outright bigotry. Private schools, often operated by churches, are more in evidence than before, reflecting a continuing disenchantment with public schooling.

The U.S. is a liberal society. That is the source of its strength as well as some of its more troubling conflicts

Whatever the "religious right" might be, it contains a great many people who are offended by what they see as cultural decline, the use of vulgarities in public discourse, the exploitation of sex and all the other manifestations of a society that has divorced itself from traditional standards and rules.

The issue of crime in America is of special interest to Europeans because several Europeans have been the victims of Florida's crime wave. America is seen with some justification as a dangerous country, one in which law enforcement authorities have lost control of the streets. Must a liberal society also be a lawless society? That's an interesting question.

The detachment of the political class from the middle class is nowhere more manifest than in the issue of health care. An American returning home from Europe is quickly aware of the superiority of American medical technology as he hears about cures that were impossible only a few years ago. A medical researcher in Virginia says that the U.S. is light years ahead of Europe. But the expense that has been heaped on the private sector by the very efficacy of treatment and by the shifting of cost from public sector health programs is troubling to many Americans. That no doubt has provided the impetus for the Clinton health initiative. Yet this is happening at a time when the national health systems of Europe are being cut back because they have become an impossible burden on national budgets.

Finally, a visiting expatriate is impressed by the increased employment of what might be called the politics of fear. American society is essentially liberal but the environmental police, with seemingly arbitrary powers, are more and more in evidence, restricting the use of property and the conduct of normal business. Instead of addressing specific pollution problems, a lot of this activity is founded on a great mythology, with quasi-religious overtones.

There is much to recommend the liberal society. Perhaps the openness of public discussion, and the wide participation in it, clears the air of festering hatreds. TV interviewers minister to the aggrieved. There is the classlessness the Indian taxi driver observed. Yet an expatriate gets the sense too that America is a nation of great debate but with a lesser capacity to deal sensibly with public policy problems that are of vital concern, things like war and peace, schools, health insurance and crime on the streets.

THE WALL STREET JOURNAL. * * * TUESDAY, OCTOBER 26, 1993 B1

MARKETPLACE

Who's News: *General Mills names Sanger as next president* ***Page B13.***

Law: *Defense gets a rocky start in Trade Center bombing trial* ***Page B18.***

Stamping Out TV Violence: A Losing Fight

Forty Years of Hand-Wringing

***1950s**—Children jump off roofs emulating hero of syndicated TV's 'Superman' series; star George Reeves warns children on air not to try to fly*


Personality Photos

'The Untouchables' 1956-60

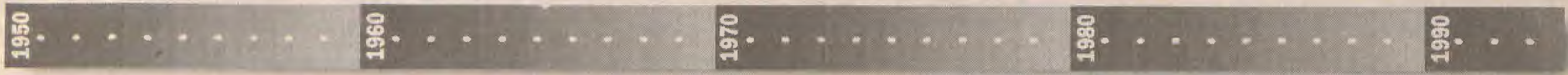
***1968**—National Commission on the Causes and Prevention of Violence indicts TV, based on review of research*

***1972**—Surgeon General's five-volume report links TV and aggressive behavior*


Movie Star News

'Miami Vice' 1984-89

***Dec. 1992**—Three networks announce their standards, forswearing gratuitous violence; later they agree to include an advisory before strong programs*



***June 1952**—First congressional hearings addressing violence on TV-House Interstate and Foreign Commerce Subcommittee*

***1954**—Networks testify about TV violence before Sen. Estes Kefauver's Judiciary Subcommittee to investigate juvenile delinquency*


Personality Photos

'The Rifleman' 1958-63

***1977**—Advertisers like General Foods pull commercials from violent network shows*

***Oct. 1993**—Five-year-old sets trailer on fire, killing sister; mother blames MTV's animated 'Beavis and Butt-head.' MTV denies responsibility, but removes references to fire and moves show to later time period*

MTV

'Beavis and Butt-head'- 1993

By Elizabeth Jensen
And Ellen Graham
Staff Reporters of The Wall Street Journal

When Attorney General Janet Reno took television broadcasters to task last week for violent programming, it was but the latest round in 40 years of government sword-rattling over the medium's power over children. Despite decades of anguish, however, neither the government nor programmers have figured out what to do about televised violence.

Violence on television, and risky copycat behavior, is as old as the medium itself. The original 1950s "Superman" series incited a few children to leap off rooftops in imitation of the soaring star, helping set the stage for the first congressional TV-violence hearings. Today, much of the violence on television has moved away from network series onto news and newsmagazine shows and, especially, onto cable, where movies and music videos often glorify and eroticize brutality.

TV violence has traditionally been measured quantitatively, by researchers who count incidents of real or threatened physical injury. This essentially gives equal weight to Bugs Bunny bopping Elmer Fudd with a carrot and an Uzi-armed psychopath picking off a terrorized and helpless victim.

Most such analyses show a fairly stable level of prime-time violence over the past 25 years – or five incidents per hour, says University of Delaware researcher Nancy Signorelli, though she adds that the most recent study found mayhem in fewer shows. Many critics, however, believe there is a more dangerous qualitative change toward violence that seems more realistic and more glamorous.

"We need to get beyond simple counts of physical injury and look at the context," says Edward Donnerstein, professor of communications at the University of California at Santa Barbara. He draws a distinction between violence in acclaimed miniseries like "Roots" or "Holocaust," and gratuitous brutality shown in movies like "The Terminator" or "Friday the 13th," which are shown unedited on pay-cable channels. The latter kind of violence is what is so troubling to policy makers and viewers, he says, lamenting that content analysis of television still doesn't measure the type of violence being shown.

Michael Dann, a veteran network programmer who started at NBC in 1950 and ran CBS Entertainment in the late 1960s, has testified nine times before Congress on television violence, defending everything from Westerns to police shows. He argues that series television is less violent today than at any time since the 1950s. What has changed, he suggests, is reality. Not only is society itself more violent today, but "local news, network news, the front page of the newspaper and magazines" reflect that violence back into the nation's living rooms. "I have never seen so much real-world coverage of violence, separate from entertainment programming, as now," he says.

The endlessly replayed video footage of

Please Turn to Page B8, Column 5

INDEX TO BUSINESSES

This index of businesses mentioned in today's issue of The Wall Street Journal is intended to include all significant references to parent companies. First references to these companies appear in boldface type in all articles except those on page one, the editorial pages and the Leisure & Arts page. The index doesn't cite companies listed solely in the Digest of Earnings, which appears today on page A8. Page numbers listed here refer to the pages where the articles begin.

ENTERPRISE

Ballot Battles Over Blue Laws And Taxes Rally Small Business

Continued From Page B1

spending increases to the rate of economic growth. It also would bar state lawmakers from compelling localities to finance new state projects.

Tom Dooley, vice president of the business group, says 98% of his group's 3,200 mostly small-business members favor the initiative. Many other small-business groups have endorsed it, and some are campaigning for its passage. Most big corporations have declared neutrality.

"Small business is the backbone of 602," says Marjorie Hufault, campaign coordinator for the Committee to Limit Taxes Now, which is sponsoring the initiative. Small businesses are fed up with new taxes, she says.

Opponents say a tax rollback would devastate the school system and social services. "Our quality of life, our infrastructure, our clean environment – all these would be on the chopping block if this passes," says Jordan Dey, spokesman for Democratic Gov. Mike Lowry, who pushed for the increases after taking office this year.

One recent opinion poll showed that voters who have taken sides favor the initiative, 3 to 2. But the governor's spokesman says the gap is narrowing.

A Beloved Tax

If Washington businesses hate their taxes, many Colorado retailers have one they love. Voters will decide whether to extend a 0.2% sales tax on hotels, restaurants, bars and other food and entertainment spots. Proceeds are used to promote tourism.

Not surprisingly, the tourism industry supports passage, says Tommy Neal, policy specialist at the National Conference of State Legislatures in Denver.

Yearning for Exemption

Texas small businesses don't want to be forced to pay property taxes on expensive pollution-control devices that the government forces them to buy. Proposition 2 would exempt that equipment from such assessments. "The soaring cost of complying with federal and state environmental regulations threatens to bring tens of thousands of small Texas businesses to their financial knees," says the Texas office of the National Federation of Independent Business. "Proposition 2 is our best hope for reducing those costs." The lobbying group says dry cleaners, service stations, auto garages and bakeries, which have high pollution-control costs, would benefit most from tax relief.

Also in Texas, Ballot Issue 1 would provide financing for the start-up costs of businesses owned by minorities and women. It would amend the constitution to authorize $50 million in general-obligation bonds. "The funding would be in the form of low-interest loans, not handouts," says Sen. Eddie Lucio Jr., the Brownsville Democrat who wrote the measure. "It would help people who need help the most, and would create jobs."

Princeton Electronic Plans Move

PHOENIX–**Princeton Electronic Products Inc.** said it will move its electronic products division from Brunswick, N.J., to Phoenix by the end of November.

Princeton said four employees will lose their jobs as a result of the move. The company is still searching for a facility in Phoenix.

* * *

Years of Attempts to Stamp Out Violence on Television Have Failed

Continued From Page B1

the Rodney King and Reginald Denny beatings in Los Angeles are obvious examples of brutal reality footage. Dr. Donnerstein observes that, unlike gratuitous fictionalized violence – calculated to elicit cheers from audiences – such news programming depresses most viewers. "We see the real injury, and people are bothered," he says, "and that's a much, much different situation."

Together, ABC, CBS, NBC and Fox devote nine prime-time hours a week to news magazines, up from just two hours a decade ago. Crime is a frequent topic on such shows. Fox, a unit of **News Corp.**, also has a slate of "reality" shows, including "America's Most Wanted" and "Cops," which also are credited with occasionally apprehending criminals. Local stations' news programs are filled with crime stories, as are promotional spots teasing late-night newscasts. All add to the perception that prime-time is violent.

When it comes to entertainment shows, ABC, CBS and NBC have only a handful of series that contain sporadic violence. Among them are "NYPD Blue" from ABC, a unit of **Capital Cities/ABC** Inc., and "Walker, Texas Ranger" from **CBS** Inc.'s CBS network. One reason: In recent years, situation comedies have delivered better Nielsen ratings than action-adventure shows.

A list of children's top-10 prime-time shows in 1982-83 contained four adventure programs, including NBC's exceedingly violent "A-Team." Today, by contrast, the kids' top-10 list includes only sitcoms.

Amy Fisher and David Koresh

Currently, the most violent content found on the networks is in lurid made-for-television movies, chronicling everything from the saga of Amy Fisher to the government's siege at cult leader David Koresh's Waco, Texas, headquarters. But even these are not as violent as many of the uncut movies shown on cable, where standards-and-practices executives (the industry's in-house censors) tend to give producers more creative freedom. It is also mostly on cable that reruns of old Westerns and police dramas have found new life. Cable network Comedy Central is even parodying the uproar over violent television: On Oct. 30, it plans to launch "Drive-In Reviews," rating the most-violent moments on film.

Network executives at last week's hearing on the issue were frustrated by the number of questioners who prefaced their remarks with, "I don't watch much television, but . . ."

"All we're asking for is to be scrutinized for what we put on the air," says Rosalyn Weinman, vice president of broadcast standards and practices at **General Electric** Co.'s NBC. She adds that the network is fully prepared to defend its programs. But she adds: "We're being tarred with the brush of the entire media landscape, of which we're a small part, and the part with most checks and balances."

Blame 'Bonnie and Clyde'

David Bianculli, television critic for the New York Daily News, thinks Ms. Weinman has a point. Washington isn't making a sufficiently clear distinction between programming on the networks, syndication and cable, he says. Taking broadside potshots at televised violence, he says, "is a no-lose situation for politicians. There's no lobby saying violence is good." (Recent polls show that more than 80% of the public is concerned about media violence.)

Network-TV violence peaked in the 1980s with "Miami Vice," reruns of which are aired today in syndication, Mr. Bianculli says. He and other media watchers blame cable and its unedited Hollywood movies for the violence problem. The original early-1960s network series "The Untouchables" was about as raw as either TV or movies got up to that time, Mr. Bianculli says. But a few years later the film "Bonnie and Clyde" was released, and Hollywood took a quantum leap beyond TV in violent content – a lead he says movies have held ever since.

The University of California's Dr. Donnerstein believes the issue of TV violence has assumed its current urgency because of the medium's intrusiveness in the home. "The big change in the past decade is children's access to cable, video on demand, rental videos and other media through the TV box," he says.

A number of legislators appear determined to find ways to regulate TV violence, particularly on the broadcast networks, despite obvious First Amendment hurdles. Among the current proposals: Providing a "safe harbor" that excludes violent shows while kids are likely to be watching; ordering the Federal Communications Commission to force broadcast station licensees and cable franchisees to label shows containing violence or unsafe gun practices; and instructing the FCC to issue quarterly report cards on the levels of violence on TV.

Attorney General Reno raised eyebrows when she testified last week that the proposed bills would be constitutional. Robert S. Peck, legislative counsel for the American Civil Liberties Union, argues that none of the bills would pass constitutional muster; he cites a long list of cases to back up his point.

Amid the clamor, the Daily News's Mr. Bianculli offers some historical perspective: Back in the 1920s, it seems that a furor arose over a child who had killed his father with a carving knife after watching a silent movie. Of the incident, G.K. Chesterton wrote at the time: "This may possibly have occurred, though if it did, anybody of common sense would prefer to have details of that particular child, rather than about that particular picture."

Eye Clinic Drops S

Scientists Halt Research to Duplicate Human Embryos After Furor Erupts

By MICHAEL WALDHOLZ
Staff Reporter of THE WALL STREET JOURNAL

Scientists in Washington, D.C. said they won't make further attempts to "clone," or duplicate, human embryos for the time being, acknowledging that their experiment sparked a furious reaction.

Furor over the experiment has led several medical organizations to plan guidelines to oversee any future efforts to reproduce a human embryo in a laboratory setting.

Researchers at George Washington University Medical Center said they recently divided several human embryos consisting of between two to eight cells. The researchers said two of the divided cells were grown for several days in test tubes, developing into separate human embryos.

While the experiment involved technical procedures similar to those already done in farm animals to produce multiple offspring, it nonetheless produced the first reported test-tube-generated twin of a fertilized human egg. At a news conference in Washington, the researchers said the embryos they contrived were abnormal and could never have reached full term. In fact, they survived only a few days to the 32-cell stage.

Still, news of the experiment, first reported Sunday in the New York Times, triggered a widespread reaction that is expected to deter embryo-cloning research for some time. Jerry Hall, who led the experiment, said one of the reasons his laboratory conducted the experiment was to spark a debate over the ethics of the procedure.

"It was clear that it was just a matter of time until someone was going to do it, and we decided it would be better for us to do it in an open manner and get the ethical discussion moving," Dr. Hall said in an article to be published later this week in the journal Science. Dr. Hall is director of the in-vitro fertilization program at George Washington, one of numerous clinics where doctors help infertile couples conceive by use of test-tube procedures.

Dr. Hall said he doesn't plan any further embryo-twinning research.

But several experts in the field familiar with Dr. Hall's experiment were surprised it was conducted at all. "It was our understanding that no one was going to conduct any embryo-twinning research, at least not in the near future," said Cynthia Cohen, executive director of the National Advisory Board for Ethics in Reproduction in Washington, an independent group re-

Mylan Is Cleared To Make Generic Version of Tagamet

By GABRIELLA STERN
Staff Reporter of THE WALL STREET JOURNAL

PITTSBURGH – **Mylan Laboratories Inc.** became the first generic drug company to win Food and Drug Administration approval to make and market cimetidine, the generic equivalent of **SmithKline Beecham's PLC** Tagamet ulcer drug.

SmithKline's exclusive right to market Tagamet free of generic competition expires May 17, 1994.

Analysts said the impact on Mylan's earnings will depend on how many other generic drug companies receive approval from the FDA to make generic Tagamet, and how many patients who take Tagamet or a similar ulcer drug, Zantac, switch to the less-expensive generic.

David Saks, an analyst with Gruntal & Co., said generic Tagamet sales could boost Mylan's earnings between 15 cents to 30 cents a share in fiscal 1995. In the year ended March 31, Mylan had profit of $70.6 million, or 92 cents a share, on sales of $212 million. However, Jerry Treppel, an analyst with Kidder Peabody, said it's too early to forecast the impact on Mylan's earnings. Both analysts rate Pittsburgh-based Mylan's stock "outperform."

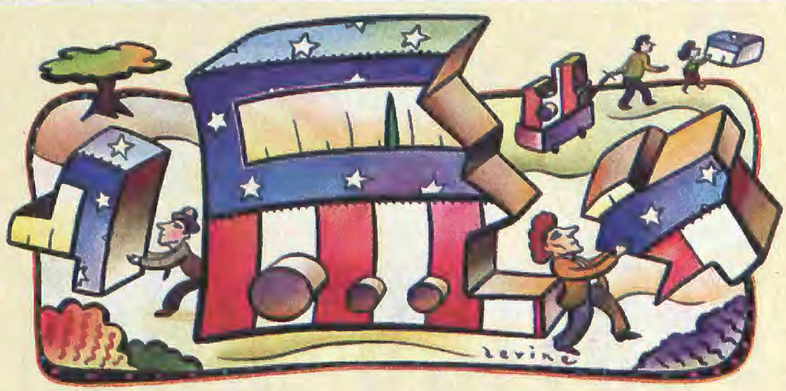
Mr. Treppel said, however, that the benefit to generic drug companies like Mylan could be huge if they attract users of Zantac, which represents a far bigger market than Tagamet. Zantac, which is made by **Glaxo Holdings PLC**, generates about $1.5 billion in annual sales – at least twice that of Tagamet. Mr. Treppel said tha

Commentary/by Mark Lewyn

THE CASE FOR AUCTIONING OFF THE AIRWAVES

It was a license to print money. In 1989, Rural Cellular Development Group in Los Gatos, Calif., won a government lottery for the right to build and operate a cellular-phone system on Cape Cod. Just 73 days after getting its construction permit, before erecting a single antenna, the group "flipped" its license—selling it to Dallas' Southwestern Bell Mobile Systems Inc. for $41 million.

Rural Cellular's windfall shows how the government's system for licensing the electromagnetic spectrum has gone haywire. The Federal Communications Commission allocates spectrum, without charge, for everything from television to garage-door openers. The public receives nothing for the use of a valuable national resource. But the fortunate few who win licenses—from broadcaster William Paley to cellular pioneer John W. Kluge—profit handsomely, even after making huge investments to build their networks. "If you look at the list of the richest people in America carefully, a lot of them made their money off of the spectrum," says FCC Chief Alfred C. Sikes.



THE GOVERNMENT'S GOALS

- ▶ Gradually take 200 megahertz of airwaves from federal users such as the military, Federal Aviation Administration, and National Weather Service, and allocate them for civilian purposes
- ▶ Free up another 220 megahertz for new kinds of cheap cellular phones by moving out current users, mainly microwave networks
- ▶ Auction off most of the frequencies that become available, except for any that may be reserved for such uses as public safety services, government, radio hobbyists, and astronomers
- ▶ Raise billions of dollars for the Treasury over 15 years, including $2.5 billion by 1996 from the sale of the first 30 megahertz

DATA: COMMERCE DEPT., FCC

NO GIVEAWAY. Clearly, the system desperately needs an overhaul. And an efficient substitute is waiting in the wings: government auctions of spectrum. Decide what are the best uses for each band of frequencies, sell them off to the highest bidder, and put the proceeds in the Treasury. Critics paint auctions as a government giveaway, akin to selling off a national park. In fact, the benefits to the public are compelling: Auctions would ensure that taxpayers, not speculators, reap windfall profits from the airwaves.

The traditional method, so-called comparative hearings, has for decades been ineffective. In theory, the FCC awards licenses to the applicants who rate highest in everything from financial stability to moral uprightness. But in practice, almost anyone—short of convicted felons—can qualify. "It's hard to articulate standards to distinguish between applicants," says Dennis Patrick, a former FCC chairman who is now president of Time Warner Telecommunications.

In the past decade, the FCC tacitly admitted the drawbacks of its comparative hearings. To avoid slowing down development of such industries as cellular and paging, it scrapped the time-consuming hearings and held Ping-Pong-ball-and-hot-air lotteries—such as the one that rained dollars on Rural Cellular. The lotteries have spawned "application mills," which help speculators with their lottery-entry applications, even including preparing phony construction plans.

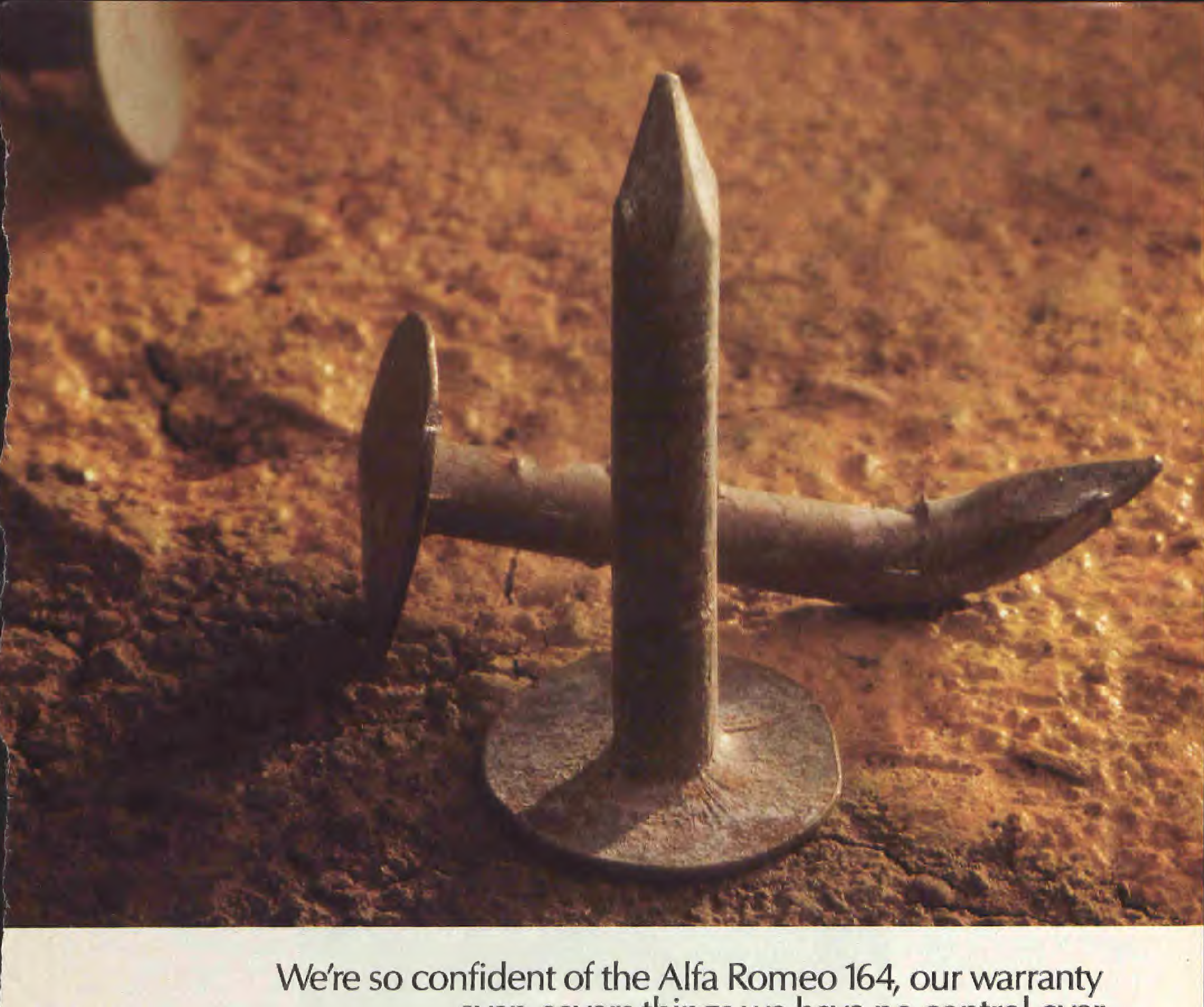
Washington is inching toward a better system. The White House has been pushing a plan to take a swath of spectrum from federal users and auction it off for commercial use (table). Any spectrum that becomes available in the future also would be auctioned. A House-passed bill on shifting spectrum to the private sector doesn't call for auctions, but a Senate measure due for action next year is expected to include an auction provision. If the House comes around, the first auctions could come in late 1993.

OVERBIDDING. Opponents of auctions argue that well-heeled companies would always outbid small entrepreneurs. They say auctions would squelch investment because high bidders wouldn't have money left over for building. But buyers would have no reason to overbid, any more than they would deliberately overbid for, say, office space. And history shows that small companies with good ideas can readily raise money for businesses built on the airwaves—witness the success of McCaw Cellular Communications Inc., which grew by snapping up dozens of cellular properties. Furthermore, to keep auctions from exhausting the resources of buyers, the FCC might ask bidders to bid a percentage of future revenues instead of an up-front lump sum.

Realistically, Congress isn't about to pass the kind of auction measure that free-market purists would wish for. Most likely, established license holders would be exempted. And licenses for television and radio, because they involve programming issues, would continue to be awarded by hearings.

Still, any move toward auctions is welcome. Until now, the system has helped make fortunes for a small number of savvy insiders. That money could just as easily go to the public coffers—and it should.

ANDY LEVINE



THREE BLIND MICE: HOW THE TV NETWORKS LOST THEIR WAY
By Ken Auletta
Random House • 642pp • $25

ABC, CBS, NBC: S.O.S.

Talk about how the mighty have fallen. Entering the 1980s, CBS, NBC, and ABC were more than multibillion-dollar businesses. The television networks were the three pillars of the national electronic church at whose flickering altars more than 75 million Americans worshipped nightly. But in the middle of the decade, all three were humbled: They were taken over by new corporate owners, besieged by new competitors, and abandoned by much of their audience.

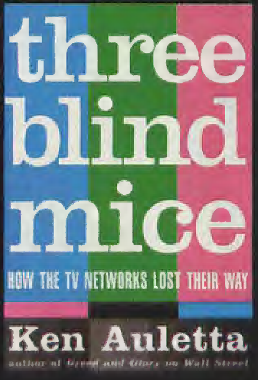
Three Blind Mice: How the TV Networks Lost Their Way is Ken Auletta's chronicle of this cataclysm. It is a tour de force of reporting, if not of writing or of analysis. Virtually everyone who mattered, inside and outside of the networks, talked to Auletta in interviews that began in 1985. He sat in on sales meetings, gatherings of network affiliates, and sessions in which Hollywood producers pitched ideas for new series. And he seems to have read everything on the subject, from press clippings to minutes of CBS board meetings.

What emerges is an often dramatic inside account of Capital Cities Communications' friendly takeover of ABC; General Electric's purchase of RCA, the parent of NBC; and Laurence A. Tisch's "creeping takeover" of CBS. In detailing these events, Auletta reconstructs conversations and often attempts to climb inside the minds of participants. But unlike most such efforts, which smack of invention, Auletta's narrative has the heft of credibility. His reconstructions are rigorously sourced, with detailed notes. And where he has received two versions of, say, what General Electric Chief Executive John F. Welch Jr. said to then-President of NBC News Larry Grossman at a 1986 dinner, he provides an explanatory footnote.

Most readers, though, will probably wish that a few people had refused to talk to Auletta or that he had read a little bit less or had slept through some meetings. At 642 pages, *Three Blind Mice* contains vastly more than you're likely to want to know. Both profound and relatively trivial events are presented in the same indiscriminate detail. How Tisch blindsided CBS Inc. Chairman Thomas H. Wyman is the stuff of intrigue. How Kim LeMasters succeeded Bud Grant as head of CBS Entertainment is, by now, probably intriguing only to LeMasters and Grant.

But ignore the irrelevancies, and *Three Blind Mice* contains some pretty impressive stuff. Auletta seems to have had particularly good access to CBS—where the tale is also inherently juicier. The chapter in which Tisch closes his grip on the network is dynamite, packed with vivid information on Tisch's struggle with the board and his power play with William S. Paley to oust Wyman.

The nets' new parents have boosted efficiency—but they can't stop the quakes rocking the industry



The heart of *Three Blind Mice,* though, lies in what happened after the nets changed hands. Here, describing the culture clashes at each company, Auletta again provides much—probably too much—rich detail. He depicts the new owners as discovering, at all three networks, ossified courts of profligate mandarins who ignored the looming threats of cable, syndicated TV, and VCRs. In turn, the nets—particularly the news divisions—saw themselves as public trusts under assault by bean counters.

Who pays the piper calls the tune, of course, so the network priesthood was ultimately broken to the wills of the new owners. ABC was recast by the cheerful, small-town boosterism of Cap Cities. NBC was swallowed by the hard-charging corpocracy of GE. And, in the darkest vision of the three, CBS was slashed and shrunk by Tisch, the fish-cold trader.

The new network parents cut costs and improved efficiencies. But what they couldn't do was stop the upheavals transforming the industry as audiences fragmented, media outlets proliferated, and advertising evaporated. Auletta rightly chastises the networks' old guard for being blind to these changes. But he also criticizes the new masters for their blindness to what made the network business special, for often being unwilling to invest in programming, and for blurring the lines between news and entertainment. "The new owners ... helped awaken the networks to the encroaching earthquake," he writes. "In this, they were right. But ... in their haste to impose a new order, to defend shareholder rights, sometimes they failed to see the unintended damage to their investment and to their public trust."

Ultimately, Auletta writes, the networks have sharply diverged in ways determined by the roots of each new owner. Because "the GE culture was shaped by a belief in technology," NBC is rushing to link up with ventures in cable, direct-broadcast satellites, and high-definition TV. Tisch the trader has pared CBS down to its broadcasting core, which he sees as a mature business where costs will continue to be cut.

Because Cap Cities was already a broadcaster before acquiring ABC and so was dedicated to the values of both broadcasting and business, it comes off best in Auletta's eyes. Cap Cities, he believes, managed to transform the culture at ABC while preserving many of its virtues. "It was this impression of *balance* that both shaped the new culture at ABC and created a sense among broadcasters and others that ABC was the network to watch."

None of this, however, will be enough to avoid still more upheavals. Eventually, Auletta believes, one or more of the nets may abandon news altogether—or may even cease to exist. *Three Blind Mice* offers an exhaustive view of how the mighty networks have come to face such once-unthinkable prospects.

BY MARK N. VAMOS

Associate Editor Vamos covered the networks for BUSINESS WEEK in 1985-86.

THE SKYLIGHT CLUB
SINCE 1890

Skylight Club is a unique men's dinner club, meeting in Minneapolis monthly from September to May. It is in its 102nd year.

Of its organization one of its distinguished early members said: "Skylight is unique, not only in having no formalized framework of articles or by-laws and no elected officers, but also in having no stated purpose." He went on to say, "What the Skylight is lacking in rules and regulations it more than makes up in its heritage of custom and tradition and the congeniality of its membership which gave the Club its peculiar and distinctive character. The tie that binds is a community of interest and tastes. Town and Gown are brought together in easy fireside camaraderie."

Of the variety of speakers featured during the year, most of them are members of Skylight. The significance of Abbott Washburn's talk at an October 1992 meeting has prompted this reproduction of his remarks.

The Communications Revolution: 2001 And Beyond

Address by Abbott Washburn

AT SKYLIGHT CLUB, MINNEAPOLIS, MINNESOTA, October 21, 1992

Thank you Malcolm and Jim. It's a delight to be back with so many old friends.

Jim Fish, Erle Savage and I all had the great good fortune to work under Sam Gale at General Mills. Sam brought me around to my first Skylight meeting in 1947, and I prize highly this fourth edition of the little red Skylight book. Early on, historian Wm. C. Edgar records there was a change in its "programme." It says:

> *"A simple dinner was served at half-past six and thereafter the members listened to someone who talked informally on a subject upon which he was a real or supposed authority."*

So I guess I qualify under that second rubric. I remember John Cowles speaking to us before a roaring fire in the old club room with all the ornate beer steins around the walls. Those evenings were looked forward to keenly, for camaraderie and stimulation.

Mark Twain, in 1906, in one of his famous "lectures," which were more like one-man shows, said:

> *"Well, last year I celebrated my 70th escape from the gallows . . . I've achieved 70 by sticking to a way of life . . . I follow simple rules: I make it a point never to smoke more than one cigar at a time. I have no other restrictions . . . My advice: If you can't make 70 by a comfortable road, don't go."*

Halley's Comet comes around every 75 years — and in that 1906 lecture Mark Twain said: "I came in, in 1835, with Halley's Comet. It's coming again pretty soon. It will be the greatest disappointment of my life if I don't go out with it."

It appeared on schedule in 1910, and he did indeed go out with it.

Those 75 years of Twain's life saw the beginnings of the greatest revolution in human communications since the papyrus libraries of ancient Egypt 5000 years ago and Gutenberg's invention of moveable type in the 1400s.

Dictating his autobiography in 1907, Mark Twain wrote:

> *"Yesterday Marconi's wireless stations on the two sides of the Atlantic exchanged messages aggregating five thousand words, at the rate of forty words per minute.* ***It is a world event.*** *I met Mr. Marconi in London seven years ago; he was confident that he would some day be able to send wireless telegrams across the ocean without relays, but not many persons shared his confidence. I am glad to have seen him and to have talked with Professor Morse and Graham Bell and Edison.*
>
> *"I remember the wave of jubilation and astonishment that swept the planet in the summer of 1858 when the first electric message was sent across the Atlantic under the sea, by cable. It did not seem believable; it seemed altogether unbelievable, yet we had to believe it and get adjusted to it; then, as usual in these vast matters, it presently became a commonplace."*

I have here a piece of the 1858 cable, courtesy of the Smithsonian Institution.

Abbott Washburn served as Commissioner of the F.C.C., Deputy Director of the U. S. Information Agency, Ambassador of personal rank, and member of President Eisenhower's White House staff. Earlier, he was Director of Public Services, General Mills, Inc., in Minneapolis.

So Mark Twain actually knew Samuel Morse, who in 1844 tapped out his famous "What Hath God Wrought?" message by telegraph line between Washington and Baltimore. He actually knew Alexander Graham Bell, whose telephone was the sensation of the Centennial Exhibition in Philadelphia. He actually knew Thomas Edison, who in 1877 surprised even himself when the recording foil and needle played back his own voice shouting "Mary had a little lamb."

Mark could have, and probably did, meet Louis Daguerre, the French painter and inventor who announced his Daguerreotype process in 1839, which led to photography in all its forms today.

Edison, running multiple photo images in rapid succession, developed his motion picture machine, in 1891. He called it the "Kinetoscope." You put a nickel into it and watched a 15-second film. For some reason he didn't project the film onto a screen. But four years later the Lumiere brothers in Paris built the first projector. It was then that people began flocking to the "movies".

Undoubtedly Mark saw Matthew Brady's Civil War photographs. Ken Burns, in making his superb "Civil War" series for public television, looked at more than 20,000 pictures taken during those grim years! (I had thought it was only Brady and a few other professionals, but hundreds of people must have been making pictures.)

Households great and small, throughout the land, soon had family albums of daguerreotypes and tintypes of relatives. Tucked away in our attic in Duluth we found a tintype of my great-grandfather Joseph Patee, who served in the Civil War. With it was a letter he'd written from a camp in Tennessee.

In 1907, three years before Mark's death, the U.S. electronic engineer Lee De Forest invented the three-electrode vacuum tube. This single device made possible radio, radar, television, computers and more. It was used until the transistor came out of the Bell Labs in 1948.

I came in, to use Mark's phrase, in 1915, and not long thereafter began building crystal sets in Duluth, vying with schoolmates to see who could bring in the farthest-away radio stations. Some of you probably did the same.

So for most of the century, all of us in this room have been part of this extraordinary communications revolution. Mark Twain was so right in observing how quickly we take such marvels for granted. My grandchildren can't believe there was no television when we were kids!

The impact of this revolution — on society, on our lives and our lifestyles — has been **profound.** I contend that it has changed the world more than any other historical event during our lifetimes.

More than the moon-landing, you may be thinking? More than the release of nuclear energy during World War II? More than the Cold War? More than the Salk vaccine, heart transplants, penicillin, the Pill, and all the other medical marvels? ***Yes,*** I repeat emphatically.

No doubt historians 150 years from now, looking back, will cite Neil Armstrong's walk on the moon, July 21, 1969, as the most significant date . . . marking man's first successful effort to leave the planet. Others will cite the atomic bomb.

But for total impact these historians will have missed the main event. First and foremost this is the *INFORMATION AGE.* Each and every day we transmit voice, pictures and data, at the speed of light: by telephone, telex, telegraph, radio, television, fax, computer, under-sea cables, satellites, motion pictures, word-processors, compact discs, VCRs, video cassettes, fiber optics, and cellular phones. We record information, store it, retrieve it, add to it, amend it, reuse it. And pass it on to future generations.

The volume of scientific knowledge doubles every 15 years. Yet with our skill in information-handling we are not overwhelmed by this.

Alvin Toffler states in his book, *The Third Wave,* that 50% of our GNP is accounted for by information-related activities. And much of the rest of the world is coming to that stage.

Walter Wriston, former Chairman of Citicorp, in the preface to his new book, *The Twilight of Sovereignty,* states that the communications revolution is "transforming the way the world works, in ways at least as profound as what occurred in the Industrial Revolution."

The remarkable thing is the short time in which all this has happened. At the Lincoln-Douglas debates, there was not even a public-address system. And no telephones were in existence during Abe's political campaigns. No phone banks. It's hard to imagine politics without phones. Or xerox copiers. Or fax.

Arthur Clarke, the British scientist and science fiction writer, tells of the reaction of the Chief Engineer of the British Post Office, in 1880, when he was asked the following question: "The Americans have invented a machine that can transmit human speech. Do you think this **'telephone',** as they call it, will be of any use in Great Britain?" The Chief Engineer of the Post Office replied: "No Sir, the Americans have need of the telephone, but we do not. We have plenty of messenger boys."

Yet how could **anyone** back then have imagined the day when almost every home and office would have a telephone . . .

Arthur Clarke, as you know, is the godfather of the communications satellite. In the early 1970s he wrote:

> *"What we are building now is the nervous system of mankind, which will link together the whole human race, for better or for worse, in a unity which no earlier age could have imagined."*

Today, two decades later, that network is nearing completion. 122 countries are members of the INTELSAT global satellite system (see below). You can phone a friend or a business contact in any of these countries, some by direct-dial. All over the world everyone who can afford phone service and who doesn't yet have a phone is trying to get on the list.

The existence of this vast worldwide telephone network makes possible fax messaging. Today you can send a fax message by telephone connection to anywhere there's another fax machine. And get a message back. Satellites also provide television access to these countries. Thus we see CNN in hotel rooms all over the world, also in foreign ministries, embassies, and presidential residences . . . even in Beijing. Even an authoritarian state like China has 75 million TV sets, and it's growing rapidly.

The "global village" which Marshall McLuhan foresaw in 1963 is here.

Early Man — A Communicator

Looking back for a moment — way back: the dinosaurs were a pretty successful species. They dominated the earth for 140 million years. The human species has been around for only about two million years or so.

How did it happen? How did this early human — this naked and vulnerable early man in Africa — come to dominate the world? To begin with he was a **thinking** being — and inventive. He invented and fashioned tools for hunting, cutting hides and sinews.

But, above all, he learned to **communicate.** "Communication," Robert Oppenheimer said, "is what makes us men." Standing upright in the tall grass, hunting swift wild beasts — this required teamwork, planning, and hand signals. At some stage the hunters began using grunts and single words . . . probably verbs.

Paleontologist Richard Leakey tells us that along with the ability to plan, to act as a team, and to communicate came **the remarkable increase in brain size.**

Gradually, words became symbols for more things, actions and ideas. Thus, over time, language evolved. With the coming of spoken language, however rudimentary, our ancestors were already

INTELSAT LINKS THE WORLD

JFK pushed through the Communications Satellite Act of 1962. It franchised COMSAT to go out to other countries and organize a global communications satellite system, the International Telecommunications Satellite Organization (INTELSAT).

"Early Bird" was the first INTELSAT satellite in 1964. It was non-geosynchronous and was the first to carry commercial TV programs across the Atlantic.

The interim agreements called for **permanent** arrangements to be negotiated beginning in 1969. I served as chairman of our U.S. delegation.

There were delegations from 89 countries. We labored for two and a third years, finally reaching agreement in May of 1971. President Nixon came over and congratulated the delegates.

Chances are good that billions of citizens of this planet will be using the INTELSAT global system 50 to 100 years from now. Small countries can join, easily and cheaply.

The consortium is owned by the member countries, of which there are now 122. Its 19 geosynchronous satellites over the three ocean basins — Atlantic, Pacific, and Indian — carry the major load of commercial international traffic: telephone, TV, data, fax, and telex.

Member countries receive royalties in proportion to their use of the system.

Here is a poster of the Shuttle *"Endeavor"* astronauts in the process of rescuing the INTELSAT VI-F3 satellite . . . the one that failed to go into orbit two years ago. The rescue mission, last May, made it possible for the satellite to reach its correct position at 22,300 miles out, and to carry the Barcelona Summer Olympic games.

A billion people, in 150 countries, watched the games via satellite. Sports are the world's great common language.

leagues ahead of the other species.

Throughout man's history, those societies with advanced communications dominated: Egypt, Persia, Greece, the Roman Empire, and America in this century.

Revolution's Impact on Foreign Relations

Every field of human endeavor has been impacted by the communications revolution. The Information Age has impacted very heavily on foreign relations. Lech Walesa was asked, after the events of 1989, if Radio Free Europe had played a role in the rebirth of freedom. He replied: "Would there be an earth without the sun?"

Shortly after becoming President of Czechoslovakia, Vaclav Havel paid a special visit to the Voice of America to say, simply, "Thank you."

During the Persian Gulf conflict, CNN, with the help of communications satellites, brought the world the first **live** coverage of a war. That coverage itself played a part in the outcome — with Saddam watching General Schwarzkopf's briefings and seeing his SCUD missiles being intercepted by our PATRIOTS, and with CNN's correspondent Peter Arnett having access to Saddam and reporting . . . and the White House and Pentagon watching.

Also in the aborted coup in Moscow, Boris Yeltsin, from his ramparts, was able to get a fax through to a friend in Washington. It read:

> *"All radio stations here under control. Russian government has no ways to reach the people. Following is address to the Army. Submit it to USIA. Broadcast it over our country. Maybe 'Voice of America.' Do it! Urgent!"*

Within the hour the speech was on VOA and on Radio Liberty throughout the Soviet Union.

During the Vietnam war, though they were not live, those grim TV images, coming into our living rooms night after night, year after year, did more than anything else to build the public revulsion against the war and eventually topple President Johnson.

In the case of Ed Murrow's nightly **This is London** radio broadcasts from the roof-tops and bomb-shelters during WW II, the result was quite different. We became aware of a heroic British people, determined in the face of Nazi power. Murrow interviewed everyone — from Churchill to SPITFIRE pilots to charladies. He flew on bombing missions. The understanding, which he conveyed to us, made FDR's "lend lease" selling job much easier; and it weakened the America Firsters' influence.

Contrast this with the War of 1812, which was fought 30 years before the telegraph. The British forces attacked New Orleans two weeks **after** the Treaty of Ghent was signed ending the war. They lost 2000 men compared to Andy Jackson's 71. Word of the war's end hadn't reached the participants. If Sam Morse had invented the telegraph a bit earlier, the battle of New Orleans would not have been fought. Jackson might not have become a national hero, might not have become President.

In 1962, during the Cuban Missile Crisis, when Khrushchev and Kennedy were teetering on the brink of nuclear war, the two men communicated by cablegrams and by monitoring official statements on Radio Moscow and the Voice of America. A year earlier, the U.S. had proposed that a "hot line" between the Kremlin and the White House be established, but the Soviets had refused. After the crisis was over, Kennedy said: "We can't go through this kind of thing again," and the "hot line" circuit was approved. The first test-message puzzled the Soviet technicians. It read: "The quick brown fox jumps over the lazy dog."

Revolution's Impact on Politics

Politics in this country has been tranformed by communications. News of Lincoln's 1860 election victory took a week to reach the West Coast. (No exit-polling problem that year!) The telegraph lines simply hadn't yet reached the Coast. The "Golden Spike" ceremony in Utah, linking the railroads from east and west, didn't take place until May 10, 1869.

On my crystal set in Duluth I tuned in to the inauguration of Calvin Coolidge. It was the first political event I was aware of. He didn't say much.

FDR was the master with his radio "fireside chats" during the Great Depression.

The Nixon-Kennedy debates on television made JFK a viable candidate. Until then he was perceived as a kind of aspiring boy. Without the debates he could never have been elected.

Television was the big factor in bringing down Joe McCarthy in 1954.

The Willie Horton TV spot in 1988 was devastating to Dukakis, as was the atom bomb spot run by the Johnson forces against Barry Goldwater in 1964. It showed a little girl plucking petals off a flower one by one during the countdown — designed to give the impression that Barry was trigger-happy.

It was our boss, Eisenhower, who appeared in the first political TV commercials, in the 1952 campaign. By today's standards they were extremely tame. He would be unhappy, to say the least, with the negative ones of today.

Ike opened the presidential press conferences to the TV cameras. Kennedy is often wrongly given credit for this. But Kennedy was the first to hold **live** TV press conferences. Jim Hagerty, Ike's press secretary, didn't go that far, because he wanted a couple of hours to review the tapes beore releasing them.

The awesome power of TV and its awesome costs have made it hideously expensive to run for office. This, in turn, has given rise to the PACs and to the increased influence of the special interests. Incumbency in office has become a way of life. This diminishes true representative government — is one of the bad results of the communications revolution. One of the good results is C-SPAN's daily live coverage of the Congress.

The other day John Chancellor commented:

> *"Fax machines, cellular phones, and all-news radio and television stations have allowed candidates' charges and answers-to-charges all within a 12-hour period!"*

Actually what we have in this campaign is fax warfare. Each day the Bush and Clinton camps bombard the major news outlets with fax messages, timed to catch the four TV news periods: the morning news, noon news, evening news, and late news. Charges, answers, and counter-charges all in one day.

In the Dan Quayle-Murphy Brown confrontation over "family values", we had politics intruding even into entertainment TV. It was Life imitating Art imitating Life.

And Clinton, you may recall, played his saxophone on the ***Arsenio Hall*** show and appeared on the ***"Choose or Lose"*** show on MTV, the channel that's so popular with young people. He took some criticism for this as trivialising presidential politics. But it was a shrewd move. MTV has been running an aggressive register-to-vote campaign. Young voters are registering in larger numbers than ever before. Clinton is identifying himself with them and will benefit.

Another phenomenon of this campaign is the way the candidates have elected to appear on talk shows: Perot announcing his candidacy on "Larry King Live"; Clinton going one-on-one with Phil Donahue; Bush on the Rush Limbaugh Show.

Revolution's Impact on Business, Sports, Religion, Education

In the 1880s Remington began marketing the first typewriters. (Mark Twain was among the first to buy one.) Not since then have there been such radical changes in the office — with word processors, fax machines, high-speed copiers, and desk-top computers.

Desk-top information technology is changing the make-up of middle management of corporations — shrinking staffs, eliminating paper shuffling jobs. With what is called "desk-top publishing", PC users are networking thousands of electronic bulletin boards in different fields of interest from numismatics to ornithology.

Bell Atlantic, the baby Bell in our Washington-Baltimore area, has announced that 16,000 of its office workers are now doing their work at home on computers. Productivity is high, morale good, the daily strain of commuting eliminated. We're going to see much more of this trend, I'm sure. It also spares the environment.

In sports, television has turned our major American sports into multi-billion-dollar businesses. This, in turn, has had severe repercussions on college sports.

In religion, I remember the early radio demagoguery of Father Coughlin. He and Aimee Semple McPherson were the forerunners of Pat Robertson, Jim and Tammy Faye Bakker, and the other TV evangelists.

In education, the computer in the classroom has proved a superb learning tool. The day will come when each student has his or her own personal computer (PC), the way so many now have pocket calculators. All manner of audio and video aids are available in schools and colleges. Social studies teachers have been recording the presidential debates, for discussion in the classroom.

At the University of Minnesota-Duluth campus last week, we saw what they call "distance teaching." Classes conducted by outstanding teachers in Duluth are expanded, by electronics, to include students in communities on the Iron Range. With inter-active video capability these students take part in the discussions and learning process on the same basis as those on the spot. The professor sees and hears them and they see and hear him or her.

Today you can get a degree in accounting and other subjects via computer courses. Computer literacy is rapidly becoming part of the knowledge young people need to succeed in the work force. As Walter Wriston puts it: they need to become "knowledge workers."

Will the Communications Revolution Continue?

As to the future, will there be a slow-down in the communications expansion? ***No,*** all the experts agree we'll see continued acceleration. The Industrial Revolution didn't slow down. Neither will the communication revolution.

Fax is growing all over the world . . . the new fax machines will be faster, have color.

High definition television is on the way, and later possibly 3-dimensional TV.

Fiber-optic cables, which carry a laser beam of light, are becoming the super-highways of modern communications. A single pair of fiber optic strands can be broken down into 8000 voice channels, permitting hundreds of thousands of calls in a single cable. In the U.S. today about 75% of all the long-distance lines of AT&T, MCI and SPRINT are fiber optic. Cable-TV systems are replacing their coaxial copper lines with fiber. And the new submarine ocean cables are all fiber-optic. Eventually in the new century, fiber will be extended into the home, creating a path for unlimited amounts of voice, video, and data information. (Here is a piece of fiber optic cable with 12 strands, courtesy of AT&T.)

Cable-TV systems will have more channels. Who needs 'em? But Time-Warner is developing a system with 150 channels!

Computers are getting smaller and more versatile — and PCs are becoming a common tool in home and office.

Cellular telephone service, for motor vehicles and boats, is growing — with the next step, now under way, being the hand-held pocket-size, personal cellular telephone.

Video-conferencing here and internationally is on the upswing; the participants are no longer aware of the cameras; and it saves time, travel and money.

Stanley Hubbard here in Minnesota is pioneering direct-to-the-home satellite broadcasting (known as DBS), along with Hughes Communications on the West Coast. Their DBS satellite will be launched the end of next year, and the system will be operational in 1994. This napkin-size dish you'll hang outside a southeast window and hook up to your TV set, along with a de-coder box (at a one-time cost of about $700). It will bring you 50 channels of TV direct from the satellite including sports, pay-per-view movies, subscription programming like HBO, free mass entertainment programs, etc. It will compete directly with cable-TV, but there'll be no monthly fees and no lines to your house. It will have laser disc quality picture and compact disc quality digital sound. The satellite's "footprint" will cover all of the U. S., 84% of Canada, and a large portion of Mexico.

The enhanced telephone is becoming ever more enhanced. I have here the SCAN-FONE, one of the newest. It has a laser pen to read bar codes and a magnetic strip reader for credit cards. You can shop with it out of catalogues, or order groceries. It will debit your bank account, pay bills. It's being market-tested now in Detroit by Michigan Bell in cooperation with Kroger Stores. It's the creation of a small company of young computer experts in Herndon, Virginia — called U.S. ORDER.

Motorola, at a cost of about $5 billion, is developing a system of 58 low earth orbiting satellites (LEOs) — called the **IRRIDIUM** system. It will carry voice and data (which includes fax). Another company, Qualcomm, is developing a similar system with 48 LEOs. If all goes well, they both should be operating by the end of the decade.

Early in the new century, the universal communications network which Arthur Clarke calls the "nervous system of mankind" will be a reality. This is the step beyond the "global village" to the "global family." Only satellites make this possible. People more than places will have phone numbers. If you're traveling in a remote corner of Kenya and want to reach your business partner in Iowa or Paris, you'll be able to phone him or fax him, via satellite, with a piece of equipment about the size of a lap-top computer. Arthur Clarke calls it the "TALKMAN."

The antenna, built into the lid, can be flipped up and tilted in the satellite's direction. The earpiece will be light, like today's "WALKMAN." You would speak into a small throat microphone. The set would have an alpha-numeric keyboard and visual display, along with a printer. Instead of a modem for connection to the local phone exchange, there will be a microwave beam up to the satellite (which might be either syncronous or low orbit). The unit will likely be solar-powered.

Then for the first time in history, the ***potential will be there for anyone on earth to communicate directly and instantly with anyone else anywhere.***

The consequences of this network are simply incalculable. Everyone will be in the information loop.

It's Mark Twain's "world event" in spades!

It gives hope for the eventual solution of global problems — like population, pollution, and AIDS —which must be addressed globally . . . and for the strengthening of the United Nations.

Please don't hesitate to come up and look at the 1858 cable and the other show-and-tell items.

Thank you again for this opportunity to renew the Skylight experience!

TECHNOLOGY'S CHALLENGES
TO THE FIRST AMENDMENT

Remarks Prepared for the
Upper Midwest First Amendment Congress
St. Paul, Minnesota

September 20, 1991

Walter S. Baer

RAND
Santa Monica, California

TECHNOLOGY'S CHALLENGES TO THE FIRST AMENDMENT

Walter S. Baer

September 20, 1991

The First Amendment to the Constitution of the United States states simply: "Congress shall make no law . . . abridging the freedom of speech, or of the press." Two hundred years ago, when the First Amendment was adopted, those words had clear, unambiguous meaning. Speech meant individuals talking one to another, or addressing town meetings or other public fora of at most a few hundred people. The press in 1791 meant handbills, newspapers and periodicals of a few pages, printed a few hundred at a time. The printer and publisher were usually the same person--the model for us is Benjamin Franklin. Street sales and postal delivery were the principal distribution methods; indeed, Benjamin Franklin became the first Postmaster General of the new United States.

How different is the media landscape of today! High-speed printing presses, computer-based desktop publishing, facsimile transmission over telephone lines, radio and television broadcasting, cable networks carrying 100 video channels to the home--all of this would impress Franklin with the volume of information and messages we create and distribute every day.

The First Amendment has survived these technological changes over the past two hundred years--largely because its simple message is so strongly tied to democratic processes and institutions. I expect it will not just "endure" but in

Faulker's words "prevail" in the new environment of computer-generated electronic mail, wireless telephones, high-speed digital networks, and direct satellite and fiber optic links to the home.

But the new information technologies bring new challenges: threats to our traditional notions of freedom of speech and freedom of the press, as well as opportunities to protect and extend those freedoms. I'll describe first some of the principal technological trends, and then the particular challenges they bring to a free society.

Information Technology Trends

The underlying communications and computing technologies continue to advance rapidly, with no saturation in sight. The technical trends can be best characterized in four words: "more, better, faster, and cheaper." There will be more channels available to carry more information; better quality and reproducibility of voice, text, and images; faster delivery, and at generally lower cost. Just a few examples illustrate these trends.

- Cable television is now available to more than 80 percent of American households, and about 60 per cent of them subscribe. State-of-the-art cable systems delivered 50 channels only a year or so ago; now cable companies plan to carry more than 150 channels in major urban areas.

- Although cable technology continues to advance, fiber optic systems show even most spectacular gains. Fiber systems installed five years ago carried only a few hundred telephone circuits or one digitized television signal. Fiber systems being installed now by both telephone and cable companies carry more than ten times as much communications traffic, and systems planned a few years from now will deliver ten times more.

- Rapid gains have been made in squeezing more information into a given communications channel--a technology known as digital compression. Using it, a TV broadcaster can deliver four separate television signals over the frequencies now assigned for one channel. Compression technology also increases the capacity of cable, fiber, and satellite systems. It may well make direct-to-home satellite broadcasting commercially viable in the United States by the end of this decade.

- Personal computers have moved from novelties to necessities in the past ten years. They are ubiquitous in business, and today more than 30 percent of U.S. households have a PC at home. Only about 10-15 percent of home PCs are hooked up to networks for message or information exchange, but that number is growing rapidly.

- In the next few years, personal computers will become smaller and truly portable. They will be powerful enough to store and process images as well as text and data. They will have wireless connections, like cordless telephones, to other networks.

- PCs also let individuals and organizations become desktop publishers, who can largely bypass the existing publishing infrastructure and distribute their information directly to their readers.

- As more digital technology is introduced to the phone and cable networks, exchanging information among personal computers will become easier and cheaper. Today, high-speed data networks are used routinely by the research community in universities, industry, nonprofit institutions, and government. The House and Senate have recently passed bills authorizing $1 billion to expand these networks. Within a decade, high-speed data networks will be available to virtually all organizations–public and private–and to many households as well.

- Digital systems treat all information–voice, text, data, and pictures--as a series of on/off pulses, or bits. Consequently, we are moving toward an era in which video, voice, text, and data can all be combined into a single stream of digital data. Newsletters will contain video and voice segments as well as text and pictures, and will be sent electronically to an individual's personal computer. While full digital integration of services to the home may not happen in this decade, it certainly will become part of the twenty-first century information environment.

Threats and Opportunities

What are we to make of these technological advances characterized by "more, better, faster, and cheaper?" Some may prefer an earlier time that required fewer decisions, and think of the maxim attributed to a Chinese military commander some 2,000 years ago:

> "In any situation where there are 36 alternative choices of action, running away is always the best."

Of course, we sense dangers. We have long recognized that information technologies carry with them threats to civil liberties. We think immediately of George Orwell's classic book, *1984*, published forty-three years ago, shortly after the defeat of Nazi Germany, and while Stalin still held absolute control over an expanding Soviet empire. Orwell wrote of people under surveillance in their homes by an advanced television system under the control of a malevolent central government:

> "The telescreen received and transmitted simultaneously. Any sound that Winston made, above the level of a very low whisper, would be picked up by it; moreover, so long as he remained within the field of vision which the metal plaque commanded, he could be seen as well as heard. There was of course no way of knowing whether you were being watched in any given moment. How often, or on what system, the Thought Police plugged in on any individual wire was guesswork. It was even conceivable that they watched everybody all the time. But at any rate they could plug in your wire whenever they wanted to. You had to live--did live, from habit that became instinct--in the assumption that every sound you made was overheard, and, except in darkness, every movement scrutinized."

Orwell's dark image has become a cliche, a receding nightmare, but it still is frighteningly powerful. In the past few years, however, we have seen the political impact of information technology move in the opposite direction. Videocassettes and television broadcasts were powerful forces in the successive overthrow of Communist governments in Eastern Europe in 1989 and 1990. Facsimile, personal computers and electronic bulletin boards helped organize the opposition to General Noriega's government in Panama in 1987. Facsimile and data networks were used extensively in June 1989 to bring information about the pro-democracy movement in and out of China. Fax transmissions became the wall posters of the Chinese students. And who can forget the television images from the Russian Parliament during the attempted Soviet coup exactly one month ago?

Computer networks and electronic bulletin boards also provided up-to-the minute information in the first days of the aborted coup. We at RAND routinely send and receive electronic messages among ourselves and with colleagues in North America, Europe, and Asia. But perhaps none of us really understood the power of this medium until August 19th, when messages from Moscow began appearing, like this one:

> "I've seen the tanks with my own eyes. I hope we'll be able to communicate during the next few days. Communists cannot rape the Mother Russia once again."

The next day the letter that Boris Yeltsin read from a tank turret in front of the Russian Parliament building appeared on a RAND electronic bulletin board shortly thereafter.

How these electronic messages came from Moscow to Santa Monica is a fascinating story that illustrates how information technologies are transforming the world. They were sent by members of the Demos computer cooperative, housed in an office a few blocks from the Kremlin. Demos was established as a computer software cooperative in the early 1980s by young, idealistic Soviet men and women fascinated by computers and communications. Demos started a data network called RELCOM in August, 1990–exactly one year before the coup. The network has links to about 70 locations in the Soviet Union, as well as to Helsinki, Finland. Messages from Moscow are received in Helsinki and forwarded to computer networks throughout Europe and the United States.

More than 13,000 messages passed between Moscow and Helsinki on the RELCOM network on August 21. Some came through to us in Russian; others were translated by someone on the network and posted in English. Why didn't the Soviet authorities try to shut it down? One Demos member said on the network:

> "They try to close all mass media; they stopped CNN an hour ago . . . But, thank heaven, they don't consider RELCOM mass media or they simply forgot about it. Now we transmit information enough to put us in prison for the rest of our life."

As information technologies get cheaper, better and in more people's hands, governments find it far more difficult to stifle speech. The same technologies can be used in the service of Orwellian despots, but they seem more inherently suited to decentralized rather than centralized control. They give power to individuals and organizations to communicate easily and quickly, while bypassing censors and central government authorities. This is what the late Ithiel Pool, Professor of political science and communications at MIT, meant when he titled his seminal book on information technologies, *Technologies of Freedom.*

But while electronic bulletin boards linked by data networks have become powerful new outlets for expanding freedom of speech, they also have less attractive applications. We are all too familiar with their use by computer hackers to disseminate credit card numbers or encourage other forms of fraud.

Extremist groups in the United States have reportedly used computer bulletin boards to post the names, addresses, and habits of those they wish to frighten or harm. Their hate lists are now fully computerized. Indeed, all the problems associated with free speech on the old media–libel, slander, defamation, fraud, and abetting criminal behavior–have migrated to the new media. The new technologies also exhibit, and sometimes exacerbate the tensions between free expression and other social objectives.

Today this Congress focuses on three such issues: the impact of new information technologies on (1) individual privacy, (2) access to public information, and (3) censorship. Let me touch briefly on each of these in turn.

DATABANKS AND PRIVACY

> "As every man goes through life, he fills in a number of forms for the record, each containing a number of questions. A man's answer to one question on one form becomes a little thread, permanently connecting him to the center ... There are thus hundreds of little threads radiating from every man, millions of threads in all. If these threads were suddenly to become visible, the whole sky would look like a spider's web, and if they materialized as rubber bands, buses, trams, and even people would lose the ability to move ... They are not visible, they are not material, but every man is constantly aware of their existence."
>
> Alexander Solzhenitsyn, *CANCER WARD*

Much public concern centers on computer databanks and their threats to privacy. I first became familiar with these issues in 1969 when I served with Professor Alan Weston of Columbia University on the Computer Science and Engineering Board of the National Academy of Sciences. We worked on a study which led to Professor Weston's important book: *Databanks in a Free*

Society. In the twenty-plus years since this study, several important pieces of legislation have been passed that help define individuals' privacy rights and protect them. The Fair Credit Reporting Act of 1970 establishes rules for collecting personal information for credit, employment, insurance, and other business purposes. The Privacy Act of 1974 deals with personal information in government files; it puts restrictions on agencies' disclosures to other government agencies or disclosures for purposes other than the original one for which the data were collected. The Right to Financial Privacy Act of 1978 requires notice to an individual before a government investigative agency can obtain access to his or her financial records. The Cable Communications Act of 1984 sets restrictions on information about subscribers that cable TV companies can collect, maintain, and use. The Electronic Communications Privacy Act of 1986 applies the protections already established for telephone communications to new electronic media such as electronic mail and teleconferencing.

These, and other laws and regulations adopted at the federal and state levels, generally seek to implement a few basic privacy principles:

1. Individuals must be able to find out what information has been collected about them, by whom, and for what purposes.

2. Individuals must be able to correct information about themselves that is inaccurate.

3. Personal information collected for one purpose should not be used for a different purpose without the individual's consent.

4. Organizations that create, maintain, use or disseminate personal information bear responsibility for assuring the reliability of the data and for preventing misuse of the data.

Yet many privacy advocates believe that existing laws and regulations still do not adequately protect individuals' rights. They contain too many exceptions and other loopholes, and too much administrative discretion. Perhaps most important, technology's advance continues to outrun the efforts of legislators and privacy advocates to harness them.

Consider the compact disk read-only memory, or CD-ROM, for example. This remarkable device stores about a billion characters of digital information on a 4 1/2" diameter compact disk that was originally developed to record and play music. One CD-ROM can hold a full year of the *New York Times*, plus the software to search for particular articles, quotes or key words. And because the technology was developed for the mass consumer market, the costs of producing CD-ROMS is exceedingly cheap--perhaps a few thousand dollars for the initial master, and only a few dollars or less for each data disk.

So far, well and good. The CD-ROM brings to an individual's personal computer the power of a large centralized databank. But last year, Lotus Development Corp., a leading software developer, and Equifax Inc., a large credit reporting company, joined forces to develop a CD-ROM disk called "Marketplace." Marketplace contained the names, addresses, shopping habits, and income levels of some eighty million U.S. households. It did not represent new data--the information was already available in Equifax's mainframe computer and from other readily accessible sources. But the CD-ROM product would make those personal records available relatively cheaply to anyone with a PC.

Privacy advocates reacted swiftly when they learned about the Marketplace CD-ROM. Messages protesting the new product first appeared on electronic mail services and computer bulletin boards, then in newsletters, and finally in newspapers and other mass media. An organized campaign generated 30,000 protest letters. Faced with this pressure, Lotus withdrew the Marketplace product from the market--at least for the time being.

The Marketplace example illustrates how quickly technology outflanks existing laws and regulations. There was nothing illegal about the Marketplace product. CD-ROMS are not mentioned in any of the existing statutes or regulations governing personal records and databanks. Many experts in the field consider this to have been a legitimate technical extension of products and services already widely available, and not an inordinate burden on individuals' privacy. I have described the Marketplace CD-ROM product in some detail, not because it is such a unique development, but precisely because it is not. Technology will continue to present us with new challenges to privacy like the Marketplace CD-ROM.

What, then, is to be done? It would be foolish to try to predict the particular technologies or applications that will be of greatest concern, and erect legislative or regulatory fences around them. Better to rely on the basic principles outlined above, and to ensure that they are applied to each new application as it becomes commercially available. For example, it seems silly that cellular telephone conversations are covered under the 1986 Electronic Communications Privacy

Act, but calls on cordless telephones are not. Yet we can be sure that users of the new generation of wireless telephone devices, known as personal communications services, will demand protection against eavesdropping on their calls.

Another approach worth considering, advocated by Professor James Rule of the State University of New York at Stony Brook, is to give individuals legal property rights to personal information about them, and the ability to enforce those rights. Private databanks could not sell personal data without the individual's express consent; and people would be free to withhold, sell or give away that consent. The same computer technology used to operate databanks would keep track of individual consents and payments, much like the systems used for copyright and royalty payments. This approach, Rule argues, obviates the need for uniform privacy regulations. Those individuals with strong concerns about privacy could opt out of most commercial data files, while others could choose to make information about themselves readily available.

COMMERCIAL TELEPHONE SOLICITATIONS AND PRIVACY

Although most privacy legislation of the past twenty years has focused on personal information contained in computer databanks, concerns of the general public still center on the telephone. A 1988 face-to-face survey asked, "Please give me an example of what you would consider an invasion of your personal privacy." Of the more than 1300 unprompted responses, 26 percent identified "telephone tapping" or "telemarketing." Only 9 percent of the responses identified "government data collection" or "companies giving out personal information."

With all the new information technologies in place, the average citizen still sees the telephone as the principal instrument of privacy invasion.

I can attest to this personally. One morning in 1976, while staying home to write a paper, I received four telephone solicitation calls, including one from a computer driven dialer and recorded message player. Annoyed by this intrusion, I soon found out that many others shared my distress, and that the number of telemarketing calls was rising dramatically. A few months later I filed a petition with the Federal Communications Commission (FCC), asking that technical or legal means be developed to give telephone subscribers the ability to refuse unwanted solicitations. The FCC held an inquiry on the "junk phone call" issue, and some states have subsequently placed restrictions on the use of automated dialers and message players for telephone solicitation.

Still, fifteen years later, the problem of "junk call" intrusions has worsened. And it has spread to the new information services, including cellular telephones, facsimile, and electronic mail. Today, a computer can dial-up your car phone and start a recorded sales pitch for encyclopedias or a cemetery plot–and you pay for the call!

Faced with the increasing volume of intrusive telemarketing, individuals have devised their own imperfect protections. In Los Angeles, 60 percent of telephone subscribers have unlisted numbers (which don't protect them from sequential or random dialers). Nearly as many have answering machines that are often used to screen incoming calls. These are blunt, heavy-handed responses to the "junk call" problem, but it is about all we subscribers can do today.

Still, technology has come a long way since 1977 when I petitioned the FCC to do something about unsolicited sales calls. Digital technology in the telephone network has brought the capacity for many new services. One of these is Caller-ID, which displays to someone receiving a call the phone number from which the call originated. With Caller-ID, you can see the calling number when the phone rings, and answer only those calls whose numbers you recognize–or not answer calls from other numbers you recognize. And if Caller-ID were widely available, a separate calling prefix could be assigned to telemarketers, so that individuals could know before answering which calls are sales calls. Caller-ID would spur development of sophisticated answering machines that could be programmed to put some calling numbers through directly, call-forward others, ask others to leave a message, and politely refuse the rest.

However, the prospects for caller ID are clouded. Some argue that Caller-ID violates the privacy of the caller, who has paid for a nonpublished listing or otherwise wants not to display his or her number. They further contend that unrestricted Caller-ID violates provisions of the 1986 Electronic Communications Privacy Act limiting so-called "trap and trace" devices. Both Houses of Congress held hearings last year on Caller-ID, and a growing literature discusses the Constitutional issues it raises.

Caller-ID clearly illustrates the need to balance free speech and privacy rights of both call senders and receivers. One compromise approach is to implement Caller-ID in a way that allows callers to block the display of their number at the receiving end. Call receivers could then refuse to answer blocked calls, if they chose. I personally believe that telephone subscribers, and users of any communications medium, should be able to exercise control over messages they receive; and that this can be done without violating the First Amendment rights of communications senders.

ACCESS TO PUBLIC INFORMATION

How individuals and organizations gain access to public information is changing as more information is collected, stored and disseminated by government agencies in electronic form. Some of those participating in this Congress have been among the leaders in arguing for extensions of the Freedom of Information Act (FOIA) to include electronic access to government databanks. This will be a principal topic for the panel discussions later this morning.

Investigative journalists in both the print and electronic media are making increasing use of government databases and records filed in electronic form. News organizations routinely use computers to sort through huge quantities of agency data to find items relevant to current stories. As one example, the *Los Angeles Times* ran a major story two months ago on contractors who were making substantial profits from the Savings and Loan cleanup. The article describes how it was done:

> "The *Times*' computer assisted study is based on analysis of more than 20,000 contracts awarded by the Resolution Trust Corp. over the past two years. In response to a Freedom of Information request filed with the RTC, the agency supplied the *Times* with paper records showing contract numbers, names of contractors, the type of service to be provided and the estimated fees to be paid. These contract records were then entered into a database for analysis."

Here the newspaper had to reenter the agency data on its own computer to perform its analysis. While the *Los Angeles Times* has the expertise and resources to do so, other smaller organizations and individuals do not. As a consequence, many now argue that organizations and individuals should be able to get data in machine readable form, or have direct on-line access to agencies' computer records.

Some government information is already available on-line or in electronic form. RAND is currently studying Superfund, the federal program for clean-up of hazardous waste sites. Like most government programs, Superfund generates a tremendous amount of data, both in paper and electronic records. Under the 1986 Superfund Amendments, some--but not all--electronic databases are accessible to the public. For example, the Toxic Release Inventory database contains information on the specific chemicals used and generated by companies that do chemical processing. The Environmental Protection Agency (EPA) maintains this database and makes it available to the public on-line through the National Library of Medicine.

A Superfund Site Enforcement Tracking System (SETS) database is available to the public on diskette. This database lists the Potentially Responsible Parties that may have liability for cleanup at each site.

Each Superfund site also has a Record of Decision (ROD) database that covers problems found at the site, proposed options for cleanup, and formal decisions made on how to proceed. The public can obtain abstracts of the ROD database through the National Technical Information Service (NTIS), but as of now, only EPA contractors have on-line access to the full text of the database.

Other electronic databases are maintained only for EPA and its contractors, and are not available to the public. An example is the Hazardous Waste Data Management System that contains information on wastes generated at facilities permitted under RCRA.

Finally, computer users can access electronic bulletin boards relating to Superfund--such as the "Clue In" bulletin board which provides technical information on Superfund sites, and the "Pollution Prevention Information Exchange" bulletin board. These are free to the public.

EPA seems to be trying conscientiously to make Superfund information publicly available in electronic form in several different ways, but access is not without problems. The Site Enforcement Tracking System, for example, is often out of date; sometimes the database contains less than half of the Potentially Responsible Parties at a given site. This does not appear to be a database or technology problem. Rather, it occurs because some Superfund site managers are slow to file lists of new PRPs with EPA headquarters.

Superfund's managers are probably ahead of most government agency efforts to make electronic information publicly available. In many agencies, records are kept partly in paper files and partly on computer databases. The databases themselves are often incompatible with one another or (like so many computer systems) in a state of transition. Some databases reside only on mainframes, while others can be used on personal computers. The hardware and software that government agencies use is typically technologically behind what business firms and research organizations have. And often the sought-after information, when finally available, turns out to be out-of-date or incomplete.

Maintaining data security while providing on-line access is of real concern, but this and other technical issues represent only part of the access problem. Other problems arise from how agencies organize information, whether in paper files or electronic databases. And sometimes there may be substantial bureaucratic resistance to making information more accessible to the public. What is clear is that gaining public access to electronic databases in government agencies presents complex issues we will be grappling with for many years to come.

Preventing inappropriate access to government and public utility databases ~~is~~ poses a different problem. One recent example is the apparent ease with which Proctor and Gamble officials gained access to the telephone calling records of P&G employees whom the company suspected of leaking proprietary information to the *Wall Street Journal.* Another illustration comes from a conference I attended not long ago on promoting energy efficiency and conservation. During a discussion of various incentives for encouraging efficiency, one power company executive said: "Whatever they may say publicly, seven of the ten most vocal conservationists in my area have increased their electricity consumption every year for the past five years. I know, because I see their electricity bills."

These examples once again raise serious questions of who should have access to public utility records, as well as government and private databases, under what conditions, and for what purposes.

CENSORSHIP

Digital storage and processing technology lets us readily manipulate information in all its forms–data, text, voice and images. We know how easy it is to change text on our word processors. With a few keystrokes, a word can be substituted in a sentence, a paragraph added, or an entire document deleted (this happens all too often, I must say, on my own word processor).

Now it's about as simple to manipulate images. In a famous example a few years ago, the editors of *National Geographic* moved two Egyptian pyramids in a photo closer together so that the picture would better fit the magazine cover. Readers couldn't tell that the photo had been altered unless they knew the scene themselves. This rather innocuous example shocked many people with the recognition that information technologies are now widely in place that could execute the nightmare scenarios of Orwell's *1984*. We can add or remove faces in a photographic "record" as easily as names in a document. It may still be true that a picture is worth a thousand words (or 1024 words, as my computer science colleagues might say), but in a digital era neither pictures nor words necessarily retain their original content.

But the technical power to control words and images is less troubling the more widely it is distributed. More, better, faster and cheaper are the watchwords again–more individuals and organizations have access to better technology for creating and distributing information quickly and inexpensively. We have seen how these developments have already eroded the power of governments around the the world to censor, with profound political and social implications. Personal computers, electronic bulletin boards, fax machines, video cameras and VCRs have all been used to promulgate information that governments have sought to suppress.

Yet while praising the spread of these "technologies of freedom" abroad, we must recognize attempts to limit freedom of expression at home:

- In 1984, the Reagan administration issued a new Directive on telecommunications and computer security (National Decision Directive 145),to "protect the government's telecommunications and automated information systems" which "process and communicate classified national security information and other sensitive information concerning the vital interests of the United States." Two years later the President's national security advisor broadened the Directive to cover unclassified sensitive information that could adversely affect not only national security, but any "other Federal Government interests." Although this overly broad interpretation was rescinded in 1987, after protests from Congress and public interest groups, the overuse of national security regulations to limit dissemination of unclassified information remains an issue today.

- Much has been written about military censorship of the press during the Persian Gulf War. While the government clamps down on information in every wartime situation, John Stacks, chief correspondent for *Time* magazine, called this the "most closed-door war since the 19th century." The military censors and spin doctors were highly successful in limiting media access to only "approved" news stories and information, despite the electronic cameras, satellite links, portable computers, and other information technologies available to the press. All of us--the press, government officials, and private citizens--must review this experience critically and carefully. We need better understanding and clearer limits on military news management in this "New World Order."

- Censorship remains an issue for public broadcasting, public support of the arts, and government programs in general. These are not information technology issues, as is clear from the debate over the Bush Administration's policy seeking to limit what doctors can say about abortion at federally funded clinics; but the issues apply to all the new information and communications channels that technology is bringing to us.

Technology also raises new issues of nongovernment organizations restricting speech. What to do about so-called "dial-a-porn" messages on telephone 900 services is one example. Another concerns the restriction on electronic messages imposed by Prodigy, the largest computer information service targeted at PC users at home. Prodigy is a joint venture of IBM and Sears that now reaches close to one million American households. Prodigy's service emphasizes advertising and home shopping, but includes an electronic message capability. Last November, Prodigy introduced a surcharge for electronic messages, because, it said, a small group of subscribers were overusing the system. It also restricted the messages subscribers could send to advertisers. And when a few subscribers complained directly to advertisers about the new policy, Prodigy terminated their memberships.

This is censorship, said the terminated subscribers and others who rushed to their defense. They argue that for electronic messages, Prodigy serves as a carrier and cannot limit what subscribers send and receive. Prodigy's management contends that it is a publisher and is simply using its editorial judgment and discretion. As a Prodigy executive stated in a *New York Times* article:

> The First Amendment protects private publishers, like the *New York Times* and Prodigy, from government interference in what we publish. The Constitution bestows no rights on readers to have their views published in someone else's private medium. What the Constitution does give readers is the right to become publishers themselves."

Of course, few people have the $750 million or more that IBM and Sears have reportedly invested in Prodigy to date. They do have access to a variety of other data networks and electronic bulletin boards, even if those alternatives do not have the broad coverage of Prodigy.

The Prodigy case reminds us of similar controversies over access and the right-to-reply in other media. Nearly twenty years ago, the U.S. Supreme Court ruled in the *Miami Herald* case that market-dominant newspapers do not have to provide a right-to-reply in their editorial pages. But television broadcasters are still licensed by the government and required to serve as public trustees. They must give viewers the right to reply on the air to station editorials. As Ithiel Pool argued eloquently in *TECHNOLOGIES OF FREEDOM*, the public trustee concept may have been appropriate in an earlier era of broadcast scarcity, but it does not serve well in the multichannel environment that the new technologies have created.

Yet some still contend that when control of the media is concentrated in a few hands, the First Amendment rights to expression should apply to media users as well as media owners. Jerome Barron, a principal architect of this access theory, is here today, and I'm sure we will hear more from him on this topic.

SUMMING ~~IT~~ UP

The issues of privacy, access, and censorship are closely interconnected and sometimes in conflict. A reporter's interest in getting access to database information may conflict with an individual's desire for privacy. The use of Social Security numbers to track parents who renege on child support payments conflicts with the basic privacy principle that information collected for one purpose should not be used for another purpose without consent.

Often in the past, those concerned with privacy, access, and censorship have gone along their separate advocacy paths without recognizing how closely these issues are linked. Yet we are each, individually and collectively, interconnected by our new technologies. It has become easier, cheaper, and faster for us to send and receive information. Most of us in this auditorium probably feel that we already receive too much. We believe passionately in free expression of speech; what we'd like to do, occasionally, is to turn the volume down.

The new information technologies empower us, confuse us, and sometimes enrage us. They will bring new threats to the First Amendment and new requests for government to do something about them. The problems we have seen so far of computer hackers penetrating commercial and government information systems is only the beginning. As one colleague says, "It's not Big Brother watching us we have to fear. It's little brother messing up our data files and our bank accounts."

And there are other technologies, beyond computers and communications, that will surely lead to more requests for government intervention into our personal affairs. Advances in genetics and medicine will mean that very personal information about our bodies and health status have important public policy implications. The current controversies over abortion and AIDS are two obvious examples. How society's interests in better health and lower costs will be balanced with individuals' rights to privacy remains to be determined.

As the new electronic media develop, some old laws must be amended and some new laws and regulations passed, but they must be flexible instruments that can apply to a rapidly changing information environment. I believe that the legal framework should be based on a few simple rules:

1. The First Amendment applies to all media, print and electronic, old and new.

2. There should be no government licensing of electronic information services, no prior restraint on publishing at will. The print media model should certainly apply to electronic bulletin

boards, on-line databases, electronic mail, and other computer-based services. And in my opinion, in an era of technical abundance, the same principles should apply to radio and television broadcasting, cable television, and other electronic mass media.

Page break will be fixed in next printout

3. We should view government regulation not as the preferred way to protect free expression, but as a last resort if other alternatives fail. We must particularly avoid regulatory racheting–that is, taking regulations devised for one medium and applying them unthinkingly to another.

Most important, we need continued education, awareness, and public discussion. It is through efforts like this Congress that the freedoms we have cherished and protected for the past two hundred years will be brought forward into a vastly different technological world. Unlike the military commander of two millennia ago, we cannot run away from the problems–and the opportunities–that the new information environment presents to us.

THE WALL STREET JOURNAL WEDNESDAY, APRIL 10, 1991

A Win for Hollywood, a Defeat for TV Competition

Yesterday, the Federal Communications Commission voted 3-2 to maintain the financing and syndication—"fin/syn"—rules that forbid television networks to buy ownership of the shows they broadcast. The rule was originally created in 1970 because the production studios complained that network power was stifling program diversity. With the weakening of the networks, and the purchasing of many studios by gigantic corporations, many say that complaint now looks obsolete. The FCC has, however, declined to change its mind: Yesterday's vote, while it loosened existing controls slightly, continues to regulate Hollywood-network contracts. The following are excerpts from FCC Chairman Alfred C. Sikes's dissent from yesterday's decision:

Today I am casting my first dissent since becoming chairman of the FCC in August 1989. I join my distinguished predecessor, Dean Burch, who 21 years ago dissented from the Report and Order imposing these rules. So while I am disappointed to be unable to join my colleagues, I am pleased to find myself in the company of past chairmen of the FCC, President Bush's Council of Economic Advisers, the Department of Justice and the Federal Trade Commission, who have all regarded the FCC's intervention in network and Hollywood business relationships as unwarranted and harmful.

The video programming marketplace of the 1990s stands in stark contrast to the 1970 marketplace that prompted the commission to adopt the fin/syn rules. In the last 20 years, there has been a dramatic expansion of programming outlets. The number of independent stations has more than quadrupled, cable penetration has increased from less than 10% to over 60%, cable networks have grown exponentially, and a fourth television network—Fox—has emerged.

As these new outlets have developed, the networks have faced increasing competition for video programming from other program distributors and from each other. Indeed, in contrast to the dominant position they held in 1970, the networks today in aggregate purchase less than half of all prime time entertainment programming. Despite allegations that they enjoy the advantages of oligopolists, the networks have seen their program costs soar at a rate of 56%, while their advertising revenues have increased only 15%.

These facts have convinced me that the networks no longer are so dominant that they can "extract" financial interests and syndication rights from unwilling producers. Absent the fin/syn rules, networks would become a new source of investment capital for both existing and emerging independent producers which are increasingly captives of the big studios. With appropriate safeguards, network entry would serve to increase competition.

Today's reality is that market power lies in the hands of creative people, not distributors. The networks are principally distributors. Only in news do they possess significant creative talent. Even there, when CNN delivered what the American public wanted more quickly and more often than the networks, during the early stages of the Gulf War, millions of people abandoned network news.

The strength of cable networks, the bulk of which are owned by cable operators, is further apparent as several have begun competing with the networks for prime-time entertainment programming. In 1990, the four networks purchased less than half the movies made for television, and the prices paid by their cable competitors generally equalled or exceeded the prices paid by the networks. Nor is series talent in any way "captive" to the networks. Over the past several years, almost half of one network's lead series actors "crossed over" to cable.

Despite this record of network attenuation, the FCC will act today in an intensely regulatory manner. In fact, the majority have piled regulations on top of regulations. One undesirable effect is to further insert the federal government into Hollywood-network contract negotiations.

Each of us wants good quality TV. Each of us wants program diversity. Unfortunately, I see a quite different world from today's majority.

I see rules which handicap local broadcasters—the sole source of free TV—at a time when stations are going dark and cable alone enjoys strong revenue growth. Ironically, at this meeting we just implemented Congress's decision to place new limits and requirements on broadcasters' children's programming.

I see today's fin/syn decision coming from a majority of the same commission that several months ago declined to endorse or impose "re-regulation" on cable television because of the dynamic changes in the video marketplace, and the prospect that competition to cable might develop in the future.

I see rules that unwittingly provide disincentives for the networks to produce news and public affairs programming.

I see rules that place the federal government at the negotiating table when the rights for prime-time entertainment series are negotiated—regardless of whether the ostensible beneficiary of such "protection" is a new, untried producer or a multinational, multi-billion-dollar corporation.

I see rules that handicap American institutions in their negotiations with huge, vertically integrated multinational corporations like Time Warner, Matsushita and Sony.

I see major U.S. production assets being bought by foreign companies while our rules discount the potential of strategic alliances between U.S. firms.

I see a fourth broadcast network, long a prime objective of FCC regulatory policy, artificially thwarted in the ostensible name of fostering diversity.

And finally I see a system of rules built on a foundation of outdated perceptions and misplaced concerns whose inevitable result will be to restrict the networks' freedom of expression, as well as the diversity and quality of programming available on free, over-the-air television.

Accordingly, I dissent.

THE WALL STREET JOURNAL

WEDNESDAY, APRIL 10, 1991

Prime-Time Drama

In TV Rerun Ruling, Hollywood Interests Prove Special Indeed

The FCC Votes to Maintain Some Curbs on Networks In Syndication of Shows

CBS Alienates Commissioners

By DENNIS KNEALE
And MARY LU CARNEVALE
Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON—At a political breakfast a few weeks ago, Jack Valenti, the feisty chief of the Motion Picture Association of America, ran into a lobbyist for one of the television networks. He feigned fatigue.

"We're finished, through," said the 69-year-old head lobbyist for the Hollywood studios. "You've won." Hollywood, he contended, had all but lost the decade-long struggle over federal rules that have blocked TV networks from the rerun business and allowed the studios to dominate a $5.7 billion-a-year global market.

The network man, though, knew better than to believe his bantamweight foe was on the ropes. The Federal Communications Commission yesterday did hand the networks some important concessions. But its 3-to-2 vote also left in place significant restrictions—and imposed some new ones—that may effectively block the networks from exercising many of their new freedoms.

Rules on Kids' TV, Phones

The FCC adopted rules encouraging broadcasters to air more TV programs for children and to limit ads during kids' shows. It also adopted regulations for phone services that frequently charge sky-high prices for calls from pay phones, hotels and other public locations. Stories on pages B6 and A11.

The result has confounded many, from the White House to expert economists. Almost every government party that has waded into the issue has called for a total repeal of the rules. This includes FCC Chairman Alfred Sikes, his agency's staff, the Federal Trade Commission, the Department of Justice and the White House.

How then could the networks have failed to eliminate the rerun rules? "Money. Glamour. Power. Manipulation. Those are the four words that have characterized this over the last 20 years," says Mr. Sikes, who favored a total lifting of the rerun rules.

Rick Cotton, general counsel of the NBC network, is stung by the outcome: "I find myself at a loss to explain it," he says.

One reason is that the networks themselves grew overconfident. They used hardball tactics that backfired, and they expended great energy courting Congress and the Bush administration, when their fate was in the hands of five members of an independent commission.

The studios, meanwhile, capitalized on bitter divisions that were out of character for the FCC, normally a staid agency where the typical voting pattern is 5-0.

At stake was network access to the syndication market, the richest part of the television business. This market is expected to almost double by 1995, to $10.6 billion. The networks have long been barred from it by the FCC's Financial Interest and Syndication Rules—"fin-syn," in the combatants' lexicon.

Syndication supplies local stations with series reruns, from the comedy of "Cheers" to the corn of "Gilligan's Island," as well as first-run programs such as the game show "Wheel of Fortune." Stations spent $600 million on four years of reruns of "The Cosby Show" alone.

But more than money is on the line. "It is basically a story about the use of regulation to change power relationships in the industry," says one network official, "and, in a sense, who's got control over what goes on the air."

The clash between the networks and the studios goes back many years, but it was in 1970 when, at Hollywood's behest, the FCC imposed the syndication ban as a way to curb network power.


Jack Valenti

That ruling came in a vastly different world: The networks held 90% of the television audience and were virtually the only buyers of programming. Today they hold only 60% of viewers, and programming is purchased by hundreds of independent stations, dozens of cable channels, and even a fourth programming service, Fox Broadcasting Co.

The rules, aimed at promoting diversity in the TV business, instead cemented the dominance of Hollywood's big studios.

Last year the eight largest studios controlled 63% of the $3.4 billion syndication market in the U.S. and 80% of the $2.3 billion market overseas. Because they bankroll independent producers, they also supplied over 70% of the prime-time shows the networks aired this season.

By 1982 a five-year FCC study found the rules served "no valid public purpose." In 1983 the FCC voted tentatively to repeal them. But Mr. Valenti mobilized his forces. The Senate passed a bill blocking the FCC from spending any money on repeal.

Hollywood and the networks were advised to begin talks to craft a joint plan advising the FCC how the rules should be eased. But for the next eight years, the two sides bargained little and bickered a lot.

The dispute hit new highs in pettiness. Two summers ago, Mr. Valenti and his team stormed out of one session because CBS executive Jay Kriegel refused to cancel breakfast plans with a small group of independent producers, with whom the studios didn't want him to meet.

Drastic changes in the movie industry that began in 1989 seemed to give the networks new life in the long dispute. Within 18 months four of the eight members of Mr. Valenti's trade group were in foreign hands, including Columbia Pictures Entertainment (bought by Sony Corp.) and MCA Inc. (acquired by Matsushita Electric Industrial Co.).

The upheaval gave the networks the perfect platform for arguing that the rerun rules blocked them from doing deals even foreigners could pursue in the U.S. When Italian financier Giancarlo Paretti's Pathe Entertainment set plans to acquire MGM/UA, NBC had pepperoni pizzas delivered to key Congressmen with a note saying that, while the syndication ban denied the networks "a piece of the pie, here's yours." Mr. Valenti countered with charges that the NBC gimmick was an ethnic slur and rounded up Italian-American groups to publicly demand an apology.

The foreign argument played especially well in Congress. Yet Congress wasn't ruling on this fight—the FCC was.

The FCC last March began its first review of the rerun rules since backing down seven years earlier. News Corp.'s Fox Inc., owner of a studio and a new network, asked the FCC to repeal the rules. Fox has operated under an exemption from the rules that was to expire in two months.

Battle Intensifies

Hollywood lined up 200 independent producers and painted the issue as a life-or-death struggle. Mr. Valenti paraded in front of the FCC small independents—self-made folks such as Stephen Cannell, who produced "Hunter" and "The A-Team," and people from Carsey-Werner Co., whose two owners mortgaged their homes to start their company and get "The Cosby Show" on the air. Not stressed in the presentation, of course, was that Mr. Werner is so wealthy now he is a part owner of the San Diego Padres baseball team. By contrast, network officials like billionaire Laurence Tisch garnered little sympathy.

One major problem in the rerun fight, say lobbyists and FCC officials, was the management style of FCC Chairman Sikes himself. A one-time local broadcaster from the small Missouri town of Sikeston, named for his great-great-great uncle, the soft-spoken but intense chairman can be as stubborn as a Missouri mule. Just as the networks and studios refused to compromise, so did Mr. Sikes, who decided early on that the rerun rules were antiquated, unwarranted and should be repealed. In meetings with fellow members, he strongly argued his point of view—but he didn't solicit theirs.

Alfred Sikes

That was a mistake. In the end, the fate of the rerun rules came down to three commissioners, known as the "Gang of Three," who wouldn't bow to his will: Sherrie Marshall, Ervin Duggan and Andrew Barrett. The fifth member, James Quello, sided with Mr. Sikes.

Internal Feud

Last October, Mr. Duggan publicly blasted the FCC's "loss of respect for truly collegial decision making," in a speech that invoked "the rise and fall of the Roman Empire" and quoted from "Romeo and Juliet."

Some FCC officials say the networks and studios fostered the infighting. Hollywood's Mr. Valenti contends the networks "played too much hardball."

As the feud turned nasty, some network lobbyists zeroed in on Ms. Marshall's well-known hobby of script-writing and whispered that it had tilted her judgment toward Hollywood. She privately blamed the rumors on Mr. Kriegel, a CBS senior vice president, despite CBS's denials.

Ms. Marshall won't comment directly but says the rumors were "ludicrous and abhorrent." Anyone who tries to influence the outcome with such "character assassination" should be "ashamed," she adds. "But I don't believe such actions merit any commission time in trying to identify the perpetrators."

Mr. Kriegel wouldn't comment on the Marshall rumors and didn't return phone calls seeking an interview.

Another FCC commissioner, Mr. Barrett, chafed for months over gossip—passed along in part by Hollywood people—that his renomination to the FCC last May had been opposed by Mr. Kriegel and by the FCC chairman. The two swore it wasn't true and, after a time, Mr. Barrett believed them. Through a spokesman, Mr. Kriegel denies opposing Mr. Barrett. But the damage was done.

CBS Troubles

Mr. Kriegel, a blunt-spoken New Yorker, also won no friends in a meeting with Mr. Sikes when he said of Hollywood producers: "We're not talking about some pisher from Omaha." In the room were four Missouri natives who didn't appreciate the slap at the Midwest.

By the time CBS officials visited the FCC for the final round of lobbying 12 days ago, Mr. Kriegel, though he is CBS's chief political operative, didn't go along. CBS's Washington-based vice president, Martin Franks, says Mr. Kriegel had to attend budget-cutting sessions in New York. Other network people, however, say Mr. Kriegel knew he had worn out his welcome at the FCC.

Mr. Barrett's pique with CBS appeared to surface at the FCC's final hearing on the rerun dispute in December, when he sharply criticized CBS chairman Tisch.

Mr. Barrett, long seen as the swing vote on this issue, may have been the most intensely lobbied official. Earlier this year NBC hired former Illinois Gov. Jim Thompson, a newly minted lobbyist, to buttonhole Mr. Barrett—whom the governor had appointed to the state commerce commission 11 years before. On the other side, Hollywood enlisted Quincy Jones, perhaps the most influential black figure in music production today, to lobby Mr. Barrett, who also is black.

The networks thought they had won over Mr. Barrett, and their spirits were high when Mr. Sikes last month scheduled a major vote on the FCC staff proposal to repeal the rerun rules. Both sides had assumed—wrongly—that the chairman wouldn't schedule a vote without lining up a clear majority first. But just days before the vote, Mr. Barrett dropped a bombshell: his own rival plan that stopped far short of total repeal. Ms. Marshall and Mr. Duggan quickly signed on. The rules approved yesterday are a modified version of that plan.

Under the new rules, slated to take effect June 15, the networks' major gain would be the right to acquire foreign-syndication rights to shows they air. But the details of the measure may make life difficult for networks and Hollywood producers, alike.

For example, the new rules say that after a network first commits to a movie or a series pilot, it then would be blocked from offering the producer a foreign-distribution deal for 30 days. During that time, the producer would be likely to make another distribution deal, pre-empting the networks, network officials complain.

"It's a charade," says John Agoglia, president of the NBC network's NBC Enterprises unit. "The FCC has built a wall around the big studios' ability to dominate all parts of syndication."

But Hollywood people counter that it's unlikely the producer would dare sign a foreign-sales deal with an outside entity because he or she would run the risk of reprisal from the network. Smaller, independent producers were particularly outraged by the FCC plan because they say the networks will in effect take over foreign syndication without paying them anything extra for it.

The networks will be allowed into the domestic syndication market for the first time, but only on shows they produce in-house. A new restriction limits the number of in-house productions to 40% of the prime-time schedule. It will probably take four years before a network has one or two shows that last on the air long enough to go into rerun sales.

The FCC plan adopted yesterday also grants major concessions to the Fox network, which has lured away 10% of the TV audience from the Big Three but will still be allowed to syndicate any and all shows until it exceeds 15 hours of prime-time shows—which Fox doesn't plan to do. Fox's sister, Twentieth Century Fox studio, makes "L.A. Law" for NBC, and another unit makes "A Current Affair," a syndicated show that out-earns the entire Fox network.

The two sides, which can't agree on much of anything, have finally found common ground on one point: The FCC vote yesterday isn't the final round of this bout. The matter is almost certain to be appealed in the federal court here.

Mr. Valenti of the Motion Picture Association had felt the vote would be "the beginning of the end" a week ago. But now he says, "It's not over till it's over—and it's not over. This is a wretched decision."

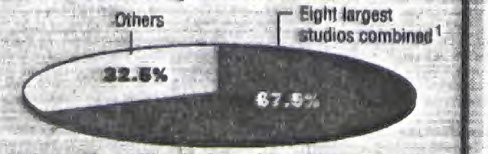
And George Vradenburg, who as CBS's general counsel has been locked in the fight for seven years, says, "Some issues have embroiled Hollywood and the networks for 40 years now. This dispute isn't going to end."

What All the Fighting Is About

Federal rules barring the three networks from the syndication business have handed Hollywood's biggest studios a lock on a multibillion-dollar market

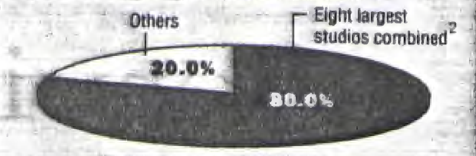
Reruns Are Big Hits ...

1990 Domestic syndication market



Total revenue: $3.4 billion

1990 Foreign syndication market



Total revenue: $2.3 billion

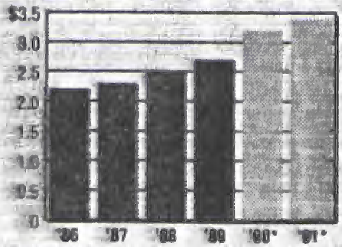
[1] Studios include Warner Bros./Lorimer; Fox Inc.; MCA/Universal; Paramount; MGM/Pathe Entertainment; Walt Disney Co.; Sony Columbia; Orion and Syndicator Viacom Inc.

[2] Excludes Viacom Inc.

Sources: FCC, NBC, Advertiser Syndicated Television Assoc.

At Home ...

Domestic syndication revenue, in billions.



*Estimate

Source: Paul Kagan Associates Inc.

And Abroad

World-wide syndication revenue, in billions

1982	$0.4
1988	1.3
1995 (Projected)	5.0

Source: Wilkofsky Gruen Associates

Tyrants and Technocrats

BY S. FREDERICK STARR

The Ghost of the Executed Engineer: Technology and the Fall of the Soviet Union by Loren R. Graham

(Harvard University Press, 128 pp., $22.95)

Before me sits a 3 inch by 3 inch packet made of cheap cardboard, purchased for about three cents at a kiosk in Moscow. It contains twenty-five *papirosy*, those cigarettes of shag tobacco whose pungent aroma evokes the very essence of working-class life in Russia. Curving across one side is a crudely printed blue label reading *Belomorkanal*, or "White Sea Canal." Adjoining it is a map of Russia's rivers, which appear like blue veins, and among them a single red line, which represents the great canal.

In its day, this muddy ditch was considered one of the engineering wonders of the world, at least by Stalin's government. Its construction was celebrated in films, popular songs and heroic odes. Factories were named after it. Yet at least 200,000 workers, all of them slave laborers, lost their lives hewing this canal out of the frozen pine bogs. In spite of all this, the canal proved essentially useless, and damaging to the environment to boot. For a Russian manufacturer to celebrate it with a popular brand of cigarettes is like a French firm producing a St. Bartholomew's brand perfume, or a Polish company selling Katyn Forest hams.

This pack of "Belomors," as they are called, bears witness to the fact that the Soviet system boldly invited the world to judge it by its engineering marvels. Dams, subways, steel mills and rockets were all built to gigantomaniac proportions, and then paraded before world public opinion as if their existence somehow proved the validity and relevance of Marxism-Leninism. And yet nearly every one of these achievements of "Socialist construction" proved to be an economic folly, an ecological disaster and a human tragedy. Few countries have been so systematically despoiled and plundered as the Soviet Union, and in no country have grand projects conceived and designed by engineers contributed more directly to a declining quality of life.

It was not always thus. Lenin hoped to harness the talents of engineers for human uplift. Even though he was suspicious of the engineers' politics, he realized that electrification and other improvements in industry and agriculture could not go forward without the help of capable and socially responsible technicians. How, then, did Lenin's technological idealism turn into Stalin's technocratic nightmare? Loren R. Graham has pondered this question in notable books and articles over several decades. That was what he was doing on an icy Moscow day in January, 1991, as he pored through recently opened secret Soviet archives. To his great surprise, he stumbled across the long-suppressed papers of Russia's greatest engineer.

Here they were, complete and intact, preserved thanks to the compulsively meticulous habits of the old KGB. In one stroke, the lost world of Peter Palchinsky, one of Russia's most high-minded and ethical technologists, emerged from the black hole of memory to which it had been consigned after his death. Here, finally, was the life's record of a brilliant Russian engineer who had welcomed the overthrow of tsardom and toiled to build a better society in the 1920s, only to be executed by firing squad in 1929. Graham sensed that Palchinsky's fall epitomized the fate of humanistic technology in the Soviet Union, and may even help explain why the Soviet government embraced such manic schemes as the White Sea Canal. He set out to reconstruct the whole story, which he now presents to us in this provocative and engaging volume.

Palchinsky was a year younger than Herbert Hoover and resembled that great American technician and public figure in certain respects. Both were mining engineers. Both viewed their field as a most public and civic science. Both were sure that technology could solve the ills of humanity if only politicians would stand aside and allow it to do so. A chief difference between them, and one that proved decisive, is that Hoover embraced capitalism while Palchinsky became a Socialist, and even logged time in tsarist jails for his beliefs.

Mangosteens

These are the absolute top of the line,
I was telling him, they even surpass
the Jiangsu peach and the McIntosh
for lusciousness and subtlety.... (He frowned:
McIntosh. How spelling.) We were eating
our way through another kilogram
of mangosteens, for which we'd both fallen
hard. I'd read that Queen Victoria
(no voluptuary) once offered a reward
for an edible mangosteen: I don't know
how much, or whether it was ever claimed.
(But not enough, I'd guess, and no, I hope.)
Each thick skin yields to a counter-twist,
splits like rotted leather. Inside, snug
as a brain in its cranium, half a dozen
plump white segments, all but dry, part
to the tip of the tongue like lips—they *taste*
like lips, before they're bitten, a saltiness
washed utterly away; crushed, they release
a flood of unfathomable sweetness,
gone in a trice. He lay
near sleep, sunk back against a slope
of heaped-up bedding, stroked slantwise by fingers
of afternoon sun. McIntosh, he said again,
still chewing. I'd also been reading *The Spoils*
of Poynton, so slowly the plot seemed to unfold
in real-time. "'Things' were of course
the sum of the world," James tosses out
in that mock-assertive, contradiction-baffling
way he has, quotation marks gripped like a tweezers
lest he soil his hands on *things*,
as if the only things that mattered
were that homage be paid to English widowhood,
or whether another of his young virgins
would ever marry. (She wouldn't, but she would,
before the novel closed, endure one shattering
embrace, a consummation.) I spent the day
sleepwalking the halls of museums, a vessel
trembling at the lip. Lunch was a packet
of rice cakes and an apple in a garden
famed for its beauty, and deemed beautiful
for what had been taken away. I can still hear it,
still *taste* it, his quick gasp of astonishment
caught in my own mouth. I can feel that house
going up with a shudder, a clockwise funnel
howling to the heavens, while the things of her world
explode or melt or shrivel to ash
in the ecstatic emptying. The old woman set the fire
herself, she must have, she had to. His letter,
tattooed with postmarks, was waiting for me
back at the ryokan, had overtaken me
at last, half in Chinese, half in hard-won
English, purer than I will ever write—

Please don't give up me in tomorrow

The skin was bitter. It stained the tongue.

I want with you more time

DANIEL HALL

In other respects Palchinsky was a typical engineer of his era. On the one hand, he was a rationalist who worshiped data and statistics. On the other hand, the long years he spent studying coal mines in the Donbas region had led him also to appreciate the human factor in technology and production. Thanks to this, he came to champion the eight-hour day and to favor the construction of small, locally managed firms rather than large, centrally controlled enterprises.

It is no surprise that Palchinsky was also attracted to the very mild form of anarchism championed by Prince Kropotkin. Such views meshed nicely with the moderate socialism championed by Alexander Kerensky, who took power after the fall of Nicholas II in February, 1917. Kerensky welcomed Palchinsky's backing and even placed him in charge of defending the Winter Palace when the Bolsheviks launched their armed coup against it in October of that year. Lenin, once he took power, promptly jailed Palchinsky for this misstep.

When Palchinsky got out of prison, he managed to convince himself that Russia under Communist rule could yet realize his fondest dreams for economic and social betterment. Accordingly, he went to work for Lenin's State Planning Commission (Gosplan), threw himself into the reform of engineering education and turned up as technical consultant at many of the most important engineering projects in the land. Yet by 1929 Palchinsky was dead. His crime was to have insisted on reviewing all pertinent statistics for one of the government's pet projects before submitting a recommendation regarding its viability.

Is it a coincidence that Palchinsky's death coincided with Stalin's consolidation of power and the emergence of a virtual cult of large-scale and seemingly unconstrained engineering? Was it accidental that this believer in the principle that small is beautiful was shot just as his country was launching the most gigantic engineering projects since the Great Pyramids?

Graham contrasts Palchinsky's rational and humane initiatives of the 1920s with the ill-conceived and monstrous projects that followed. As he describes the sad decline, Graham comes close to suggesting that things might have been different had Palchinsky lived. Following a similar line of reasoning, many Western scholars spent years idealizing the pre-1929 Soviet Union and especially Nikolai Bukharin, the urbane yet ideologically correct Communist theoretician of those years who was suppressed by Stalin. Both visions imply that by the mid-'20s the USSR had achieved a functioning form of socialism that was free of Stalinism, and that this happy situation was upset only by a bitter accident of history.

But Graham stops well short of this naïve dream. He points out that Palchinsky was arrested three times during the supposedly kind and gentle years of the New Economic Policy, and that he was convinced he had to stay clear of Leningrad for fear of being jailed there. Graham also notes that such monster projects as the huge Dnieper dam were already in planning during the 1920s and that Palchinsky did not succeed in raising more than a feeble rearguard action against them. When the Bolsheviks tried to take over his beloved All-Russian Society of Engineers, Palchinsky resigned rather than submit to their control. He also quit Gosplan, convinced that his voice of moderation there was inaudible.

Clearly the years of the New Economic Policy were no golden age of humanistic technology in Russia. And even if they had been a golden age, Palchinsky was poorly cast for the role of engineer-humanist in a modern civil society. For all his natural sympathy for workers, Palchinsky was not prepared to accept the irrational decisions that workers might produce if they were left to vote in free elections. And while he favored the introduction of courses on political economy into Russia's engineering schools, he excluded all non-Socialist, Western and market-oriented theories from his curriculum. Nor is there any evidence that he lost much time in pondering this decision. In his way, Palchinsky, too, was a true believer.

With wistful understatement, Graham admits that Palchinsky "badly misunderstood the political course of the Soviet Union." It appears, rather, that he misunderstood politics, period. He was no more prepared to entrust decision-making to the caprice of Socialist managers than to workers or to capitalists. The only people capable of reaching objective and rational decisions, he believed, were engineers. A powerful government was fine, provided its leaders would take their cues from engineers and scientists.

In such a scheme, there is no place at all for politics in the normal sense. For Palchinsky, there was but one truth and he possessed it. More accurately, he believed that his *profession* possessed it. In a stupefyingly obtuse letter to Alexander Rykov, then prime minister of the USSR, he went so far as to call for the creation of a "Technocrats' International," or Tekhintern, to replace the Communist International or Comintern established by the official Party. In a rare moment of political realism, Palchinsky decided against posting this astonishing epistle.

Graham argues that the shadow of Palchinsky's benevolent concept of engineering lies over the dehumanized engineering projects that dominated Soviet life between his death and the final collapse of the system in 1991. The shadow is there, to be sure, but its contours are contradictory. It cannot be denied that Palchinsky was a humanist and would have opposed such idiocies as the giant steel mill at Magnitogorsk, the pointless Baikal-Amur Railroad (BAM), the primitive nuclear reactors at Chernobyl and the White Sea Canal. His ghost, had it been abroad in Russia, would have struck terror in the hearts of those brutal Soviet engineers who sacrificed both humankind and nature to realize these morbid visions.

If Palchinsky was a humanist, however, he was also a scientific determinist. His vision had no place for citizenship, democracy or all the indeterminacy of civil society. Like those who destroyed him, he placed his hope in dictatorship—Socialist, to be sure, but still dictatorship. In this respect, Palchinsky was the true heir of the eccentric Saint-Simon, the anti-Jacobin French engineer who proposed that Napoleon exercise power through a grand council of *savants* and technicians. Over the century preceding Palchinsky, Saint-Simon's seductive ideas exerted a strong influence on many Russian thinkers, who saw in them the keys to modernity, as well as the keys to their own central place in the dawning age. In practice, this Saint-Simonian cast of mind had the paradoxical effect of helping perpetuate the autocratic tradition in Russian politics.

In his essay on "The End of the Modern Era," Václav Havel equated the fall of communism with the waning dominance of "arrogant, absolutist reason" in human affairs. Whether or not this proves to be correct in the long run, it suggests a conclusion about Palchinsky that is somewhat less flattering than the one reached in this book. Graham refers approvingly to the Soviet Union's "impressive start" in technology back in the 1920s. Reading his fine little study, however, one is left wondering if that impressive start did not get off on the wrong foot, even with Palchinsky.

Of course, one can take mischievous pleasure in imagining old Palchinsky's ghost tormenting those soulless engineers whom Stalin and his successors empowered to design their Brave New World. But what about the ghost itself? How might it have viewed those who came after it? Did the specter of the sensitive and decent Palchinsky ever suspect that its own technocratic faith in "absolutist reason" had more in common with the builders of the White Sea Canal than it had realized while it was still a flesh and blood Soviet engineer, toiling among the living?

S. Frederick Starr is the president of Oberlin College and the author of a forthcoming biography of the composer Louis Moreau Gottschalk.

WASHINGTON DIARIST

Voulez-Vous

IT'S NOT OFTEN THAT A MAGAZINE gets a letter from a staffer at the White House as pointed as William Galston's this week. So maybe I should risk the danger of being drenched in ironic self-consciousness and answer it. Not that Alex Ross cannot do so himself (see page 4); but the letter, in its doleful defense of earnest Clintonism, raises larger questions about what's wrong with so many of the Clintonites, what lies at the heart of their weak grasp on the culture, what animates their poe-faced inability to connect with much of the country and what generates *in toto* their well-disseminated, all-round lameness.

ROSS'S MAIN POINT WAS THAT A culture saturated in televised self-consciousness is not quite as ingenuous as Clinton staffers want it to be; that the viewers who relish Letterman, Limbaugh, "The Simpsons" and "Seinfeld" tend to be, as voters, a teeny bit skeptical of an administration that can deliver a 1,300-page bill on health care reform (and an 800-page appendix) with a straight face, or one that is so suffused with a sense of its own technocratic rightness that the First Lady can use the words "mission-driven" and "politics of meaning" without a trace of self-awareness flitting across her brow. On the face of it, this argument about American culture doesn't seem to me to be particularly insidious. It doesn't mean that American citizens don't know when to be serious and when to smirk, or that they have erased any distinction between politics and culture. Nor does it amount to a descent into barbarism, an ascent into "aestheticized elitism" (whatever that means) or a soft spot for Leni Riefenstahl. It means simply that in the war for what liberals (and principled conservatives) believe in, a certain amount of irony in an increasingly ironized culture can come in handy. It helps get your message across; it's a healthy sign of self-awareness; and, in this day and age, it goes hand-in-hand with an appropriate measure of maturity and even modesty. The odd, self-deprecating, ironic crack on the part of the president would do more for his political fortunes than any amount of further packaging around the mantras of "security" or "change."

BUT THERE'S MORE HERE. GALston assumes, in his substantive vein, that irony is an alternative to seriousness. In fact, it's a symptom of it. When taken to its cynical extremes—as in the cases of Letterman and Limbaugh and a gaggle of twentysomething nihilists—irony can be a form of shallow pop-cultural decadence. And, yes, Thomas Mann helped pave the way for the Nazis. But in 1993, irony doesn't have to amount to a political philosophy to be an adornment to one. And there's something truly scary about a person faced with the contradictions of modern life who doesn't have occasional recourse to a sense of the absurd. If you could detect a trace of this sensibility among more members of this administration, if you didn't stare into the face of a Berger, Sperling, Galston or Magaziner and see nothing but mind-numbing earnestness coming back the other way, you might feel a little bit more confident about the future of the country.

TWO RECENT BOOKS MAKE THE point better than I can here: Richard Reeves's *President Kennedy: Profile of Power*, and Margaret Thatcher's auto-hagiography. In Kennedy, you have a man whose irony was critical to his being both sane and brave in the face of the cold war's nuclear gamble. In Thatcher, you have a woman whose inability to see the fickleness of things, and whose complete lack of self-consciousness made her first a wonder to behold, but ultimately a monster. In many respects, she achieved far more than Kennedy (and in over-ironized Britain was a breath of fresh air); but Kennedy is still the more durable figure, because he recognized, in a way that became inseparable from his personality, that things are hardly ever as they seem, that self-awareness is the prerequisite to real moral courage. It was this ironic detachment that gave the edge to his otherwise conventional idealism. He was able, like Reagan, to convince others of his seriousness by being so unserious about himself; he had few illusions; his relationship to his religious faith was almost academic; he spent half his life undermining the principles of the other half. Yes, in some ways, his was a politics of irony. But it was one that served the purposes of liberalism more sturdily than the piety of Hillary Rodham Clinton.

AMONG THE MORE IRONIC PHENOmena of our age is the success of the newly released album, *Abba Gold.* I remember Abba when they first burst onto the scene with their stunning victory at the 1973 Eurovision Song Contest. Eurovision is an annual T.V. pop pageant in which dozens of countries vie for a lowest-common-denominator Euro-tune to capture the gorgeous mosaic of the European Community. Abba (the name, one recalls, was formed by the first letters of the group's names: Agnetha, Björn, Benny and Anna-Frid) prevailed in this exacting task by mastering the English-as-second-language lyric and the après-ski, '70s uplift that subsequently made them mega. To listen to them today (once you pass the pain barrier) is to enter a nostalgia-sauna, the Swedish accents providing the essential counterpoint to lyrics like: "I have a dream / A song to sing. / To help me cope with everything." There are the occasional historical analogies: "My my! At Waterloo, Napoleon did surrender / And I have met my destiny in quite a similar way." And a random wade into philosophical depth: "The winner takes it all / The loser standing small. / The Gods may throw the dice / Their minds as cold as ice." And those immortal Swedish rhyming schemes: "Seeing me so tense / No self-confidence." The recent fascination with the '70s stems from the fact that at least some people in recent memory were clearly more embarrassing than we are; but with Abba, I think, there's something a little less complex going on. There are simply some products in the universe of truly awful pop culture that make you inexplicably happy.

JEFF SCHMALZ, THE *NEW YORK Times* reporter, died of AIDS two weeks ago, at the ripe old age (in modern gay time) of 39. I knew him a little: well enough to recognize a mind whose capacity for bullshit-detection never dimmed and who was thus able to face extinction in a truly honest way. He saw through much of the cant of gay ideology and yet remained completely committed to explaining the reality of being in a minority, and, then, of being terminally ill. Sometimes, I felt, his anger got the better of his later journalism; and his emergence as a pioneer for gay visibility unfortunately led people to forget his sharp, earlier reporting. But one can hardly blame him for that. What, after all, does it say of our culture that it took a brain seizure three years ago to unleash Schmalz's talent for the thing he knew best? Or of life that the very thing that unfettered him should now so peremptorily take him away? An irony, I know. But one that unfortunately fails to lighten with time.

ANDREW SULLIVAN

BUSINESS

Are America's networks facing extinction?

LOS ANGELES

After a ten-year war with independent programme-production studios, America's television networks are facing the final battle

GEORGE BUSH'S Easter fishing trip was more peaceful than he expected; the press aircraft due to follow him was cancelled. The reason: America's three big television networks, NBC, ABC and CBS, could not afford to send full news teams. A decade ago, when around 90% of viewers watched their programmes, such worries about petty cash would have been unthinkable. Today cable television has reduced that share to just over 60% and network newsrooms are used to being scooped by Ted Turner's upstart Cable News Network.

Soon injury will be added to insult. On April 9th the networks will hear what many broadcasters think could be a sentence to a lingering death. The Federal Communications Commission (FCC), which oversees American television, will probably allow the networks a toehold in America's syndication market, where $3 billion-worth of programmes are sold each year. But only a toehold. After a decade of costly lobbying, such a small victory looks distinctly Pyrrhic.

The "mother of all broadcasting battles", as *Variety* cheerfully calls the struggle between studios and networks, has been going on for ten years. At stake are the rules imposed in the networks' heyday. Of these, the Financial Interest and Syndication Rules (FISR), which prevent networks owning stakes in programmes, are the most costly.

Under the present system, a network usually buys a licence to show a programme twice. The network routinely pays around 80% of the studio's production costs, but the studio keeps the rights to all the programme's other markets. "The Cosby Show" may eventually earn $1 billion in various syndication markets, but NBC, the network that put most of the work into making the show popular, will not receive a cent.

Such risky profits were of little interest to the networks while they made decent returns from broadcasting. This year, however, their broadcasting divisions will probably make a combined pre-tax profit of only $300m, from joint advertising revenues of $9 billion. Nearly all that profit will go to NBC, currently the ratings leader. The weakest network, CBS, could lose up to $300m.

Moreover, the studios, pushed by greedy stars, are asking for yet more money. Earlier this year Paramount demanded $120m from NBC to renew its hit comedy show, "Cheers"; NBC eventually settled for around $65m. Costs for sports programmes have swollen too, as networks have bid suicidal amounts to screen events. Advertisers, annoyed that the cost of reaching 1,000 network viewers has doubled in the past decade, are booking fewer slots.

Only a handful of the networks' woes are directly attributable to the FISR, but the syndication rules have become a dominant issue. Beyond this legal barrier, supposedly, lies a happier world where they can raise profits (by about $60m a year each), and where they would be free to merge with studios. Both General Electric, NBC's parent, and Larry Tisch, a financier who controls CBS, have hinted that they may quit broadcasting if it does not make more money.

The networks' struggle to reach this unregulated bliss has produced one of Washington's more colourful soap operas. In 1983, under political pressure, the FCC scuppered a plan to ease the FISR. Privately, the networks blamed Ronald Reagan's ties with Lew Wasserman, chairman of MCA, who used to be Mr Reagan's agent. But their enduring bogeyman has been Jack Valenti, president of the Motion Picture Association of America, a powerful lobby group that represents the big studios.

The current offensive by the networks, which began two years ago, has taxed even Mr Valenti's talents. Their case—that they no longer dominate the television market and so should be set free—has grown stronger because cable television has eaten into their market share still further. The Bush administration wants to cancel the old rules; so do the Justice Department and Al Sikes, chairman of the FCC. Meanwhile one of the studios, 20th Century Fox, which is owned by Rupert Murdoch's News Corporation, now has a sister television network, Fox, which broadcasts four nights a week.

Nevertheless, only Mr Sikes and one other commissioner support a proposal to eliminate the FISR. The other three commissioners back a plan that restricts the networks to producing 40% of their evening entertainment programming. The networks are also allowed a financial stake in externally produced programmes—but only if the network takes the show for two years or less (as opposed to four years of exclusive rights at the moment).

Privately, the networks are already blaming both Mr Valenti and Mr Sikes, who allegedly tried to bulldozer the other commissioners, for the deal. One lobbyist reckons that the two-year rule may be eased before the April 9th deadline, and that co-productions may be included within the 40% in-house definition. Whatever happens, the networks will end up with at best only half of what they hoped for. The dream of merging with a studio is also for all practical purposes dead. Fox will escape through yet another temporary waiver.

And the losers are . . .

The FISR decision will leave the network business pretty much where it is at the moment: a loss leader for the networks' owned and operated stations. The networks can make up some of the ground by slashing costs. Network newsrooms are already preparing for redundancies. The networks still pay their affiliates $400m-odd a year to show their programmes: that may be whittled down too. But, in the end, cost-cutting is no more an answer than an extra fin would have been for the stegosaurus. The networks' problem is that the business is changing faster than they are.

A central challenge is technology. Time Warner recently announced that it would build a 150-channel interactive cable system in New York. Nick Nicholas, the firm's chief executive, has boasted that two-way TV will offer "programming options whose only limit is the imagination." Mr Nicholas compares this vision with "the old boob tube, sitting in the nation's living rooms, droning on like some boorish relative, deaf to the diversity of minds and subtlety of tastes it was addressing." As yet, the networks have no new ways to hit back.

They do have one old one. Advertisers still need a mass market. "Cable television", brags one networker, "has proved that it can attract viewers; it can't attract advertisers." The most profitable cable stations have been those that make subscribers pay. NBC, ABC and CBS still finish first in homes that take cable.

Even so, the advertising market that gives the networks some security is built largely on the networks' ability to pay for Hollywood's most expensive programmes. Already the studios are using competition from the cable industry to push up prices. Moreover, American viewers now clearly watch programmes rather than channels. If "Cheers" had left NBC for another channel, its audience would have followed.

Regardless of what happens to the FISR, the networks may eventually have to change shape just as their "full-service" ancestors, the radio stations, did when other channels appeared on the wireless. Might they do better to drop some programmes and concentrate on what each does best? Does America need four news services? If 150-channel television arrives, might not three separate networks of sport, news and entertainment be more profitable than a single full-service one? Uncomfortable questions, but a visit to the Smithsonian natural history museum in Washington would concentrate the networks' minds wonderfully. ■

Go east, my Sun

BERLIN

RUPERT MURDOCH may be shutting down some of his Australian newspapers—on April 3rd Melbourne's *Sunday Herald* was the latest to be pulped—but his News Corporation is expanding in Eastern Europe. In a joint venture with the Munich-based Burda Verlag group, Germany's fourth-biggest publisher, Mr Murdoch is launching a mass-market tabloid aimed at readers in eastern Germany. *Super Zeitung* will arrive on the news-stands on April 15th. Its inspiration is Mr Murdoch's *Sun*, a British sex-and-sensation tabloid.

The DM150m ($90m) project hopes for a circulation of 1m. It will be taking on the mass-market *Bild-Zeitung*, published by the Springer group in Hamburg. *Bild* sells only about 600,000 copies in eastern Germany, compared with over 4m in the west. By projecting itself as "the voice of the east" *Super Zeitung* hopes to do much better. There are no plans even to distribute it in western Germany.

The formula has already proved successful for *Super-Illu* and *Super*-TV, Burda's weekly magazines. These were launched in east Berlin last summer and have quickly become market leaders in the east, selling nearly 1m copies apiece.

But the new paper faces some hurdles. One is the departure of Burda's top publishing adviser, Günther Prinz. He is returning to the rival Springer group, where he edited *Bild-Zeitung* for over ten years. Mr Prinz was closely involved in thinking up *Super Zeitung*. Indeed, on paper he still owns 10% of the new venture, though a Burda spokesman said this would now face a legal challenge. Nonetheless, *Bild-Zeitung* looks set to respond to *Super Zeitung*, perhaps with a special eastern edition.

Despite its supposed eastern focus, the key members of *Super Zeitung*'s editorial team are from the west. The editor, Peter Balsiger, who comes from Munich, describes the new venture as a product of the "pioneer spirit"—a reference perhaps to the near-appalling working conditions in the east, where the journalist's mainstay, a telephone, is still a luxury. But there may be compensations. Like its mentor the *Sun*, *Super Zeitung* will feature its own nude pin-up girls.

Soviet economic reforms

Solved? No

MOSCOW

By "getting the prices right" the Soviet prime minister, Valentin Pavlov, hopes to boost living standards even though he is also cutting demand by a quarter. He will probably fail

ON APRIL 2nd the Soviet government introduced a three-tier pricing system. The government ordered shops to mark up prices of basic goods by between 20% and 200%. For a second category—basic goods whose purchase can be delayed—it introduced ceiling prices: these applied, for example, to bricks, clothes and sewing machines. About 30% of prices were decontrolled: this affected "luxuries" like watches, washing machines and telephones.

Because the state is not only the controller of prices but also the owner of shops and factories, it stands to earn over 300 billion roubles from higher prices. That is $510 billion at the official exchange rate, or three-quarters of annual retail turnover.

Mr Pavlov claims that the reforms pushed up average prices by little more than 60%. This is a gross abuse of the word average. Officially, bread and meat prices tripled, and those of sugar and tea doubled. But when the new price tags appeared in the shops the rises were even larger than this. Beef went from 2.00 roubles a kilo to 16.50 roubles; a litre of milk from 30 kopeks to 90.

The price rises make inevitable a change in the price of the rouble—downwards. The government took the first step by devaluing the rate at which tourists can exchange their began their U. S. buying spree. Many breeders acted as if the Maktoums and other high rollers would keep bidding up prices forever. When the big buyers pulled out of the market or slashed their spending, the breeders got scorched.

The Maktoums still account for about 40% of the spending at the top auctions, but Anthony Stroud, racing manager for Sheik Mohammed, says his employer has developed restraint. "If [horses] are overpriced, we won't buy them," he says.

That newfound caution wasn't in evidence when Maktoum paid Allen E. Paulson, chairman and chief executive officer of Gulfstream Aerospace Corp., a breathtaking $10 million for a 50% stake in Arazi before the colt won the Juvenile on Nov. 2. Paulson cites that sale and his purse winnings to refute charges that he overpaid in building his $150 million breeding and racing operation, headquartered at Brookside Farms in Versailles, Ky. "I'm doing better than a 10% return on capital this year," he says.

BAD BUY. Icahn, too, insists that his Foxfield Farms, also in Versailles, is profitable. He entered the business in 1985, teaming with breeder Peter M. Brant to pay a record $7 million for the mare Miss Oceana. Bad mistake: That sale marked the peak in mare prices. Icahn says he now buys only bargain high-end mares and he has enough brood mares to turn out 40 to 50 yearlings per year, selling for $50,000 to $250,000 each. "This is strictly a money-making business for me," he says.

In the end, the health of the Thoroughbred industry will depend on boosting the betting handle. It now tops $9.2 billion a year nationwide, but it's growing more slowly than other forms of wagering, especially casino gaming. That's why Churchill Downs President Thomas H. Meeker and others are lobbying for a national version of the Pick 7 bet that sparked the surge in wagering at this year's Breeders' Cup. Bettors in 29 states laid down $8.5 million on the Pick 7. No one selected the winners of all seven races, but 29 bettors in four states did get six right and took home about $225,000 each for a $2 wager.

An industry committee is now considering a national Pick 6 wager. It could involve a weekly, hour-long syndicated TV show featuring six big races from tracks across the U. S. Racing purists disdain the plan as nothing more than a national lottery. But if such a wager can generate handles as high as the one at the Breeders' Cup, contrarians could prove to be correct even faster than they imagined. Of course, the pessimists still greatly outnumber the optimists, but, hey, that's what makes horseraces.

By Chuck Hawkins in Louisville, with Richard A. Melcher in London

Commentary/by Peter Coy

CABLE TV: FOR A BETTER PICTURE, TRY COMPETITION

Bob Friedhoffer, a professional magician, has nothing on Manhattan Cable TV when it comes to making things disappear. Static obscures the broadcast channels that he gets via cable, especially the lower numbers. Channel 2, the CBS Inc. affiliate in New York, is "painful to look at," he says. "I get better picture reception on my radio." His prescription for cable television: "First, a big sledgehammer."

That's a bit overheated. Most subscribers to Manhattan Cable TV and other systems around the country have decent service. A recent *Consumer Reports* readers survey found that three-quarters were very or fairly satisfied. Still, plenty of people are squawking about high prices and poor service. And that has caught the ear of lawmakers, who know that Americans take few things more seriously than television.

ILLUSTRATION BY RICHARD DOWNS

So far, though, the debate over cable TV has produced a picture as fuzzy as the one on Friedhoffer's screen. Every couch potato has an opinion on cable TV. And so does every lobbyist for a phone company, TV network, movie studio, or newspaper, because the cable TV fight is pivotal to a bigger battle over who owns and transmits information and entertainment into America's homes.

What's the answer? In a nutshell, more competition. Monopolies made sense when communications networks were specialized in function and too expensive to duplicate. No more. The technologies that underlie telephones and cable TV are converging. And it's becoming cheaper to open new channels to the home via fiber-optic lines, satellites, and wireless systems that resemble cellular-phone networks. So bust the cable monopolies, and the telephone monopolies as well. With all obstacles removed, homeowners early in the next decade could receive TV on a foot-square satellite dish. Or plug their TV into an upgraded telephone line. Or hook up to the cable operator. Or even get TV the old-fashioned way, by broadcast. Meanwhile, phone calls could arrive via the phone company, cable TV company, or wireless network provider.

Healthy competition isn't an automatic result of deregulation, as recent history richly demonstrates. Since Congress de-

Vital Signs of International Financial Markets

The Dow Jones Industrial Average

For nearly a century – since 1897 – the Dow Jones Industrial Average, named after American journalists Charles Henry Dow and Edward D. Jones, who also founded The Wall Street Journal, has been synonymous with the world's largest bourse, the New York Stock Exchange. The Dow is used around the world as a barometer of the economic health of the U.S.

The Financial Times 100

The FT-SE 100 Share Index is recognized internationally as the leading benchmark of price developments on the London Stock Exchange. Calculated every minute on each trading day by the London-based Financial Times, the index represents some 70% of the total value of the U.K. equity market.

The Nikkei Index

Since 1968, the Nikkei Index has been the leading indicator of price movements on the Japanese stock market. Based on the prices of all shares traded on the First Section of the Tokyo Stock Exchange, it is compiled by the Nihon Keizai Shimbun, Japan's leading business and financial daily newspaper.

The F.A.Z. Share Index

Since 1961, the F.A.Z. Share Index has tracked price movements on the German stock exchanges. In international financial and investment circles, it is recognized as a reliable monitor of German equity markets. The index is a service provided by Frankfurter Allgemeine Zeitung.

F.A.Z. Indices – On the Pulse of the German Economy

Frankfurter Allgemeine Zeitung delivers the finest in business and financial information and commentary – all with the speed and reliability that are hallmarks of Germany's leading daily and business newspaper. The F.A.Z. Share Index, the F.A.Z. Bond Yield Index, and the F.A.Z. Economic Indicator reflect our skill and expertise in covering business and financial markets.

Frankfurter Allgemeine
ZEITUNG FÜR DEUTSCHLAND

GERMANY'S LEADING DAILY AND
BUSINESS NEWSPAPER

regulated rates for most operators at the end of 1986, cable companies have had the field virtually to themselves. From then until October, 1991, the government's cable TV price index rose 53.4%, more than twice the 24.3% overall rise in consumer prices. Consequently, the House is solidly behind reregulation, and Senate sponsors are seeking enough votes for reregulation to override a Presidential veto.

But rate regulation is at best an interim solution. It conjures up a cumbersome bureaucracy and leads monopolists to do just enough to placate regulators. In contrast, if cable operators were disciplined by competition, they would have to do their best job or risk losing the business. "Your gravy train would be gone," says Bruce L. Egan, an economist at Columbia business school.

The issue, then, is how to foster that kind of competition. Here's one way, a plan that lowers fences around markets while protecting consumers during the transition to an open market for home delivery of information and entertainment. This plan applies to all competitors but focuses on phone companies, whose rivers of cash flow and wires to nearly every home in America make them naturals to enter the TV business.

■ **Allow phone companies to carry TV programming over their networks.** The Federal Communications Commission proposes to let phone companies provide a "video dial tone," by which they could relay to customers a menu of TV programs from other sources. The FCC plan would give viewers more choices: Cable operators now often refuse to carry any program that might steal viewers from another program that they own or control. Phone companies, in contrast, would be "common carriers," obligated to transmit for a standard fee any program that someone wants to send.

But providing a video dial tone would require billions of dollars in new optical fibers and electronics, and some phone companies say they're not willing to do it if all they can do is transmit programs. The real money, they say, is in owning those programs. So:

■ **Let phone companies own their own programs.** Phone companies might turn out to be flops at creating or buying shows, but they should be allowed to try as long as captive phone customers don't have to foot the bill. Such subsidies would be easy to detect as long as the Norman Lear wannabes are sealed off in subsidiaries. To make sure that phone companies have plenty of channels available for outside programmers, there should be limits on how many channels they can fill with their own shows.

■ **Lessen government's role in phone companies' investment decisions.** Under traditional rate-of-return regulation, governments have an incentive to discourage phone companies from spending heavily on wires that can carry television. Why? Because phone companies are allowed to earn a certain profit percentage on their investments in plant and equipment, and every dollar spent on infrastructure inflates the rate base used in the profit calculation. Given a fixed rate of return, more investment means higher rates.

Wisely, many states and the federal government are moving toward capping prices rather than profits. In a pure price-cap regime, regulators don't care how much phone companies invest or earn in profits as long as they meet benchmarks for price and service. Economists agree that price caps aren't ideal, but during the transition to full competition they're the best way to protect consumers while modernizing networks.

■ **Open the way for cable companies to offer telephone services.** Delivering phone calls would be relatively easy for advanced cable systems that have lots of fiber capacity and two-way communications. Others will take longer. Letting cable companies into the phone business would partially compensate them for the loss of their monopolies. It would give consumers another choice in telephones. And it would put the phone companies on notice that they can't overcharge their customers with impunity.

■ **Ease municipal franchise requirements for providing video service.** Municipal franchises have become unholy alliances: Cities get lucrative fees, and officials who award franchises may get fat campaign contributions. In return, cable operators get impenetrable monopolies. Congress should require cities to justify any rejection of applicants for additional franchises. If cities still balk, abolish franchise requirements and let cities make up some of the lost revenue with a small tax on video transmission.

■ **Investigate whether cable operators are violating antitrust laws by withholding popular programs.** Cable operators have a huge advantage over new entrants, because they can withhold access to such mainstays as CNN, HBO, Showtime, and MTV that they own or control. Requiring cable companies to sell programs to competitors could violate their First Amendment rights. Still, it seems fair to examine whether the cable industry is engaging in illegal monopolistic behavior. This is mainly a short-term issue, since rivals should eventually be able to create their own CNNs and MTVs.

It may take a decade or more before all barriers are breached, but in time these measures will give competition a real chance to produce lower prices, better service, and a good picture on Channel 2 for Bob Friedhoffer.

WHAT'S ON THE TABLE

CABLE TV REREGULATION

A bill sponsored by Senator John C. Danforth (R-Mo.) and others would let local governments regulate prices for basic cable TV service and make it harder for cable operators to deny rivals the use of programming that they own or control. There is a similar bill in the House. The Bush Administration has threatened a veto

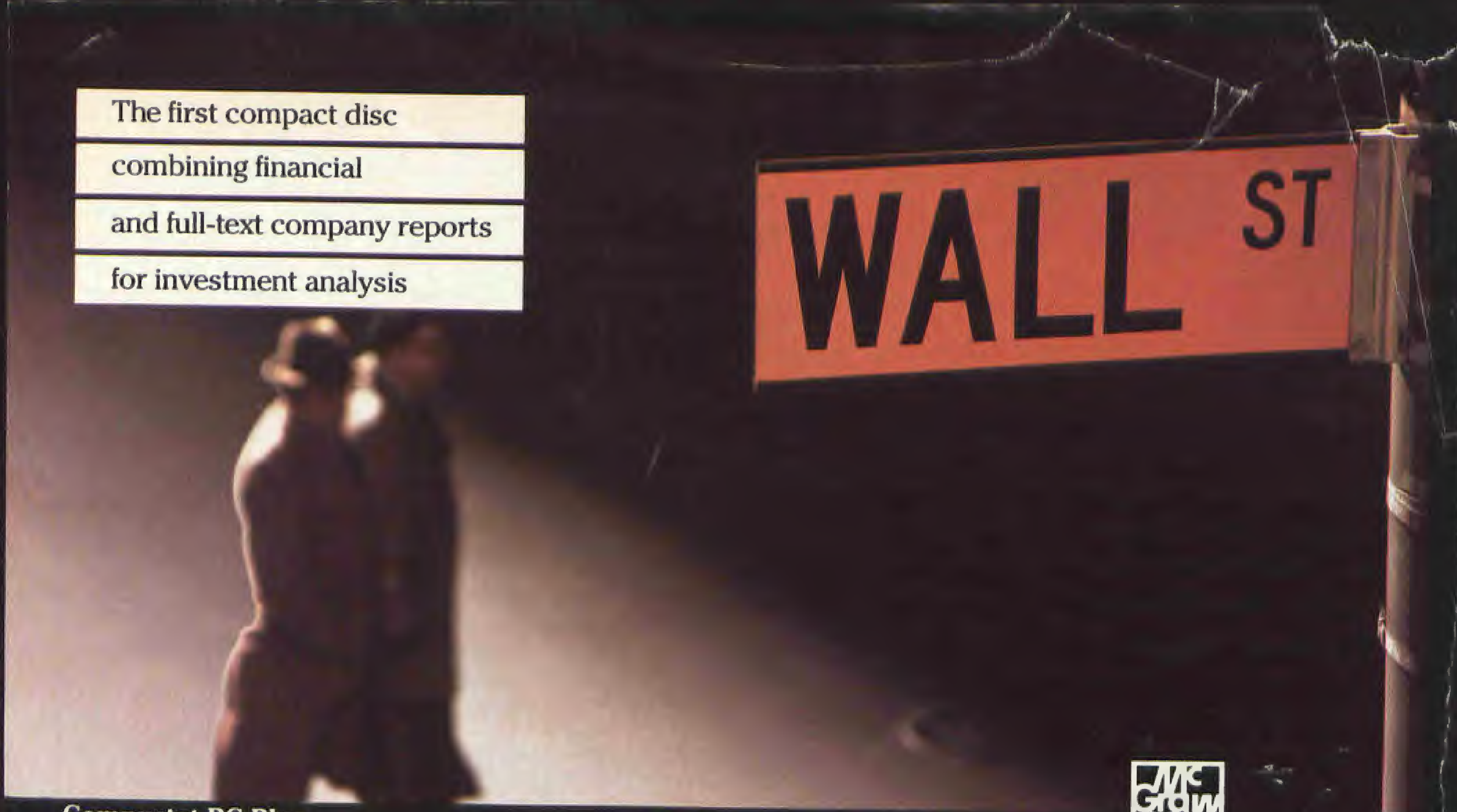
PROMOTING COMPETITION

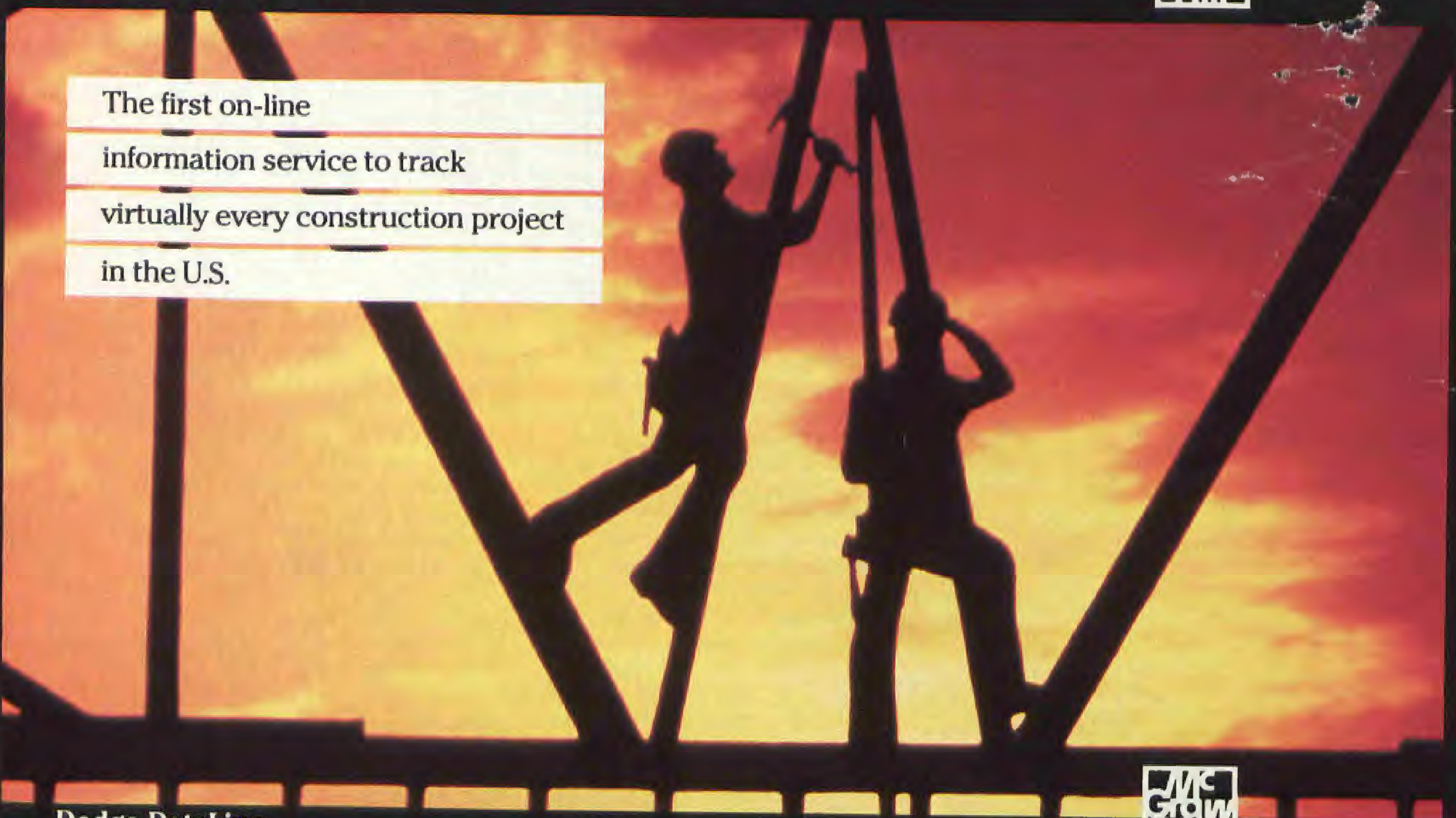
A bill sponsored by Senator Conrad Burns (R-Mont.) and others would let phone and cable companies into each others' markets, and would mandate that the U.S. be fully equipped with high-speed communications by the year 2015. Similar bill in the House

VIDEO DIAL TONE

The Federal Communications Commission proposes letting phone companies carry programming owned by others. It's also considering whether phone companies should be allowed to own programming

DATA: BW





New York Speech

OTA Report Brief

January 1990

CRITICAL CONNECTIONS:
Communication for the Future

If Congress fails to act decisively, the opportunity for the Nation to make deliberate choices about new communication technologies will be overtaken by technological advances, the hardening of stakeholder positions and alliances, and the force of international developments and events. The questions facing Congress in this regard are fundamental ones, requiring Congress to revisit and reevaluate the Communications Act of 1934.

The United States is in a new global communication era in which information plays a greatly enhanced role in all aspects of life. **The opportunities people have to participate in economic, political, and cultural life are increasingly dependent on communication and information-based services.** More than ever before, communication is playing a strategic role, determining the winners and losers.

At the same time, fundamental changes in the U.S. communication infrastructure—due to rapid technological advances, the divestiture of AT&T, and decreased regulation in all communication industries—are altering the way information is created, processed, transmitted, and provided to individuals and institutions. This changing infrastructure holds promise for greatly enhanced capabilities that can meet the changing needs of an information-based society. At the same time, however, these changes will undoubtedly generate a number of significant social problems.

One such problem is that of access. OTA found that, given the direction of technological change and the current policy environment, **the gap between those who can access communication services and use information strategically and those who cannot is likely to increase.** Those most likely to be adversely affected are people whom the new communication technologies could help the most—the poor, the educationally disadvantaged, the geographically and technologically isolated, and the small and medium-sized business. OTA identified a number of factors that are likely to contribute to access problems, including increased purchasing costs due to shifting subsidies, greater time and effort required to use technology, growth in the economic power and concentration of many media, and disagreement among policymakers about what should constitute universal service, a policy criterion established by the Communication Act of 1934.

Another problem is whether and how to foster the use of new communication technologies. It is clear **that if government wants to promote the effective use of new communication technologies to improve the economy and enrich people's lives, it must find ways to deal with issues such as network modernization, standards and the standards-setting process, network security and survivability, education and training, and international trade.**

Resolving these issues will require difficult trade-offs. For example, improving the security of communication networks may limit their accessibility. Making these trade-offs, moreover, is likely to become increasingly contentious. The new communication environment has witnessed the emergence of stakeholders with new, and often conflicting, claims on the communication infrastructure. The bases of many previous policy alliances have been disrupted, creating the need for a new consensus. These changes have, moreover, provoked a number of jurisdictional disputes—for example, between States and the Federal Government, and among government agencies—about how and by whom communication decisions should be made.

What is required now is a clearer national vision of the roles that communication and information are to play in American society. OTA's report provides Congress with a "roadmap" for formulating such a vision as the Nation moves toward the 21st century. This vision can take any of several shapes, each requiring a different role for government and leading to a different future. For example, communication can be treated as any other commodity bought or sold in a relatively open marketplace. Or, with more government guidance, it can serve as a springboard for economic growth and development. In addition, communication can be used to pursue even broader social ends, a scenario that would most likely require sacrificing some near-term economic benefits for a quicker resolution of other societal goals.

(over)

The Office of Technology Assessment (OTA) is an analytical arm of the U.S. Congress. OTA's basic function is to help legislators anticipate and plan for the positive and negative impacts of technological changes.
Address: OTA, U.S. Congress, Washington, DC 20510-8025. Phone 202/224-8996. John H. Gibbons, *Director.*

Each vision provides its own context for considering communication policy. OTA identified five policy areas that Congress needs to address: 1) equitable access to communication opportunities, 2) security and survivability of the communication infrastructure, 3) interoperability of the communication infrastructure, 4) modernization of the communication infrastructure, and 5) jurisdiction in the formulation and implementation of national communication policy. Congressional strategies for each area are outlined below.

Copies of the OTA report, "Critical Connections: Communication for the Future," are available from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402-9325 (202) 783-3238. The GPO stock number is 052-003-01143-3; the price is $17.00. Copies of the report for congressional use are available by calling 4-9241. Summaries of reports are available at no charge from the Office of Technology Assessment.

Key Policy Strategies

Strategies to Address Access to Communication Opportunities

—influence the means by which communication services are funded and financed.
—structure the prices at which communication services are offered.
—provide direct government support for users to access information and communication paths.
—regulate and/or redefine the rights of media owners.
—influence the level and availability of the tools and resources required to access communication and information services.
—assume a more proactive role to assure robust debate on issues of public importance.

Strategies to Address Security/Survivability of the Communication Infrastructure

—undertake further study and analysis of changing security and survivability needs of the communication infrastructure.
—facilitate the transfer of information about security and survivability, garnered in the public agencies, to the private sector.
—establish security and survivability requirements for key industrial sectors.
—provide special emergency facilities for private sector use.
—improve coordination of survivability planning.
—increase activity geared to preventing security breaches.

Strategies to Address Interoperability of the Communication Infrastructure

—support research to provide better data and a more analytic rationale for standards-setting decisions.
—allow for the emergence of market solutions, either in the form of gateway technologies or through the setting of de facto standards.
—indirectly influence the standards-setting process by providing assistance and guidance to foster the setting of standards.
—influence the setting of particular standards by providing incentives or imposing sanctions.
—mandate industrywide standards.

Strategies to Address Modernization of the Communication Infrastructure

—involve the government directly in the development, planning, financing, and coordination of the communication infrastructure.
—provide indirect incentives for modernizing and developing the communication infrastructure.
—create a regulatory environment that is more conducive to the modernization of the communication infrastructure.

Strategies to Address Jurisdictional Issues in Communication Policymaking

—take the lead in establishing communication policy priorities and in allocating organizational responsibilities accordingly.
—establish an ongoing organizational mechanism, outside of Congress, to resolve policy inconsistencies and jurisdictional disputes.
—provide an interagency and/or interjurisdictional mechanism for coordinating communication policy and resolving jurisdictional issues.
—establish an institutional basis for facilitating coordination and cooperation among government agencies, industry providers, and communication users.

'Orgy Of Discussion'

SIKES SUGGESTS GUIDELINES FOR LONG DISTANCE RULEMAKING

Examination of AT&T's market share alone "does not provide significant advantages" in FCC's analysis of company's position in long distance market, FCC Chmn. Sikes said Thurs. Speaking at Annenberg Washington Program conference on long distance issues, he said that in considering proposed rule Commission will approve at March 8 meeting, it will be particularly interested in receiving data on "underlying cost structure of competitors," as opposed to market share figures alone.

Sikes struck theme that, short of proved predatory pricing practices, AT&T's position in market now is that it would be appropriate to lift some regulatory burdens. For example, he said, AT&T could claim to have lost $10 billion since divestiture as its market share has dropped: "U.S. industry titans, such as IBM, GM or General Foods, which are often cited as having lost significant market share, have fallen well short of that mark." Current regulation of long distance business "too often seems to rest on the assumption that the Bell System breakup never happened," Sikes said, adding that there's "underappreciation of the fundamental strengths" of carriers such as MCI, Sprint, National Telecommunications Network (NTN).

Only in "the sometimes artificial world of traditional FCC regulation" would companies with billion-dollar revenues and high growth rates be "characterized as Liliputians," Sikes said. AT&T "no longer stands omnipotent, astride a captive long distance market" and there's "lots of blue smoke and mirrors" in that area, he said. In text of speech and in answer to question, Sikes stressed importance of AT&T's manufacturing capabilities and of Bell Labs. He said that in his previous assignment as head of NTIA, Commerce Dept. paid attention to AT&T's R&D and manufacturing capabilities, even though those factors weren't discussed frequently. Sikes said that those who object to AT&T's combining services and equipment "must do more than assert that there might somehow be a cross-subsidy."

AT&T Senior Vp-Gen. Counsel John Zeglis, in panel discussion, also said it was time to end "orgy of discussion" about loosening rules for AT&T. Company is only trying to lower prices for customers, he said. Idea that AT&T should be treated as dominant carrier because of its market share has been "thoroughly discredited," he said, and charges of cross-subsidy between services are "a nonstarter." Zeglis suggested that FCC could adopt forbearance type of regulation now used for other carriers.

But Sikes and Zeglis were in minority, as representatives of MCI, Sprint, NTN and Competitive Telecommunications Assn. (CompTel) argued that AT&T did have significant market power. They contended that AT&T was able to lower prices through unfair and possibly illegal means as result of dominance. US Sprint Senior Vp John Hoffman disputed minimizing importance of market share, saying that factor "can't be ignored." He said fact that AT&T is able to price services 10-25% higher than competitors is indicator of dominance. Information introduced in Ky. state proceeding showed that 3% of AT&T's business customers base decision on price, compared with 62% of competitors'. Hoffman said AT&T had "effective monopoly" on 800, international and operator services. He and Zeglis disagreed whether 800 number portability was major issue.

Comptel Chmn. Alan Peyser and NTN Vp Martin McDermott listed several factors they believed showed AT&T retained dominance, including: (1) Preferential technical and business connections with BOC switches, including co-location, more widespread equal access, Shared Network Facility Access (SNFA) agreements. (2) AT&T's $775 million ad budget. (3) AT&T's ability to set market prices. (4) AT&T's Signalling System #6. (5) AT&T's ability to cross-subsidize services within price cap baskets. McDermott said AT&T is 6 times larger than MCI, has 90% of international, 70% of business and 75% of residential markets. MCI Exec. Vp Brian Thompson said it was "a bit insidious" that customers are confused about how to use long distance carriers from pay telephones and said AT&T had helped keep public confused. He charged that AT&T equipment and software in telco central offices was at heart of problems such as 800 number portability.

On panel of consumer and big-business users, John Lynn of EDS said he thought that AT&T wasn't guilty of predatory pricing and that AT&T's prices "have plenty of room to fall." Brian Moir, counsel for International Communications Assn., said real problem in long distance market was access rates charged by local exchange carriers. He said AT&T also was loading on ratepayers more than $2 billion in excess charges and declared: "Deregulation would be a disaster." Ron Binz, dir. of Colo. Consumer Counsel, said consumers had "startling lack of knowledge" about alternative long distance carriers. He said AT&T network slowdown Jan. 15 demonstrated that public wasn't aware of 10XXX dialing plans 5 years after divestiture.

OTA REPORT SEEN JUSTIFYING HOUSE POLICY INITIATIVES

Poor may be left out in coming Information Age if Congress doesn't get grip now on telecommunications policy, according to report due for release today by Office of Technology Assessment (OTA). At same time, U.S. is seen falling behind competitors in offering new technologies, undermining American economy. Report is seen as providing more fuel for technology development initiatives of House Commerce Committee Chmn. Dingell (D-Mich.) and Telecom Subcommittee Chmn. Markey (D-Mass.).

"If Congress fails to act decisively and generate broad support, the opportunity to make deliberate choices about new communication technology -- and about the nature of American society itself -- will be overtaken by rapid technological advances, the hardening of stakeholder positions and alliances and the force of international developments and events," OTA warned in "Critical Connections: Communication for the Future" (OTA-CIT-407, available from agency, 202-228-6204). "The emergence of new technologies provides a unique opportunity for businesses and nations to create comparative advantages in a changing world economy. Failure to exploit these opportunities is almost certain to leave many businesses and nations behind."

Report's conclusion echoed recent Dingell and Markey warnings that policy is falling behind pace of technological development, opening door to information haves and have-nots, jeopardizing economy. "Folly is a good definition of our nation's current inability or unwillingness to come to grips with the changing world and the role of telecommunications and emerging technologies in this new era," Markey said in article Mon. in Capitol Hill newspaper Roll Call. "Our future is tied directly to our ability to compete successfully in the burgeoning international telecommunications market."

Dingell has advocated reallocating 200 MHz of spectrum used by govt. to commercial users to promote development of new technologies, such as HDTV (HR-2965) (CD June 19 p1). Aide said lawmaker, who had requested OTA study, considered conclusions justification for HR-2965, which he characterized as "good first step" toward alleviating policy shortfalls outlined in report. Markey is preparing soon to propose comprehensive legislation outlining course for telecommunications policy dealing with emerging technologies generally.

There's also much fuel for other congressional policy initiatives, observers said, as report discussed wide variety of issues in broadest sense of communications, involving among other fields telephony and technical network issues, social concerns such as universal service, electronic bulletin boards, cable, broadcasting and remote sensing satellites in discussions of diverse topics such as effect of telecommunications on democratic processes, business competitiveness, access to communications, fairness doctrine, targeted advertising. Report also discussed network survivability, particularly important since recent AT&T network crash. Also included are several recommendations that Congress could consider that generally deal with range of activities from doing nothing to increasing policy role.

OTA warned that uneducated and rural Americans are likely to suffer from "information gap" in next century unless govt. sets policies now to ensure universality of communications advances. It said information haves and have-nots already exist in U.S. and policy inertia will only widen gap.

Report saw access as key issue, even pinpointing consequences of policy gap on who would become policymakers in future. "Where markets dominate allocation of communications resources -- such as information, a speaking platform or access to an audience -- political access may become increasingly dependent on the ability to pay," OTA said. Report noted new technologies can offer new modes of participation, while at same time other technologies such as TV "have been faulted for being the major contributor to the decline of public activism." One trend noted was "blurring of the boundaries between what constitutes entertainment and what constitutes public affairs." Political conventions have become more staged with eye toward creating "a more pleasing, unified picture" to audiences, change from more contentious debates in past: "While such programming may be more appealing from the perspective of entertainment, it can also distort the public's perception of politics and public affairs."

Possibility of 2-tiered communications system, one public and other private, was raised by OTA, which said information and culture could become property largely of elite. Citing public telephone network as example, OTA said "concept of providing universal service on a common, shared network, as well as the system of subsidies that supported it, is breaking down... If businesses view their needs as unique and decide to develop their own private networks... there may be insufficient revenues available to support an advanced public network to serve all individuals."

While much has been made of use of satellites in newsgathering, and of communications from Chinese students during uprising in Beijing, OTA report noted that coverage generated much support for students' cause but at same time: "By rallying such support, the media coverage may have actually provoked the Chinese Government to take more extreme retaliatory measures." Report said role of satellite systems, as one means of increasing news coverage, may depend on expense.

Report cited electronic bulletin boards as another use for new technology in democracy, as individuals with computers and modems can gather information for group political action. It said one bulletin board was used to defeat restriction on home-based businesses in Colo. At same time, report warned, bulletin boards could lead to "fragmentation of the body politic."

At heart of document was discussion on how individuals can obtain and keep access to telecommunications network, concluding: "OTA found that changes in the U.S. communication infrastructure are likely to broaden the gap between those who can access communication services and use information strategically and those who cannot." Poor, those without good education and "geographically and technologically isolated" are most likely to suffer. OTA identified 5 barriers to access:

(1) Increasing costs as subsidies are removed not only from telephone system but also from entertainment: "If, for example, entertainment programming is increasingly provided on a pay basis rather than through advertiser-based distribution, the cost of access may be too high for some." (2) Increasing complexity of gaining access, such as knowing which company to call for telephone repairs or difference between interLATA or intraLATA call. (3) "Growth in the economic power and concentration of many media." OTA cited efforts by FCC to allow more common ownership of broadcast outlets and to allow RHCs into now-prohibited areas of Modified Final Judgment. (4) Confusion over First Amendment issues, such as rights for cable or for RHCs to provide information services. (5) Lack of consensus on what constitutes minimum level of universal service.

To address problems, OTA proposed 6 strategies that Congress could adopt, with options for each one: (1) Influence financing of provision of communications services, including for public broadcasting and possible suggestions for Congress to "promote and/or protect media that are supported or subsidized by advertising." (2) Structure prices at which services are offered, including alternatives to rate-of-return regulation for telecommunications services. (3) Provide "direct government support" for users, including subsidizing rates; govt. could provide or subsidize equipment purchase.

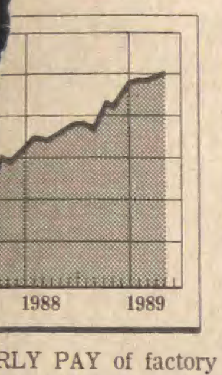
(4) Regulate "and/or redefine" rights of media owners, including reexamining traditional roles of common carrier, print, broadcasting. OTA suggested as one option rescinding cable-telco cross-ownership rules "to increase the competition faced by the cable industry." (5) Influence level and availability of tools required to gain access to communications and information services. OTA said govt. could provide support for technological literacy programs or data bases with wide use. (6) "Assume a more proactive role to assure robust debate on issues of public importance." OTA suggested fairness doctrine could be codified into law or extended to other media -- which would eliminate criticism that it focuses solely on broadcasters.

JOURNAL.

erved.

WHITE OAK, MARYLAND * * * 50 CENTS

ngs



IOURLY PAY of factory l rose to $10.40 from a re- preceding month, the La- it reports.

ollycoddlers ng Our Tykes Little Wimps?

* * *

ent of Roughhousing Day-Care Centers 's 'No' to Nurturers

By GARY PUTKA
rter of THE WALL STREET JOURNAL

IGTON, Mass.—"Kill each other! h other's heads off!" screams -old Robbie, with all the fervor ator at the Roman Games.

nds his fists on the mat where d Julia, a pair of first-graders, each other with foam-filled he size of logs. Other children mat-thumping and take up a egan! Megan! Megan!" Julia adjust her pigtails, and— he catches one in the face while is down.

ectators go wild. Julia, now ompetitive, flails her foam against Megan until time is n, two more peewee gladiators he mat.

ot a rehearsal for a small-fry Ben Hur." It is called "positive g"—a program of organized t the day-care center, Lex- here in suburban Boston, and ers nationwide have incorpo- eir regimens. For an hour or n bash their friends, wrestle pile atop one another and get nany parents discourage.

he Men

ration behind this national Rick Porter, a Manhattan f., day-care operator and the rough-stuff movement. thletically built, the single, 39- r. Porter has been caring for for 15 years. Soon after enter- y-care field, he says he grew at the role of men and very con- is minority status in a business by women. "I started confront- such as 'Will I have to learn to autoharp,' " he quips.

orter believes there should be n, and more "manly" activities. age is simple: Female mollycod- turning America's tykes into

netimes I think if I hear the word g one more time, I'll gag on it," rter says. "We hear a lot in day out words like gentleness, sharing, s and compassion. But what about ike power, bravery, courage, forti- trength and stamina? Those attri- e not considered an important part care programs."

housing on the Road

taking his show on the road and hing the values of roughhousing, Mr. r has become a leader among his peers. Outnumbered by something 20-1, day-care guys are into male ping. They caucus at child-care con- ions, attend all-male workshops and ggie to counter male stereotypes.

Women look at the man as Mr. Fixit," plains David L. Giveans, whose San ncisco quarterly, "Nurturing Today," been a forum for child-minding men. en I worked in pre-school, it would 'Could you carry this box for me? Can get the window open?' When they said to me, I'd say, 'You look just as ng as I am.' "

Like Mr. Giveans, Mr. Porter wants re people in day care who shave every rning. Unlike Mr. Giveans, he is telling to forget about all that nurturing f. Though he resists being labeled ma- Mr. Porter has clearly had it with Wee Herman, Mr. Rogers and any vi- s of dad as a dish-doing, diaper-chang- Mr. Mom.

r. Porter uses, makes and sells rough- ng gear that has been bought by Lex-

Please Turn to Page A11, Column 1

Tax Report

A Special Summary and Forecast Of Federal and State Tax Developments

WILL THE LAW make IRS agents into literary critics?

If writers or artists qualify under a provision in the 1988 tax act, they can deduct costs of producing their works immediately, rather than write them off over a period of years. The law defines a writer as someone who creates "a literary manuscript, musical composition (including accompanying words) or dance score." That could make the IRS the judge of whether a writer's efforts rise to the level of literature, says Warren Shine of Ernst & Whinney, CPAs.

"Literary" can mean writing that rises above the ordinary, or any written work. Eager IRS agents could use the narrower definition to disallow writers' deductions, Mr. Shine says. But Richard L. Reinhold of the New York law firm Cahill Gordon & Reindel, which represents the Authors Guild, disagrees, saying, "I am quite comfortable that 'literary' doesn't mean just James Joyce. I don't have any doubt that they meant writings of all types."

Still, a book on accounting could be excluded by an IRS agent taking a narrow view of the law, Mr. Shine says.

HE TAPPED an IRA account before age 59½ and owes no penalty.

"It's a myth that you can't withdraw money until age 59½ from an IRA," says Sanford I. Millar, a Los Angeles tax attorney. A 45-year-old client of his is getting about $40,000 a year from a $750,000 individual retirement account, and in a recent private ruling, the IRS said the 10% penalty on early distributions doesn't apply. The payout is exempt because it is like an annuity: The monthly amount is based on the joint life expectancy of the client and his wife.

The man wanted to tap the IRA to renovate his home. Instead, he borrowed $450,000, the amount he would've netted from a lump-sum withdrawal; he uses the annuity payments to pay off the loan. The IRA trustee makes the payouts, based on an amount determined by an actuary, a cheaper method than buying an annuity from an insurance company. This is the first time the IRS has ruled on such an arrangement, and it took about eight months to get the ruling, Mr. Millar says.

NO MONEY, NO WORK: Four states quit the federal jobs-credit program.

Employers hiring a hard-to-employ person may get a $2,400 federal income-tax credit. But a Targeted Jobs Tax Credit depends on a state certification that the employee is from a designated group: Vietnam-era veterans, the economically deprived and ex-convicts. Washington pays the states to do the certification. But the 1989 appropriation bill was enacted before Congress renewed the tax credit, and insufficient funding was provided for this year.

New Hampshire, Kentucky, Georgia and Nevada are out of funds and stopped certifying workers. "We ran out of money the end of February," says Joseph Weisenburger, a New Hampshire official. Consultants who help employers obtain the credit are distressed. "For a few dollars, everyone is losing," says Carl Cohen, a consultant and official of their trade association. But New Hampshire, with a jobless rate under 3%, can find jobs for the targeted group, Mr. Weisenburger says.

Employers aren't complaining, he says. "The consultants are the ones who are griping because this is the business they are in."

DENIED A DEDUCTION for $95.5 million of premiums paid to its foreign insurance unit, Phillips Petroleum asked the Tax Court to apply the doctrine of "equitable recoupment" and make the IRS return $685,000 of excise tax paid on the premiums. But the court, saying it lacks jurisdiction over this type of excise tax, recently dismissed the case.

THE "TOOL of his trade," for which a New Jersey pipe fitter took a $36,158.16 deduction, was his own body. The Tax Court disallowed the write-off and slapped a 5% negligence penalty on the man.

GOLDEN PARACHUTES paying executives fat severance benefits in case their firms are taken over can be subject to a 20% excise tax. Just how the penalty works is spelled out, at last, in long-awaited proposed rules the IRS issued last week.

STATES NEEDING money are raising taxes, but some cut their rates.

Revenue-hunger seems heaviest in the Northeast, says the National Conference of State Legislatures. Economic growth hasn't been as robust as budget makers predicted, causing revenue shortfalls. Massachusetts, New Hampshire and Rhode Island are considering higher taxes. Connecticut already has acted. It put a 15% surcharge on corporate income tax, boosted the cigarette tax to 40 cents from 26 cents a pack, and increased the levy on alcoholic beverages.

Motor-fuel taxes have been raised in New Mexico, Tennessee, West Virginia, Wyoming and North Dakota, which also increased its income and sales tax rates. Lawmakers in more states are expected to enact increases in so-called sin taxes on tobacco and alcohol to cover revenue needs.

Yet Hawaii, Kansas, Virginia and Maryland have cut income tax rates.

BRIEFS: Vermont lawmakers reversed last week's tax break for actor Don Johnson after angry residents objected. . . . Kansas provides a tax credit for employers who pay for day care for employees' children. . . . A Mississippi couple's extension of time to file their return was later denied and late penalties applied because they didn't include enough of a payment with the extension form when they sent it.

—SANFORD L. JACOBS

Compliant Officer

Chicago Merc Adviser Faces Heavy Criticism Over Regulatory Cases

Associates of Jack Sandner Seem to Get Off Lightly In Board's Self-Policing

'A Real Wyatt Earp,' He Says

By SCOTT MCMURRAY
Staff Reporter of THE WALL STREET JOURNAL

CHICAGO—When people say the nation's commodities markets are self-regulated, they mean they are run by traders such as John F. "Jack" Sandner.

In his cowboy boots and black and gold trading jacket emblazoned "Free Markets for Free Men," the 5½-foot former featherweight boxer is hard to miss on the crowded trading floor of the Chicago Mercantile Exchange. The president of RB&H Inc., Mr. Sandner was the Merc's chairman for six years, and he remains its senior policy adviser and a board member.

He has lobbied successfully in Washington to keep federal oversight of the freewheeling commodities markets at a minimum, even in the face of the government's investigation of alleged criminal conduct in the pits. In fact, Mr. Sandner and a handful of powerful Merc traders are in Washington this week entertaining high government officials as representatives of the Merc's political action committee.

John F. Sandner

But last week, Mr. Sandner's Chicago offices were visited by Federal Bureau of Investigation agents, who requested certain trading records. Mr. Sandner hasn't been charged with any wrongdoing, and the request for records may be aimed at traders with whom Mr. Sandner's firm does business rather than Mr. Sandner or his firm. Still, the FBI visit and Mr. Sandner's ties to certain powerful traders are likely to intensify congressional concern that traders shouldn't be entrusted with unfettered self-regulation.

Patrick Leahy, the chairman of the Senate Agriculture Committee, says Congress should consider requiring exchange boards to increase the representation of nonfloor interests and public members to help ensure that the markets serve everybody's interests. Comments Thomas Russo, an attorney and a former head of the trading and markets division of the Commodity Futures Trading Commission: "There is a perception that the exchanges are essentially private clubs. The users of these markets are going to have to fight to get more control away from the members."

Profitable Connections

Even before the current investigation, questions had been raised about Mr. Sandner's own ethical standards and commitment to the integrity of the markets. He has profited from links to some of the Merc's most powerful and controversial members. He has an especially close relationship with ABS Partners, the most influential group of brokers at the Merc. He also has come under fire for serving as the Merc's chairman while operating a high-pressure retail-sales office out of his firm's headquarters.

While heading the central-region business conduct committee of the National Futures Association, an industry group set up to regulate sales practices, Mr. Sandner's firm hired a dozen salesmen from the scandal-tainted First Commodity Corp. of Boston. Over the course of two years, it hired the salesmen after First Commodity's Boston headquarters had been raided by the FBI in late 1986. Mr. Sandner folded his retail office in January. Less than two weeks later, 16 former First Commodity salesmen, including some who had worked for Mr. Sandner, were indicted in federal court here on fraud charges related to their work at First Commodity. They pleaded not guilty.

At the industry's recent annual convention, Rep. Glenn English, the chairman of a House subcommittee studying the futures industry, went so far as to question the apparent lack of ethical standards with regard to sales practices. "First Commodity Corp. of Boston people getting other jobs got my attention," he said. He added that he would study "the activity of exchange boards. Is there a tendency to say [about a trader being disciplined], 'He's a good ol' boy, we'll let him off this time'?"

Criticism Rejected

Mr. Sandner repeatedly rejects criticism of his activities. He says most attacks on the Merc's management are based on jealousy by competitors who haven't devoted the time he has to running the exchange. "I work 18 hours a day at what I do. It's a lot of hard work," he says.

Mr. Sandner, who lives in a sprawling suburban mansion north of here, has come a long way from the tough south-side Chicago neighborhoods where he grew up. An amateur boxer and part-time blackjack dealer in his youth, Mr. Sandner worked his way through the University of Southern Illinois and then, after initially being rejected, talked his way into Notre Dame University law school. After practicing law a few years, he saw more future in futures. He borrowed $80,000 to buy a Merc seat and began trading part-time in 1971. He rose to power at the Merc by serving on several committees, and in 1980, at age

Please Turn to Page A10, Column 1

U.S. Is Asked For Subsidies Of TV Research

Electronics Group's Request For $1.35 Billion Ignites Industrial-Policy Battle

By Bob Davis

Staff Reporter of The Wall Street Journal

WASHINGTON—A group of major electronics companies asked the government for $1.35 billion in grants, loans and guarantees to develop a new generation of television sets, igniting an industrial-policy battle between the administration and Democratic lawmakers.

Commerce Secretary Robert Mosbacher, whose department has pushed electronics companies to enter the market for so-called high-definition TV, disparaged the plan's call for huge subsidies. "They're hoping that Uncle Sugar will fund" high-definition TV, he told a Senate Commerce Committee hearing. "I don't think they should depend on that."

But the plan, put together by the American Electronics Association, won the crucial endorsement of committee chairman Ernest Hollings, who vowed to fight for it. "We've got to get some money in there to get anything going," he told Mr. Mosbacher.

The South Carolina Democrat will play a leading role in the high-definition TV debate because of his influential positions on committees overseeing the Commerce Department and Pentagon—the two agencies the electronics association expects to fund its proposal. Along with his chairmanship of the Commerce Committee, Sen. Hollings heads the appropriations panel that oversees the Commerce Department, and is a member of the Pentagon appropriations panel.

The electronics association's proposal asks the Pentagon's Defense Advanced Research Projects Agency for a total of $300 million over three years to fund research for new TV sets. It also asks for $50 million over three years from the Commerce Department's National Institute of Standards and Technology to develop a new TV transmission standard. And it asks the Commerce agency for $500 million in low-interest loans, and $500 million in loan guarantees to build new TV production facilities and for working capital.

The electronics group also proposed setting up an entity called Advanced Television Corp. to manage the loans and to patent and license technology. Pat Hill Hubbard, an association vice president, said the electronics industry would match the government funds on at least a dollar-for-dollar basis.

The projected cost of the association's proposal is far higher than an earlier draft the group had circulated in Congress as recently as two weeks ago. And the plan is bound to run into opposition at the agencies, which face severe budget constraints.

At the Pentagon, Defense Secretary Dick Cheney has slashed research funding in favor of current weapons programs. At the Commerce Department, neither the Reagan nor Bush administrations have proposed a penny for a new advanced technology program provided for in the 1988 trade bill—even though that program would be crucial for any Commerce Department funding of high-definition TV.

The defense department's research agency expects to award at least $30 million for high-definition TV research later this month, but it hasn't committed itself to the amount requested by the AEA. The Pentagon is pursuing TV technology largely because it wants to develop a market for U.S. semiconductor makers, which it has tried to protect. A separate Pentagon program pays $100 million a year to a consortium to develop semiconductor manufacturing techniques.

The association's Ms. Hubbard said government spending for high-definition TV is critical if the U.S. wants to protect its computer and semiconductor industries. Even so, she said that individual electronics companies wouldn't enter the market because the risks are too high in TV manufacturing and profit margins are too low.

The profit outlook isn't likely to change soon because televisions generally sell on the basis of price. That could make U.S. subsidies a long-term part of the TV business—a prospect that clearly concerns the administration, which is expected to formally announce its position on high-definition TV issues in July. For the time being, Mr. Mosbacher said the Commerce Department was willing to consider loosening antitrust laws and adding tax incentives for high-definition TV.

Cellular Inc. Sets Expansion

DENVER—**Cellular** Inc. said one of its subsidiaries, Cellular Inc. Financial Corp., has obtained two loans of as much as $65.8 million to extend cellular telephone service throughout much of the West and Midwest.

Proceeds of the loans, obtained from Denver-based CoBank, a cooperative of 12 banks, will be used by Cellular Inc. affiliates to build and operate cellular phone service in 65 markets. Cellular Inc. is affiliated with 163 independent telephone companies in 19 states.

Federal Communications Commission approval of construction permits for the cellular systems is pending.

THE WALL STREET JOURNAL (USPS 664-880)
11501 Columbia Pike, Silver Spring, Md. 20904

Published daily except Saturdays, Sundays and general legal holidays. Second class postage is paid at New York, N.Y., and other mailing offices. Subscription rates (postage paid): In the United States, territories and possessions, two years $217, one year $129, 6 months $65, 3 months $34; to other countries, two years $583, one year $312, 6 months $156.50. Editorial and publication headquarters at 200 Liberty St., New York, N.Y. 10281. **POSTMASTER**: Send address changes to The Wall Street Journal, 200 Burnett Road, Chicopee, Mass. 01020.

All Advertising published in The Wall Street Journal is subject to the applicable rate card, copies of which are available from the Advertising Services Department, Dow Jones & Co. Inc., 420 Lexington Ave., New York, N.Y. 10170. The Journal reserves the right not to accept an advertiser's order. Only publication of an advertisement shall constitute final acceptance of the advertiser's order.

The Associated Press is exclusively entitled to republish news dispatches originated by The Wall Street Journal. All other republication rights are reserved.

Two S
That R

By Th

Staff Reporter of

WASHINGTON
Brookings Institu
other academic b
of leveraged buy-
berg Kravis Robe
methodology and c
over conclusions.

The new study, b
mer Federal Trade C
who is now a guest sc
Washington think tan
venscraft, an econom
of North Carolina's b
that Kohlberg Kravis's
about LBOs are at bes
perhaps the result of

The Kohlberg Kravis
distributed in January
ested congressional co
the subject of a Wall Str
argued that LBOs boost
crease research-and-deve
ing; yield higher taxes
ment; keep capital spend
result in companies that ca
cessions.

The Long-Ravenscraft s
that other studies of LBOs
different conclusions, finding
duce employment and decre
capital spending. Had Koh
used better methodology, the
say, its findings might ha
versed.

"The one KKR result that
other post-LBO research is tha
high returns to investors," th
cludes.

The Long-Ravenscraft study
be presented later this mont
York University conference o
and corporate governance, has

General Motor
At Three Asse

ECONOMY

By Gregory A. Patte

Staff Reporter of The Wall Str

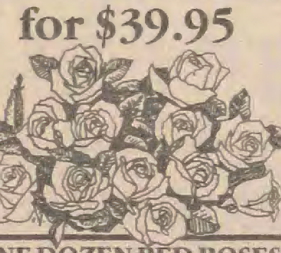
DETROIT—**General Moto**
it will take extended shutdow
its assembly plants this sum
company wouldn't confirm re
plans to idle two other plants
weeks and another two pla
weeks.

Shutdowns for model cha
cally last for a week or two,
analysts have speculated rec
will have to extend the shutd
plants because of high inve
sold cars.

Overall, the nine compan
cars in the U.S. plan to bui
cars in the current quarter t
the year-ago period. That's
trast with the industry's 11%
crease in the first quarte
proved far too aggressive
sluggish sales pace. Throug
months of 1989, sales are run
last year.

The No. 1 auto maker sai
its plant in Wentzville, Mo., fo
this summer, and it will clo
Flint and Orion Township, Mic
weeks. The plants build full-
models for four GM divisions.

GM said the shutdowns are
modate special model change
not to reduce inventories.



Meg Greenfield

The Television Question

The William Kennedy Smith trial in Palm Beach has raised the Television Question again. Should television have been there at all? And, more broadly, what is this infernal, ever present invention doing to us, anyhow, to our consciousness, to our very way of life? The answer to the second set of questions is: everything. Our lives have already been irreversibly transformed in ways that make the pre-television America of less than 50 years ago seem like the dark ages—literally. My opinion is that this has been almost without exception for the good and that our fitful complaining about it rests on turning legitimate worries about the role of TV coverage in a few specific circumstances into a mindless condemnation of the whole.

Actually, the confined areas of legitimate worry have hardly changed in the years since television took off. These have mainly to do with privacy and political opportunism. The plaintiff in the Palm Beach trial had her face, that is her identity, blotted out electronically. Is it fair to people who may be victims of crimes or criminal defendants or objects of investigation to be televised on the stand? This issue has been with us since the beginning of the television age: In the 1951 televised congressional investigation of organized crime (the Kefauver hearings), some witnesses argued in court that they were justified in refusing to testify while TV cameras were present. And the king of witnesses, mobster Frank Costello, declined to have his face televised. So we all sat there for a prolonged stretch and watched his fidgeting hands, which the cameras held in focus. It was very dramatic and maybe the first of the unforgettable TV sequences that came to make up our new nationally shared TV memory bank.

My instinct is that most of these events—hearings and trials—should be open to live TV coverage. I think there are times when it is unwise, even destructive, though, as in the Thomas-Hill purported inquiry, when those who are there to inquire and shed light on what happened (the legislators) are likely instead to perform for the TV audience, which in turn is flooding them with telegrams on what to conclude. I'd have kept that closed for an investigation and immediately it was over released a full transcript. This—the political opportunism problem—is not nearly so troubling with a jury trial, since the jury is making the only choice that matters, and it gets no telegrams and loses or wins no job-sustaining voter constituencies by its behavior.

Still, there is the question of whether people who are victims of crimes, say, or unjustly accused criminal defendants should have to have their lives exposed in every living room of America. The hangup here is that print journalism can report fully and (if it wishes) outrageously on such proceedings, and logic argues that TV should be allowed into the courtroom too. I keep trying to work out some rules in my head by which (the Frank Costello rule?) those having to take the stand could be granted some say in the matter, but I will confess I have come up empty so far in contriving such a procedure.

> ***Our lives have been irrevocably transformed in ways that make pre-TV America seem like the dark ages.***

For the rest, I say have at it. The Kefauver hearings in fact opened the new age of expanded consciousness that television has brought. They represent just about the first universally shared images from the then new medium. There weren't yet all that many television sets. There were more for the next images (political conventions, U.S. space shots coming to grief, Nikita Khrushchev banging his shoe on his table at the United Nations, the murder of JFK and its aftermath which, as with the subsequent tragedies right up to the Challenger explosion, was shown and shown and shown). A nephew of mine came home from a trip to Italy during which he had not seen the Tiananmen carnage. I told him he should contrive to see a tape because the image of the guy in the white shirt, as the whole world now knew him, standing down the tank was something that should be part of his understanding, of his own mental film library.

Time and space as we once knew them in my lifetime are obliterated. And so too are psychic distance and political solitude. Politicians, when they are not themselves seeking to manipulate their television personas, are forever worrying that the rest of us will be manipulated by seeing something we won't understand. The Vietnam War is exhibit A. I would concede that seeing the violence, the gore was not a seminar on the complicated sources of the war and that the press can weight coverage in some misleading direction. Maybe it does so by political disposition or because it is being used by officialdom or because it is only free to film one side of the dispute, the bad guys getting away with murder because they keep the cameras out. But to me, the answer to all this is more coverage, not less.

The danger is, of course, that by seeing so much more and knowing so much more we will believe we have seen and known everything and that we understand much more than we do. But that is surely no reason for trying to curtail what we do see. And I believe in any case that for all the supposed dangers of public misunderstanding that televising live events produces, television has had an overall benign effect, first, in embarrassing some misguided public officials around the world out of pursuing some hateful policy, next in creating your basic Sadat-to-Barbara Walters international public diplomacy that puts a premium on explanation and even, against the odds, occasional reasonableness on the part of the terminally unreasonable. Yes, you look around today and see national and ethnic violence of the most terrible kind that does not seem to be fazed by the public stare of people all over the world. But you see a lot too where the presence of that electronic vigilance compels better behavior. I wish CNN had been around for World War II and the awful run-up to it.

I know, I know: the totalitarians were very good at keeping their terrible secrets. But in a world in which so many more people know so much more about other places and expect and demand to know more yet, it would have been much harder for them. I can think of circumstances where individuals, as in criminal trials, may be hurt and circumstances in which a premium may be put on political misbehavior because the camera is rolling. But I can't think of any in which the viewing public has been one whit harmed by the presence of the force—TV—which has been the real revolution in our time.

Willia

'Et

Clever
that two pl
four, and if
work, you n

But if yo
rely on nu
through lif
ordinary pa
and two *do*
likely to res
in its oppos

Christine
at Clark Uni
happening in

We teach
"lifeboat" di
and imagine
sense of the
those with
lesson is like
ethics, two
imagines it
recently repr

"Because
centrates on
may easily l
clearly right

> ***"You ca***
> ***authori***
> ***authori***

ethical truths

In other w
and two do ma

What Somm
teaching *about*
okay to do, so
about ethics h
behavior as le
salvation. Nobo
ming for a comp

Still teaching
objective rules g
strikes an awful
more than brain
issues, to predict
don't tell them wha

Well, I think we'
abandonment of clear-
favor of moral relativ
ties and our high sch
we've created for ou
authority while denyin

And yet, particular

---

fford Alexander

ffirmative Action Really Means

HOP LATE...OPEN 9 A.M. TO 11 P.M.

MOND GIFT SALE

50% OFF

UPER VALUES

OUR DAZZLING

COLLECTION OF

AMOND EARRINGS,

PENDANTS, RINGS,

RACELETS, NECKLACES

NOW, NO PAYMENT UNTIL MARCH, 1992

ed billing available on your Hecht's charge account for purchases of $100 or more made De-
er 4-24. You won't be billed until your February, 1992 statement and there will be no finance
e during the deferred billing period.
IT'S TIME OPTION PLAN
ct to usual credit approval and state and local taxes where applicable.
08) Fine Jewelry. Value price, Estate and Prestige Collections not included in sale. A different
ction at each store. t.w. means total weight. All weights are approximate. Diamond grades may
. Photos may be enlarged to show detail. Styles shown are representative of stock and are subject
ior sale. Sale in progress on some items.
termediate markdowns may have been taken.
ular and Original prices are offering prices only and may or may not have resulted in sales. Adver-
merchandise may be available at sale prices in upcoming sale events.

ALE 199.99-$1599

MONTH*

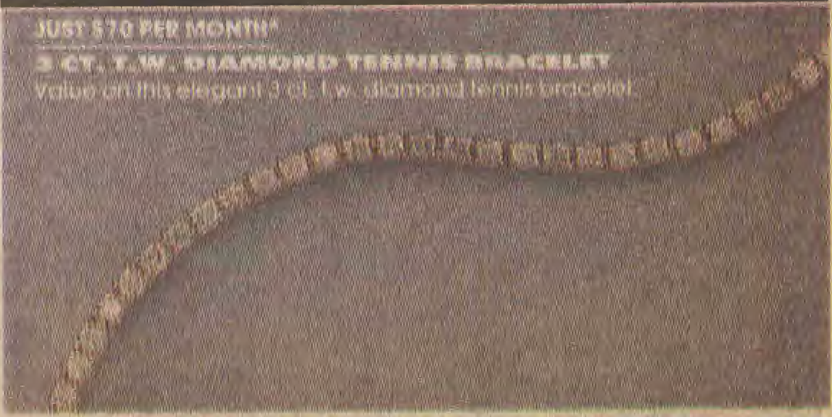
$399 SUPER VALUE

JUST $30 PER MONTH*

1 CT. T.W. DIAMOND HEART PENDANT

Value on this precious 1 ct. t.w. diamond heart pendant

$999 SUPER VALUE



JUST $70 PER MONTH*

3 CT. T.W. DIAMOND TENNIS BRACELET

Value on this elegant 3 ct. t.w. diamond tennis bracelet

SALE $299-$1599

JUST $20-$110 PER MONTH*

DIAMOND RINGS

Choose from a variety of class

republic and the Ukraine where the party has resisted reform, leaseholding will be resisted too. That makes party reform and the dislodging of conservatives all the more urgent when the Central Committee meets next month.

An ally in this cause might have been Mr Boris Yeltsin, a candidate in Sunday's election. But Mr Gorbachev has let himself be dragged into an undignified fight with his erstwhile supporter, and one that he cannot win. Mr Yeltsin is a hero for his attacks on corruption and party privilege. By the same token he is the bane of the Politburo, which sacked him for his sharp tongue and bitter rivalry with conservative-minded Mr Yegor Ligachev. Instead of welcoming Mr Yeltsin as just the sort of plain-speaking member the new parliament needs, the party tried first to block his nomination, then to gag and discredit him. That has turned the battle in Mr Yeltsin's seat into one between people and party. If he loses, his supporters will cry foul and the party will be discredited. If he wins, the party will be seen to be defeated. Either way, Mr Gorbachev loses. With something, for once, riding on the outcome, this was no way to run an election.

Set the networks free

The on-off switch and diversity of supply are now the best regulators of American TV

REMEMBER Neil Armstrong walking on the moon, Ed Sullivan interviewing the Beatles, the first "I Love Lucy"? They were all shown to America (and then the world) by the three big American television networks, ABC, NBC and CBS. Until the mid-1970s nearly all America's television stations were either owned by or affiliated to one of the networks. Such power has frightened politicians. For more than 15 years the Federal Communications Commission, America's television regulator, has reined back the networks with limits to the number of stations and programmes they can own; meanwhile independent stations and cable firms have been given their head.

This approach now looks out of date. The average American can tune in to more than 40 different channels, provided he is prepared to pay for some of them. Over half America's 90m television-watching households receive more than 20 channels. In this more-competitive world the networks' share of "prime-time" evening viewing has slipped below 70%. Their programming profits have all but disappeared—swallowed by independent studios who make the programmes and by affiliates who show them.

As the networks have declined, so a new source of competition is emerging—"global" media giants with potentially even more power. The mooted merger between Time Inc and Warner Communications will produce a combined revenue of $10 billion—the same as the total advertising revenue of the three networks. It will be able to do what the networks are barred from: producing a film in Warner's studio, selling it to Time's Home Box Office, the biggest pay-television programmer, and then distributing it to both firms' cable subscribers. In other words, it will be integrated vertically.

Fewer rules, after these messages

What should the FCC do? The central point is that not only do its old rules unfairly restrict the networks against new competitors, but also they are becoming irrelevant. Few of the firms that have driven the networks' market share below 70% are fully integrated vertically. Increasingly, television stations are having to compete on the quality of their programmes, not on their integration. The industry is searching for a new shape. The networks should be free to make as many choices—and mistakes—as the rest.

In that light, the crucial question is whether the television market will be sufficiently competitive to avoid the need for rules about who can own what. Technology—satellites, cables, fibre-optic telephone lines—is lowering the barriers to entry to this business. As long as there can be diversity, the best regulator will not be an official in Washington, but the on-off switch. This means that the networks can and should be set free. The FCC came up with a plan for this in 1983, but was bullied out of it by Congress and President Reagan, who backed his old chums in the Hollywood studios. Lamely, the FCC asked the networks and the studios to come up with a solution of their own. Six years later, they are still talking. With Time-Warner fresh in mind, the FCC should try again.

Three rules need to be changed. The first, prohibiting a network from making more than five hours of its own weekly prime-time entertainment schedule, is due to disappear in November 1990; it should go now. So too should the Financial Interest and Syndication rule, which bans a network from sharing in any of the profits from later sales of a successful show, even though it usually puts up around 80% of the cost of production. Third, networks should be allowed to own as many television stations as they want.

None of these changes will ensure the survival of the networks, but they will be able to fight on equal terms. The same principle should apply to other competitors as well, such as telephone companies that want to distribute programmes through their telephone lines. Next will be the new media giants, such as Time-Warner or Mr Rupert Murdoch's News Corporation. They are still too young and gangly to throw their weight around. But eventually they will—and it will be on an international, not just an American, scale. Size alone, however, will not guarantee their success; it is therefore not a sufficient reason, of itself, for regulators to interfere.

The main thing is to keep the market as open as possible. In the longer term it does not matter if a television programme is made or shown by Walt Disney, CBS, Mr Murdoch or AT&T. As Frank Lloyd Wright concluded, television is only "chewing gum for the eyes". What matters is that there are enough different flavours.

At the EEC's door

The Twelve could live happily with Austria, so long as it could live with them

WILL Austria be Europe's lucky 13th? It will soon choose between staying in a new, improved version of EFTA, the European Free Trade Association, and putting its name down to join the 12 nations of the European Community. At talks this week between the EEC and EFTA aimed at strengthening links between the two clubs, Austria hinted that it would opt for the Community. If so, it deserves a warm welcome in the Brussels clubhouse, provided it is clear about one thing: Austria's "perpetual neutrality" will be eroded, if it joins, by the EEC's deepening foreign-policy co-operation. Austria cannot expect the Community's own evolution—aptly described as a "journey towards an unknown destination"—to be constrained by Austrian ifs and buts.

The EEC may be tempted to put an Austrian application on ice. Its members do not want enlargement of the Community to distract them from the 1992 project. They know that a quick yes to Austria would be a snub to Turkey, which has been down in the application book for some time but is having trouble getting signatures. These excuses won't wash. Austria's economy, political system, religion, culture, standard of living—all its Euro-credentials—are impeccable. Austria would pay its way in the EEC. It would fill a gap in the EEC's motorway jigsaw. How can a club aiming at "European union" not take the land of Mozart with it?

Stuck in neutral

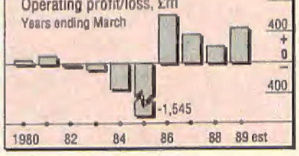
There is neutrality and there is neutrality. The Swiss adhere to a driven-snow variety that rules out membership of the UN, let alone the EEC. Sweden espouses a more internationalist sort, but still thinks that European political co-operation would violate it. Ireland is a neutral member of the EEC, but its diplomats have to struggle to utter the phrase with a straight face. Since Ireland joined in 1973, foreign-policy co-operation has become one of the formal obligations of EEC membership, and now includes, under the Single European Act, security matters; it even strays into the realms of arms control. Geography lets Ireland take a vague view of where neutrality ends and security begins. For Austria, a self-styled bridge between East and West, such mistiness is out.

Austria is under no international obligation to remain neutral. Its State Treaty of 1955 with Britain, America, France and the Soviet Union forbade only economic and political union with Germany. True, its own Neutrality Law was drafted as part of the deal that eased Russia out of the country. But Austria can make a good legal case that neutrality and desire for EEC membership are its own affairs.

Equally, the EEC's members have every right to be pernickety. First, Russia might try legalistic leverage once Austria had joined. Second, Austria's border with Hungary is remarkably open—and it would become part of the EEC's frontier with Eastern Europe, within which all EEC citizens would supposedly move freely, post-1992. Though the West should do what it can to reduce barriers between the two halves of Europe, the EEC has an interest in seeing all its external borders policed with equal rigour. It should ask for an explicit assurance from Austria that it would accept the security obligations that may develop with membership.

And if Austria cannot give them? A decision to stay out need not be disastrous, for Austria or the Community, so long as the EEC makes the alternative to membership more palatable. That is one reason to welcome moves towards a more "structured partnership" between the EEC and EFTA to secure the "four freedoms" of movement of people, capital, goods and services between the two blocks. EFTA includes Switzerland: it is thus bound to remain neutrality-friendly. The EEC has evolved: it is now neutrality-wary. ■

From Scargill to stockmarket



The right way to privatise British Coal is to break it up

THE "ultimate privatisation" is how Mr Cecil Parkinson, Britain's energy secretary, has dubbed the 1992-93 sale of British Coal—a fitting start to what he hopes will be Mrs Margaret Thatcher's fourth term. Certainly, selling an industry that has cost taxpayers £10 billion since Mrs Thatcher moved into Downing Street will be no mean feat. For many voters, its image is still that of strikes, a ranting Mr Arthur Scargill and candle-lit homes. But British Coal has come a long way since the end of the 1984-85 miners' strike. It has raised productivity by 75%, halved its workforce and the number of its pits, and cut its costs by a third in real terms. In spite of low world coal prices, some industrial disputes and a mild winter, it has made an operating profit of around £450m in the past 12 months. It still needs to close unprofitable pits. But it is becoming a marketable proposition.

It will be important to get coal's privatisation right. Mr Parkinson says that electricity consumers can expect their bills to fall after the electricity industry is sold (which is just as well, as they have risen by 15% in the two years before the sale). But he knows that the key to this is British Coal. Its coal

stor's Business Daily

"The Newspaper For Important Decision Makers"

nally At Seven Plants
Business Daily, Inc.

st 16, 1993

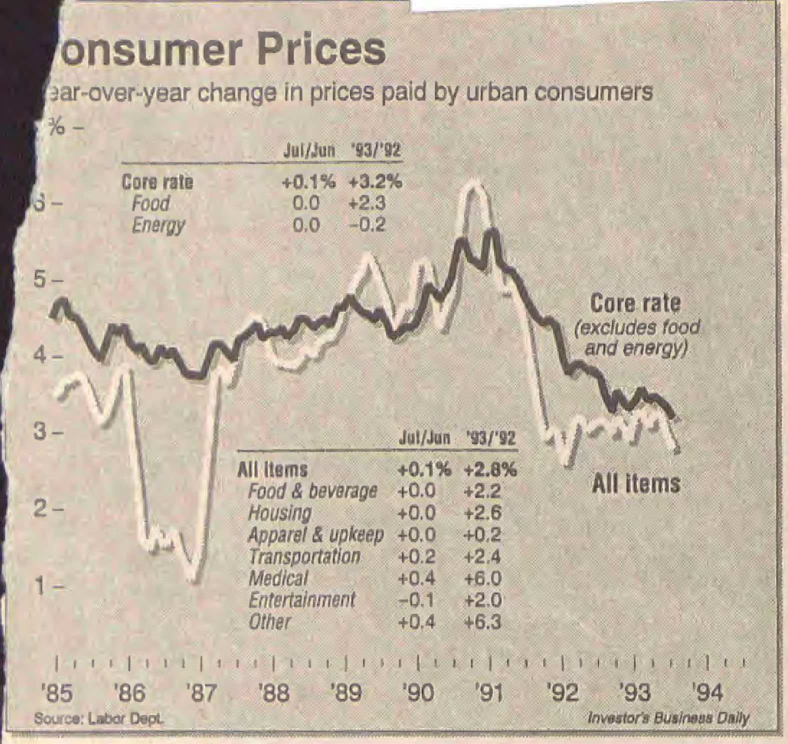
Los Angeles, California
Volume 10, No. 89 ©1993

75¢

's Digest

onsumer Prices

ear-over-year change in prices paid by urban consumers



	Jul/Jun	'93/'92
Core rate	+0.1%	+3.2%
Food	0.0	+2.3
Energy	0.0	−0.2

	Jul/Jun	'93/'92
All items	+0.1%	+2.8%
Food & beverage	+0.0	+2.2
Housing	+0.0	+2.6
Apparel & upkeep	+0.0	+0.2
Transportation	+0.2	+2.4
Medical	+0.4	+6.0
Entertainment	−0.1	+2.0
Other	+0.4	+6.3

Source: Labor Dept.

Investor's Business Daily

Sales Of Cars, Trucks Lost Steam In Early Aug.

Sales of domestically built cars and trucks rose a modest 3.6% in early August, automakers reported, putting the breaks on recent double-digit growth. Car sales rose 2.7% to 126,230 while light truck sales rose 4.7% to 103,103. – ***See story / page 37***

Euro Disney Posts Loss; Studies Plans, Finances

Euro Disney, 49% owned by Walt Disney Co., reported a loss of $83 million in its fiscal third quarter. The company is considering a financial ucturing and has scaled back ion plans. – ***See story / page 13***

er Chemical Loses al Taxol Contract

Chemical Research Inc. said contract to supply Bristol- b Co. with taxol, an anti- hat brought in at

THE WEEK AHEAD

MONDAY

- **Industrial production** and capacity utilization reports for July issued (9:15 a.m. EDT) by the Federal Reserve Board. In June, output of the nations' factories, mines, and utilities fell 0.2% after remaining unchanged the previous month. Industry operated at 81.5% of its total capacity in May and 81.2% of capacity in June.
- **Home builders' survey** for August released by the National Association of Home Builders.
- **IRS deadline** for more than 5.5 million federal taxpayers who requested extensions for filing tax returns.
- **Treasury Department** is scheduled (2 p.m. EDT) to hold its weekly auction of three- and six-month bills.

TUESDAY

- **Housing starts** and new buildi permits in July reported (8:30 a EDT) by the Commerce Departm In June, builders reported starts nnual rate of 1.254

NATIONAL ISSUE

CAN FCC MUZZLE RUSH LIMBAUGH?

'Fairness Doctrine' May Be Used To Quiet Critics

By Charles Oliver
In Los Angeles

In recent years, talk-radio hosts have been a thorn in the side of politicians.

They have stirred up massive grassroots opposition to congressional pay raises, to President Clinton's plans to allow gays into the military and to his budget proposals, among other things.

But, some of these radio hosts now complain, the politicians may be on the verge of muzzling their broadcast critics, and they'll do so under the banner of the First Amendment.

The tool they'll use is the Fairness in Broadcasting Act of 1993, which is being sponsored in the House by Reps. John Dingell, D-Mich., and Edward Markey, D-Mass., and in the Senate by Ernest Hollings, D-S.C.

If passed, the bills will turn into law the so-called Fairness Doctrine, which requires that broadcasters and local cable channels cover issues of "public importance." And it requires them to do so in a manner that the government deems fair and reasonable.

If they fail to do so, the Federal Communications Commission could yank their broadcast licenses.

Its supporters claim that the Fairness Doctrine will enhance free speech by mandating debate on important matters. Its critics claim that it will stifle debate. They say broadcasters will be afraid to tackle any controversial subject because they will have to provide free air time to everyone with a different viewpoint on the subject.

The first, but not the last, to be muzzled, they say, will be outspoken, opinionated talk show hosts such as Rush Limbaugh and Howard Stern.

> "There's no question that the Fairness Doctrine was in the back of everyone's mind each time they thought about covering a controversial issue or taking an editorial stand."
>
> **David Bartlett**
> *President of the Radio-Television News Directors Association*

The Fairness Doctrine was enacted by the FCC in 1949.

It required those holding radio and television broadcasting licenses "to provide coverage of vitally important controversial issues of interest to the community" and "a reasonable opportunity for the presentation of contrasting viewpoints." Those licensees who didn't meet these requirements could be shut down by the FCC.

Although the Fairness Doctrine was opposed by many civil libertarians as an infringement on Americans' First Amendment right to free speech, it remained the law of the land for almost 40 years.

But in the 1980s, President Reagan's FCC looked at the issue and decided that the critics of the Fairness Doctrine were correct: It did violate the First Amendment. The FCC began to refuse to defend the law in court challenges, and finally, in 1987, the commission suspended the Fairness Doctrine outright.

Congress tried several times over the next six years to re-enact the Fairness Doctrine by statute. Each time, the bills gained majorities in both houses, but these efforts were vetoed by both Presidents Reagan and Bush.

But now, with a Democrat in the White House, the latest version of the Fairness Doctrine is expected to become law.

The basis of the Fairness Doctrine, and indeed all government regulation of broadcasting, is scarcity. Only a relatively small number of people can own television or radio stations, so the government must make sure that this small group of voices aren't the only ones the public hears.

"The Fairness Doctrine is intended to

Continued on Next Page

THE ECONOMY

Side Accords Approved For Trade Agreement

Labor Says They Still Lack Teeth; Tough Vote Lies Ahead

By Barbara Benham
In Washington

The North American Free rade Agreement cleared a jor hurdle Friday when ne- tors from the U.S., Can- nd Mexico announced d an accord on labor issues.

ents are which resi-

Top Traders

Biggest buyers of U.S. exports, 1Q '93, in billions of U.S. dollars

Source: Kemper Securities Inc.

either tariffs or quotas — if an i dent pa that on of me

trade sanctions, arguing they would became a barrier to trade.

The agreement also calls upon Mexico and the U.S. to finance improvements along the two countries' polluted border region.

The agreement was announced at a three-way press conference Friday morning. The announcement was something of a surprise. On Thursday, Canadian and Me cally called the rked in

CAN FCC MUZZLE RUSH LIMBAUGH?

From page 1

enhance free-speech rights by preventing the monopolization of the public airwaves by a limited number of speakers," said Robert S. Peck, legislative counsel to the American Civil Liberties Union, which supports the Fairness Doctrine, in congressional testimony last month.

Others disagree.

"It is certainly true that broadcast frequencies are scarce, but it is unclear why that fact justifies content regulation of broadcasting in a way that would be intolerable if applied to the editorial process of the print media," former Judge Robert Bork has written.

He added: "All economic goods are scarce, not the least newprint, ink, delivery trucks, computers, and other resources that go into the production and dissemination of print journalism. Not everyone who wishes to publish a newspaper, or even a pamphlet, may do so. Since scarcity is a universal fact, it can hardly explain regulation in one context and not another."

Proliferation Of Outlets

Broadcast outlets are much less scarce than they were when the the Fairness Doctrine was first promulgated.

In 1949, the typical household was lucky if it could receive more than three or four radio stations. Today, residents of mid- to large-sized cities may receive two dozen local radio stations, up to 10 broadcast television stations, and 20 or more cable television channels.

If there is scarcity anywhere it is in the print press. The days when all major cities had four or five daily newspapers is long gone. Most big cities are down to one or two major papers.

But the courts have consistently ruled that the First Amendment does not require that newspapers or magazines give others a right of reply within their pages. Indeed, the First Amendment prohibits the government from creating such a right.

"This is what the First Amendment says: 'Congress shall make no law . . . abridging the freedom of speech, or of the press,' " said Dirk Roggeveen, an attorney at the Institute for Justice.

"No matter what the sponsors of this bill or the ACLU say, forcing someone to use his facilities to disseminate speech that he disagrees with or finds morally repugnant abridges the freedom of the press just as much as censoring someone from making speech. And that is true whether the 'press' is a newspaper, a magazine or a radio station," he said.

In fact, the Fairness Doctrine, some claim, is itself a subtle form of censorship. Broadcasters have long claimed that when the Fairness Doctrine was in effect it had a "chilling effect" on their news coverage and, especially, on their editorials.

"There's no question that the Fairness Doctrine was in the back of everyone's mind each time they thought about covering a controversial issue or taking an editorial stand," said David Bartlett, president of the Radio-Television News Directors Association.

"Quite frankly, if it looked like a station could anger some litigious special-interest group or important politician and get involved in expensive Fairness Doctrine challenges or lose its license, I'm sure that they would just pass on that story," said Bartlett.

Chilling Effect

The FCC documented numerous claims of a chilling effect in a 1985 report. This report was the basis of the FCC's decision to suspend the doctrine.

Supporters of the Fairness Doctrine, however, argue that this chilling effect did not exist and would not occur if the doctrine is reinstated.

They point to a 1990 study in the Journal of Communication by Patricia Aufderheide, a communications professor at American University.

Aufderheide contacted 17 broadcasters, each of whom had had made claims of a chilling effect in a 1985 National Association of Broadcasters filing before the FCC. She then asked them what programming they had run in the two years since the Fairness Doctrine was suspended that they would not have run had the doctrine remained in effect.

Only one broadcaster could cite a single program that he would not have run if the Fairness Doctrine had still been in place.

"That really wasn't surprising," said Aufderheide. "No journalist is ever going to admit that he was ever afraid to tackle a story for any reason. Even when the Fairness Doctrine was in place the complaints used to be, 'I'm too brave and zealous to be cowed by threats of a Fairness Doctrine challenge, but I can see where less courageous broadcasters would be.' "

Thomas W. Hazlett, an economist at the University of California, Davis, who specializes in the study of broadcasting and telecommunications, contends that the Fairness Doctrine not only had a chilling effect, but that the history of the doctrine's enforcement shows that politicians consciously used it to silence their critics.

Silencing Critics

"In the 1960s, there was a concerted effort by the Democratic National Committee to silence the right-wing religious radio broadcasters who were giving the Kennedy and Johnson administrations hell," said Hazlett.

"They set up a national monitoring system for these stations and used the Fairness Doctrine to force them to give free air time to pro-administration viewpoints. If the stations refused, they'd be hauled into expensive court battles. In effect, this was a tax on those stations," said Hazlett.

"The whole point was to stifle debate not to create it," said Hazlett.

But the Democrats weren't the only ones to use the Fairness Doctrine this way.

"As soon as President Nixon took office, he discovered that the Fairness Doctrine could be used against his broadcast enemies," said Hazlett.

Hazlett believes that if the Fairness Doctrine is reimposed, radio hosts will once again be singled out as targets.

"Broadcast television is, by its very nature, a mass-audience medium, so TV broadcasters tend to avoid controversies and personalities that will offend a large segment of their audience. Radio goes after niche markets, so it can use strong personalities who may not be to everyone's liking," said Hazlett.

The End Of Rush?

"Stations who carry a Rush Limbaugh will probably try to cover themselves by carrying a liberal talk show host. But even that may not get them out of trouble," said Hazlett.

"If Rush's audience is much larger than that of the liberal host, challengers could say that the test of reasonable opportunity hasn't been met," he added. "The station might have to move Rush to a less favorable time slot and turn his over to another host or give the other host a longer shift than Rush. Of course . . . a station may decide just to drop controversial shows."

"It's important also to note that the requirements of the Fairness Doctrine may not be met if the host invites guests with viewpoints opposed to his on his show. The courts have held that this is a 'hostile' atmosphere and therefore does not meet the reasonable opportunity test," said Hazlett.

David Bartlett agrees that radio will bear a heavier burden.

"I believe that television news coverage will suffer from this chilling effect, but radio will feel it first and probably suffer more greatly," said Bartlett.

"And I believe politicians know that," he continued. "They've become quite angry over the public revolt against congressional pay raises that was stirred up by talk-radio hosts. They don't like the anti-government attitudes many of these people espouse."

"There are people in Congress who sincerely believe they were elected to straighten out what they think is wrong with radio and television. They want it to look like what they want, not what the public wants. These attempts to reimpose the Fairness Doctrine have more to do with straightening out broadcasting than with improving fairness," said Bartlett.

Side Accords Approved For Trade Agreement

From page 1

said, "We will soon be able to take NAFTA to Congress for approval and get on with the business of creating 200,000 new jobs for Americans."

If ratified, NAFTA will create the single largest free-trade area in the world, with 360 million people.

The treaty would phase out trade
three countries
istration esti
00,000

North American Free Trade Agreement have no teeth. They do nothing to make NAFTA acceptable to the American people."

More criticism came from Capitol Hill. House Majority Leader Richard Gephardt, D-Mo., a key Democrat on trade issues, said on Friday that he would not support the agreement "as it stands."

"Although progress has been
ieved, the announced side
nts fall short in important
and, taken alone, are not
le," Gephardt said in a
day's

istration.

Katz is now president of Hills & Company, an international consulting firm that was founded by former U.S. trade representative Carla Hills.

Last month, a group of lawmakers le
by Minority Whip David Bonior
Michigan, wrote the White H
stating they would not vote on N
before health-care
White House said
sending NAFT
val.

In addi
NAFT
mo

might be some market reaction in Mexico, said Jay Pelosky, chief strategist for Latin America at Morgan Stanley & Co. in New York.

On Friday, the Mexican stock market
t k off after the announcement, and its
or index closed up 3.7% for the day.
ican stocks trading on U.S. ex-
ges made similar moves.

ude Barfield, resident scholar at
rican Enterprise Institute here,
trade sanctions "a terrible

E D

O

Someday, an admi
will be faced with a
federal budgetary i
books" to sell a bad plan.

Until then, we'll contin
advertising.

A closer look at the Omn
now the nation's official fisc
document pockmarked with

But then, that's par for t
Republican administration si
I.

OBRA II makes the same
summit deal" of 1990 promise
billion over five years. The 1993
deficit-slashing measure, prom
years.

Both claimed to accomplis
"specific" spending "cuts."

Well, "cut" is a relative term
slowing the rate of growth of
means losing part, if not all, of s

But, under OBRA II, no spe
some projected spending increa
are raised and perfumed as "inv

The list of major spending
"freeze spending," "slow fee gr
competitive bidding," "limit pa
is the word "eliminate."

Tough, indeed.

Similar legerdemain is used i
"cuts." The only things cut are an
problem remains: gaping annual b
debt.

Despite the "courageous defici
budget office projects the total fed
fiscal 1997. This year, the debt is
trillion.

If this budget is a victory, it's a
trillion in new debt. Bush added $
matching the $1 trillion Reagan ave

Yet it's not hard to fin
neighborhood or at church
by $500 billion.

The sad part is not tha
esoteric fiscal matters
Washington budgeteers

To guarantee it, the
trade include exagg
higher spendi

On the Air

The Truth About the Fairness Doctrine

Study Finds Less Time For Issues After Repeal

By Tom Shales
Washington Post Staff Writer

American TV stations were supposedly being freed of prior constraints when the Federal Communications Commission (FCC) summarily repealed its 38-year-old Fairness Doctrine in 1987. The rule, which required stations to give balanced treatment of "controversial issues of public importance," supposedly inhibited them from tackling troublesome hot potatoes.

In fact, says a study released yesterday, those uninhibited stations now give less time to public affairs than they did before the rule was thrown out. Comparing programming aired on commercial stations in 1988 with a similar period in 1979, Essential Information, a public interest research group, found a 51 percent decrease in the amount of time devoted to "issue-oriented public affairs" material.

Consumer advocate Ralph Nader, who founded the group, said in a statement, "This study refutes FCC predictions that repeal of the Fairness Doctrine would remove an impediment to presenting issue-orient-

See ON THE AIR, D6, Col. 1

today.

The book, a lavishly illustrat[illegible] Latin text of the four gospels produced by Irish monks in the 8th century, is on display in the College Library, where a single page is turned each day. Profits from the edition will help to fund new technology for the library.

Trinity College sanctioned the project by Swiss publisher Urs Duggelin, who developed a mobile book holder with suction pads to photograph each of the book's 680 pages.

A limited edition of about 1,500 copies will be sold to private collectors and libraries in Europe and the United States.

RADIO

TALK

10 a.m.—WAMU-FM (88.5) Diane Rehm Show. Guests are Lois Gibbs of Citizens Clearinghouse for Hazardous Waste and Dr. Stanley Greenspan, author of "The Essential Partnership: How Parents and Children Can Meet the Emotional Challenges of Infancy and Childhood."

Noon—WJFK-FM (106.7) Midday Maddness features a short comedy bit.

1 p.m.—WDCT-AM (1310) Minirth-Meier Clinic. Don Hawkins discusses health issues.

3:30 p.m.—WDCT-AM (1310) Money Matters features news on the economy, money and investing.

4:05 p.m.—WDCT-AM (1310) Linked With Love. Hosts Paul and Bonnie Morris advise on problems with relationships.

5:20 p.m.—WMAL-AM (630) Larry Matthews reports on Washington politics.

6 p.m.—WWRC-AM (980) Dr. Gabe Mirkin discusses health, fitness and nutrition.

6:30 p.m.—WMAL-AM (630) Syndicated columnist Mark Shields reports on the American political scene.

6:51 p.m.—WTOP-AM (1500) Managing Your Money with Paul Hencke.

7 p.m.—WMAL-AM (630) Sports Call. Ken Beatrice opens the phones for listeners' comments.

8 p.m.—WAMU-FM (88.5) Mike Cuthbert Show. Guest is Jon Stone, director of "Sesame Street."

11:05 p.m.—WTOP-AM (1500) Larry King Show. Guest is model-actress Susan Anton.

CLASSICAL

10 a.m.—WETA-FM (90.9) Mozart: Piano Sonata in C Major, K. 330; Beethoven: Violin Concerto in D Major, Op. 61; Debussy: "Children's Corner Suite"; Mussorgsky: "Pictures at an Exhibition."

3:30 p.m.—WGTS-FM (91.9) Mozart: Violin Concerto No. 3 in G Major, K. 216; Piano Concerto No. 6 in B-Flat, K. 238; Oboe Concerto in C Major, K. 314.

9 p.m.—WGMS (570 AM, 103.5 FM) Cleve-[illegible] con-

Fairness Doctrine

ON THE AIR, From D1

ed public affairs programming on television."

On Capitol Hill this morning, Rep. Edward Markey (D-Mass.) and his telecommunications subcommittee will begin marking up legislation that would restore the Fairness Doctrine and make it law. Markey said yesterday that the study "underscores the importance of Congress reinstating the Fairness Doctrine as soon as possible" and reveals the "intellectual bankruptcy" of the FCC's rationale for killing it.

Both the House and Senate voted to make the doctrine law in 1987, but President Reagan vetoed the bill. Reagan and his FCC clung to the idea that marketplace forces would compel stations to good citizenship, but the fallout from deregulation has been a tawdry new trend to trashy and tabloid television.

When the FCC subsequently killed the Fairness Doctrine, many in Congress considered the move intolerably sneaky, and it's been open warfare between Congress and the commission ever since.

For its study, Essential Information looked at programming on 217 TV stations in 50 markets from January through April of last year and compared it with a similar period nine years earlier. Jim Donahue, the staff researcher who wrote the report, said yesterday that local TV Guides were used to gather programming data because the FCC no longer requires stations to make their program logs public.

"I have a feeling the FCC may not even respond to the study," Donahue said, "because they didn't collect any data to confirm that repealing the doctrine increased issue-oriented programming." Donahue said that the FCC couldn't care less about the public interest and that its decision to repeal the Fairness Doctrine was "based totally on ideology to enhance corporate interests rather than the interests of the audience."

But Sally Lawrence, a spokeswoman for FCC Chairman Dennis Patrick, did respond. "This report is nothing short of outrageous," she said. "There is nothing in my data file that corroborates this study." Lawrence said networks and local stations are doing more public affairs programming than ever under deregulation, though she conceded she did not have figures to support the idea that such programming increased once the Fairness Doctrine was abolished.

Some aspects of the doctrine remained in force after 1987, mainly those concerning ballot issues such as referendums and propositions. A report released in February by the Public Interest Research Group found many stations unaware that such provisions remained in effect. Of those that acknowledged such a requirement, the study found, 98 percent "agreed to present opposing points of view" on such issues as California's voter crusade to cut insurance rates.

But among stations that considered all Fairness Doctrine obligations to be extinct, the report said, only 56 percent were willing to give time to opposing viewpoints.

"This conclusion stands as powerful evidence that the Fairness Doctrine works," the report said, adding that the FCC "overreached its authority" when it threw the doctrine out.

According to Donahue, Patrick wants to abolish the ballot provision of the Fairness Doctrine, too, which would free stations to give completely lopsided coverage of such issues and refuse requests from opposing viewpoints. Patrick could not be reached for comment yesterday.

The report from Essential Information singles out Fox Broadcasting for criticism. Fox, owned by Rupert Murdoch, has achieved success—and some notoriety—with tabloid shows like "America's Most Wanted," "A Current Affair" and "The Reporters."

After Fox bought Washington's hugely profitable station WTTG-TV (Channel 5), the study says—quoting a former news producer at the station—"the whole public affairs staff was fired and given two weeks to find new employment elsewhere."

Told of this remark, Thomas Hurwitz, vice president of Fox Television Stations Inc., said yesterday from his office at WTTG, "I really don't know what this person's talking about. To my knowledge, we have the same public affairs director and staff as when I joined."

Hurwitz said Channel 5 has increased its public affairs programming, citing an hour of CNN news that airs every morning and the station's own daily half-hour report on Washington crime, the "City Under Siege" series, which follows its high-rated "10 O'Clock News" each night.

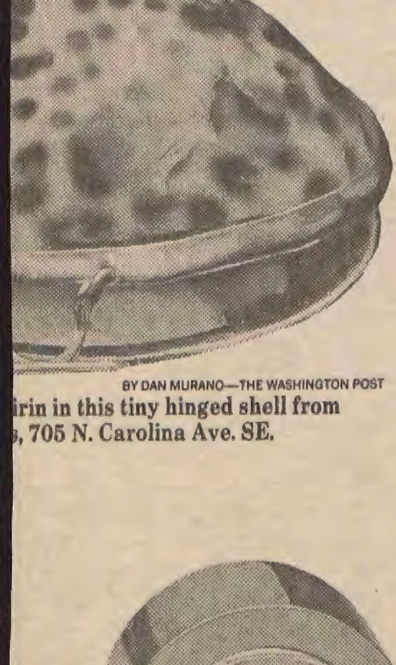
Sources indicated that the Fairness Doctrine should reach the House floor by the end of April. The Supreme Court may be asked eventually to rule on its constitutionality, though it upheld the principle behind the doctrine in its landmark Red Lion decision in 1959.

Donahue said no TV networks sent reporters to cover the press conference yesterday at which the results of the study were revealed. He said he called one network to tell it of the report on the Fairness Doctrine and the response he got was, "the *what* Doctrine?"

a Koncius

BY BILL O'LEARY—THE WASHINGTON POST

Planning to dance down the aisle this spring? Wedding music with a hot new beat. Wagner's "Wedding March" and Mendelssohn's "Recessional" on a 12-inch dance record. $3.99. Serenade Records, 1710 Pennsylvania Ave. NW.



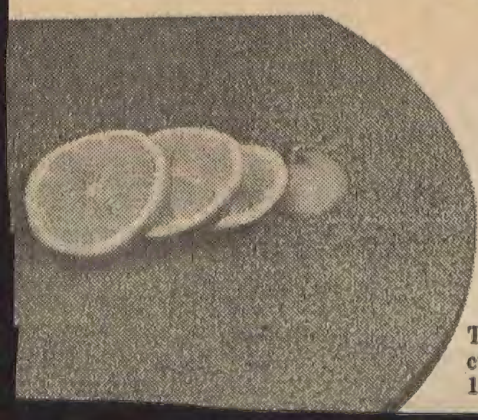
BY DAN MURANO—THE WASHINGTON POST

irin in this tiny hinged shell from
s, 705 N. Carolina Ave. SE.

s.

s by

POST



The cutting edge. A granite-finish cutting board. $22.50. D.F. Sanders, 1201 Connecticut Ave. NW.

Who Really Invented Television?
Revisionists history says RCA, but in truth it was a Mormon farm boy named Farnsworth. His struggles presaged the battle between Bill Gates and Netscape.
By Evan Schwartz
Technology Review
September/October 2000

Wondrous Contrivances: Technology at the Threshold book by **Merritt Lerley**
"Breathless Accounts of early adopters
Wired Magazine
February 2000

Earth Stations Faster, Cheaper, Better
By Peter Brown
May 2001

On Media Giantism
By William Saffire
New York Times
2001

Masters of the Media
By William F. Baker
Nixon and Networks

Conqueror in the Carnage
Most Telecom start-ups are doomed. Clark McLeod will survive to own their assets
By Quentin Hardy
Forbes
3/05/01

As Businesses Innovate, Regulators must follow Suit
You can almost feel sorry for Microsoft Corp.
By Alan Murray
Wall Street Journal
08/23/01

Messier Days at Vivendi
By Brian M Carney
Another one bites the dust
Wall Street Journal
July 2002

The Digital Dividend
Bridging the digital divide will pay off for business *and* government,
By Staurt Brotman
Technology Review
March 2002

Turmoil of the Week
PBS's "Washington Week in Review" had a bad year
By Georgie Anne Geyer
3/13/02

Paths of Learning
Life and death in the consumer electronics and computer industries

By Walter Friedman
Harvard Magazine
July-August 2002

Too Many Debts; Too Few Calls
The telecom industry is a mess. What went wrong, and how can it be fixed?
Economist
07/20/02

The Myth of '18 to 34'
This audience has transformed our culture. But the premise behind it is bunk.
By Jonathan Dee
New York Times Magazine
10/13/02

Bernie (Ebbers) Bites the Dust
By Andrew Kessler
Wall Street Journal
5/01/02

The Great Triumph: How five Americans made Their Country a World Power
A book by Warren Zimmerman
Reviewed by Peter A. Jay

TV'S bad reception
Competition from other media, skittish networks make for lukewarm fall season.
(Chart of Network s slipping since '99)
By Gary Levin
USA TODAY 3 page packet

Massive Media bogeyman
A heated debate over the relaxation of media ownership rules that artificially restrict media ownership rules is set to culminate in a ruling by the FCC
By Adam Thierer
Washington Times
06/01/03

The Man Who Built Big Blue
A book review of "The Maverick and his Machine" by Kevin Maney
Review by Roger Lowenstein
Wall Street Journal
2003

Sounds Familiar for a Reason
Radio has been the test case for media consolidation
By Marc Fisher
Washington Post
5/18/03

Freeing the Airwaves
Should radio spectrum be treated as property, or as a common resource?
Economist
5/31/03

Michael Powell and the FCC: Giving Away the Marketplace of Ideas
By Tom Shales
Washington Post
06/02/03

How Electricity came to be: Its Innovators and Their Sparks
Book review of Fleet Fire; Thomas Edison and the Pioneers of the Electric Revolution by J.L. Davis
Review By Woody West
Washington Times

The Mogul Left His Mark
Book review of "When Hollywood had a King" by Connie Bruck
On Lew Wasserman, MCA Inc.
Review by John Lippman
6/06/03

The Only News Bigger Than Martha
On the democratic candidates and the FCC decision
By Daniel Henninger
Wall Street Journal
06/06/03

FCC Media Rule Blocked in House in a 400-to-21 Vote
In a rule that would permit the nation's largest television networks to own more stations
BY Stephen Labaton
New York Times
7/24/03

Bush's Four Horsemen
<u>Can you eliminate excessive regulation and have diversity and competition?</u>
By William Saffire
People are beginning to resent the attempt by the Federal Communications Commision to allow the Four horsemen of Viacom, Disney, Murdoch's News Corporation and G.E. –to gobble up every independent station in sight.
New York Times
7/24/03

UNE Order Unlikely Before August as FCC End Game Drags
07/25/03

Unleash the new TV
By Peter Ferrara
Washington Times
11/05/03
Who is director of the International Center for Law and Economics

Mad TV
How to Waste $100 Billion, hobble the tech industry and make consumers buy things they don't want
By Scott Wiley
Forbes
11/24/03

Ad Infintitum
Coming up after these messages from our sponsors: more messages from our sponsors
By Allison and Peter Kafka
Forbes

09/29/03

The Age of Murdoch
By James Fallows
Atlantic Monthly
Sept. 2003

Powell Muses: Maybe Public Broadcasting Can Help!
By Norris Dickard
9/27/03
Benton Foundation site, published in Current
"Perhaps he'd pondered one of the quid pro quo proposals put forth over the years: deregulate commercial media but extract from them a significant dividend for the improvement and support of public broadcasting

At 97, Irving Kahn is Long on Intelligent ways to Invest
By Ianthe Jeanne Dugan

Telling it Straight ***Voice of America: A History***
Review by Alan Heil
Economist
7/26/03

The Nation in Numbers
Each economic era has a resource that drives wealth creation.....today it may be the airwaves
Atlantic Monthly
Sept 2003

Apartheid Spy probe Splits South Africa
Washington Times
10/23/03

Pop Program seen giving Teens bad View of US
By Zachary Goldfarb
Washington Times
7/28/03

The Ascent of the Software Civilization
Book by Martin Campbell-Kelley
Review by Steve Lohr

Presidential Memo on Spectrum Policy
Email from Henry Goldberg
6/05/03

Co-opting the Future
By John C. Dvorak
Blogs, or Web logs are the rage I some quarters.
PC Magazine
12/09/03

How The Radio Changed its Spots
Smart radio: Radios capable of switching from one wireless standard to another, with nothing more than a dose of new software, are at last emerging at the laboratory.
The Economist Technology Quarterly

12/06/003

AT&T to Launch Internet-Based Telephone Service
BY Shawn Young
Wall Street Journal
12/11/03

Clay T. Whitehead

From: Henry Goldberg [hgoldberg@G2W2.com]
Sent: Thursday, June 05, 2003 5:13 PM
To: Whitehead Clay (E-mail)
Subject: re-inventing your life

For Immediate Release
Office of the Press Secretary
June 5, 2003

Presidential Memo on Spectrum Policy

Memorandum for the Heads of Executive Departments and Agencies
Subject: Spectrum Policy for the 21st Century

Fact sheet <http://www.whitehouse.gov/images/text4.gif>Fact Sheet on Spectrum Management <http://www.whitehouse.gov/news/releases/2003/06/20030605-5.html>

The radio frequency spectrum is a vital and limited national resource. Spectrum contributes to significant technological innovation, job creation, and economic growth, and it enables military operations, communications among first responders to natural disasters and terrorist attacks, and scientific discovery.

Recent years have witnessed an explosion of spectrum-based technologies and uses of wireless voice and data communications systems by businesses, consumers, and Government. Today there are over 140 million wireless phone customers and, increasingly, businesses and consumers are installing systems that use unlicensed spectrum to allow wireless data, called Wireless Fidelity (WiFi), on their premises. The Federal Government makes extensive use of spectrum for radars, communications, geolocation/navigation, space operations, and other national and homeland security needs. We must unlock the economic value and entrepreneurial potential of U.S. spectrum assets while ensuring that sufficient spectrum is available to support critical Government functions.

The existing legal and policy framework for spectrum management has not kept pace with the dramatic changes in tech-nology and spectrum use. Under the existing framework, the Government generally reviews every change in spectrum use, a process that is often slow and inflexible, and can discourage the introduction of new technology. Some spectrum users, including Government agencies, maintain that the existing spectrum process is insufficiently responsive to the need to protect current critical uses.

My Administration is committed to promoting the development and implementation of a U.S. spectrum policy for the 21st century that will: (a) foster economic growth; (b) ensure our national and homeland security; (c) maintain U.S. global leadership in communications technology development and services; and (d) satisfy other vital U.S. needs in areas such as public safety, scientific research, Federal transporta-tion infrastruc-ture, and law enforcement. My Administration has already proposed several legislative changes or program initiatives to improve elements of the spectrum management process. These proposals would greatly enhance the Governments ability to efficiently manage spectrum. To further promote the development and implementation of a U.S. spectrum policy for the 21st century, I hereby direct the following:

Section 1. Establishment. There is established the "Spectrum Policy Initiative" (the "Initiative") that shall consist of activities to develop recommendations for improving spectrum management policies and procedures for the Federal Government and to address State, local, and private spectrum use. The Secretary of Commerce shall chair and direct the work of the Initiative. The Initiative shall consist of two courses of spectrum-related activity: (a) an interagency task force that is created by section 3 of this memorandum; and (b) a series of public meetings consistent with section 4 of this memorandum. The interagency task force and the public meetings shall be convened under the auspices of the Department of Commerce and used by the Department to develop spectrum management reform proposals.

Sec. 2. Mission and Goals. The Initiative shall undertake a comprehensive review of spectrum management policies (including any relevant recommendations and findings of the study conducted pursuant to section 214 of the E-Government Act of 2002) with the objective of identifying recommendations for revising policies and procedures to promote more efficient and beneficial use of spectrum without harmful interference to critical incumbent users. The Department of Commerce shall prepare legislative and other recommendations to:

(a) facilitate a modernized and improved spectrum management system;

(b) facilitate policy changes to create incentives for more efficient and beneficial use of spectrum and to provide a higher degree of predictability and certainty in the spectrum management process as it applies to incumbent users;

(c) develop policy tools to streamline the deployment of new and expanded services and technologies, while preserving national security, homeland security, and public safety, and encouraging scientific research; and

(d) develop means to address the critical spectrum needs of national security, homeland security, public safety, Federal transportation infrastructure, and science.

Sec. 3. Federal Government Spectrum Task Force. There is hereby established the Federal Government Spectrum Task Force (the "Task Force") to focus on improving spectrum management policies and procedures to stimulate more efficient and beneficial use of Government spectrum. The Secretary of Commerce, or the Secretary's designee under this section, shall serve as Chairman of the Task Force.

(a) Membership of the Task Force. The Task Force shall consist exclusively of the heads of the executive branch departments, agencies, and offices listed below:

(1) the Department of State;

(2) the Department of the Treasury;

(3) the Department of Defense;

(4) the Department of Justice;

(5) the Department of the Interior;

(6) the Department of Agriculture;

(7) the Department of Commerce;

(8) the Department of Transportation;

(9) the Department of Energy;

(10) the Department of Homeland Security;

(11) the National Aeronautics and Space Administration;

(12) the Office of Management and Budget;

(13) the Office of Science and Technology Policy;

(14) such other executive branch departments, agencies, or offices as the Chairman of the Task Force may designate; and

(15) subject to the authority of the Director of the Office of Management and Budget, the Office of Project SAFECOM.

A member of the Task Force may designate, to perform the Task Force functions of the member, any person who is a part of the member's department, agency, or office, and who is a full-time officer or employee of the Federal Government.

(b) Functions of the Task Force. The functions of the Task Force are advisory and shall include, but are not limited to, producing a detailed set of recommendations for improving spectrum management policies and procedures to stimulate more efficient and beneficial use of spectrum by the Federal Government. The recommendations shall be consistent with the objectives set out in section 2 of this memorandum. The Task Force may hold meetings to obtain information and advice concerning spectrum policy from individuals in a manner that seeks their individual advice and does not involve collective judgment or consensus advice or deliberation. At the direction of the Chairman, the Task Force may establish subgroups consisting exclu-sively of Task Force members or their designees under this section, as appropriate.

Sec. 4. Recommendations to Address State, Local, and Private Spectrum Use. Consistent with the objectives set out in section 2 of this memorandum, the Department of Commerce, separately from the Task Force process, shall, in accordance with applicable law, conduct public meetings that will assist with that Departments development of a detailed set of recommen-dations for improving policies and procedures for use of spectrum by State and local governments and the private sector, as well as the spectrum management process as a whole. These meetings will involve public events to provide an opportunity for the input of the communications industry and other interested parties. Partici-pants may include spectrum users, wireless equipment vendors, financial and industry analysts, economists, technologists, and consumer groups. Interested Federal, State, and local government agencies will be welcome to attend and participate. The Federal Communications Commission is also encouraged to participate in these activities and to provide input to the National Telecommunications and Information Administration at the Department of Commerce on these issues.

Sec. 5. Reports. The Secretary of Commerce, or the Secretary's designee, shall present to me, through the Assistant to the President for Economic Policy and Director of the National Economic Council and the Assistant to the President for National Security Affairs, in consultation with the Assistant to the President for Homeland Security, two separate reports no later than 1 year from the date of this memorandum, one of which shall contain recommendations developed under section 3 of this memorandum by the Task Force and the other containing recommendations developed under section 4.

Sec. 6. General Provisions.

(a) The heads of Federal Government departments and agencies shall assist the Chairman of the Task Force established by section 3 and provide information to the Task Force consistent with applicable law as may be necessary to carry out the func-tions of the Task Force. Each Federal department and agency shall bear its own expense for partici-pating in the Task Force. To the extent permitted by law and within existing appropria-tions, the Department of Commerce shall provide funding and administrative support for the Task Force.

(b) Nothing in this memorandum shall be construed to impair or otherwise affect the functions of the Director of the Office of Management and Budget relating to budget, administrative, or legislative proposals.

Sec. 7. Judicial Review. This memorandum is intended only to improve the internal management of the Federal Government and is not intended to, and does not, create any right or benefit, substantive or procedural, enforceable at law or equity by a party against the United States, its departments, agencies, instrumentalities or entities, its officers or employees, or any other person. Sec. 8. Publication. The Secretary of Commerce is authorized and directed to publish this memorandum in the Federal Register.

GEORGE W. BUSH

###

Return to this article at:
<http://www.whitehouse.gov/news/releases/2003/06/20030605-4.html>

Click to print this document <javascript:void(printWHrelease());/>
<http://dcs.wtlive.com/DCSArO55rNH8I36lrbe6wexE5_5B8I/njs.gif?dcsuri=/nojavascript&dcscfg=00000001>

For Immediate Release
June 5, 2003

Fact Sheet on Spectrum Management

Taking Action to Improve Spectrum Management

Presidential Action

- President Bush signed an Executive Memorandum creating the Spectrum Policy Initiative to develop recommendations for improving spectrum management policies and procedures.
- The Department of Commerce will chair the Initiative.
- The purpose of the Initiative is to promote the development and implementation of a U.S. spectrum policy that will foster economic growth; ensure our national and homeland security; maintain U.S. global leadership in communications technology development and services; and satisfy other vital U.S. needs in areas such as public safety, scientific research, federal transportation infrastructure, and law enforcement.
- The existing legal and policy framework for spectrum management has not kept pace with the dramatic changes in technology and spectrum use. The Spectrum Initiative will help develop a U.S. spectrum policy for the 21st century.

The Importance of Spectrum

- Spectrum contributes to significant innovation, job creation, and economic growth. It is vital to scientific discovery and technological advances. It is critical to the ability of first responders to react to natural disasters and terrorist attacks and essential to the military's ability to fulfill its mission of protecting our nation.

- Recent years have witnessed enormous growth in spectrum-based technologies and uses of wireless voice and data communications systems by businesses, consumers, and government. Today, there are more than 140 million wireless phone customers and, increasingly, businesses and consumers are installing WiFi systems to allow wireless computing on their premises.

- The Federal Government makes extensive use of spectrum for radars, communications, geolocation/navigation, space operations, and other national and homeland security priorities.

How the Initiative Will Work

- The Initiative is comprised of two activities:
  1. The Federal Spectrum Task Force will produce a set of recommendations for improving spectrum management policies and procedures to increase the efficiency and beneficial use of spectrum by the Federal Government.
  2. The Department of Commerce will hold a series of public meetings to assist in its development of a set of recommendations for improving policies and procedures for use of spectrum by state and local governments and the private sector.

- Within one year, the Secretary of Commerce will provide the President recommendations to:
  - Facilitate a modernized and improved spectrum management system;
  - Facilitate policy changes to create incentives to increase the efficiency and beneficial use of spectrum and to provide a higher degree of predictability and certainty in the spectrum management process;
  - Develop policy tools to streamline the deployment of new and expanded services and technologies, while preserving national security, homeland security, public safety, and encouraging scientific research; and
  - Develop means to address the critical spectrum needs of national security, homeland security, public safety, federal transportation infrastructure, and science.

Building on a Foundation of Success

While the Initiative will facilitate improvements in spectrum management, the Administration has achieved significant successes within the current system.

- The Administration has identified new spectrum for advanced third generation (3G) wireless services and technologies for consumers. In July 2002, the Department of Commerce released a plan in concert with the Federal Communications Commission (FCC) and the Department of Defense to make 90 MHz of spectrum available in the future for 3G wireless services while accommodating critically important spectrum requirements for national security.

- The Administration has identified how to make available additional spectrum at 5 GHz for wireless data communications, called Wireless Fidelity (WiFi). The Department of Commerce reached an agreement in February 2003 with the private sector and the Department of Defense on a technical solution that the United States is now able to present in international spectrum discussions.

- The Administration, in conjunction with the FCC, approved the use of ultrawideband (UWB) technology, which enables broadband connections and assists in the performance of critical safety services. During 2002, the Department of Commerce worked closely with the FCC to authorize mechanisms to accommodate UWB wireless technology without causing serious impact to critical radio communications services.

- The Administration has proposed several legislative changes and program initiatives to improve the spectrum management process, including: (1) providing the FCC with new authority to set user fees on unauctioned spectrum licenses; and (2) creating a Spectrum Relocation Fund to streamline the process for reimbursing government users, facilitate their relocation, and provide greater certainty to auction bidders and incumbents.

Return to this article at:
<http://www.whitehouse.gov/news/releases/2003/06/20030605-5.html>

Click to print this document <javascript:void(printWHrelease());/>
<http://dcs.wtlive.com/DCSArO55rNH8I36Irbe6wexE5_5B8I/njs.gif?dcsuri=/nojavascript&dcscfg=00000001>

For Immediate Release
June 5, 2003 Contact: Clyde Ensslin <mailto:censslin@ntia.doc.gov> or Ranjit de Silva <mailto:rdesilva@ntia.doc.gov>, 202-482-7002

Commerce Secretary Evans Announces New Bush Administration Initiative to Modernize and Improve Management of Nation's Airwaves

Presidential Initiative Seeks to Develop, Implement Spectrum Policy for 21st Century

Commerce Secretary Don Evans today announced a major new Bush Administration initiative to develop a radio spectrum policy for the 21st Century that will better manage the nation's airwaves, enhance homeland and economic security, increase benefits to consumers and ensure U.S. leadership in high-tech innovations.

Evans will form a high-level interagency Task Force under an Executive Memorandum issued by President Bush today that will recommend ways to stimulate more efficient use of the radio frequency spectrum by government users. This effort will be the first comprehensive study of federal government radio spectrum policy in the modern era and will build on previous administration efforts to improve the spectrum management process.

Evans said the Administration has succeeded in identifying additional spectrum for advanced new wireless services known as 3G, paved the way for ultrawideband technologies, and helped broker an agreement that could double the amount of spectrum for WiFi technologies.

"Spectrum is a vital and limited national resource," Evans said. "It is crucial to job creation, our economic growth and our national defense."

The Task Force, which will issue its recommendations in one year, will include federal government agencies that use the radio spectrum such as the Departments of Defense, Transportation and Homeland Security as well as the Federal Aviation Administration, the National Aeronautics and Space Administration, and others.

The initiative also calls for a series of public meetings with the private sector and state and local governments to provide input to improve policies and procedures for overall management of the radio spectrum. More information about the Initiative may be found on the White House Web site at: www.whitehouse.gov.

###

Navigation Bar <http://www.ntia.doc.gov/ntiahome/press/bottom-banner.gif>

NEWS **Federal Communications Commission**

445 12 th Street, S.W.
Washington, D. C. 20554

This is an unofficial announcement of Commission action. Release of the full text of a Commission order constitutes official action.

See MCI v. FCC. 515 F 2d 385 (D.C. Circ 1974).

News Media Information 202 / 418-0500

Internet: http://www.fcc.gov

TTY: 1-888-835-5322

FOR IMMEDIATE RELEASE NEWS MEDIA CONTACT:
June 5, 2003 David Fiske: (202) 418-0513

FCC Chairman Supports President's Spectrum Policy Initiative

Washington, D.C.-Federal Communication Commission Chairman Michael K. Powell expressed his strong support for the spectrum policy reform and modernization initiative launched by the Executive Memorandum issued today by the President.

"The radio spectrum is a key driver of economic growth, and supports an array of devices, applications and services Americans have come to depend upon - from radars used in our national defense to tele-medicine, from mobile phones to the public safety radios used by our first responders," said Chairman Powell.

"President Bush's Executive Memorandum recognizes the importance of spectrum as an economic engine and underscores his commitment to putting spectrum to its highest and best use for the American people. I congratulate Commerce Secretary Don Evans, Deputy Secretary Sam Bodman and Assistant Secretary Nancy Victory on their vision and leadership in championing this groundbreaking initiative to reassess the federal government's spectrum policy approach. I look forward to continuing to work with the Commerce Department and the rest of the Administration on these important issues," he said.

- FCC -

nce has indeed st infiltrations into surrounds Gaza on three is the Israeli-patrolled sea—so vement in and out can be monitored. st Bank, by contrast, can only be sealed etically along its border with Israel. Palestinians will continue to enjoy access to the Arab east—to Jordan, Iraq, and Syria—and to the agents of Saddam Hussein and the arsenals of Iran.

Unlike the West Bank, with its rocky hills, ravines, and terraces—perfect terrain for terrorists—Gaza is sandy and flat and easily surveyed. Gaza is Israel's shortest border, a mere 20 miles. The West Bank, Israel's longest border,

usha rockets All of northern Isr within missile range. Then Barak dismissed the danger, that if the terrorists struck again, easily retaliate.

Yet when Hezbollah launched dozens of Ka ushas into Israel, attempted to shoot down Israeli planes, and even kidnapped and purportedly killed three Israeli soldiers, Mr. Barak could do nothing. In seeking to defend itself with a fence, Israel had created a border that the international community considered inviolate. The fence hemmed in Israel and provided de facto immunity for Hezbollah.

The Lebanese experience is almost certain to

Wa effective then neuverability than in blocking hostile incursions. Israel cannot afford to make that mistake. In striving to keep terrorists out, Israel must not fence itself in.

Mr. Oren, senior fellow at the Shalem Center in Jerusalem, is the author of "Six Days of War: June 1967 and the Making of the Modern Middle East" (Oxford University Press, 2002).

Messier Days at Vivendi

19E

By Brian M. Carney

Another week, another CEO bites the dust. And loud applause greeted the removal of the man once known, with a combination of reverence and mocking, as "Jean-Marie Messier, moi-meme, maitre du monde" (or "me myself, master of the world").

To judge by the reaction of Vivendi Universal's share price Monday, you'd think that Mr. Messier's reportedly forced resignation had solved all of the media conglomerate's problems. The stock was up as much as 20% in Paris on Le Monde's report of his ouster, after having declined some 75% over the last two years.

Jean-Marie Messier

But for all the talk about a split between French and American corporate cultures, canning Mr. Messier won't start to repair Vivendi's problems, which transcend concerns about Mr. Messier's management style (and lifestyle), or even the company's $20 billion in debt. What sank Mr. Messier was his business model. And unless his successor can set about fixing that, Vivendi's troubles are far from over.

The Bronfman family, which sold its Seagram drinks and entertainment empire to Vivendi in December 2000, was said to be alarmed at the rapid decline in the company's stock price—and hence the family wealth—since the deal went through. That's fair enough; but it's worth recalling that the Bronfmans were as enamored as anyone of Mr. Messier's vision of a vertically integrated media company when they signed onto the deal a year-and-a-half ago.

"The Internet Age is no longer a PC environment," said Edgar Bronfman Jr., in announcing the deal in June 2000. "It's all-device, all the time, in all the places." Eventually, that may prove true. But even if it does, it's a leap to conclude that the people controlling the "pipes"—Internet service providers, phone companies, etc.—should be controlling the content, such as movies, music and so on.

Mr. Messier's vision of the vertically integrated media future is shared by Steve Case and Richard Parsons at AOL Time Warner, and was much praised at the time each of these companies did their deals. But in the end it boils down to a failure of analogy.

The Internet is a messy, overcrowded, unwieldy place. The best thing it has going for it is that nobody owns it, so you can find on it more "stuff" than any one provider could—or would want to—offer. Some of it is good, some bad, some vile. But its broad appeal rests on the fact that it's all out there, if you want it.

Much is made of the fact that AOL, with its "walled garden" and proprietary content, is far and away the most successful Internet service in the world. But this has to do with the fact that AOL made things easy at a time when the Internet was very hard to use; it's not due to its advertising and home-grown "content." AOL represented a usability revolution for the Internet, not a triumph of vertical integration, which is why the sum of AOL and Time Warner is now valued at so much less than its parts.

The idea behind both these mergers was that successful media conglomerates could recreate the salad days of network television in the U.S., when the three major networks controlled nearly the entire market. They both generated their own content and distributed it through their networks and affiliates. Of course, the TV market has since fragmented as technology makes ever more channels available; through cable and satellite, TV has become more like the Net, which is how viewers want it. So why try to make the Internet more like the bad old days of television? Not only was the analogy a flawed one, it's already been repudiated by history.

The Bronfmans asked for Mr. Messier's head at last Tuesday's board meeting, and didn't get it, reportedly because French board members feared seeing him replaced by an American or Canadian executive, or having the company broken up. But Mr. Messier's French backers abandoned him over the weekend and demanded his resignation anyway, according to Le Monde. As of this writing, Vivendi had not responded to a request for confirmation.

In the wake of Enron and WorldCom and all the recent ire over "fat cat" CEOs, it's easy to vilify chief executives—especially flamboyant ones—and cheer their departure. But unless Vivendi's board and management can let go of Mr. Messier's business model the way they've dumped the man, the company's long slide won't end with his ouster.

Mr. Carney edits The Wall Street Journal Europe's Business Europe column.

5/18/03

BY BRAD HAMANN FOR THE WASHINGTON POST

copy

Sounds Familiar For a Reason

By Marc Fisher

Technology begets wonders, such as radio talk show host Brian Wilson, who, thanks to satellites and the Internet, sits on his farm north of Baltimore and talks California politics with listeners on San Francisco's KSFO. Wilson wakes each day, fires up his Web browser and reads the morning San Francisco Chronicle online for the latest news from clear across the country. He's so good that his listeners could be forgiven for thinking that he's in the City by the Bay rather than in a bedroom in Maryland. This is what passes for local radio these days.

Satellites and digital recording also make it possible for oldies deejay Tom Kelly to finish up his afternoon air shift on WBIG in Rockville, then sit down in front of a microphone and record his next job, as JJ Jackson, the overnight oldies jock on KQQL in Minneapolis. And no one's the wiser—except, of course, Clear Channel Communications Inc., which owns both stations. You do have to give Clear Channel a hand for this wink and nudge on the KQQL Web site: "Actually, JJ is perhaps the most 'there' overnight presence in Twin Cities FM radio."

Deregulation in the media industries begets wonders, too, producing not only deejays with multiple personalities, but multiple stations with single corporate identities. Ever since Congress eased limits on media ownership in 1996, companies such as Clear Channel and Viacom Inc. have gobbled up hundreds of radio stations, threatening diversity. In many cities, a single company controls a majority of radio advertising revenue and makes most of the programming decisions. Since 1996, Clear Channel alone went from 40 stations to more than 1,200; add the company's prominence in the concert promotion and outdoor advertising businesses and you have unprecedented influence on the nation's popular music.

Radio has been the test case for media consolidation.

The combination of technological change and freedom from government regulation has not liberated owners to do more with less; rather, companies have lunged at the chance to do far less and rake in much more.

Come June 2, the Federal Communications Commission (FCC) is expected to approve new rules that would allow even more consolidation in the media: TV networks would be permitted to buy more stations than they are now, a media company would be allowed to own as many as three TV stations in one city, and restrictions on cross-ownership between newspapers and broadcast stations would be lifted.

After an expected binge of station and network sales, companies with the deepest pockets could

Marc Fisher is a columnist for The Washington Post's Metro section. He is working on a book about radio's evolution since the advent of TV.

See **OWNERSHIP**, *B5, Col. 1*

The Washington Times
www.washingtontimes.com

Pop programs seen giving teens bad view of U.S.

By Zachary A. Goldfarb
Published July 28, 2003

American pop culture has prompted teenagers in countries with close ties to the United States, as well as countries lacking close ties, to view Americans negatively, says a book to be published in October.

The book — "Learning to Hate Americans: How the U.S. Media Shape Negative Opinions Among Teen-Agers in Twelve Countries" — contends that though teenagers embrace American movies, TV and music, they believe that the violence, crime and sex portrayed in pop culture accurately depict ordinary life in the United States.

"These kids love our popular culture," said Boston University communications professor Marvin L. DeFleur, who wrote the book with his wife, Margaret, a communications associate professor at the school, based on a study they did last year.

"Using the lessons of the media product, they learn to hate Americans because they seem like despicable people," he said.

The State Department consulted a preliminary version of Mr. DeFleur's book this year while studying why negative views of the United States have emerged in recent years, possibly contributing to terrorism.

Ted Baehr, who studies family values and popular culture, said the work of Mr. and Mrs. DeFleur shows how bad impressions created by pop entertainment in the United States are spilling over into other countries and having international ramifications.

"It's really about how we want the world to see us," he said.

To do the initial study, surveys in native languages were submitted to about 1,200 middle and high school students in 12 countries: Saudi Arabia, Bahrain, South Korea, Mexico, China, Spain, Taiwan, Lebanon, Pakistan, Nigeria, Italy and Argentina.

Mr. and Mrs. DeFleur found that teenagers in two Muslim countries, Saudi Arabia and Bahrain, held the most negative views.

But Mr. DeFleur said he was surprised that teenagers in South Korea and Mexico — countries with close ties to the United States — had views nearly as negative as teens those in Saudi Arabia and Bahrain.

Nigeria and Italy were the most neutral, while teenagers in Argentina were the only ones to view Americans positively.

The surveys registered the responses of teens to statements such as "Americans are very materialistic," "Americans are a generous people" and "Americans are generally a violent people."

Many countries in the survey lack the facilities for producing sophisticated films and TV, but they do have cinemas, TVs and VCRs capable of showing Hollywood entertainment. Thus, many young people gravitate toward the high-budget thrillers produced by American entertainment companies, Mr. DeFleur said.

He said teenagers in Tehran like buying rugs imprinted with Elvis Presley's face, and that Madonna's albums are best sellers in Riyadh.

But with increasing levels of violence and sex in films and TV shows such as "The Sopranos" and "Sex and the City," coupled with foreign discontent with the world's sole superpower, teenagers have developed these negative views, he said.

Because Americans value freedom of expression, Mr. DeFleur said, not much can be done to ameliorate the problem.

But, he said, two things could help: encouraging foreign governments to teach young people that not all popular culture is accurate, and encouraging international entertainment companies to clearly label potentially offensive content and restrict how much they put out.

The study's authors acknowledged that their research was not scientifically based but said a scientific analysis of views in countries such as Saudi Arabia would have been impossible.

Return to the article

Embassy Row

By James Morrison

Mexico's governor

The governor of Mexico's most economically powerful state insists he is not running for president, even though he is frequently mentioned as a possible candidate in the 2006 election and appears to enjoy the attention.

"I haven't said anything about being a presidential candidate," Arturo Montiel told editors and reporters at The Washington Times yesterday.

Mr. Montiel, governor of the state of Mexico for the past three years, still has two years to go in his term and says he is only concentrating on continuing to create jobs for his constituents.

Fortunately for him, the next presidential election comes in 2006, a year after he leaves office. He will need the time, if he is to improve his standing in the opinion polls and persuade voters to give his Institutional Revolutionary Party another chance in power. His party held the presidency for more than 70 years before losing to Vicente Fox of the National Action Party in the 2000 election.

In a field crowded with 18 potential candidates, Mr. Montiel runs fifth in the latest opinion poll, favored by 5 percent of voters. The leading candidate, Andres Lopez of the Democratic Revolutionary Party, draws 27 percent.

Mr. Montiel, who is in Washington to discuss plans for the expansion of Mexico City's airport, said his policies have created 180,000 jobs and the state of Mexico has an annual growth rate of 3.5 percent. Nationally the rate is 2.7 percent.

He said his country must attract more foreign investment and reform its economic policies if it hopes to create enough employment to decrease the number of Mexicans who immigrate both legally and illegally to the United States.

"The state of Mexico has an aggressive policy of looking for investment to create jobs so that people will not have to come to the United States," he said. "It is a dream to think we can stop immigration, but we can dampen it."

Mr. Montiel urged the United States to do more to help illegal immigrants here and criticized California Gov.-elect Arnold Schwarzenegger for his immigration policies. Mr. Schwarzenegger, for example, opposes a California law that grants driver's licenses to illegal immigrants, calling it a security risk.

"There is a large population of Mexicans [in California] that could be a problem for him," Mr. Montiel said, adding that he wants good relations with the incoming California governor.

However, he said, "if he keeps making statements that are against the interests of Mexicans, we will not support him."

Mr. Montiel said Mexican immigrants do not mind taking menial jobs that Americans will not accept.

"I prefer they come to work doing anything, even if Americans do not want to do the jobs," he said.

Mr. Montiel noted that, despite his disagreement with U.S. officials over illegal immigration, his government will continue to cooperate with the United States, especially in legal matters. On Tuesday, state authorities arrested two Mexicans wanted in South Carolina in connection with six homicides.

"We are not going to tolerate that kind of behavior in the state of Mexico," he said.

AIDS in China

The U.S. ambassador to China warned of a possible AIDS crisis, as the U.S. Centers for Disease Control and Prevention opened an AIDS treatment office in Beijing this week.

"Swift and meaningful action must be taken now, if China is to avert the tragedy of a . . . crisis," Ambassador Clark Randt said, adding that the fight against the disease is "one of the highest foreign policy priorities of the United States government."

Chinese Vice Health Minister Huang Jiefu welcomed the opening of the AIDS office.

"Globalization of diseases and globalization of the threat to public health means globalization of the fight against it," he said.

The Chinese government admits to at least 1 million cases of the disease.

• *Call Embassy Row at 202/636-3297, fax 202/832-7278 or e-mail jmorrison@washingtontimes.com.*

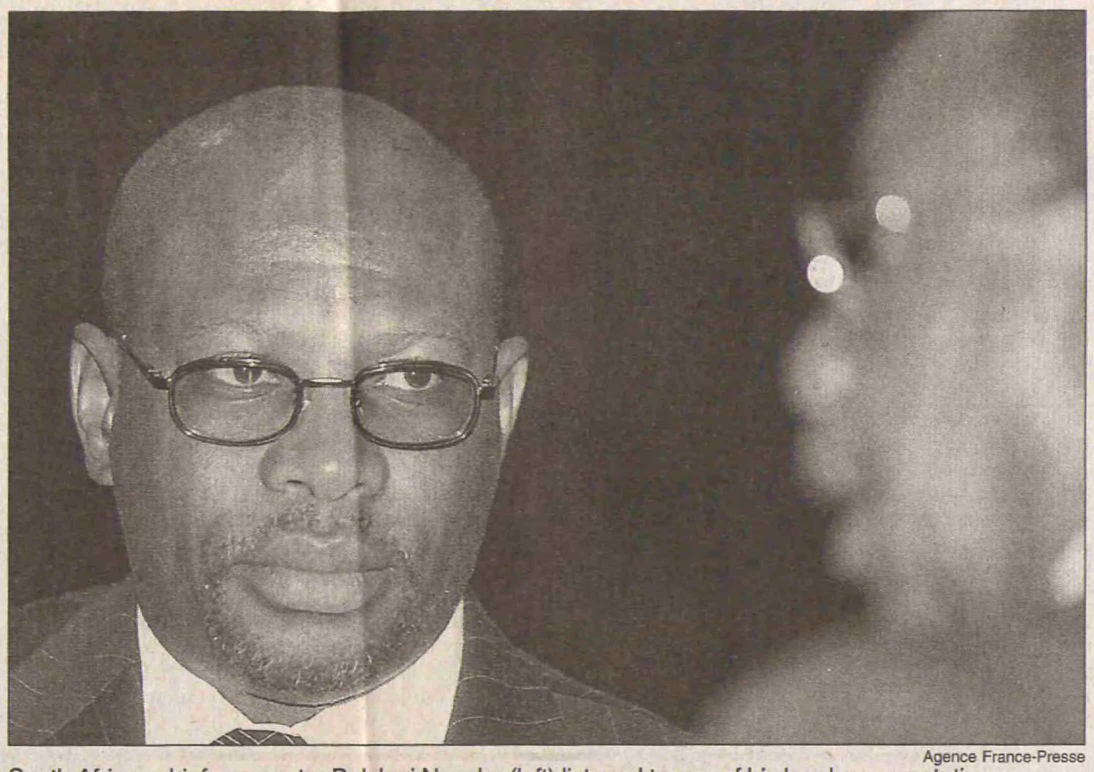
BRIEFING/AFRICA

Apartheid spy probe splits S. Africa

Member of ruling party is accused

From combined dispatches

BLOEMFONTEIN, South Africa — Former President Nelson Mandela's attorney, George Bizos, will represent South African intelligence agencies that have been asked to disclose secret information at an inquiry into apartheid spying.



Agence France-Presse

South African chief prosecutor Bulelani Ngcuka (left) listened to one of his legal representatives, Marumo Moerane, address the commission looking into accusations that Mr. Ngcuka was a spy for the apartheid government.

Former South African President Nelson Mandela helped bring his country out from the oppression of apartheid, but recent charges are clouding the country's future.

Mr. Bizos, who defended Mr. Mandela against treason charges in 1963, will make submissions tomorrow on behalf of the South African Police Service (SAPS) and the National Intelligence Agency (NIA), which are said to be reluctant to make files available to a judicial commission of inquiry led by Judge Joos Hefer.

Judge Hefer is in charge of establishing whether chief prosecutor Bulelani Ngcuka, a member of the ruling African National Congress (ANC), was once a spy for the apartheid state.

John Bacon, a spokesman for the commission, said the intelligence agencies had stated their position on the information request at a private meeting Friday with representatives of the inquiry.

"I cannot disclose what was said at that meeting. An agreement was reached that advocate Bizos will represent them and make submissions on their behalf on Friday," Mr. Bacon told Agence France-Presse.

South African journalists have reported that SAPS and NIA, which has incorporated the former intelligence agencies of the ANC and the defunct apartheid regime, did not want to disclose the information.

Two key witnesses in the inquiry, a former Cabinet minister, Mac Maharaj, and Mo Shaik, the brother of Deputy President Jacob Zuma's financial adviser, are former ANC intelligence operatives. Mr. Maharaj and Mr. Shaik have requested secret files that they maintain will prove Mr. Ngcuka was a spy for the former white-supremacist government.

The claims against Mr. Ngcuka, now a chief prosecutor for the government, surfaced while his office was investigating accusations that Mr. Zuma had solicited a $70,000 bribe in a state arms-procurement deal.

Mr. Ngcuka also is investigating Mr. Maharaj on accusations of corruption.

President Thabo Mbeki ordered the inquiry to establish whether Mr. Ngcuka was a spy code-named RS452. However, a woman now living in Britain came forward this week saying she was Agent RS452.

The spy saga has been making front-page headlines in South Africa, with observers saying it is symptomatic of serious divisions within the ANC's top leadership ahead of general elections next year.

The Johannesburg-based Star newspaper reported Tuesday that Vanessa Brereton said she was agent RS452.

"I was RS452, and I have had enough of the lies and deceit," she told the daily, which published two old photographs of Miss Brereton, one of them taken with three white activists in 1985.

Her admission could clear Mr. Ngcuka, who served three years in prison in the mid-1980s for antiapartheid activities, from Mr. Mbeki's charge that he spied for the white-supremacist apartheid regime.

Mr. Zuma is said to have received a bribe from a French armaments company in return for protecting the firm during investigations into the contract.

Mr. Ngcuka was also instrumental in prosecuting ANC chief whip Tony Yengeni, who was found guilty of soliciting bribes in the arms deal, as well as Mr. Mandela's ex-wife, Winnie Madikizela-Mandela, who was convicted this year of fraud.

A Sunday newspaper reported last month that Mr. Ngcuka had been a spy for the apartheid National Party government.

Soon afterward, Mr. Maharaj, a former transport minister who used to be an intelligence operative for the ANC, confirmed that Mr. Ngcuka had been suspected of being a spy. Mr. Shaik, the brother of Mr. Zuma's financial adviser, who also worked for the ANC's intelligence division, backed Mr. Maharaj's claim.

Mr. Mbeki announced an official probe to find out whether Mr. Ngcuka was Agent RS452.

Mr. Maharaj and Mr. Shaik were to testify last week at hearings into the matter, but their submissions were postponed until certain documents could be obtained from the former intelligence agencies.

The Star then reported that it had tracked down Agent RS452.

Miss Brereton told the newspaper she had spied on white antiapartheid activists in the 1980s and early 1990s.

She was known as a leading human rights lawyer in the Eastern Cape province and won a reputation for defending the oppressed in several political trials, while by her account, she was an undercover member of the apartheid security police.

At some stage, however, she started to question the motives of her seniors.

"I began to realize that some of them were just petty thieves and worse. . . . I realized that these were people who would even kill their own," she said.

Miss Brereton said that she had prepared an affidavit for the commission of inquiry probing the spy claims and that a commission spokesman had confirmed investigators might travel to Britain to hear testimony from her.

Her revelations may close the chapter on the spy saga, which has been dominating front pages for weeks, complicating the outlines of South Africa's recent history.

F.W. de Klerk, an Afrikaner of the National Party who became president in 1989, announced at the opening of Parliament in February 1990 the unbanning of black-liberation movements and release of political prisoners, notably Mr. Mandela.

The African National Congress, as the foremost black-liberation group, was increasingly regarded as a government in waiting. After a long negotiation process, marked by violence from white-supremacist hard-liners, South Africa held its first democratic election in April 1994.

The ANC under Mr. Mandela emerged with a 62 percent majority. Its main opposition came from the National Party, which gained 20 percent of the vote nationally and a majority in the Western Cape, where it was supported strongly by mixed-race voters. The Inkatha Freedom Party (IFP) received 10 percent of the vote, mainly in its KwaZulu-Natal base.

The ANC, the National Party and IFP participated in a national unity government until 1996, when the National Party withdrew. Thereafter, the Mandela government undertook to reconstruct and develop the country and its institutions. A significant milestone of democratization during Mr. Mandela's five years as president was the creation of a new constitution, adopted in 1996 and implemented in stages.

The Truth and Reconciliation Commission, under the leadership of Archbishop Desmond Tutu, introduced accountability and transparency in South Africa's public life, at the same time as helping to heal the wounds inflicted of the apartheid era.

The ANC increased its majority to nearly two-thirds of the vote in the second democratic election held June 2, 1999, and made Mr. Mbeki president.

But now the truth is becoming unclear, and reconciliation is losing ground.

S. African victims sue global corporations in U.S.

By Sharon Golan
and John Henry Boudreaux
ASSOCIATED PRESS

SHARPEVILLE, South Africa — They were not the big names of the struggle against apartheid, and their stories did not make headlines. But they, too, were raped, tortured and imprisoned by the former white-supremacist regime.

AP

Phumla Marangxa weeps during a meeting to discuss seeking reparations from global companies, in Sharpeville, South Africa.

Still awaiting compensation from the current government, scores of apartheid victims have pinned their hopes on the distant courts of the United States, where lawsuits have been filed against top international corporations they claim helped prop up the racist government.

Khulumani, a support group for apartheid victims, filed one such suit in New York in November against 20 multinational corporations, including ChevronTexaco and IBM, for what its lawyers said was "knowingly aiding and abetting the apartheid enterprise."

Corporations that have commented say they will fight the lawsuits.

"ExxonMobil condemns the violation of human rights in any form," said Sandra Duhe, a spokeswoman for the Texas-based company. "The apartheid era was a tragic chapter of South Africa's history, and this lawsuit is not helping the South African people or economic development of the nation."

On Tuesday, Michael Hausfeld, an American lawyer representing the 80 Khulumani members who have filed suit, met with the group to share their stories and field questions.

Meanwhile, another U.S. lawyer, Ed Fagan — who came to prominence after a landmark $1.25 billion settlement with Swiss corporations on behalf of Holocaust victims — met with his South African clients in Sasolburg, a small town about 40 miles south of Johannesburg.

He has filed a class-action lawsuit in New York on behalf of those who suffered occupational disabilities and lost pension funds during apartheid.

President Thabo Mbeki has said his government would not support the lawsuits, a disappointment to those who had hoped the government would be sympathetic.

To date, the only venue for reparations has been through the Truth and Reconciliation Commission, formed to help heal apartheid's wounds. The commission decided on a one-time government payment of $92.4 million, but only to the 22,000 victims who testified in the hearings.

It has left people such as Thomas Masilo empty-handed.

Mr. Masilo, 62, was in the crowd of demonstrators shot at by apartheid police here in Sharpeville in 1960. Sixty-nine persons were killed — among them two of his cousins and an uncle. Mr. Masilo crawled 300 yards amid gunfire to safety, passing people on the ground with bullets in their backs.

What became known as the Sharpeville massacre was a turning point in the struggle against apartheid, exposing the oppressive reach of the regime.

Mr. Masilo, who is unemployed and joined the suit on behalf of his dead relatives, said he was disappointed by the government's stance.

"Must I go pinch? Become a criminal? An old man like me? That's what the government is making me do," he said.

At the meeting in a dusty gym in the poor town of Sasolburg, Silas Mokwena, a 48-year-old pipe fitter, said money is desperately needed.

The ruling African National Congress "is not good for us," he said. "We were expecting money so that we can pay for our kids' education, and the money has not come through."

Mr. Fagan's lawsuit is based on U.S. law that gives American courts jurisdiction over violations of international law, regardless of where they occur. It points to several businesses, including automakers it says provided armored vehicles used to patrol black townships and arms manufacturers and oil companies it says violated international sanctions against the white-supremacist regime.

HOW DEREGULATION HELPED PUT THE CABLE INDUSTRY INTO

▶▶▷ faster forward

Congress did a smart thing in 1996. When it deregulated the cable industry, it inspired cable companies to invest in new technologies and services.

Everybody's won.

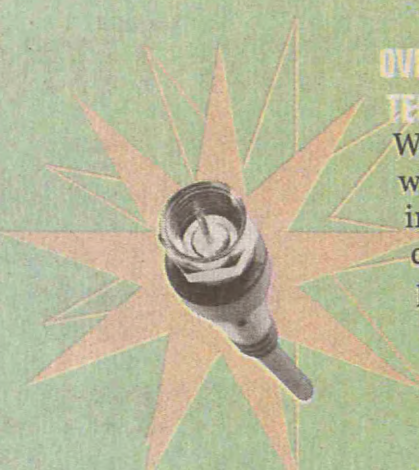
››› The cable industry has helped create over half a million new American jobs in the last 10 years.

››› Thousands of schools receive free educational programming and high-speed Internet service, courtesy of cable companies.

››› Millions of Americans now get broadband service through their cable companies. And over 2.5 million customers have already signed up for telephone service from their cable companies.

››› Billions of dollars have flowed into the American high-technology sector from the cable industry.

››› And perhaps most importantly, cable customers enjoy unprecedented choice and control over the thousands of hours of high-quality entertainment that flow into their homes every week.



OVER $75 BILLION INVESTED IN NEW TECHNOLOGIES SINCE 1996

When Congress was considering whether to deregulate the cable industry seven years ago, cable companies promised to invest in new people-pleasing technologies and programming.

More than $75 billion later, cable customers are enjoying an avalanche of new services...

FROM HI-DEF TO THE WWW

A cable home is quite different from a non-cable home these days. It's more likely to have Video-On-Demand that puts people in complete control of their TV schedules. And it may be enjoying high-speed Internet service that leaves dial-up and DSL in the digital dust.

Add in the clarity of high-definition TV as well as hundreds of new digital video and audio channels... and the totally wired home has arrived.

JOBS, SCHOOLS AND TAXES

Despite the economic challenges that have afflicted other industries, cable companies have helped create over half a million new American jobs in the last 10 years. In fact, from 1990 to 2002, cable accounted for nearly 3% of new jobs in our country.

Cable companies provide commercial-free educational programming and high-speed Internet service to thousands of schools and millions of students, free of charge.

Last but not least, cable companies paid more than $2 billion in franchise fees to local communities last year.

CRITICS AND VIEWERS LOVE CABLE

It's hard to overstate how cable has inspired television writers and directors. Channels like MTV, ESPN and The History Channel as well as shows like *Six Feet Under*, *Trading Spaces* and *SpongeBob SquarePants* have broken new ground.

Critics have responded. Just a few weeks ago, cable shows won Emmy Awards in category after category – 78 winners in all. Same story earlier this year when the Peabodys and Golden Globes were announced.

And viewers are voting with their remotes. For the first time, more people are watching cable during primetime than the broadcast networks. And cable news channels account for 60% of all TV news viewership.

ONE OF THE BEST ENTERTAINMENT VALUES IN AMERICA

With so much entertainment and information now available at the touch of a remote, most Americans feel that cable is one of the best values in entertainment today.

To compare, the average monthly basic cable bill is about $40, less than what it costs to take a family of four to a single movie. People think that's a pretty good deal.

A DEREGULATION SUCCESS STORY

In the past seven years, the cable industry has undergone a major transformation. Today's cable companies are more consumer-focused than ever before. Customer satisfaction is on the rise.

It's all because deregulation enabled cable companies to invest in new technologies and services to compete for customers. And compete they do. They battle with the satellite dish companies for TV customers. They compete with the phone companies for Internet and phone service. And as they introduce time-shifting technologies, they go up against video stores.

These are the results of Congress deregulating the cable industry. Talk about impact. This is not the cable business of seven years ago. This is an industry that's on the move. On faster forward, if you will.

faster-forward.com

cable

▶▶▷ faster forward

NATIONAL CABLE & TELECOMMUNICATIONS ASSOCIATION

THE AGENDA

THIS MONTH, *two views of George Bush's re-electability; what bin Laden and Chirac have in common; pork barrels in the air?*

PATRICK J. BUCHANAN

"It is the experience of the father that haunts the son, because the strong hand that George W. Bush has been dealt in 2003—successful war President, popular with the people, and no Republican rival or third-party challenger on the horizon—is the hand his father held in the summer of 1991." PAGE 34

JACK BEATTY

"President Bush won't face a third-party challenge from a former Republican President, as Taft did in 1912, or from a billionaire paranoiac, as his father did in 1992. He will, however, come before the voters with the abysmal distinction of being the first President in decades to have lost America jobs during his tenure." PAGE 38

PRIMARY SOURCES

"Just how hot was the twentieth century? Probably colder than the Medieval Warm Period, when the Vikings colonized Greenland and olive trees flourished as far north as Germany." PAGE 42

THE NATION IN NUMBERS

"Each economic era has a resource that drives wealth creation. In the agricultural era it was land. In the industrial era it was energy. Today it may be the airwaves." PAGE 46

PEOPLE LIKE US

We all pay lip service to the melting pot, but we really prefer the congealing pot

BY DAVID BROOKS

.....

Maybe it's time to admit the obvious. We don't really care about diversity all that much in America, even though we talk about it a great deal. Maybe somewhere in this country there is a truly diverse neighborhood in which a black Pentecostal minister lives next to a white anti-globalization activist, who lives next to an Asian short-order cook, who lives next to a professional golfer, who lives next to a postmodern-literature professor and a cardiovascular surgeon. But I have never been to or heard of that neighborhood. Instead, what I have seen all around the country is people making strenuous efforts to group themselves with people who are basically like themselves.

Human beings are capable of drawing amazingly subtle social distinctions and then shaping their lives around them. In the Washington, D.C., area Democratic lawyers tend to live in suburban Maryland, and Republican lawyers tend to live in suburban Virginia. If you asked a Democratic lawyer to move from her $750,000 house in Bethesda, Maryland, to a $750,000 house in Great Falls, Virginia, she'd look at you as if you had just asked her to buy a pickup truck with a gun rack and to shove chewing tobacco in her kid's mouth. In Manhattan the owner of a $3 million SoHo loft would feel out of place moving into a $3 million Fifth Avenue apartment. A West Hollywood interior decorator would feel dislocated if you asked him to move to Orange County. In Georgia a barista from Athens would probably not fit in serving coffee in Americus.

It is a common complaint that every place is starting to look the same. But in the information age, the late writer James Chapin once told me, every place becomes more like itself. People are less often tied down to factories and mills, and they can search for places to live on the basis of cultural affinity. Once they find a town in which people share their values, they flock there, and reinforce whatever was distinctive about the town in the first place. Once Boulder, Colorado, became known as congenial to politically progressive mountain bikers, half the politically progressive mountain bikers in the country (it seems) moved there; they made the place so culturally pure that it has become practically a parody of itself.

But people love it. Make no mistake—we are increasing our happiness by segmenting off so rigorously. We are finding places where we are comfortable and where we feel we can flourish. But the choices we make toward that end lead to the very opposite of diversity. The United States might be a diverse nation when considered as a whole, but block by block and institution by institution it is a relatively homogeneous nation.

When we use the word "diversity" today we usually mean racial integration. But even here our good intentions seem to have run into the brick wall of human nature. Over the past generation reformers have tried heroically, and in many cases successfully, to end housing discrimination. But recent patterns aren't encouraging: according to an analysis of the 2000 census data, the 1990s saw only a slight increase in the racial integration of neighborhoods in the United States. The number of middle-class and upper-middle-class African-American families is rising, but for whatever reasons—racism, psychological comfort—these families tend to congregate in predominantly black neighborhoods.

In fact, evidence suggests that some neighborhoods become more segregated over time. New suburbs in Arizona and Nevada, for example, start out reasonably well integrated. These neighborhoods don't yet have reputations, so people choose their houses for other, mostly economic reasons. But as neighborhoods age, they develop personalities (that's where the Asians live, and that's where the Hispanics live), and segmentation occurs. It could be that in a few years the new suburbs in the Southwest will be nearly as segregated as the established ones in the Northeast and the Midwest.

Even though race and ethnicity run deep in American society, we should in theory be able to find areas that are at least culturally diverse. But here, too, people show few signs of being truly interested in building diverse communities. If you run a retail company and you're thinking of opening new stores, you can choose among dozens of consulting firms that are quite effective at locating your potential customers. They can do this because people with similar tastes and preferences tend to congregate by ZIP code.

The most famous of these precision marketing firms is Claritas, which breaks down the U.S. population into sixty-two psycho-demographic clusters, based on such factors as how much money people make, what they like to read and watch, and what products they have bought in the past. For example, the "suburban sprawl" cluster is composed of young families making about $41,000 a year and living in fast-growing places such as Burnsville, Minnesota, and Bensalem, Pennsylvania. These people are almost twice as likely as other Americans to have three-way calling. They are two and a half times as likely to buy Light n' Lively Kid Yogurt. Members of the "towns & gowns" cluster are recent college graduates in places such as Berkeley, California, and Gainesville, Florida. They are big consumers of DoveBars and *Saturday Night Live*. They tend to drive small foreign cars and to read *Rolling Stone* and *Scientific American*.

Looking through the market research, one can sometimes be amazed by how efficiently people cluster—and by how predictable we all are. If you wanted to sell imported wine, obviously you would have to find places where rich people live. But did you know that the sixteen counties with the greatest proportion of imported-wine drinkers are all in the same three metropolitan areas (New York, San Francisco, and Washington, D.C.)? If you tried to open a motor-home dealership in Montgomery County, Pennsylvania, you'd probably go broke, because people in this ring of the Philadelphia suburbs think RVs are kind of uncool. But if you traveled just a short way north, to Monroe County, Pennsylvania, you would find yourself in the fifth motor-home-friendliest county in America.

Geography is not the only way we find ourselves divided from people unlike us. Some of us watch Fox News, while others listen to NPR. Some like David Letterman, and others—typically in less urban neighborhoods—like Jay Leno. Some go to charismatic churches; some go to mainstream churches. Americans tend more and more often to marry people with education levels similar to their own, and to befriend people

with backgrounds similar to their own.

My favorite illustration of this latter pattern comes from the first, noncontroversial chapter of *The Bell Curve*. Think of your twelve closest friends, Richard J. Herrnstein and Charles Murray write. If you had chosen them randomly from the American population, the odds that half of your twelve closest friends would be college graduates would be six in a thousand. The odds that half of the twelve would have advanced degrees would be less than one in a million. Have any of your twelve closest friends graduated from Harvard, Stanford, Yale, Princeton, Caltech, MIT, Duke, Dartmouth, Cornell, Columbia, Chicago, or Brown? If you chose your friends randomly from the American population, the odds against your having four or more friends from those schools would be more than a billion to one.

Many of us live in absurdly unlikely groupings, because we have organized our lives that way.

It's striking that the institutions that talk the most about diversity often practice it the least. For example, no group of people sings the diversity anthem more frequently and fervently than administrators at just such elite universities. But elite universities are amazingly undiverse in their values, politics, and mores. Professors in particular are drawn from a rather narrow segment of the population. If faculties reflected the general population, 32 percent of professors would be registered Democrats and 31 percent would be registered Republicans. Forty percent would be evangelical Christians. But a recent study of several universities by the conservative Center for the Study of Popular Culture and the American Enterprise Institute found that roughly 90 percent of those professors in the arts and sciences who had registered with a political party had registered Democratic. Fifty-seven professors at Brown were found on the voter-registration rolls. Of those, fifty-four were Democrats. Of the forty-two professors in the English, history, sociology, and political-science departments, all were Democrats. The results at Harvard, Penn State, Maryland, and the University of California at Santa Barbara were similar to the results at Brown.

What we are looking at here is human nature. People want to be around others who are roughly like themselves. That's called community. It probably would be psychologically difficult for most Brown professors to share an office with someone who was pro-life, a member of the National Rifle Association, or an evangelical Christian. It's likely that hiring committees would subtly—even unconsciously—screen out any such people they encountered. Republicans and evangelical Christians have sensed that they are not welcome at places like Brown, so they don't even consider working there. In fact, any registered Republican who contemplates a career in academia these days is both a hero and a fool. So, in a semi-self-selective pattern, brainy people with generally liberal social mores flow to academia, and brainy people with generally conservative mores flow elsewhere.

The dream of diversity is like the dream of equality. Both are based on ideals we celebrate even as we undermine them daily. (How many times have you seen someone renounce a high-paying job or pull his child from an elite college on the grounds that these things are bad for equality?) On the one hand, the situation is appalling. It is appalling that Americans know so little about one another. It is appalling that many of us are so narrow-minded that we can't tolerate a few people with ideas significantly different from our own. It's appalling that evangelical Christians are practically absent from entire professions, such as academia, the media, and filmmaking. It's appalling that people should be content to cut themselves off from everyone unlike themselves.

The segmentation of society means that often we don't even have arguments across the political divide. Within their little validating communities, liberals and conservatives circulate half-truths about the supposed awfulness of the other side. These distortions are believed because it feels good to believe them.

On the other hand, there are limits to how diverse any community can or should be. I've come to think that it is not useful to try to hammer diversity into every neighborhood and institution in the United States. Sure, Augusta National should probably admit women, and university sociology departments should probably hire a conservative or two. It would be nice if all neighborhoods had a good mixture of ethnicities. But human nature being what it is, most places and institutions are going to remain culturally homogeneous.

It's probably better to think about diverse lives, not diverse institutions. Human beings, if they are to live well, will have to move through a series of institutions and environments, which may be individually homogeneous but, taken together, will offer diverse experiences. It might also be a good idea to make national service a rite of passage for young people in this country: it would take them out of their narrow neighborhood segment and thrust them in with people unlike themselves. Finally, it's probably important for adults to get out of their own familiar circles. If you live in a coastal, socially liberal neighborhood, maybe you should take out a subscription to *The Door*, the evangelical humor magazine; or maybe you should visit Branson, Missouri. Maybe you should stop in at a megachurch. Sure, it would be superficial familiarity, but it beats the iron curtains that now separate the nation's various cultural zones.

Look around at your daily life. Are you really in touch with the broad diversity of American life? Do you care? 🅰

David Brooks, an Atlantic *correspondent, is also a contributing editor of* Newsweek, *a senior editor of* The Weekly Standard, *and a political analyst for* The NewsHour With Jim Lehrer.

Men and women

Together and apart

Modern Love: An Intimate History of Men and Women in Twentieth-Century Britain. By Marcus Collins. *Atlantic Books; 294 pages; £19.99*

"HISTORY is hopeless on love," says Marcus Collins, and then proceeds to prove himself wrong, in this subtle and persuasive account of relationships between men and women from the 19th century through to the new millennium. He charts the rise of what he dubs "mutuality": the idea that an intimate equality should be established between men and women through mixing of the sexes, companionate marriage and shared sexual pleasure. Like all utopian ideals, this turned out to be more complicated to sustain than its early proponents imagined.

At first, there was much scope for change. The mainstream Victorian view of the right balance between men and women was essentially one of separate spheres. As John Ruskin, great art guru of the late Victorians, saw it, "Each has what the other has not." Complementarity did not imply equality, of course. But as the clamour for female emancipation grew, it shook what happened in the home, as well as in politics.

Right up to the middle of the 20th century, something of the separate spheres persisted. In a fascinating chapter on youth clubs ("holding pens for adolescents"), Mr Collins describes how boys' clubs flourished in the first half of the century on the view that boys needed separate recreations to develop manly qualities. Then, with the second world war, came mixed youth clubs to which, by the late 1960s, more than two-thirds of young people belonged. Single-sex clubs rapidly declined. But egalitarian did not mean equal: in mixed clubs, boys tended to charge about the place, keeping the girls out of the billiards room and hiding the table-tennis balls. Girls liked dancing; boys found it boring. Mixing took place, but on unequal terms.

Outside the clubs, mutuality reached its zenith in the century's third quarter, argues Mr Collins. Marriage became near universal; women began to go out to work and so had less time for social life with other women; and the arrival of television kept everyone at home in the evenings. But then a new wave of feminism attacked this cosy domesticity as a trap for women. Women learned independence in the job market; the arrival of the Pill ended the double sexual standard for men and women; and the rise of divorce deprived mutuality of its bedrock, the companionate marriage.

This book's main disappointment is its purely British focus: each trend Mr Collins spots has echoes elsewhere, and many were most obvious in America. But its sweep is impressive, even if its detail on the twists of contemporary thought give rise to footnotes that take up more than a quarter of the pages.

So what is left, given that society now takes for granted the rights of women, the end of sexual repression and the mixing of the sexes in all sorts of organisation from school to the workplace? Mr Collins is glum: by the millennium, men and women were "alone together" as individualism triumphed over togetherness. Yet this is too despondent. The astonishing thing is that marriage and the family have survived the earthquakes of the past century, and that this most intimate of human relationships has changed as much as it has, and largely for the better. ■

War memoirs

Blood and guts

The Zanzibar Chest: A Story of Life, Love, and Death in Foreign Lands. By Aidan Hartley. *Grove/Atlantic; 432 pages; $24. HarperCollins; £20*

TURNING out concise, clichéd paragraphs, with little originality but at high speed, is a talent that is greatly prized by the international news agencies—along with a stomach for filthy coffee and the ability to work around the clock. Nothing will kill off a natural writing gift quite so well as a thorough news-agency training.

So it is astonishing that Aidan Hartley, a Kenya-born reporter who spent nearly six years working for Reuters, should have escaped the agency ruin and brought forth such a lyrical, passionate memoir of his dark continent as "The Zanzibar Chest".

On the surface, Mr Hartley's book professes to explore why his father and so many other Englishmen of his generation turned time and again to Africa. Its real aim is far more ambitious: to explore the motives of many generations of white people—good and bad, but mostly confused—who have washed up on Africa's wilder shores of love.

Mr Hartley's judgment of the foreign politicians who have involved themselves in the continent—those who ordered the American invasion of Somalia and the others who later oversaw the UN's subsequent rickety peacekeeping efforts there—is tough without being hysterical. And he has a sure pen for character, particularly in describing his father's friend, an honourable Englishman who married an Arabian beauty and divorced her to set her free, and Dan Eldon (pictured above), the slim American photographer who was stoned to death exactly a decade ago by a rampaging mob in Mogadishu just moments after an American raid on the city.

In the midst of the carnage, though, what Mr Hartley writes about best are the dichotomies within himself—his ache for Africa, his rage at its horrors, his longing for the peace of making love under the stars and his inability to give up the war-zone drum roll of gunshot and heartbeat that convinces you tomorrow may never come.

Foreign broadcasting

Telling it straight

Voice of America: A History. By Alan L. Heil, Jr. *Columbia University Press; 538 pages; $37.50 and £26*

FOR those wondering why, in the presence of global commercial news networks, there is still a need for the Voice of America (VOA), here is a short answer: "CNN can be seen in hotel lobbies; VOA can be heard in refugee camps." So says David Burke, the founding chairman of the American Broadcasting Board of Governors. And if this does not suffice, then Alan Heil's comprehensive history of America's largest publicly funded overseas broadcasting network surely provides a most comprehensive answer.

Mr Heil worked for "America's town crier to the world" for more than 35 years. Created shortly after the attack on Pearl Harbour, VOA mutated from a propaganda boutique relayed through the BBC into a well-respected multimedia operation, heard in over 50 languages by more than 90m people—except, ironically, in the United States.

It has not been easy. Again and again, VOA has had to fight to maintain editorial balance, especially in times of crisis. The network's history is replete with budget cuts and reorganisations which more than once threatened its very existence. Yet the September 11th attacks highlighted the importance of foreign broadcasting as an instrument of "soft power".

Meanwhile, in areas of the world where freedom of the press is a distant dream, VOA has touched the lives of millions of people. From the crises in eastern Europe to the student uprising in Tiananmen Square, Mr Heil provides countless examples of people clinging to their shortwave radios to listen to VOA and other international broadcasters, in spite of intense jamming, to know what was really going on in their own countries. A few years after the creation of the Tibetan service, a National Geographic Television crew recorded chants in the kitchen of a Buddhist monastery. Once back in Washington, they discovered that the lyrics were actually: "This is Voice of America in Tibetan, coming to you from Washington."

Mr Heil uses some colourful anecdotes to recount the VOA story. But his is not always an easy read. Readers fascinated by the technical intricacies of radio and the arcana of Washington's broadcasting policies will no doubt be riveted. Others may feel that the book reads a little too much like an internal corporate memo. ■

Josef Stalin

Blood on the tracks

Stalin: The Court of the Red Tsar. By Simon Sebag Montefiore. *Weidenfeld & Nicolson; 693 pages; £25*

Stalin's Last Crime: The Plot Against the Jewish Doctors, 1948-1953. By Jonathan Brent and Vladimir P. Naumov. *HarperCollins; 416 pages; $26.95. John Murray; £20*

AS WITH Stalin himself, it is hard to remember sometimes that the monstrous, ruthless, terrified, sycophantic, debauched, idealistic, deluded people around him were human beings. Simon Sebag Montefiore's book, based on a thorough synthesis of existing works, archival material, and his own interviews with survivors and their descendants, provides a richly detailed reminder.

His account does give one a start. It is much easier to read ghastly accounts of Beria's debauchery, or Stalin's paranoia, than anecdotes about children scampering happily through their parents' Kremlin offices, or of Stalin's punctilious habits in his personal correspondence, his bizarre flashes of kindness and decency or his extraordinary appetite for books. But Mr Sebag Montefiore's book is all the more valuable for the surprises it presents. As the author himself points out, demonology is no substitute for history.

What also jars, to less effect, though, is when the author's effortless prose turns facile. A good editor might have advised against over-use of words like "pinguid", avoided the use of nicknames for the main characters, pruned some sloppy repetition of details and tidied up the Russian transliterations.

Scholars disagree still over whether Stalin was born bad or whether he was simply corrupted by power, and many continue to ask themselves what he might have done next. Mr Sebag Montefiore's book offers a convincing argument that shows that Stalin's manners, and much else besides, grew worse as he got older. Despite the terror which was used against the Russian people, in the 1920s the inner dealings of the Bolshevik elite were still collegial. Stalin then was a first among equals, dominating his powerful colleagues by charm and persuasion.

In the 1930s, as the supply of external enemies ran dry, the Soviet regime turned the terror inwards, in tighter and tighter circles. Even at the top, intimacy gave way to fear. For a few years after the disastrous outbreak of war, Stalin backtracked. For all their political reliability, he realised, cronies could not win battles the way that generals could. The post-war years brought ever more terror, and ever more sycophancy—but also a physical and mental decline that set his subordinates thinking about what might follow.

This, like many other chapters in Mr Sebag Montefiore's racy narrative, is worth a separate book of its own. Jonathan Brent, a distinguished American specialist in Soviet archives, and Vladimir Naumov, one of modern Russia's best historians, provide an unparalleled account of one such episode: the famous doctors' plot of January 1953, in which a vast conspiracy of Jewish doctors is meant to have planned to murder the Kremlin leaders. In reaction, Russia seemed to wobble for a while towards its own final solution.

Although the outlines of this piece of history are clear, the details are devilishly difficult to pin down. Stalin was certainly anti-Semitic by instinct. The foundation of the state of Israel gave him reason to doubt the loyalty of even the most zealous Jewish communists. And by 1953 he needed a new enemy, having killed so many of the old ones. Russia's Jews, starting with a group of unfortunate doctors, provided a tempting target.

But so much was also invented, so much disguised. Stalin died less than two months after he dramatically pointed his finger at the doctors. The authors have managed, with commendable scholarship, to trace the origins of the so-called plot. But they cannot prove, as some conspiracy-minded scholars insist, that Stalin died of anything but natural causes. Meanwhile, in Russia, there is still a dreadful nostalgia for his rule. ■

THE WALL STREET JOURNAL.

WEDNESDAY, JULY 9, 2003

At 97, Irving Kahn Is Long on 'Intelligent' Ways to Invest

By Ianthe Jeanne Dugan

New York

IRVING KAHN IS PREACHING again about the bible of investing.

"Have you read 'The Intelligent Investor'?" Before a visitor has a chance to respond, 97-year-old Mr. Kahn fishes out the guide to picking cheap stocks, written a half century ago by his mentor Benjamin Graham.

Irving Kahn

"You can have it on one condition—that you read it," he says. There are more than a dozen extra copies of the bright yellow book in the corner office of his Manhattan investment firm. Adorning the room are photos of Mr. Kahn's 101-year-old sister, his deceased wife—and a fading black-and-white of Mr. Graham.

There are plenty of Graham devotees in the investing world, including his most famous follower, Warren Buffett. More than a million copies of "The Intelligent Investor" have sold since it was republished in 1973, three years before the "father of securities analysis" died. But Mr. Kahn is the eldest of a tiny group of remaining Graham protégés. Indeed, Mr. Kahn is one of the Street's oldest active stock analysts.

"I don't know anyone else on Wall Street who has been around as long as Irving Kahn," says 86-year-old Walter J. Schloss, who runs a New York investment firm and is another Graham disciple.

As such, Mr. Kahn has a unique perspective on the scandal currently enveloping his profession: "If there were more value investors, we wouldn't be in this mess," he says. "The changes that Wall Street is facing as a result of all this greed is as big as 1929."

He was working as assistant for a stockbroker that year. Sensing that the market was flying too high, he bet his $300 savings that Magma Copper would drop. His father, a Polish immigrant who sold lighting fixtures, insisted that the market was going to keep climbing and needled his son for a stock tip.

Mr. Kahn says he got so irritated he finally bought his Dad 25 shares of AT&T Corp., adding: "It took him over 14 years to get his money back." (Mr. Kahn's own investment doubled during the 1929 crash.)

Now, five days a week—and sometimes on weekends—Mr. Kahn puts on a crisp button-down shirt, bow tie and jacket, and walks a mile from his tony Madison Avenue apartment building where neighbors include Jack Dreyfus, the retired founder of the mutual-fund family that bears his name.

In his office one recent day, Mr. Kahn checks his stocks. Kahn Brothers, which manages $600 million in assets for wealthy individuals and institutions, has shares in dozens of mortgage companies, including big stakes in **North Fork Bancorp** Inc. and **New York Community Bancorp** Inc. He reads scientific journals and annual reports, continuing a quest to find obscure stocks that trade at or close to book value (assets minus liabilities) or have a low price-to-earnings ratio. (Mr. Kahn is chairman and two of his sons have senior roles.)

"The firm's principals have well over one-hundred years aggregate experience in applying the 'value investing' philosophy espoused by Benjamin Graham in Security Analysis, (1934)," the company's Web site says, referring to the textbook that Mr. Graham wrote with David Dodd. Mr. Kahn compiled the book's tables, while working as a teaching assistant for Mr. Graham at Columbia Business School for $25 a week.

"When the Depression set in, my salary at the brokerage firm was cut from $100 to $60 a week," he says. "So he asked me out of sympathy to work part-time."

He also helped write Mr. Graham's influential lectures. And when Mr. Graham began an investment partnership, Mr. Kahn not only invested, but hunted for values. "There were fewer tricks companies could play," he recalls. They had fewer subsidiaries and product lines, for example, and no stock options. "Heinz made ketchup," he says. "It was that simple."

The toughest part was a lack of information. "Corporations treated you the way a family would treat a reporter wanting to know about a scandal—it's none of your business," Mr. Kahn says. So Mr. Graham in 1937 helped form the New York Society of Security Analysts, which arranged one-on-one meetings between stock analysts and corporate executives.

"We had to talk top executives of places like DuPont and Texas Instruments to come to a cheap restaurant in New York," Mr. Kahn says. "We coaxed them into seeing the advantage of speaking to a small, unknown group of men who would promote their companies." The lunches grew to three times a week, but were eventually supplanted by what Mr. Kahn describes as "these useless conference calls."

Skiing together in New Hampshire before ski lifts, Mr. Graham taught Mr. Kahn to put snakeskin on the bottom of his skis to climb back up the hill. The two men lunched soon after Mr. Kahn's third son was born in 1942. "Name him Graham," his mentor urged him. But Mr. Kahn's wife had already named the baby Thomas and wouldn't change it. So Graham became his middle name.

In the early 1960s, as ethics questions swirled around securities analysts, Mr. Graham helped devise a way to help legitimize the industry. He helped shape the Chartered Financial Analyst test, which, like a CPA, would give a grueling test and a badge of honor to securities sleuths. In 1963, Mr. Kahn was in the group that took the first test—one that now is administered by the Association for Investment Management and Research, an umbrella organization of securities societies around the world. Some 55,000 people have the designation.

"Jack Grubman never had the CFA stamp," Mr. Kahn sniffs, referring to the former Salomon Smith Barney telecommunications analyst who was recently barred from the securities industry for mixing stock analysis and investment banking. "What he had was much more valuable at the time—rich and greedy people who gave him money."

Mr. Kahn says the value-investing model was further vindicated by this year's $1.4 billion stock-research settlement between 10 Wall Street securities firms and the government over analysts' conflicts, negotiated in part by New York State Attorney General Eliot Spitzer. "He's a national hero, and he deserves it," Mr. Kahn says. "I haven't met him—but I will one day."

He has reason to be optimistic. He, two older sisters and a younger brother are in such excellent health that they are the subject of a Harvard University study on the genetic roots of longevity. "Age doesn't matter," he says. "As long as you have all your marbles."

BENTON
FOUNDATION

HOME
ABOUT
INITIATIVES
PRESS ROOM
LIBRARY
Benton/General
Digital Divide
Education/Edtech
Health
International Issues
"Issues In Focus"
Libraries and the Internet
Strategic Communications and Capacity Building
Telecom Regulation and Legislation
Television/ Community Media
Toolkits
CONTACT US
EMAIL GROUPS

Sitemap Search

ISSUE IN FOCUS

Powell Muses: Maybe Public Broadcasting Can Help!

by Norris Dickard
Originally published in Current, Sept. 22, 2003
Republished with permission

A funny thing happened on the way to the FCC's loosening of federal media ownership rules: Chairman Michael Powell had an epiphany about the increasingly important role of public, noncommercial media. The transcript of the FCC's one official media ownership forum, held in February, records the moment.

As one might expect, the hearing included a spirited conversation on television content and the role of government in regulating it. Echoing former FCC Commissioner Newt Minow's lament about TV being "a vast wasteland," the Parents Television Council's Brent Bozell argued that the 200-channel universe was no improvement. He told the FCC commissioners that few of the council's 1 million members cared about diversity or competition or localism, values the FCC is supposed to promote. TV content, however, did cause their blood to boil. "They are disgusted, revolted, fed up, horrified, I don't know how else to underscore this, by the raw sewage of the ultra-violence, the graphic sex, the raunchy language that is flooding into their living rooms day and night," said Bozell.

Powell gave Bozell little hope that the FCC would ride to the rescue, asserting that consumers get the TV they choose and it's difficult for the government to select another definition of the public interest to favor.

But after a lunch break, Powell mused: "Now, a lot of what I hear today, which is very informative to me, suggests that one of the problems isn't so much big [size of media companies], isn't so much corporate, but that it's commercial. But anything by definition that's commercial is profit-seeking . . . Maybe a greater commitment to public broadcasting or forms of public broadcasting is one of these things this country, the government ought to put more stock in."

What was so ironic about this eureka moment was that the Bush administration's fiscal year 2004 budget a few weeks earlier called for crippling cuts to public broadcasting. The Association of Public Television Stations warned that the threatened cuts "would, if enacted, seriously compromise our ability to deliver the services we are required by law to provide to the American people."

I'm not sure what prompted Powell's insight. Maybe he's a closet pubcasting booster after all. Maybe he had listened to others who have argued for "a purification program": freeing commercial media to be, well, more commercial, and pubcasting less so. Perhaps he'd pondered one of the quid pro quo proposals put forth over the years: deregulate commercial media but extract from them a significant dividend for the improvement and support of public broadcasting.

Perhaps he noticed that public broadcasting gave far better coverage to a major consumer and public-interest issue—his own deregulation proposal and the public reaction it generated. When many of the major media players, with a stake in a FCC deregulatory decision, were not covering the issue, PBS and NPR picked up the slack. Living up to the motto "If PBS Doesn't Do It, Who Will?," many local PBS stations aired Now with Bill Moyers, which provided the most detailed coverage of the media ownership debate available.

In Arizona, where the Benton Foundation worked with numerous local partners to organize a regional media ownership forum to educate the public about the issue, local NPR affiliate KJZZ ran interviews with local scholars and the state attorney general on the topic. Horizons, an award-winning public affairs program on Phoenix public TV station KAET, covered the forum and interviewed FCC Commis-sioner Michael Copps, who spoke at the event. Otherwise, there was a near-blackout on commercial stations.

In much the same way, most commercial radio stations no longer attempt to provide substantive local news. Carl Matthusen, a panelist at the forum who is manager of public radio station KJZZ and a former NPR Board chairman, observed that his station clearly benefited from its focus on local news and the dearth of it at the area's commercial stations, increasingly owned by outside companies.

Indeed, as the FCC's media-ownership debate raged, proponents of public broadcasting have begun trumpeting what had been a secret to most TV viewers: In many communities, pubcasters are the last locally owned and controlled media. James N. Morgese, president of Rocky Mountain PBS in Denver, went public in a newspaper op-ed titled, "Public TV, the last true local broadcaster."

Though public TV exists to fulfill its public-service responsibilities, it should not be expected to shoulder them alone, said two prominent speakers at the PBS Annual Meeting in June, PBS President Pat Mitchell and media historian Robert McChesney.

At a PBS Board meeting, Mitchell responded to colleagues who assumed the media ownership rules debate was their issue—that "we had, as it were, no dog in the fight."

"Not true," she replied. "We had the biggest dog of all in the fight—the public." She also warned that, since pubcasters are not covered by FCC rules requiring their digital channels to be carried on cable or satellite networks, they must be very concerned about the emergence of powerful gatekeepers.

McChesney, author of *Rich Media, Poor Democracy*, delivered the keynote address at the PBS meeting in Miami. Since pubcasting is part of a broader media ecosystem whose members' health is interrelated, McChesney argued, "We cannot exist as a public service island in a sea of conglomeration and commercialism."

Mitchell testified to similar effect later that month before a committee of the British House of Lords: "From the evidence piling up daily that the proliferation of media choices has not necessary led to greater service or even desirable options, I have come to believe, more strongly than ever, that all media must be held accountable to the public. . . . Without accountability measures or some thoughtful regulatory policy, we are letting commercial users of public spectrum off the hook, so to speak, about public service, and to do so is to ignore the fact that they, too, hold a public trust, a trust used in their case to build assets and make profits."

The U.S. Senate Commerce Committee this summer held hearings in which damning evidence was presented that commercial broadcasters have not lived up to the obligations of their public-interest contract and have, in fact, been taking a free ride on the public airwaves.

We at the Benton Foundation have recently heard from numerous public interest advocates about two crucial needs: to ensure that commercial media live up to their public-interest and local-service obligations and at the same time to increase support for a vibrant, noncommercial, independent public media sector. Fortunately, a federal circuit court has stayed FCC implementation of the new media ownership rules, pending judicial review, and the Senate last week voted to do the same. So what does this all mean for public broadcasting?

First, pubcasters must redouble their efforts to serve their local communities, especially by exploring possibilities afforded by new technologies. On July 21, just weeks before the FCC's new media ownership rules were to take effect, Chairman Powell had another awakening. He announced that he had heard—a little too

Privacy Statement

Accessibility Statement

late, critics would add—the public's concerns about the possible impact of the new rules on "localism" and diversity. Though he confirmed his previous preference for looser media ownership rules, he suggested that there are other regulatory instruments the FCC could use to promote localism and diversity. He announced that a task force would investigate the matter and offer suggestions.

In this regard, pubcasting must be at the table and help to expand public media choices. Some stations already are doing so by moving educational content to the Internet. They may also support projects in low-power television, low-power FM, cable access channels and community access to media creation technology. The FCC localism taskforce is likely to back many of these efforts.

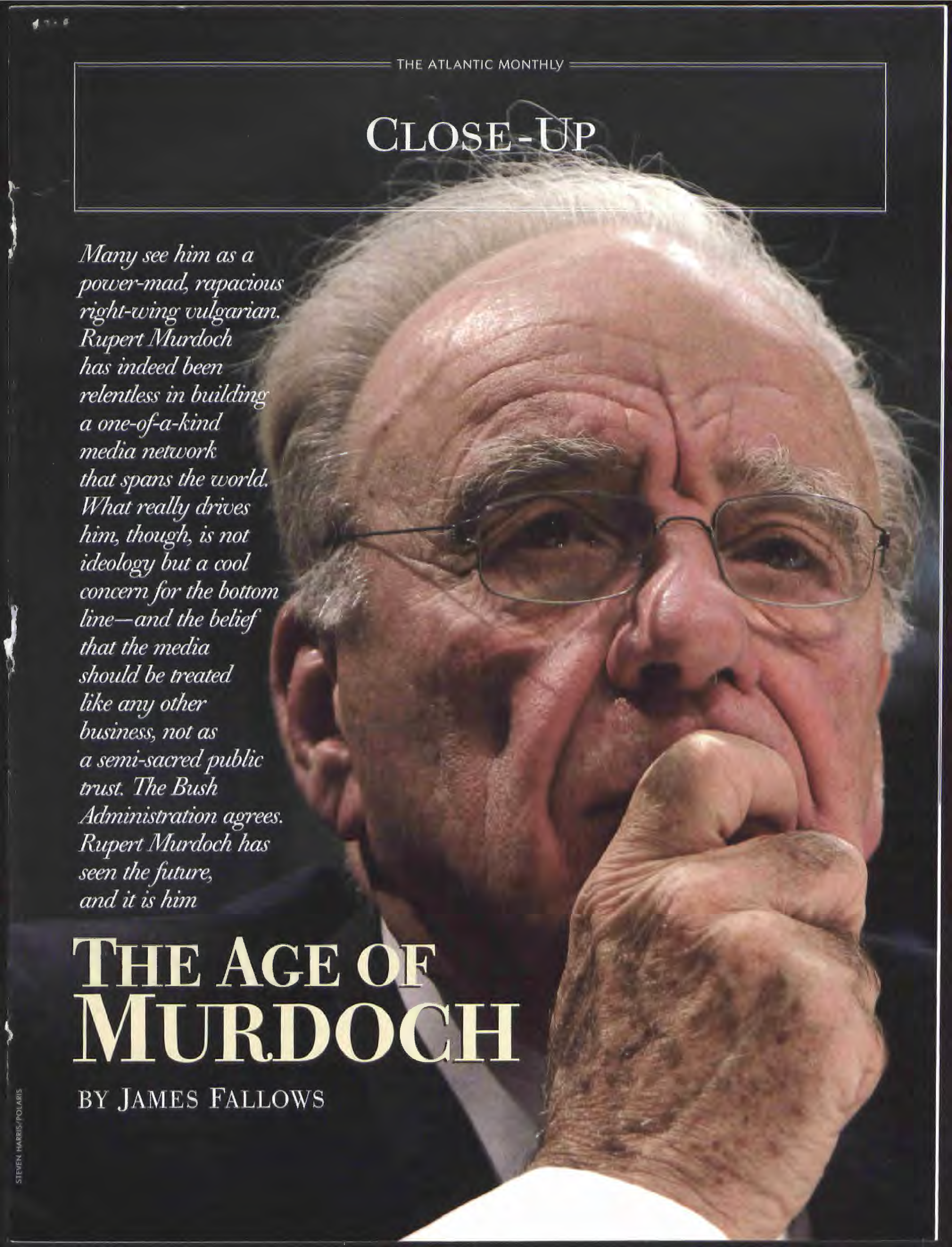
Second, advocates must also seize this unique opportunity of heightened public awareness over the dangers of media concentration to re-explain pubcasting's "value proposition" and discuss the challenges it faces. Now is the perfect moment to highlight for a more general audience the system's financial squeeze, declining government aid and the increasing pressures for full-blown advertising on public channels. Where is the persuasive case that pubcasting is still vital even in a 200-channel TV and radio universe, delivered via satellite and/or cable? It needs to be made.

Third, now is the time to develop improved revenue models and make stronger linkages to local news, information, arts and culture. The Digital Opportunity Investment Trust (DO IT), proposed by Lawrence Grossman and Newton Minow, continues to advance as a policy idea. The idea behind DO IT is that libraries, museums, universities, cultural centers, pubcasting stations and others must make innovative use of information technologies to continue to serve their essential public purposes. DO IT would make that happen, endowed by some of the billions received from FCC spectrum auctions.

Federal funding, to the tune of $750,000, has been provided to the Federation of American Scientists to create a proposed structure for DO IT and to develop a research and development road map of steps necessary to implement the idea. This is a significant vote of confidence from Congress, given the current federal fiscal situation. Rep. Edward Markey (D-Mass.) introduced H.R. 1396, which, among other provisions creates a trust fund similar to DO IT's.

Now that Powell has had his eureka moment, advocates for public broadcasting would be remiss if they don't seize the opportunity to establish his common-sense insight as a widely accepted justification for renewed support for independent, noncommercial media.

CLOSE-UP



Many see him as a power-mad, rapacious right-wing vulgarian. Rupert Murdoch has indeed been relentless in building a one-of-a-kind media network that spans the world. What really drives him, though, is not ideology but a cool concern for the bottom line—and the belief that the media should be treated like any other business, not as a semi-sacred public trust. The Bush Administration agrees. Rupert Murdoch has seen the future, and it is him

THE AGE OF MURDOCH

BY JAMES FALLOWS

STEVEN HARRIS/POLARIS

THE AGE OF MURDOCH

BY JAMES FALLOWS

.....

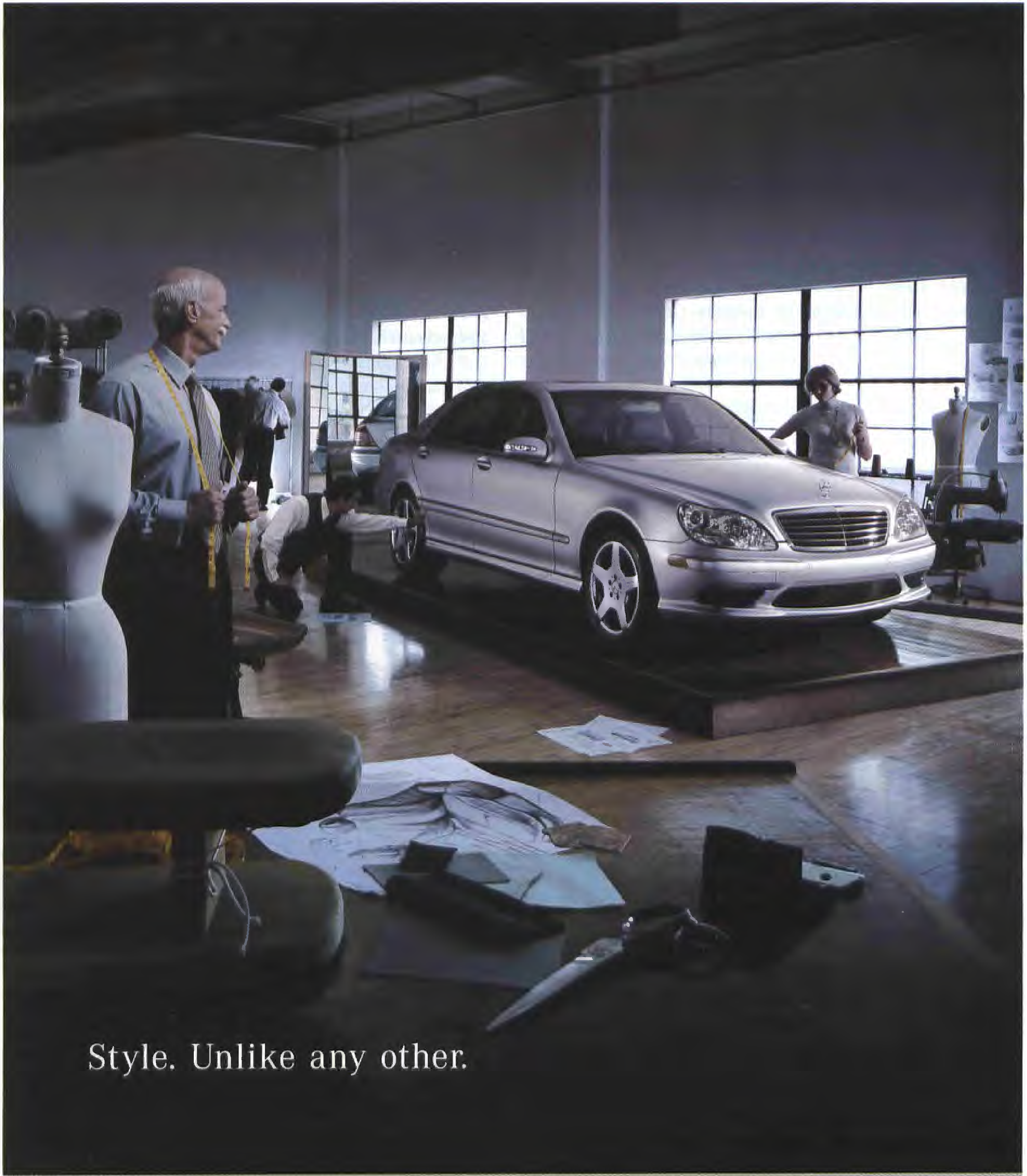
No civics text has the stomach to describe Washington's "wait in line" industry. When a famous witness is to appear before a committee of Congress, or a famous case is to be argued at the Supreme Court, tourists imagine they can drop in to watch; but they discover that the line for admission formed well before dawn. Professionals in town—lawyers, lobbyists—can't afford to be left out, especially if clients' money is at stake. So they hire services to do the waiting for them. On the days of big events, lines resembling those outside soup kitchens or for-pay blood banks snake through marble corridors in House and Senate office buildings and spill out onto the sidewalk long before most staffers show up for work. At 9:45 or so, for the typical 10:00 A.M. committee hearing, taxis and town cars begin depositing passengers who have come from breakfast or early meetings at their firms. The paid placeholders hold up little signs with names on them, like limo drivers greeting arrivals at an airport, and the switch occurs. Someone with wild hair or wearing several sweatshirts leaves his place in line or his seat in the hearing room, and someone in a nice suit steps in. Economically the arrangement makes sense, but it's a little too crass a reminder of the different standing of citizens before their democratic government.

A line formed outside the Russell Senate Office Building early one morning this May, in anticipation of a session that would combine glamour and money. Congress was beginning to pay attention to pending changes in the rules that restrict the number of radio and TV stations a person or company may own. The proposed revisions were highly technical, but if the changes went through, they would provoke a wave of buying, selling, and consolidation in the media business. In particular they would allow, and therefore presumably encourage, a large number of mergers or takeovers among newspapers and TV stations. Supporters argued that this would be economically efficient and productive, opponents that it would give too much power to too few companies. A Senate committee chaired by John McCain had summoned several expert witnesses to discuss the implications of the changes that morning, along with a man who was not directly involved in the debate but who seemed to personify media power: Rupert Murdoch.

At this hearing, as in most of his public appearances, Murdoch would dismiss the idea that he is anything like a media "baron" or that the holdings of his company, News Corporation, constitute an "empire"—a term he dislikes. The company is generally referred to as "News" or "News Corp"; politicians often pronounce the name "News *Core*," as if it were akin to the Peace Corps or the Marine Corps. Its main holdings are the Fox broadcast networks and Fox News, Fox Sports, FX, and other Fox cable channels in the United States; 20th Century Fox studios; thirty-five local U.S. TV stations; the *New York Post* plus *The Times* and *The Sun* of London; the conservative magazine *The Weekly Standard*; the publishing house HarperCollins; the Sky satellite system in England and the Star satellite system in Asia; the Los Angeles Dodgers, which News Corp is selling; and various publications in Murdoch's native Australia. In addition, Murdoch is now seeking federal approval to buy a one-third share in DirecTV, the leading satellite-broadcast system in North America.

To someone not named Murdoch, this might sound like a lot. But Rupert Murdoch frequently points out that the three established TV networks in the United States are part of conglomerates much larger than his. Last year the total revenues of News Corp were about $17 billion. CBS belongs to Viacom, which also owns Paramount Pictures, Simon & Schuster, Blockbuster, Infinity radio, and so on, with total revenues of $25 billion. ABC is part of Disney, with revenues of $26 billion. NBC is owned by General Electric, whose total revenues were $131 billion. Murdoch's upstart Fox News Channel, founded in 1996, has for more than a year consistently beaten the better-known CNN (founded in 1980) in cable-news rankings. CNN is part of the AOL Time Warner combine, whose revenues last year, despite the historic AOL collapse, were $42 billion—two and a half times News Corp's.

So Murdoch didn't represent the biggest media company, or even one that was directly affected by the proposed changes in ownership rules. His share in DirecTV would involve legal and regulatory issues different from the ones Congress was discussing. But Murdoch was the media heavyweight the politicians wanted to hear from, because News Corp and Fox are personal companies in a way that other networks have not been since the days of William S. Paley and "General" David Sarnoff. Murdoch and his relatives control some 30 percent of all News Corp shares, through a family trust called Cruden Investments. That stake is worth about $12 billion at News Corp's current market capitalization. Because of his role as owner, and also his market success, Murdoch's reign has been long and unchallenged in a way not seen for the past few decades, during which CBS and NBC (the networks Paley and Sarnoff founded), and most of


Style. Unlike any other.

the rest of the media world, became the province of corporations. Jack Welch was in charge of GE for more than two decades, and Michael Eisner has run Disney for nearly that long. But neither of them can expect to stay in command as long as they're physically able, which Murdoch clearly intends to do. And unlike Paley and Sarnoff, whose familial power died with them, Murdoch has planned his succession.

Whether or not News Corp is an empire, functionally it is a dynasty. At seventy-two, Murdoch is four years older than Welch—but twenty-two years younger than his own mother, Dame Elisabeth Greene Murdoch, who as of this summer was still active in Australia. (Murdoch is said to have remarked when he heard that Britain's Queen Mother had succumbed at 102, "An early death!") His father died at sixty-seven, after heart and prostate problems. After a prostate-cancer scare three years ago, Murdoch become a diet-and-fitness enthusiast. His third wife, Wendi Deng, is thirty-five. His fifth child, Grace, is not yet two, and a sixth child is on the way. He has two older daughters—Prudence, age forty-five, and Elisabeth, thirty-five—and two sons. Lachlan, thirty-two, is the deputy chief of operations at News Corp. James, who will turn thirty-one late this year, runs the Star satellite business in Asia. For several years Murdoch has been indicating that one of the sons—probably Lachlan but perhaps James, depending on how he does in the next few years at Star—or both jointly will succeed him at News Corp.

Several years ago I ended up, to my shock, sitting across from Murdoch at a long restaurant table at a crowded technology conference. He said hello and asked my name, went back to finishing his meal, and in general didn't behave as if I should be in awe of him. We discussed nothing of substance on that occasion, and News Corp officials told me not even to dream of interviewing Murdoch for this article. I was able to watch him testify and speak to groups several times, and I interviewed people who have worked or still work closely with or who have competed against him. All the associates and employees I reached, and most of the business rivals, refused even to meet for a discussion unless I agreed not to use their names. The Fox News organization is under blanket orders not to talk to the press unless precleared. I did not manage to get anyone at Fox to admit the incongruity of a news organization's taking this stance.

Billionaires, based on the seven-person sample I've had the chance to observe, tend to be either superpolite and ostentatiously respectful or the reverse. Murdoch is in the polite camp. When he stepped into the Senate hearing room, his personal bearing set him apart from the senators who had asked him to appear. Senators carry themselves as if waiting to be noticed. Murdoch eased into the hearing room as if hoping not to make a stir. He was wearing a plain dark suit and not-very-stylish large glasses. His face is heavily lined; his hair is thin and combed straight back; he is of medium build. He would not stand out in a crowd. Nonetheless, TV cameras immediately surrounded him, and senators came down from behind the podium to shake his hand.

Murdoch gave a brief, upbeat opening statement that was almost identical to what he had told a different congressional committee two weeks earlier: "We have a long and successful history of defying conventional wisdom and challenging market leaders … We started as a small newspaper company and grew by providing competition and innovation in stale, near monopolistic markets." When asked about the topic of the hearing, the new rules for media ownership, he said, to appreciative laughter, "I don't have a dog in that fight." He was being cute: although unaffected by the specific measure under discussion, he obviously supported a general relaxation of rules. Then he responded tersely but with a wry edge to what the senators, especially the Democrats, were really asking: whether he had become too powerful for the world's good.

"I think of it in Pentagon terms," says one longtime media analyst. "Rupert is the first one to have put together an Army, an Air Force, a Navy, and a Marine Corps. If you're the Iraqis, it's a bitch to compete with."

Ernest Hollings, of South Carolina, a Democrat in his eighties who often makes folksy remarks, held up a long list of companies controlled by News Corp to counter Murdoch's self-portrayal as a small fish in the media sea. The list ran to a full ten pages. Hollings drawled, "I wish I could buy some stock in this thing."

"Any day," Murdoch deadpanned (the company is, after all, listed on the New York Stock Exchange), bringing laughter from everyone but Hollings. Murdoch then gave a discursive answer about his holdings that lasted until a light turned red in front of Hollings, signaling that his time for questions was up. "Your lawyer is good!" Hollings told Murdoch. "Your answer went past the red light." Then, thinking that the microphone was turned off, sounding both exasperated and impressed, he muttered "Jesus!"

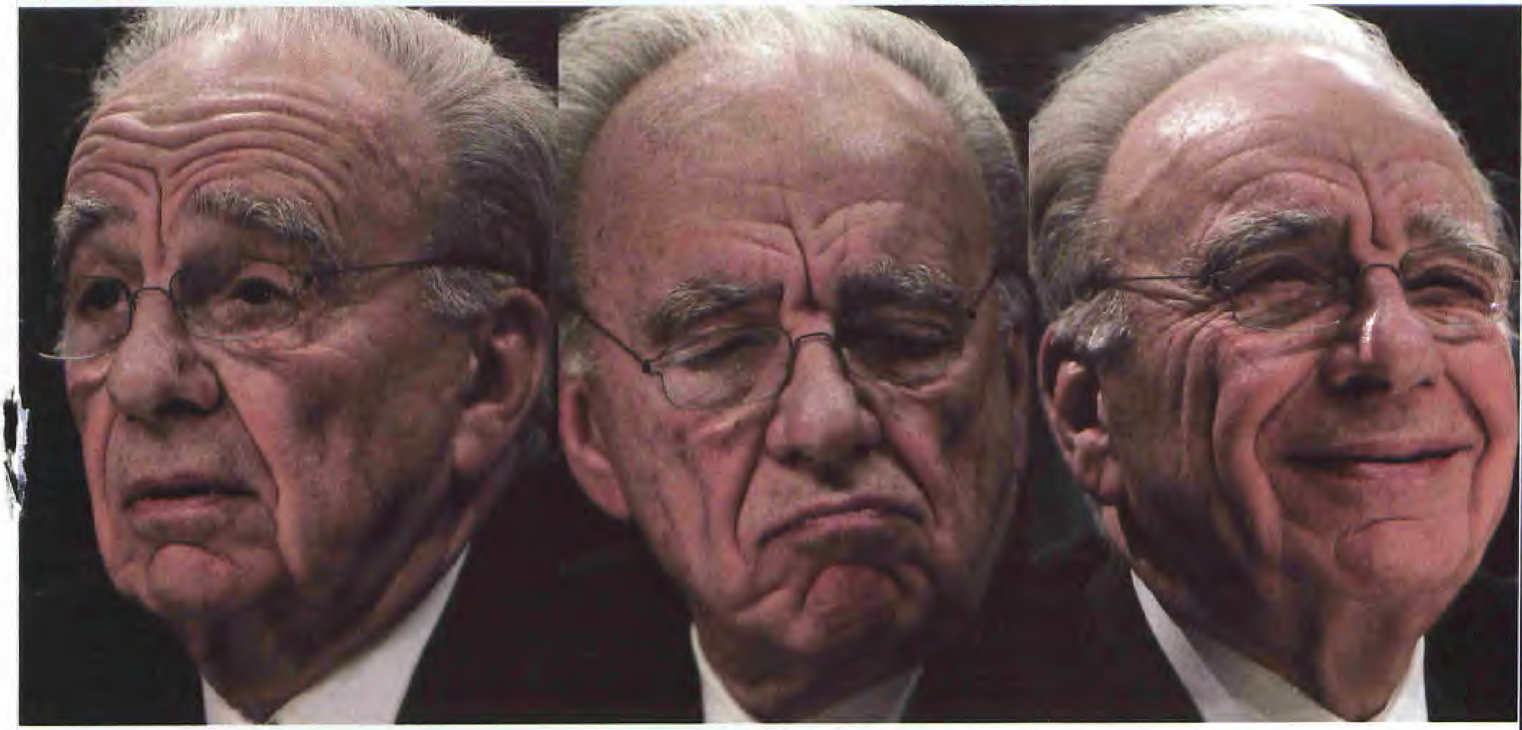
What about the imbalance of political views on talk radio and many cable TV channels? asked Byron Dorgan, a Democrat from North Dakota. Murdoch repeated his standard claim that his news organizations always strove to be "fair and balanced." Then could he explain the fact that radio had 300-plus hours of nationally syndicated conservative talk each week, versus five hours of liberal talk?

"Yes," Murdoch said with a twinkle. "Apparently, conservative talk is more popular." As if aware that he might have

STEVEN HARRIS/POLARIS

needlessly shown up Dorgan, Murdoch added, in charmer mode, "If we could find a popular, amusing broadcaster to talk for an hour or two every day and he was a liberal, we'd have him on like a shot." Senator Dorgan, Murdoch said, was "doing very well" in his tryout for the job.

Barbara Boxer, a Democrat from California, pointed out that Murdoch's *New York Post* had introduced the label "Axis of Weasels" for France and Germany, and that his Fox News had enthusiastically repeated and amplified the message. Didn't this show that one man could become his own media echo chamber? She then asked, "Do you believe there should be any limits—at all—on how much media one individual or one company can control?" The result was a David Mamet–style dialogue.



MURDOCH: I don't know what the right limits are, but I'm certainly in favor of relaxing the existing limits, Senator.

BOXER: You're in favor of relaxing the limits! ... Well, what if you owned everything?

MURDOCH: If I owned *everything*?

BOXER: Do you think there ought to be limits on you?

MURDOCH: No, of course not. And we don't—

BOXER: You think there should be limits?

MURDOCH: I think there should be competition everywhere. My life has been built, and my business, [by] starting competition and starting up against—

BOXER: So we've gotten this far.

MURDOCH: —other people and providing diversity.

BOXER: So we've gotten this far. So you agree there should be limits. And the—

MURDOCH: I think there should always be diversity.

BOXER: Good. Limits and diversity. We agree. So then the question is how much? And that's—you're saying you can't put a number on it.

MURDOCH: There should be no limit to diversity. (*Laughter.*)

For all the surreal, ultimately pointless show-trial aspects of the session, there was a larger historical logic to the meeting between Murdoch (who must have left the room thinking *They didn't lay a glove on me*) and the forces of government that day. Two great and opposing conceptions of the press and its role in public life had just collided. One of them holds that the press is basically different from other businesses: the unique protection it enjoys under the First Amendment gives it unique responsibilities to serve the public interest. The other holds that the news business is basically the same as other businesses. The second version—the Murdoch version—has now won, and Murdoch deserves to move from "controversial" to "visionary" status.

It is thanks largely to Joseph Pulitzer, who invented a new kind of journalism in the late 1800s, that newspapers moved from the open partisanship of an earlier era to a pretense of objectivity today. Henry Luce transformed magazine journalism before World War II with *Time*, *Fortune*, and *Life*. After the war a handful of television-news pioneers created the documentary form, the evening newscast, the Sunday talk show, and other staples. Then TV news changed again, starting in the late 1970s, through the efforts of, among others, Roone Arledge, of ABC, who made news profitable; Ted Turner, of CNN, who made the news cycle continuous; and Larry King and Geraldo Rivera, who merged news and entertainment.

Rupert Murdoch is this era's influential figure. His hold-

ings have grown surprisingly fast, over a surprisingly long period of time. The cartoon explanation of his success is that he is ruthless or power-mad or even today's Hitler, as his former friend and current antagonist Ted Turner has called him. The real explanation is that he has combined several crucial ingredients—an instinct for mass taste, an appreciation of technology, a concept of strategic business structure, and a knack for exploiting political power—in a new and uniquely effective way. His is not the largest media company, but it is now the model to beat—or to imitate.

A TASTE FOR RISK AND CONTENTION

Rupert Murdoch was born into a newspaper family, but one far less established than those of his near contemporaries Arthur ("Punch") Sulzberger Sr., of *The New York Times*, and Otis Chandler, of the *Los Angeles Times*. (Both are a few years older than Murdoch, and both are retired.) Murdoch's father, Keith, was the son of a Presbyterian minister who had emigrated from Scotland to Australia in the 1880s. Early in life Keith decided that he wanted to be a reporter. After an apprenticeship in his home town, Melbourne, his big break came during World War I. He took part in an early version of "embedding" with Australian and New Zealand troops at Gallipoli, where he assured the commanding general that what he saw would remain confidential. In violation of that assurance, he then wrote a bitter letter to the Australian Prime Minister about conditions for ANZAC (Australia and New Zealand Army Corps) troops. Eventually the general was recalled, the troops were withdrawn, and Keith Murdoch, age thirty, became known as a man who could rock the boat. "Oh, sure, it may not have been fair," Rupert Murdoch told an interviewer, Gerard Henderson, in 1989. "But it changed history, that letter."

The rest of Keith Murdoch's rise in journalism had a similarly scrappy, anti-elite quality. He went to London and learned the techniques of mass marketing from Alfred Harmsworth, who became Lord Northcliffe, the Fleet Street genius of the time. As William Shawcross points out in *Murdoch: The Making of a Media Empire* (1997), a respectful and authoritative biography of Rupert Murdoch, Northcliffe's papers introduced many of the irresistibly vulgar come-ons associated with London tabloids—and, now, with the Fox network and the *New York Post*. A typical headline would read "DO DOGS COMMIT MURDER?" or "WHY JEWS DON'T RIDE BICYCLES." "A newspaper," Northcliffe told his acolytes, "is to be made to pay. Let it deal with what interests the mass of people. Let it give the public what it wants."

Keith Murdoch put this philosophy into effect when he returned to Australia. With Northcliffe's encouragement, he took over Melbourne's stagnant evening paper, the *Herald*, and revived it with racy features. Through the late 1920s he acquired other newspapers and turned them into a chain, to which he added radio stations. His son, Keith Rupert, was born in 1931. (There were also three daughters in the family.) Over the Depression decade Murdoch's newspaper and radio holdings expanded, and the family business entered a nationwide market struggle against Australia's established and respectable press dynasty, the Fairfax family, whose base was the *Sydney Morning Herald*. The Murdoch chain kept growing through the war and postwar years.

By the time young Rupert went off to Oxford, in 1950, Keith was in his mid-sixties, sick, withdrawing from the business, and greatly concerned about its future. While Rupert was largely frittering away his time at Oxford, his father discovered a plot led by his deputy to push him out of power within the company. "I can't die yet," Keith Murdoch said in 1952, according to Neil Chenoweth's recent book *Rupert Murdoch: The Untold Story of the World's Greatest Media Wizard*. "I've got to see my son established, not leave him like a lamb to be devoured and destroyed by these people." After Keith Murdoch's death, in the fall of 1952, company rivalries and disputes broke into the open, and the family's holdings were greatly reduced. Keith Murdoch had stated in his will that he hoped Rupert would "have the great opportunity of spending a useful, altruistic, and full life in newspaper and broadcasting activities"—that is, would succeed him in control of the company. But the company Rupert inherited, now called News Limited, was battered and troubled. Most of what is said about Rupert Murdoch and his operations was said about Keith Murdoch as well: that despite his great influence he always felt at odds with a respectable elite; that he understood himself to be running a family business; that he believed controversy was beneficial and understanding mass taste was indispensable. But Rupert Murdoch was also motivated to rebuild a family business that his father had created and partially lost.

Murdoch is usually happy with whichever show on Fox—or headline in the *Post*, or topless Page 3 model in *The Sun*—draws a big audience. He has done voice-overs for an appearance on *The Simpsons* in the role of a grasping plutocrat.

Between the young Rupert Murdoch who took over an Australian family business in the early 1950s and today's globally recognized symbol of media power is a path described in hundreds of articles and numerous books. In reading through the vast public record, I was surprised to be reminded of how many dustups Murdoch has been involved in. He has been like Zelig, seemingly everywhere that important changes in media were taking place—but at the center of the action rather than the periphery.

He entered British journalism in the late 1960s and was soon in a tussle with Robert Maxwell for control of the British tabloid *News of the World*. Over the next fifteen years he mounted campaigns to take business and editorial control of the low-end *Sun* and the high-end *Times* and *Sunday Times* of London. In the mid-1980s, as Margaret Thatcher was fighting coal miners, Murdoch waged an epic battle against press unions and built an entirely new printing plant so as to operate with much cheaper labor.

He entered the U.S. newspaper world in the early 1970s, with a quiet takeover of the *San Antonio Express and News*; noisier takeovers of the *New York Post* and *New York* magazine soon followed. (It was under Murdoch that the *Post* published the great tabloid headline "HEADLESS BODY IN TOPLESS BAR.") He also owned, briefly and improbably, the *Village Voice*. To satisfy U.S. ownership requirements of the time, he applied for U.S. citizenship and was naturalized in 1985. Murdoch was forced to sell the *Post* in 1988, mainly because of the efforts of Senators Edward Kennedy and Ernest Hollings to overturn a previous waiver of ownership rules. But he bought it again, out of bankruptcy, in 1993.

His real entry into the American consciousness came with his move into television. Murdoch took over 20th Century Fox in the mid-1980s, and at about the same time announced a fanciful-sounding plan to assemble small TV stations into a fourth national network. In the late 1980s he bought the parent company of *TV Guide* and also began creating his Sky and Star satellite systems in Britain and Asia. In the early 1990s Fox Broadcasting shocked CBS by outbidding it for the rights to National Football League games—the first of many contracts that have made Fox the dominant broadcast sports network. Murdoch fell out with Ted Turner in the mid-1990s, and the two waged personal and business war. (After Turner compared Murdoch to Hitler, the *Post* ran the headline "IS TED NUTS? YOU DECIDE.") Murdoch started the Fox News Channel partly with the goal of overtaking and thus humiliating Turner's CNN.

Several striking themes recur in this saga. One is Murdoch's long-standing determination not simply to broaden News Corp's portfolio—by diversifying, for instance, into new or unrelated businesses—but to extend his strategic control of the supply and distribution channels on which his existing businesses rely. His father had moved from print to radio with the understanding that each medium could publicize and support the other. Murdoch's companies now constitute a production system unmatched in its integration. They supply content—Fox movies (*Titanic*, *The Full Monty*, *There's Something About Mary*), Fox TV shows (*The Simpsons*, *Ally McBeal*, *When Animals Attack*), Fox-controlled sports broadcasts, plus newspapers and books. They sell the content to the public and to advertisers—in newspapers, on the broadcast network, on the cable channels. And they operate the physical distribution system through which the content reaches the customers. Murdoch's satellite systems now distribute News Corp content in Europe and Asia; if Murdoch becomes DirecTV's largest single owner, that system will serve the same function in the United States.

In his biography of Murdoch, Neil Chenoweth, who has worked for years as an investigative reporter for the *Australian Financial Review*, stresses that the DirecTV deal is valuable to Murdoch mainly as a way of ensuring wide distribution for his movies and his news, sports, and original TV programming. "We are going to see a landslide of Murdoch content produced for DirecTV and his global satellite network, and it will just blow everybody else away," he recently wrote in an e-mail. The next big wave of media consolidation, Chenoweth predicted, would be driven by other companies trying to match what Murdoch had put together.

Another constant in his career is its embattled, roller-coaster quality. Murdoch is said to be popular and admired within his own organization, rather than resented, mocked, or gossiped about behind his back. But with business rivals he is always in feuds and showdowns, and not only high-profile ones like that with Turner. He has taken big risks (one associate describes Murdoch's making, in a matter of minutes, the billion-dollar decision to back Fox News "the way you or I might order lunch"), and his business has suffered serious reverses. In 1990, in an episode vividly described by Shawcross, Murdoch was nearly forced to liquidate News Corp after a bank in Pittsburgh refused to roll over a small but crucial portion of his corporate debt. Although admirers compare him to Bill Gates or John D. Rockefeller because of his appreciation of technology and his instinct for strategic advantage, Murdoch is perhaps best compared to Bill Clinton: his nature keeps getting him into predicaments from which his talent lets him escape.

Political involvement has been one more constant in his career. The simple view of Murdoch, especially among liberals who fear him, is that he is a dangerously obsessed conservative propagandist—Richard Mellon Scaife with a job. This is imprecise. The exact nature of his political views is a subject of some debate among his associates. Overall he is of course more right- than left-wing. Murdoch likes to refer to himself as a "moderate libertarian" rather than a "conservative" or, in U.S. terms, a Republican. Two of his lieutenants—Roger Ailes, who runs the Fox News Channel, and Bill Kristol, the editor of *The Weekly Standard*—have worked in Republican Party politics. Murdoch's own involvement with the party itself, as opposed to with specific politicians who might prove useful to him, has been limited. His associates report that he has never met George W. Bush, hard as it may be to believe. He has, though, developed a respectful relationship with Bill Clinton. Each has lunched at the other's office in New York, and Murdoch came away impressed by Clinton's ability to discuss impromptu almost any issue arising almost anywhere on earth. Associates of both say that despite the political differences between the men, they clicked because of complementary personalities: Murdoch loves to listen, and Clinton loves to talk.

The strongest element in Murdoch's conservatism is his taste for leaders who take clear, decisive, line-in-the-sand positions on important issues. That is what he admired in Margaret Thatcher and Ronald Reagan, and what he respects, post–September 11, in Donald Rumsfeld and George Bush. Where he strays furthest from Republican Party orthodoxy is on social issues—gay rights, public religion, "traditional family values," and so on. Given the vulgar-to-raunchy tone of Fox programs like *Who Wants to Marry a Multi-Millionaire* and *That '70s Show*, it would be awkward if Murdoch publicly pushed a conservative social agenda. As a personal rather than a political matter, Murdoch was known to be unhappy about the violent nihilism of the Brad Pitt movie *Fight Club*, which the Fox studios produced, and about an episode of Fox TV's recent *Married by America* in which shots of a woman's naked breasts were not digitally blurred. But he is usually happy with whichever show on Fox—or headline in the *Post*, or topless Page 3 model in the London *Sun*—draws a big audience. He is proud of *The Simpsons* for both its popularity and its wit. He has done voice-overs for a self-mocking appearance on the show, in the role of a grasping plutocrat.

The real difference between Murdoch and an activist like Scaife is that Murdoch seems to be most interested in the political connections that will help his business. A few examples of his better-known political engagements bear out this view. Soon after the 1994 elections, which made Newt Gingrich the first Republican speaker of the House in decades, Murdoch's publishing company, HarperCollins, offered Gingrich a $4.5 million two-book deal (Gingrich was later shamed out of accepting it). Murdoch made his sweetheart offer to Gingrich only after Gingrich had gained power, not to help him on the way up.

Similarly, his notorious China "policy" is that of a dealmaker and not a conservative purist. Just before Gingrich came to power, Murdoch made a speech with the Gingrichian theme that advanced communications technology would be "an unambiguous threat to totalitarian regimes everywhere." The Chinese government immediately banned satellite dishes, sabotaging Star TV's satellite transmissions into China. In a highly publicized and controversial series of atonements, Murdoch had his companies publish a book by Deng Xiaoping's daughter; cancel another book, about Hong Kong, that was likely to provoke the Chinese; and drop the BBC World Service, with its independent news broadcasts, from the Star TV lineup.

In 1995 Murdoch funded the creation of *The Weekly Standard* in Washington, which gave conservative writers another home. But at the same time, his papers in England were playing a significant role in the downfall of the Tory government. That same year the young Labour politician Tony Blair came to Australia to speak at a News Corp retreat on Hayman Island in the Great Barrier Reef. His speech and general energy impressed Murdoch. Two years later the tabloid *Sun* in London plumped hard for Blair and "New Labour" in an effort to unseat John Major and the conservatives. Murdoch's British press has been as pro-Blair as his U.S. outlets were anti-Clinton through the late 1990s. The Blair government has proposed relaxing TV-ownership rules in ways that would benefit News Corp.

In short, some aspects of News Corp's programming, positions, and alliances serve conservative political ends, and others do not. But all are consistent with the use of political influence for corporate advantage. In the books I read and interviews I conducted, I found only one illustration of Murdoch's using his money and power for blatantly political ends: his funding of *The Weekly Standard*. The rest of the time he makes his political points when convenient as an adjunct to making money. But there are many examples of Murdoch's using political connections to advance his business ends. "Andrew Heyward [the head of CBS News, a Viacom subsidiary] would be allergic to the idea of attacking a politician who opposes a Viacom interest," says a man who has competed against News Corp. "Murdoch has been shameless about using his journalism for the advancement of his business interests." In this view, *The Weekly Standard* and the *New York Post*, neither of them profitable, are more means than ends.

CHANGING THE RULES

Murdoch's use of political power for commercial ends naturally brings us back to Washington. The dispute over ownership rules for the broadcast industry, about which Murdoch had been summoned to testify, was at face value too narrow and technical to sustain a real political debate in America. But the intense, if brief, controversy over this seemingly arcane dispute was appropriate to the long-term implications of the changes.

The most immediate and direct effect of the revised rules was likely to be on local news coverage. In as many as 180 metropolitan areas the new rules would allow the leading newspaper and the leading TV station to be owned by the same company—something that has until now been outlawed except in a few special-waiver cases. Because the leading newspaper is the only newspaper in the great majority of cities, the new rules would mean that in all but the very largest American cities one news organization could dominate. Supporters of the changes said that this might free resources for better programming—and that other sources of information, whether the Internet or national TV and print outlets, would ensure diversity and competition. Opponents said that the new rules would concentrate press power unacceptably, first at the local level and then nationally: other proposed changes would also permit the formation of larger nationwide chains.

Other than during a few weeks in May and early June, the dispute drew little coverage from the national media. Opponents said, This proves our point! Because most large media companies stood to profit from the changes, they of course devoted much less space to them than to, say, the Laci Peterson murder case. John McCain, who sometimes seemed to support the changes and sometimes did not, observed acidly at a hearing in May that newspaper editorial policies conveniently tend to follow the newspaper's economic interest. In a *Washington Post* story Frank Ahrens reported that at one hearing McCain reminded a lobbyist for the newspaper industry that during a Clinton-era regulatory fight all the newspapers that editorialized in favor of a certain rule change were owned by companies that would have benefited from it, and all the papers that editorialized against it were owned by companies that would not.

Beyond its immediate impact on local news and on media-business prospects, the debate symbolized a historic shift in concepts guiding the business of journalism. The shift is back to the idea of journalism as principally a business—and away from an idea promoted over the past seventy years by the Federal Communications Commission.

Murdoch often gives James and Lachlan, the two of his children with major management positions, life coaching on the phone. "Well, darling, it's okay," he might say, and then go on to impart what he has learned from similar challenges.

The FCC is in a way the most futuristic arm of the government. The operating agreements that govern the structure of today's Internet and tomorrow's wireless networks are generally thrashed out there. But the official seal that hangs over the FCC's hearing rooms is almost comically retro, with an eagle circling crudely drawn radio transmission towers while holding lightning bolts in its talons. It reflects not just the artistic style but also the technological attainments at the time of the agency's creation, as part of the early New Deal, in 1934. One of the FCC's most important, and most anomalous, functions was rooted in Depression-era technology and is now undergoing inevitable and painful change.

The anomaly was the FCC's ability to regulate news coverage. The First Amendment's stricture that "Congress shall make no law" that might abridge "freedom of speech, or of the press" has effectively kept the government away from newspaper regulation. Apart from special circumstances involving libel or wartime national-security concerns, what newspapers and magazines decide to publish has been strictly up to them.

Broadcasting—which emerged as an important news medium in the 1920s, with radio, and as the leading news source in the 1950s, with TV—differs in one fundamental way from print. In theory, anyone can start a new publication, but the nature of the electromagnetic spectrum means that only so many broadcast TV or radio channels can co-exist. Since the 1930s the FCC has therefore administered an underappreciated news-management policy. It awards licenses for local broadcast stations, and for combinations of stations into networks. These are effectively licenses to make money. Lyndon Johnson's route to wealth during his years in Congress, for instance, was based on his family's role as the radio and TV licensee for KTBC (now KLBJ) in Austin.

In exchange for this lucrative right, broadcast licensees—and their news operations—have been subject to rules that affect no other part of the press. Their licenses are up for renewal every few years. At least in theory, the FCC will grant a renewal only if the licensee proves that it is serving the public interest with the programming it offers. Broadcasters can't use foul language or be too risqué. This was the basis for George Carlin's famous "Seven Dirty Words" routine, about the words flatly outlawed by the FCC, and it is the reason that *Oz* and *The Sopranos* cannot appear on broadcast TV. Until the rules were relaxed, in the Reagan era, broadcasters had to apply a "fairness doctrine" in their coverage of political issues. Under the rules up for reconsideration this summer broadcasters couldn't own a large number of stations, or newspapers in the same cities where they had TV stations, so the political influence that comes with their favored, licensed position would be kept within bounds. They have had to offer children's programming and respond to local concerns.

Broadcasters are in the news business but have been treated like a public utility, with public responsibilities. The most famous words ever spoken by an FCC chairman were those of Newton Minow, who told the National Association of Broadcasters in 1961 that television programming amounted to "a vast wasteland." "I am here to uphold and protect the public interest," he said. "Some say the public interest is merely what interests the public. *I disagree.*"

None of these rules, as rules, applied to the nonbroadcast press. But at the time of Minow's speech the idea behind them did: that the press enjoyed unusual privileges and therefore had unusual responsibilities. "Our republic and its press will rise or fall together," Joseph Pulitzer wrote in 1904, in words now engraved by the entrance to the Columbia Journalism School. "A cynical, mercenary, demagogic press will produce in time a people as base as itself." With allowances for fancy rhetoric, this admonition guided news operations through most of the twentieth century.

In the world beyond the FCC's purview the idea that the news business differed from other businesses had started to erode as early as the 1970s. The process involved "infotainment," corporate mergers, pressure for greater profits, and other well-known phenomena. The change within the FCC has been more distinct, though less publicized, and it is the background to this summer's drama.

Ronald Reagan's first chairman of the FCC, Mark Fowler, removed many of the controls on what radio stations could air. Before the mid-1980s Sunday-morning schedules on radio stations were laden with dutiful public-affairs and religious programs; after the controls were lifted, stations could air whatever they thought the market wanted. Fowler indicated that the same reasoning might apply to television. He is responsible for the second most famous utterance by an FCC chairman: TV, he said, was only a "toaster with pictures"—that is, a commodity requiring product-safety regulation but nothing more. Fowler's FCC also enabled Murdoch to create a fourth major network, Fox, by approving his acquisition of local TV stations.

A more dramatic change came in the following decade, when a Democratic FCC, chaired by an antitrust lawyer and close friend of Al Gore's named Reed Hundt, worked with a Republican Congress to pass the Telecommunications Act of 1996. This was arguably the most important economic event of the Clinton era: its effects have been greater than NAFTA's, and they will clearly last longer than the brief achievement of eliminating the federal budget deficit. The act was a top-to-bottom reconsideration of FCC policies that has had dramatic consequences, foreseen and not, for the mobile-phone industry, telephone companies, Internet-based businesses, and many other firms.

For our purposes, what mattered about this bill was clause 202(h). These few lines instructed the FCC to review every two years its rules limiting media ownership—and to "repeal or modify" any rule that "it determines to be no longer in the public interest." These words could mean a lot of things—including not very much, if they were interpreted as instructing the FCC to stick with rules unless there was flagrant evidence of their pointlessness. But new players entered the drama: the judges of the D.C. Circuit Court of Appeals, and a man who had once been law clerk to one of them—a man who would be the lead player in the next act. In their collective view, clause 202(h) was full of possibilities.

The D.C. Circuit, which is of great importance as the venue for most suits against federal agencies, has recently been a source of conservative intellectual energy, as the Ninth Circuit, on the West Coast, has been a stronghold of liberal judges and views. Antonin Scalia and Clarence Thomas both came to the Supreme Court from the D.C. Circuit (as did the more liberal Ruth Bader Ginsburg). Robert Bork was on this circuit when Ronald Reagan nominated him to the Supreme Court. Douglas Ginsburg, now the D.C. Circuit's chief judge, was nominated by Reagan for the Supreme Court and would in all probability have been confirmed had it not been for controversy over his admitted marijuana use in the 1960s and 1970s, which caused him to withdraw. Another judge on the court, David Sentelle, is a former aide to Jesse Helms and was part of the three-judge panel that selected Kenneth Starr as the special prosecutor.

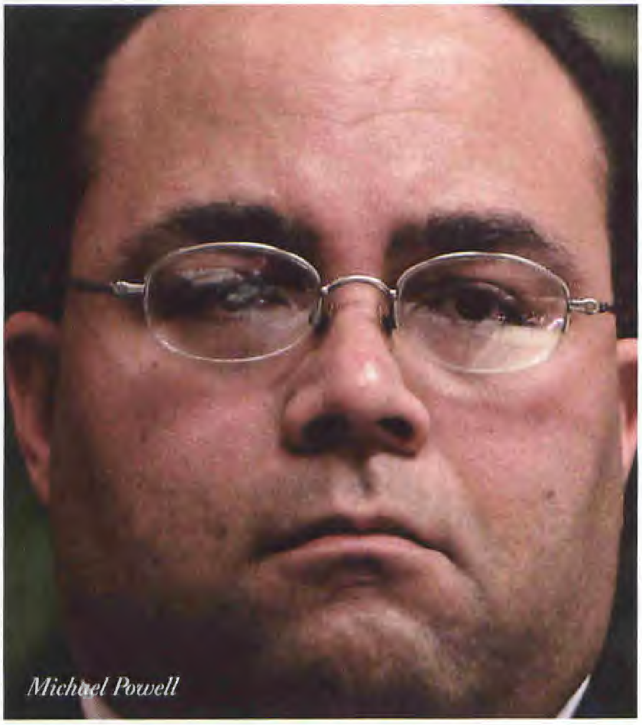
The judges on this circuit had a chance to examine clause 202(h) when several media companies sued the FCC to overturn limits on their expansion, merger, and cross-ownership plans. In two influential rulings issued last year, the D.C. Circuit Court ruled for the companies and against the FCC. Unless the FCC could prove the need to maintain its regulations, specifically the limits on cross-ownership, it had to change or remove the controls forthwith. In his ruling on one of the cases, *Fox Television Stations* v. *FCC*, Chief Judge Ginsburg wrote that some people may have imagined that Congress intended the FCC to take an "incremental" approach to relaxing ownership rules. But they couldn't be more wrong. "The mandate of § 202(h)," he wrote, "might better be likened to Farragut's order at the battle of Mobile Bay. ('Damn the torpedoes! Full speed ahead.')"

For at least a century newspaper and broadcasting companies have been expected to serve interests beyond the purely commercial. The recent FCC changes give them a governmental mandate to behave purely as businesses.

Some lawyers and legal scholars say that what the court was asking—all it could properly ask, despite Ginsburg's breezy remarks—was that the FCC do more to explain and defend its rules, such as those that kept the dominant newspaper in a city from buying the dominant TV station. "One way to respond to that sort of decision would be to go out and get proof that the limits are serving interests consistent with the First Amendment," Lawrence Lessig, of Stanford's law school, recently told me. He pointed out that the Supreme Court's rulings in this area have given the FCC considerable leeway to apply ownership rules. By this logic the FCC could have responded to the *Fox* ruling not by removing its ownership limits but by more fully explaining the rationale for them. If companies filed another suit, and if the D.C. Circuit Court sided with them yet again, the FCC could in principle appeal to the Supreme Court. Robert Pitofsky, a law professor at Georgetown University who was the chairman of the Federal Trade Commission during the Clinton Administration, says, "The courts were asking for a greater burden of proof. This didn't mean you have to throw all the rules out."

It did not look that way to the man who had to decide whether to fight the rulings: the chairman of the FCC, Michael Powell.

Powell, who turned forty this year, is Secretary of State Colin Powell's son. He is just under six feet tall and squarely built, with a somewhat high voice. By the time he graduated from William and Mary, in 1985, his father was already famous. Like his father, Michael went into the Army out of college—but two years later, when he was serving with an armored unit in Germany, he was gravely injured in a Jeep accident and hospitalized for a year. He left the Army and eventually enrolled in Georgetown's law school. After graduation, in 1993, he became a clerk for Harry Edwards, then the chief judge of the D.C. Circuit. Later he worked as an antitrust lawyer, and then served as an FCC commissioner; he became the agency's chairman in 2001.



Michael Powell

REUTERS NEWMEDIA INC./CORBIS

"In some ways this is such a silly debate," Powell said when I asked him about assertions that the D.C. Circuit Court had not actually forced him to dismantle the ownership rules. "Let me put this in perspective. I clerked on that court. For the chief judge of that circuit! I bring, in my opinion, some credibility to the question. But put aside that selfish point—" He then went on to argue that anyone who really understood how courts work would know that the FCC was indeed being told to get rid of its rules. "It's not the fact that we lost that case. It's the basis on which the court relied in saying we lost that matters ... If you really, honestly read those cases, you understand that the status quo [maintaining the ownership rules] becomes extraordinarily vulnerable."

A reader of his transcribed words might not be surprised to learn that people who dislike Powell consider him aloof and conceited. In person he did not strike me that way. He seemed affable and engaging—but eager to explain the rightness of his views, as if disagreement must be rooted in either emotion or illogic. This is an approach I associate with theoretical economists. Like them, Powell punctuates his explanations with "Let's be honest about this" or "Once you move past the subjectivity and emotions ..." With great nuance he laid out his case for relaxing ownership controls on the media. With less nuance the argument boils down to two big ideas:

First, cable TV, satellite TV, Internet news sites and blogs, and countless other data sources give modern Americans more choices about information than any previous society has enjoyed. Therefore, rules to ensure competition among broadcast stations matter much less than they used to.

Second, complaints about overconcentrated media are really complaints about what's on the air—and the content of news or entertainment should not be the government's concern. "Either you don't see enough of something you like, or you see too much of something you don't," Powell said. "But at the end of the day you have to ask whether you want three out of five unelected regulators"—that is, a majority on the FCC—"saying, I want the public to see this but not that." The market for news may not be perfect, but the government should be very reluctant to interfere with what people like to watch.

What's significant about these views? They lead logically to the conclusion that the news business is basically like all other businesses, and should therefore be regulated in the way the rest are—that is, the government protects against price-gouging, fraud, and other run-of-the-mill economic abuses, but ends its oversight there. The idea that press responsibility begins and ends with attracting a market has historical precedents. It was the lesson young Keith Murdoch learned from the tabloid genius Lord Northcliffe: give the public what it wants. But for at least a century newspaper and broadcasting companies were expected to serve interests beyond the purely commercial. That is what made news different from entertainment. Entertainment's only purpose is to be popular. News is supposed to be as popular as it can while also introducing readers or viewers to thoughts, problems, and opportunities that affect them. American news companies have for a number of years been moving toward just-a-business operating principles. The FCC changes give them a governmental mandate.

The circumstances of the FCC's rules changes were noisy, amusing, instructive, and embarrassing, often all at once. Michael Powell thought he had things under control. More than a year ago, after he had read the D.C. Circuit Court rulings, he told Congress that he would launch a new study to see how many ownership rules the

FCC could and should relax. He said that new rules should be ready for an FCC vote this past spring. Through most of its history the FCC has operated with little or no attention from the general press, and Powell could well have expected these changes to sail through too.

But complications arose, unusually baroque even for Washington. The FCC normally has a three-two majority in favor of the party that controls the White House, and there are two other Republican commissioners serving with Powell. But all three of the Republicans are young enough to think that other important political jobs may still be ahead of them, and their personal ambitions seemed to explain more than did simple partisanship.

Michael Powell had been considered one of the Republican Party's future stars—at least until early this year, when he ran up against another potential star, a new Republican commissioner named Kevin Martin. Martin is not quite four years younger than Powell, but he looks as if he could be in Powell's freshman seminar. A lawyer from North Carolina who was student-body president at the University of North Carolina at Chapel Hill, Martin is sometimes called Harry Potter at the FCC, because of his glasses and hairdo. The better comparison is to Ralph Reed, formerly of the Christian Coalition, who also seemed too unlined to have survived long political wars. Martin joined the Bush campaign in the summer of 1999 and helped to manage its Florida-recount strategy after the election; his wife succeeded Mary Matalin as Dick Cheney's communications adviser. They are considered a very well connected young Republican couple.

Early this year Martin weakened and embarrassed Powell by voting against him and joining the Democrats to defeat an important part of Powell's program for telephone deregulation. The essential question was whether regulators in each state could continue to apply price limits and other rules to the "Baby Bell" telephone companies. Powell argued that the limits were out of date. Martin, to widespread surprise, lined up with the two Democratic commissioners in saying that the rules were necessary to protect the consumer. His defection was mortifying to Powell—a sign that Powell could not control his troops. It didn't work out that well for Martin, either. Telecom stocks crashed after the surprise defeat of Powell's plan, leading the trade press to call Martin "the sixteen-billion-dollar boy." Powell, statesmanlike, declined to comment on the episode when I spoke with him. Martin's office canceled a long-scheduled interview on all FCC matters at the last minute, and returned no subsequent calls.

As the media-ownership decision neared, Powell and Martin both seemed certain to vote for the changed rules, albeit for different reasons. "Michael will always go with his analysis of the issue, and Kevin will go with the politics," an aide who works with both men says, referring in Martin's case to personal ambition as well as party politics. Powell genuinely believed that the D.C. Circuit rulings made changes inevitable. Martin knew that a majority vote was important to the Bush Administration—and he must have understood politically that the issue, already attracting public debate, would only become more controversial the longer it was left unresolved. The third Republican commissioner, Kathleen Abernathy, who had been faultlessly loyal to Powell and was assumed to want to succeed him, was also going to vote for the rules changes.

But while the two Democratic commissioners—Michael Copps, a former aide to Ernest Hollings, and Jonathan Adelstein, a former aide to Tom Daschle—traveled around the country holding hearings to oppose the changes, or at least to delay the vote, Kevin Martin deftly got out of the way. On interview shows and in congressional testimony Michael Powell became the face of what William Safire, in *The New York Times*, called the "round-heeled FCC." During and after broad and wounding attacks for a policy Martin favored—attacks that may well have made Powell too controversial to be a viable future candidate—Martin left few tracks.

Murdoch would rather be tortured than spend a weekend in the Hamptons. He is hypersensitive to criticism of his business judgment but laughs off complaints about his political or cultural role as mewls from the chattering classes.

The politics of the issue took on their strange shape through the late spring. In favor of the changes were a variety of large media organizations, especially regional newspaper powers like the *Chicago Tribune* and the Belo Corporation, owner of *The Dallas Morning News*. The big media companies—Viacom, Disney, and so on—were also in favor. When asked, Rupert Murdoch said he supported the liberalization but was mainly pushing for approval of his DirecTV deal. The Bush Administration strongly supported the changes, as did the many Republican senators and congressmen who support most forms of deregulation. One striking quality of the pro crowd was how silent it was. The White House, the Republican Party, and most of the big corporations left the arguing to Powell. Months in advance it was obvious that the rules would be changed, by a 3–2 vote. So there was no reason to waste energy or risk political exposure by arguing in public.

Meanwhile, interest groups that had nothing else in common launched letter-writing campaigns to oppose the changes. Members of the National Rifle Association mailed tens of thousands of protest postcards to the FCC. Common

Cause reported that more of its members were mobilized on this issue than on any other in decades. The National Organization for Women and the Rainbow Coalition sided with Christian fundamentalists and the Conservative Communications Center. The common strand among the protesters, according to Mark Cooper, of the Consumer Federation of America, was that all were "controversial minorities" who felt that the national press was biased against their views. The bigger and more market-minded the media conglomerates become, they argued, the harder it is for anything other than mainstream views to be heard. Even Republican senators such as Trent Lott and Wayne Allard joined most Democratic senators in protesting the changes.

Cooper was one of a group of policy activists who went from hearing to hearing challenging the technical merits of the FCC changes. He talked about the "diversity index" the FCC produced to show that there would still be plenty of competition after newspapers and TV stations combined. The formula measures the number of "media choices" each community would have after the mergers. Cooper pointed out the grotesque flaw: the index assumes that every print or broadcast "outlet" has the same amount of influence. Thus if a community went from having two competitive papers to having one dominant paper and a community newsletter, there would supposedly be no real change.

Cooper also answered an argument made often by the Republican commissioner Kathleen Abernathy: that when technology makes so many choices available, concerns about concentrated media are overblown. What does it mean, she asked rhetorically, that 75 percent of prime-time viewers watch programs produced by just four companies? "I can only presume that this means that Americans are watching these providers because they prefer their content." To social scientists this kind of market result is known as a "revealed preference." When I asked Cooper about this explanation, he said, "We're talking about 'revealed preferences'? Okay, you give me NBC's broadcast frequencies for everything that's on my Web page, and I'll give them my Web page for everything they're broadcasting. You'll see some 'preferences' then."

One of the Democratic commissioners, Jonathan Adelstein, said, "Of the hundreds of citizens I heard from directly at field hearings across the country, not one stood up to call for relaxing the rules." The FCC order changing the rules, he said, "often equates the public interest with the economic interests of media conglomerates." He argued that the "marketplace of ideas" was being turned into a plain old bazaar. The other Democrat, Michael Copps, said that the FCC was "outdriving the headlights," making dramatic changes whose consequences it could not foresee.

"You know, it makes me feel extremely old to say so, but it is astonishing to see how young these guys are," Lawrence Lessig, of Stanford, told me. (He is forty-two.) "Powell and Kevin Martin are just at the beginning of their careers, and these are such enormous decisions. The idea that this naive, simple libertarian ideology gives you any handle on these issues is astonishing. What is essential here is pragmatism that is informed by experience and empirical measure."

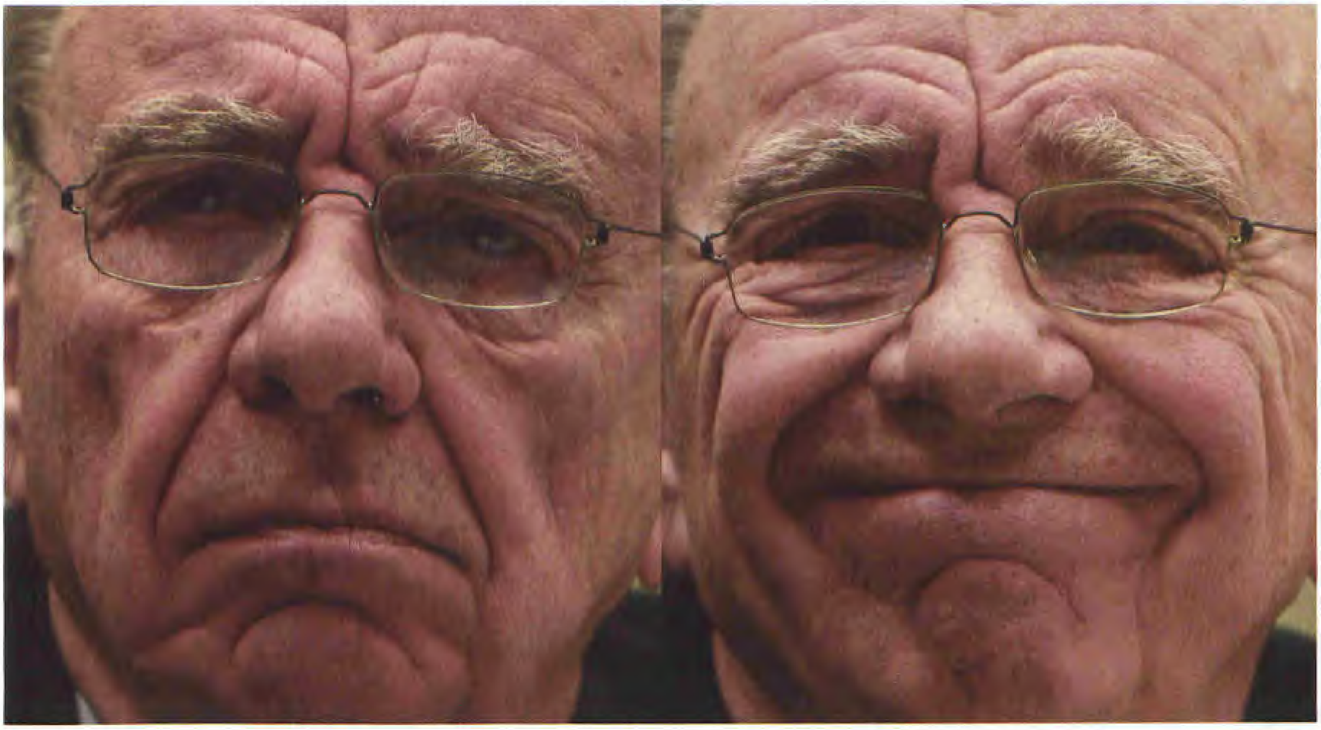
On June 2 a line of activists, reporters (including me), and paid placeholders formed early outside the FCC building to watch the long-scheduled vote on the new ownership rules. Copps and Adelstein had asked for the "customary courtesy" of a thirty-day delay in the vote. Powell said no. "Let's be blunt," Powell later told me. "They asked for the thirty days not for more time to consider but to stop the results from being produced. I wasn't born yesterday." In the spring, in an episode I did not learn about from Powell, the White House political strategist Karl Rove had met with Powell to urge him to wrap up these controversial regulatory issues as soon as he could. Powell stood on his independence as a regulator and said he couldn't be rushed. But his principles led in the same direction the Administration sought: toward a vote with no further delay.

At 10:00 A.M. Powell gaveled the meeting to order, and the commissioners heard reports from their staff specialists about the virtues of relaxing ownership controls. Powell gave a ten-minute speech endorsing the changes, and Abernathy did the same. Copps and Adelstein each spoke twice as long in dissent. Kevin Martin briefly congratulated all sides for their hard work, said there was "strong evidence on both sides of this issue," and said he would vote for the changes. Powell called for the "ayes." Three hands went up. He asked for "nos," quickly slapped down the gavel, said "The ayes have it," and got out of his chair to leave the room. Security guards rushed toward a group of female protesters, who were dressed all in pink and had burst into song as Powell was calling the vote, and hustled them away. Out on the sidewalk Jesse Jackson and Dick Gregory were giving interviews, and other protesters were marching with placards showing a scowling Rupert Murdoch, who *faute de mieux* was the symbol of the evil consequences of the decision.

Two days after the vote all five FCC commissioners were called before John McCain's Senate Commerce Committee to explain why they voted for rules for which there was so little identifiable support and such broad opposition. Two weeks later McCain's committee voted to recommend that the new FCC rules be overturned.

This was symbolically important but isn't likely to mean much. Even if a revocation measure could get through the full Senate, it would be likely to fail in the House. The chairman of the corresponding House committee, Billy Tauzin, of Louisiana, said he would not even schedule a committee hearing for the measure. Various groups promised to file lawsuits challenging the new ownership rules. Such lawsuits go first to the D.C. Circuit Court—where the outcome seems preordained—and then, if accepted for review, to the Supreme Court. The last time the Supreme Court ruled on media ownership, it gave great deference to the FCC's judgments about what limits were (and were not) necessary in the public interest. Whether it would maintain that deference or instead agree with the D.C. Circuit that such limits are largely outdated and should be reviewed is hard to predict—especially given its recent closely divided "liberal" rulings in affirmative-action and sodomy cases.

Immediately after the FCC vote the shares of media companies rose, based on the widespread expectation that most such companies would soon be either buying or getting bought. (As I left the hearing room, I walked a few paces behind the lobbyist for the Chicago Tribune Company, who had worked for months on this issue. On his first cellphone call he asked, "How's the stock doing?") "Eventually you're going to see more and more of these huge conglomerates," Blair Levin, a former FCC official who is now a media analyst for an investment bank, told me, "because everyone's going to need to do it to survive. I think of it in Pentagon terms. Rupert is the first one to have put together an Army, an Air Force, a Navy, and a Marine Corps. Inside the Pentagon people could argue about which force is more important and which is getting enough money. But if you're the Iraqis, it's a bitch to compete with."



ALEX WONG/GETTY IMAGES

Levin continued with his view of the future. "The next phase after that will be the really big deals," he said. "Who does NBC ally with? If Murdoch's model really demonstrates the synergies of a multi-channel distribution network, with a broadcast network, with a content provider, then you may see Echostar [another satellite company] with Viacom [the parent of CBS]. The other networks will have to ask, Do we do a Comcast deal [referring to the major cable-TV system]? The change in the rules put a lot of wood on the fire. The question is what will light the spark."

To extend the military analogy, a corporate arms race is about to begin. "The FCC ownership stuff is not all that important to Murdoch," Neil Chenoweth told me in an e-mail. "It just helps everybody else catch up with him."

THE NEW "NEWS" GAMUT

A few days before the FCC vote the liberal groups MoveOn.org, Common Cause, and Free Press organized a nationwide ad campaign to protest the likely result. A full-page ad ran in *The New York Times*, *The Washington Post*, and other papers. The ad showed four TV screens, representing coverage on ABC, CBS, NBC, and Fox, and on each screen was the same glowering picture of Rupert Murdoch, looking like Big Brother. "THIS MAN WANTS TO CONTROL THE NEWS IN AMERICA," the large-type headline said. "THE FCC WANTS TO HELP HIM." Chellie Pingree, the recently chosen president of Common Cause, told *The New York Times*, "He is the poster child of media consolidation. Who better to personify what the trends are than Rupert Murdoch?"

I talked with a News Corp official the morning the ad came out. He was exasperated by it and by the "poster child" quotation. News Corp was just a small player, he said. It had always stood for shaking up the status quo. And anyway, it didn't care about the FCC vote. Gary Ginsberg, a senior News Corp official, said to *The New York Times* in responding to the ads, "The reality is that in the past two decades no company has brought greater choice, unlocked more monopolies and invigorated more stagnant media markets than News Corporation."

Still, Pingree had a point—less about Murdoch than about the world around him. By example and by competitive threat, Murdoch was showing other companies the way ahead. What would it be like?

For people inside News Corp, it seems, not bad at all. Media organizations are dens of bitterness, intrigue, and insecurity, but News Corp seems no worse than most. Despite some fallings-out and notable firings, Murdoch's management team has been stable. The mood at Fox News seems positively jaunty, as the organization steadily overtakes CNN in the ratings with a much smaller staff. All of News Corp has an on-the-rise feel. The people I know who work at Fox News complain less than my friends in other news organizations. Murdoch will say "Sorry for interrupting" before coming into an employee's office. He is said not to yell or throw tantrums when things go wrong.

I heard several tales meant to illustrate Murdoch's reluctance to micro-manage in his empire—but I heard them in circumstances that make it difficult to determine whether they are true. Several people would, however, vouch for this incident: Benjamin Netanyahu, a longtime friend of Murdoch's, was booked on a Fox News Sunday talk show. But he got there late (offense No. 1 for a live show) because he was taping another Sunday show on another network (offense No. 2). The Fox News producers decreed, No more Bibi on our airwaves for a while! Netanyahu went to Murdoch and asked him to fix it. Instead of bigfooting, Murdoch told him to work it out with Brit Hume—the head of the Washington bureau. Netanyahu did, and the loyalty of the Fox staff increased.

From what I could gather in a number of off-the-record conversations with Murdoch's associates, he loves political gossip and is always calling officials to ask what they've heard, what's new. He is far more likely to use the telephone or talk in person than to send a memo. He rarely bothers with e-mail but is always interested in the details of new technology—especially the sort that can affect his business, from satellite to broadband. No one could remember Murdoch's recommending a novel to others, but he is always touting new nonfiction books—for instance, Robert Kagan's *Of Paradise and Power*, which contrasts American resolve with European weakness.

What Murdoch does pay close attention to is his divisions' finances. He looks carefully through "The Weekly Flash," a financial summary of the performance of News Corp divisions for the week and compared with the previous year. He makes lobbying calls when necessary in Washington but is not personally close to many of the big figures of the moment there. He is unlike Richard Nixon in seeming basically happy rather than tormented, but like him in believing that the "intellectual elite" is permanently scheming against him. Murdoch lives not on the Upper East Side but in a TriBeCa penthouse. One associate told me that Murdoch would rather be tortured than spend a weekend in the Hamptons. He is hypersensitive to criticism of his business judgment but laughs off complaints about his political or cultural role as mewls from the chattering classes.

Murdoch is known to be in close touch with his children, and he often gives James and Lachlan, the two with major management positions, life coaching on the phone. "Well, darling, it's okay," he might say, after one of them has described a recent problem, and then go on to impart what he has learned from similar challenges. The role of Murdochs within News Corp is basically similar to that of Sulzbergers within the New York Times Company, or Grahams within the Washington Post Company. In each case the family controls large blocks of stock and expects, but is not guaranteed, to run the company. One difference is that Rupert Murdoch is more purely entrepreneurial than recent Grahams or Sulzbergers have been. As a result, the business up for the next generation of Murdoch family control is currently at least six times as large as the Times or Post Company; it is truly global, and faces far more varied challenges.

Frankly partisan media have never ceased to be the rule in Europe. Our journalistic culture may soon resemble that of early nineteenth-century America, in which party-owned newspapers presented selective versions of the truth.

News Corp's technological and strategic advantages are also hard for any other company, even a larger one, to replicate exactly. There are only so many major studios in Hollywood, and creating a worldwide satellite system to rival what Sky, Star, and DirecTV will give Murdoch is currently beyond any other company's reach. But even though they cannot imitate him, other companies will have to learn from him. Two principles that others can take from Murdoch's experience are his total market-mindedness and his pragmatic embrace of politics.

What the Murdoch model means in terms of content is precisely what the market will bear. In a country as big as the United States the market will support very refined and very coarse products. The gamut of Fox TV offerings, from the best to the worst on the air, indicates how wide the range can be. The writers for *The Simpsons*, the great pop-culture achievement of the late twentieth century, are fully aware of the contrast. In one episode Homer was convicted of murder, sentenced to death, and executed. Or so it seemed until the moment the switch was thrown on Ol' Sparky, when Carmen Electra stepped out from behind a curtain to tell him that he had been a player in Fox's newest reality show, *Frame Up*.

The purely market-minded approach creates more complications when it involves the news. The Fox TV empire covers news—sort of. Like its cable-TV competitors, it really covers whatever is most attention-getting that day. If it's a war, there is very interesting coverage of that war. If there's no war, then there's almost equally intense coverage of the Laci Peterson case—or of Chandra Levy, or JonBenet Ramsey, or whatever is compulsively watchable at the moment. The old-fashioned concept of news involved some calculation of what was "important." News as a pure business has to go with what grabs attention and hope that from time to time it's important, too.

What will a Murdoch era for the press mean politically? Here's what I think, after discussing the subject with people who have worked with and worked against Murdoch. The political component in Murdoch's media operation is larger than people inside the company admit—and perhaps larger than they believe. But it is smaller than most people who dread Murdoch's influence assume. He is principally a businessman, of conventional business-conservative views, who vents those views when possible but not when they interfere with any important corporate goal. For instance, the neoconservatives at Murdoch's *Weekly Standard* harshly criticize China, but Murdoch applies the wholly conventional economics-class view that ever increasing trade with that country will mean freedom in the long run. The main political significance of a Murdoch era is that more of the press will become more openly partisan than it has been in many years.

Murdoch's operations are not openly partisan quite yet. The *New York Post* is, maybe, with its cartoon of the ostrich as France's national bird. (Contrary to widespread belief, it was neither Fox News nor the *Post* that introduced "cheese-eating surrender monkeys" as a nickname for the French. The phrase came from Groundskeeper Willie, of *The Simpsons.*) But Fox News won't be budged from its claim that it offers "fair and balanced" coverage. Roger Ailes, the head of Fox News, frequently asserts that in opinion polls 70 percent of Americans say the media are "too liberal." Set aside for a moment whether respondents actually say that—or whether they're right if they do. For Fox's purposes it leads to the conclusion, as Ailes has put it, "that we can play things down the middle and get that seventy percent, while everybody else fights over the thirty." Brit Hume, of Fox's Washington bureau, has said that the "Washington herd" all runs in one direction. "If we just step aside from the herd, it's like picking up money off the street."

Of course, the Fox establishment would hoot at the idea that NPR, *The New York Times*, or CNN was "playing things down the middle," much as those organizations would hoot at Fox's claim. Every liberal thinks that Fox is a biased right-wing outlet; every conservative thinks the converse about mainstream outlets like these, plus the three big networks. Whether or not real bias in news reporting has changed, the perception of the press's political role has become steadily more polarized. One great truth of political life is that each side is absolutely convinced that the other has an unfair advantage in getting its views out. Liberals point to talk radio, conservatives to the generally liberal outlook of Hollywood. Many people point to Murdoch as an example of unbalanced power—and Murdoch himself points to *The New York Times*. In a recent speech he said that the *Times* was by far "the most powerful force in the country." "Its news and its priorities," he continued, "are repeated in hundreds of newspapers ... There is very much a tendency there, if you like, to domination by one company."

Sooner or later Murdoch's outlets, especially Fox News, will be more straightforward about their political identity—and they are likely to bring the rest of the press with them. There will be liberal papers, radio shows, TV programs, and Web sites for liberals, and conservative ones for conservatives. This result will hardly be new. Frankly partisan media have never ceased to be the rule in modern Europe. Our journalistic culture may soon enough resemble that of early nineteenth-century America, in which party-owned newspapers presented selective versions of the truth. News addressed to a particular niche—not simply in its content but also in its politics—may be the natural match to an era with hundreds of satellite and cable channels and limitless numbers of Internet sites.

An age of more purely commercial, more openly partisan media leaves out some of the functions that news was until recently expected to perform: giving a broad public some common source of information for making political decisions, and telling people about trends and events they didn't already know they were interested in. One way or another, self-governing societies must figure out the suitable commercial channels through which the information necessary for democratic decisions can be spread.

That's not exactly Rupert Murdoch's problem, though he helped make it the world's. If the pure-market approach doesn't do the job of informing the country, then eventually another sort of market process might kick in. Citizens who think they've landed in a vast information wasteland could ask their representatives to set new rules for the media: rules that recognize an obligation of the media beyond maximum profit, rules clear enough to survive interpretation by regulators or appeals courts with clear ideological agendas. In the long run the press does give the public what it wants. We're about to see just what that is. ▲

James Fallows is a national correspondent for The Atlantic. *His* Atlantic *cover story last November, "The Fifty-first State?," about postwar Iraq, won the 2003 National Magazine Award for Public Interest. His books include* Free Flight: From Airline Hell to a New Age of Travel *(2001),* Breaking the News: How the Media Undermine American Democracy *(1996), and* Looking at the Sun: The Rise of the New East Asian Economic and Political System *(1994).*

inally be near when digital eviscerates a $60 billion ad business. networks survive?

By Scott Woolley

AS THE BROADCAST NETWORKS REV up to debut dozens of comedies, dramas and not-so-real reality shows, the new fall television season already is a smash hit, financially. Advertisers placed $9.3 billion in advance orders for commercial time, blowing away last year's $8.1 billion mark. This year total TV ad sales, excluding cable, could crack the $60 billion barrier for the first time.

Yet many of the biggest buyers look at the heights the ad market has reached and see a precipice. In a few years over half of the nation's 108 million homes will have digital recording technology that will let them zap past commercials effortlessly or choose from a vast selection of commercial-free shows. That will threaten the economics of most TV programming and force networks and marketers alike to find new ways to reach elusive masses of ad-evading consumers.

This digital wave started with a trickle called TiVo, one of the first computer-hard-drive-based digital video recorders (DVRs). It debuted to bold expectations in 1999 but has struggled, signing up fewer than a million homes. Now, however, TiVo-like technology has plunged in price and complexity and is gaining momentum, for the first time being offered by cable and satellite providers that reach almost 90 million U.S. households.

Most network executives play down the digital threat (as incumbents often do), and the networks are resorting to cleverer—and potentially more intrusive—product placements as a way to zap the zappers *(see related story, p. 82)*. But others have begun to fret. The digital wave will be "a brutal attack on the underpinnings of our business," warns Garth Ancier, who oversees programming at CNN, the WB network, TBS and other AOL Time Warner outlets.

The TV ad market is "reaching the top of the curve," and digital technologies will accelerate the coming decline, says Peter Sealey, a former Coke marketing chief who now teaches at the University of California at Berkeley. He recently leveled this warning to a group of advertisers: "Folks, this is a tidal wave. It is happening, and it is profound. And we have got to figure out a way to deal with that."

Digitally armed consumers can suddenly destroy business models that thrived for generations, as people in the battered music and photography industries can attest. Yet even comparisons to Napster undersell the potential economic upheaval and social impact of overturning the TV ad market. It has twice the combined revenues of the recorded-music and film-photography markets. Americans spend an average of four hours a day watching TV, an hour of that enduring ads. That adds up to an astounding 10% of total leisure time; at current rates, a typical viewer fritters away three years of his life getting bombarded with commercials.

For 50 years advertising has paid for the production of most of the TV shows that have graced the three (and later four) main broadcast networks and run later on a panoply of local stations and cable networks. Advertising also finances a big part of the first-run programs now popping up with increasing frequency on cable, as well. (Seen *Queer Eye for the Straight Guy* on Bravo?)

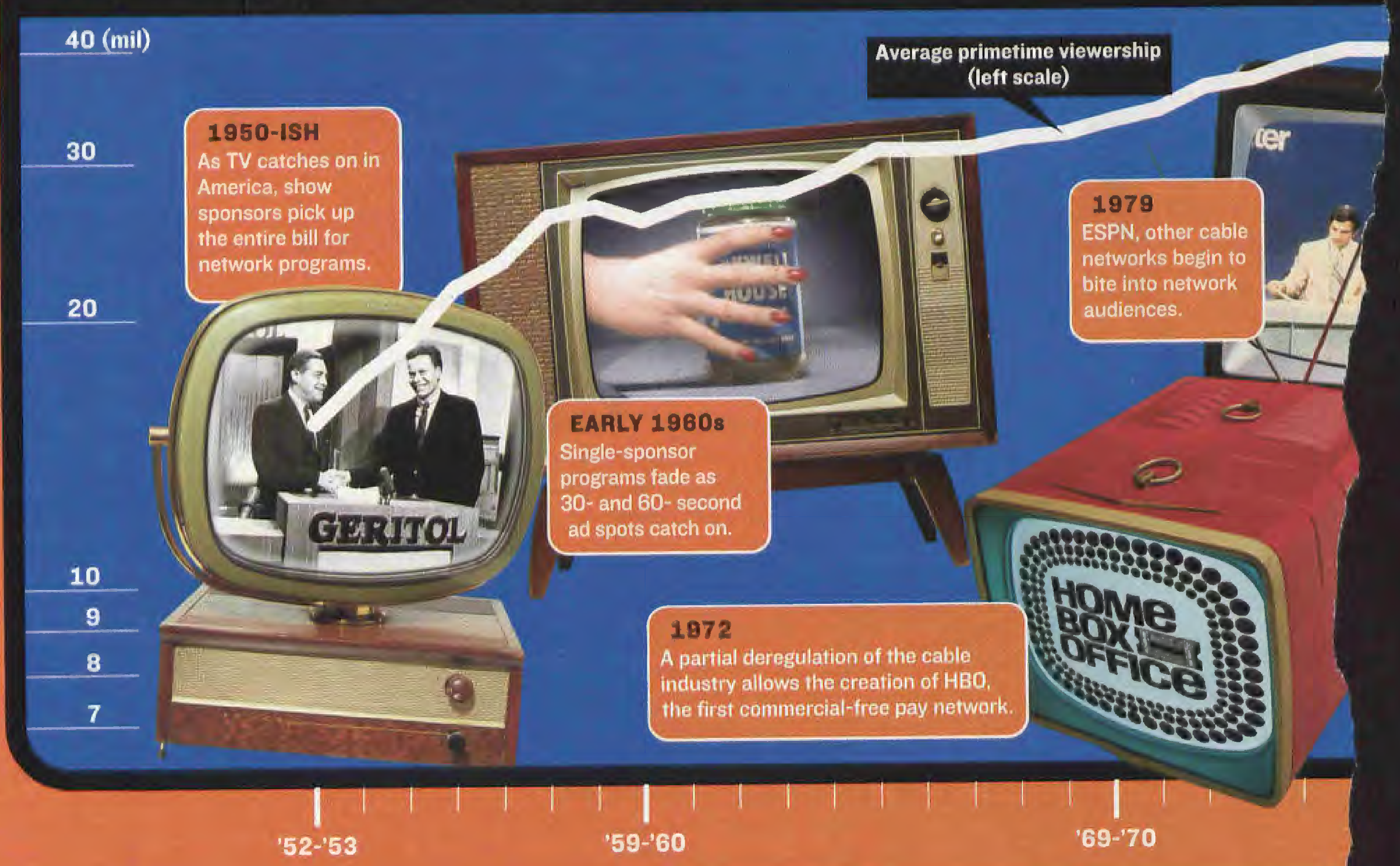
And, year after year, the big networks imposed hefty price increases for ads, even as millions of viewers defected to cable, and early zapping technology—the remote control and the VCR—took hold. They have raised their per-viewer rates 110% in the last ten years, despite a 30% decline in their prime-time audience, more than making up for a 30% increase in the cost of living. Advertisers obligingly went along, buying on faith and lacking a way to precisely quantify how many viewers were not watching the ads.

Now all of that's changing. The threat posed by the fidgety remote control and the poky VCR pales in comparison with the digital threat. Eighty-five percent of TiVo homes skip most ads and can watch a half-

DYNAMIC DUO FOR FORBES (ZAP)

Will Reality Catch Up With TV?

The networks have managed to hike ad rates even



1950-ISH As TV catches on in America, show sponsors pick up the entire bill for network programs.

EARLY 1960s Single-sponsor programs fade as 30- and 60- second ad spots catch on.

1972 A partial deregulation of the cable industry allows the creation of HBO, the first commercial-free pay network.

1979 ESPN, other cable networks begin to bite into network audiences.

hour sitcom in 23 minutes.

No problem, net execs say: While DVRs and other gear may proliferate, most viewers won't use the gadgets as ad-killers or pay for commercial-free programs. "This is the big myth. The big majority of people are not commercial avoiders," says David Poltrack, the head of CBS research and strategic planning, who has heard predictions of the networks' demise for 20 years. At worst, he figures, DVRs will erode audience by just under 3% a year. Alan Wurtzel, NBC's research head, says that networks can survive such losses, pointing to the huge checks that advertisers just wrote: "Until you can find an alternative that's better, they really will have no choice."

That what-me-worry attitude doesn't sit well with advertisers fed up with the networks' incessantly rising prices. "I guarantee you that will not sustain itself. Higher prices for diminished return? That gap can only get so big before people come up with alternatives," says C.J. Fraleigh, the General Motors advertising czar who oversees the nation's biggest ad budget, including $1.7 billion for TV. Fraleigh says GM will probably spend less on TV ads a few years from now; how much less will depend on how the networks respond.

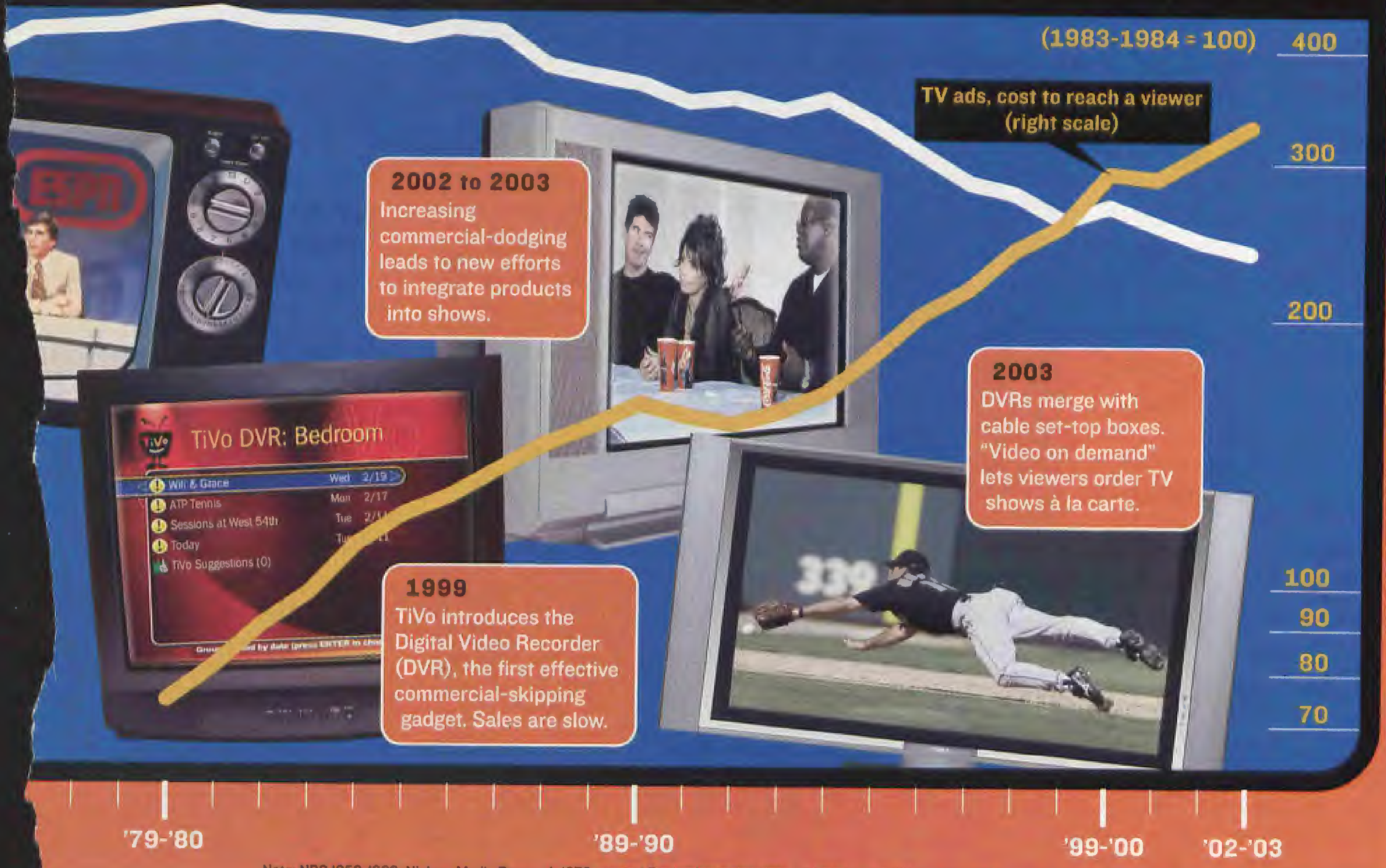
The biggest broadcasters—Viacom's CBS, General Electric Co.'s NBC, Walt Disney's ABC and News Corp.'s Fox—could feel the sting worst and soonest. "Over-the-air broadcasters sustain the highest costs, and [unlike cable] you've got absolutely no money coming back from consumers in terms of subscriber fees," says AOL Time Warner's Ancier. But big cable channels like Disney's ESPN and Vivendi's USA Network could be hurt, too. Advertising now accounts for 30% of the cable industry's $49 billion in annual revenue, almost double the percentage a decade ago.

The networks could probably survive TiVo, which in four years has signed up only 800,000 subscriber homes. But they can't brush aside other players responding to TiVo. Cable and satellite services are beginning to offer cheap DVR features, too. Starting last month, customers who order EchoStar satellite TV service can get—free—a DVR with 100 hours of storage (120 gigabytes) and a "30-second skip" button expressly designed for ad-zapping. Cable companies, racing to keep up, are installing a TiVo-like disk into their set-top boxes. About half a million cable subscribers now have the devices, and half of the nation's 72 million cable homes could be similarly wired in five years, TBS' Ancier says.

Cable operators charge just $10 a month for DVR service—and nothing up front. (TiVo's slow uptake is due in part to the fact that users must pay, besides a $13 monthly fee, $300 for the hardware, then slog through a complicated installation.) In eight months Time Warner Cable has snagged 300,000 new DVR customers, despite scant advertising. TiVo took more than twice as long to hit that mark, despite having nine times as many potential customers. Comcast, the biggest cabler, now

TELEVISION SETS (L TO R): GETTY IMAGES; GETTY IMAGES (4); CHASE SWIFT / CORBIS; GETTY IMAGES; SONY. SCREENS: EVERETT COLLECTION; LIKE.TELEVISION: COURTESY OF HBO; COURTESY OF ESPN; COURTESY OF TIVO; PHOTOFEST; JUSTIN SULLIVAN / GETTY IMAGES

as their audience flees to cable. "I guarantee you that [trend] will not sustain," warns a major ad buyer.



2002 to 2003
Increasing commercial-dodging leads to new efforts to integrate products into shows.

2003
DVRs merge with cable set-top boxes. "Video on demand" lets viewers order TV shows à la carte.

1999
TiVo introduces the Digital Video Recorder (DVR), the first effective commercial-skipping gadget. Sales are slow.

Note: NBC 1950-1969; Nielsen Media Research 1970-present September every year. All years data prior to 1988-1989 excluded Alaska & Hawaii. *Source: Nielsen Media Research*

has 6.7 million digital subscribers and says all will be able to get a DVR box by early next year.

The cable cabal also pushes video-on-demand—individual shows sold to individual viewers at a few bucks a pop or less. Already 4 million cable customers regularly order their TV à la carte from an ever-expanding menu of movies, sitcoms, dramas and news shows, most of them ad-free or zappable.

"It is inevitable that technology will give consumers more choices, and that includes when and how many commercials they want to view," says Chuck B. Fruit, a senior vice president at Coca-Cola. "We want to move away from an exclusive reliance on 30-second commercials to talk to the consumer." As ads become more voluntary, he says, "it puts a great obligation on the advertiser to be a part of the viewing experience and to add to the experience." Otherwise, he warns, "they will risk being irrelevant or ignored."

> **"We want to move away from an exclusive reliance on 30-second ads."**

Ad agencies, too, will have to abide by a new level of digital accountability. Imagine firing your shop because TiVo says your spots get skipped more often than those of your rivals. In May TiVo began selling viewing data detailed enough to show the precise number of TiVo households in New Hampshire that skip past the Cingular half-time report during the NCAA finals. "We are in a position to measure viewership of commercials, and if you are an advertiser, that's what you care about," says TiVo President Martin Yudkovitz.

Some advertisers already are mulling new strategies, such as micro ads too short to skip; shrewder product placements; and even paying consumers to watch ads. In one novel experiment Coke recently bought part of a college sports cable network, the better to creatively weave in ads consumers can't flee.

The best way to combat the zap, though, is to give individual viewers only the commercials that interest them. Digital technology will let marketers better target their ads to the people most likely to watch them. Nielsen's traditional demographic groups, such as men ages 18 to 49, are imprecise relics of an era when broadcast networks beamed signals only one way and when gathering audience data was laborious and expensive. Digital devices on two-way networks, including one Nielsen will introduce next year, can track viewing habits down to the second.

GM would take aim at, say, 30-ish men whose cars are more than four years old, says Charles Thurston, president of Comcast advertising sales. Such increased precision could vastly increase the value of the ad market, even if fewer ads are watched. "It's a way to let consumers do much more thorough research on a product, and really make it come to life," he says. Comcast planners hope to combine the precision of Google (which tailors ads to Web search results) with the impact of traditional TV ads (with rich images and stereo sound).

Big advertisers are experimenting with using digital technology to provide optional ads to viewers, typically packaged in longer formats. Lexus, Best Buy, New Line Cinema and Sony Pictures have linked up with TiVo to create "video showcases" that viewers can choose to watch. Movie trailers are an especially popular form of "voluntary" ads; two-thirds of TiVo viewers watched the *Austin Powers in Goldmember* preview.

Showstopper: TiVo's Martin Yudkovitz.

THOMAS BROENING FOR FORBES

Much of the impending upheaval owes to the blistering pace of improvement in the humble computer hard drive. Five years ago storing video on hard drives was too costly. In 1999 the first TiVo let viewers record 30 hours of shows. Hard-drive prices are down 75% since TiVo launched; now DVRs can store 120 hours of TV fare.

The same cheaper, denser storage has let cable companies finally deliver ubiquitous video-on-demand, after a decade of overpromising. Capacity used to be so precious that movies were the only on-demand programming that cable systems offered. Now the program menu has expanded steadily to include *Sex and the City* and other HBO fare and, more recently, regular network programming (which includes commercials, but it's now possible to fast-forward through them).

Comcast can deliver the *NBC Nightly News* and other network shows to any of 700,000 homes in New Jersey. If viewers come home an hour after NBC anchor Tom Brokaw airs, they can immediately cue him up. PBS hopes to make its entire catalog available eventually—tens of thousands of hours of programming.

One day, not too far off, TV delivery systems may allow viewers to download specific programs straight from any network or production company. A total of 100,000 baseball fans got a glimpse of the future this season, downloading games off the Internet for a fixed price. Major League Baseball charges $3 a game or $15 for a month. Seth Meyers, a diehard Boston Red Sox fan now living in New York, uses the service to watch his home team when games aren't aired locally. The video is a little jerky. Still, says Meyers: "I officially feel like I'm living in the future."

Selling direct completes the television industry's long drift away from its original incarnation: a limited menu of shows, served on a fixed schedule and funded by a healthy dose of commercials. From the start that model was built on a rickety economic foundation, requiring customers to pay for programming with a horribly inefficient currency: their leisure time. Sponsors spend $43,000 to air a 30-second spot on Fox's *Cops* and $365,000 for 30 seconds on NBC's *Friends*—and either way, it's a raw deal for viewers. Every hour Joe Six-Pack watches TV, advertisers get 15 minutes of his time for

If Your VCR Still Flashes "12:00"...

A PRIMER ON COMMERCIAL-SKIPPING GADGETS

Videocassette recorders (VCRs) debuted in the mid-1970s, able to tape shows and then fast-forward through commercials, awkwardly. TiVo and ReplayTV, the first digital video recorders (DVRs), arrived in 1999. They used disk storage instead of tape and made navigation far simpler and quicker—85% of TiVo viewers skip most ads. The first cable boxes with built-in DVRs debuted in the spring. In August the EchoStar satellite service unveiled the first free DVR.

HOW TO BUY TV COMMERCIAL-FREE

Pay-per-view cable has long been limited to a few movies and the odd heavyweight bout. New video-on-demand technology (essentially giant TiVos based inside a cable network) can store hundreds of hours of shows, including pay-channel fare, sitcoms and the nightly news. Like TiVo, they also can stop, pause, rewind and fast-forward at any time, undermining the concept of prime time. The Internet can deliver shows this way, but it's a few years away from doing it quickly and at high quality.

Rated The #1 Tasting Vodka In The World.

In 1998, the Beverage Testing Institute of Chicago conducted a blind taste test of more than 40 vodkas. They awarded points based on smoothness, nose, and most importantly, taste. Of all the vodkas, Grey Goose® Vodka emerged victorious, receiving 96 points out of a possible 100.

Founded in 1981, the Beverage Testing Institute conducts tests in a specially designed lab that minimizes external factors and maximizes panelists' concentration. The Institute selects judges based on their expertise, and its tasting and scoring procedures are widely praised as the best in the industry.

Score	Vodka
96	**GREY GOOSE® VODKA**
94	Canadian Iceberg Vodka
93	Stolichnaya Gold Vodka
92	Staraya Moskva Premium
91	Van Hoo Vodka
91	Stolichnaya Vodka
90	Tanqueray Sterling Vodka
90	Rain 1995 Harvest Vodka
89	Ketel One Vodka
88	Wyborowa Vodka
87	Kremlyovskaya Vodka
86	Finlandia Vodka of Finland
86	Alps French Vodka
85	Skyy Vodka
82	Original Polish Vodka
82	Glenmore Special
82	Fleischmann's Royal Vodka
81	Mr. Boston Vodka
80	Pole Star Vodka
80	Luksusowa Potato Vodka
80	Absolut Vodka
78	Cardinal Vodka
78	Barton Vodka
78	Barclay's Vodka
78	Amazon Vodka
76	Skol Vodka
74	Smirnoff Vodka
74	Crystal Palace Vodka
74	Belvedere
72	Schenley
69	Mr. Boston's Riva Vodka

NOTE: THIS REPRESENTS A SAMPLING OF THE 40 VODKAS TESTED
SOURCE: (BTI) BEVERAGE TESTING INSTITUTE INC.

www.greygoosevodka.com

Drink Responsibly.

WINNER OF THE PRESTIGIOUS WORLD SPIRITS CHAMPIONSHIPS

MARKET WATCH LEADERS' CHOICE AWARDS

BEST NEW PRODUCT INTRODUCTION

Grey Goose® Vodka 40% Alc./Vol. (80 Proof) Distilled from grain. Imported exclusively by Sidney Frank Importing Co. Inc. New Rochelle, NY 10801

To send a gift of Grey Goose® call 1-877-SPIRITS or visit www.877spirits.com. Void where prohibited.

a mere 8 to 40 cents, a fraction of the minimum wage. Customers like Meyers would much rather buy what they want, when they want, for cash.

Digital alternatives to the broadcast model are sure to exacerbate what Federal Communications Commission Chairman Michael Powell has publicly called "a disturbing trend ... the movement of high-quality content from free, over-the-air broadcast." The networks could play on that sentiment to launch a legal counterattack, waging war in court and lobbying in Washington, D.C. to push for measures to protect "free" television.

So far they have offered only mild resistance, to scant effect. In June they succeeded in pressuring TiVo rival ReplayTV to remove an automatic commercial-skip feature from its latest models. Cable and satellite execs, locked in a pitched battle for subscribers, say they must put consumer-friendly features above the concerns of the channels they carry.

It is questionable whether a legal assault would succeed. It hasn't worked for the music industry, which did manage to kill Napster in court but hasn't vanquished myriad other song-swapping services. Moreover, many media executives still don't see DVRs as worthy of efforts to repel them. They scoff at forecasts of mass adoption and cite predictions that TiVo would be in 20 million homes by now.

"What I feel absolutely confident is going to happen is this: The traditional 30-second commercial will continue to prosper, and TiVo and Replay will never amount to much more than a minor irritant to the TV networks," Rance Crain, the editor-in-chief of *Advertising Age*, wrote in a column earlier this year.

"Somebody is wrong about these damn things," says Berkeley's Sealey. He is convinced that role belongs to the skeptics. What about that $9.3 billion? His answer: "Let me suggest to you that an incandescent light bulb burns brightest just before it goes out. And a business model can sometimes be at its most profitable before a plunge." **F**

Ad Infinitum?

Coming up after these messages from our sponsors: more messages from our sponsors.

BY ALLISON FASS AND PETER KAFKA

FEARLESS PREDICTION: THIS FALL one of the hapless makeover subjects in *Queer Eye for the Straight Guy*, the hit cable show on Bravo that also runs on NBC, will likely be deemed to have inadequately gleaming teeth. The solution? Crest Whitestrips. Procter & Gamble makes Crest, and it is now in talks with NBC to feature the strips in at least one episode of the new series as part of a broader ad deal.

Brace yourself for more of the same: product pitches inside the shows themselves. The new ads-inside entail far more than plopping a can of Coke into the foreground. Networks are inviting advertisers to help devise the plot or the look of a program to better showcase their brands. The aim is to cut through the clutter—and, though most TV executives won't admit it, to reach fidgety viewers who zap ads assiduously.

Ted, Jai, Carson, Thom and Kyan: *Queer Eye*'s Fab Five weave in products while spiffing.

BRAVO / COURTESY: EVERETT COLLECTION

"People are not watching the commercials. The advertising guys at the networks are scared, and so are the agencies trying to find another way to do this," says Richard Frank, former president of Walt Disney Studios. He now is managing partner at Integrated Entertainment Partners, a new Beverly Hills shop working to make client products central to TV and movie plots.

The onrush of "reality" shows (no actors, no scripts, just regular folks and countless unblinking cameras) sparked this subliminal blitz. The new approach can be sort of subtle: Don't be surprised to spot a vintage Johnson & Johnson billboard on a

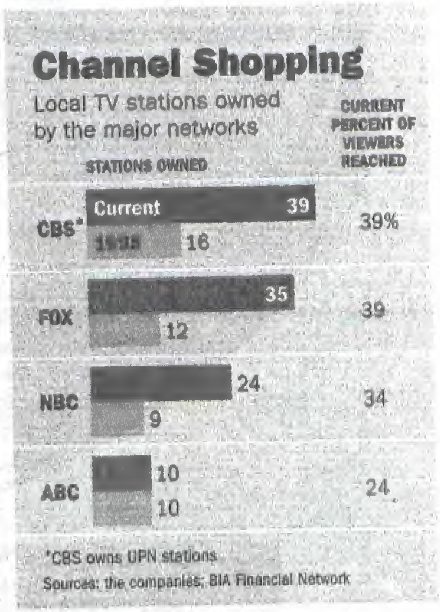
Station Break

Behind Media-Ownership Fight, An Old Power Struggle Is Raging

As TV Networks Get Bigger, Their Local Affiliates Fear A Loss of Autonomy

A 'Plott Hound' Takes on FCC

By Matthew Rose
And Joe Flint



Channel Shopping

Local TV stations owned by the major networks

*CBS owns UPN stations

Sources: the companies; BIA Financial Network

RALEIGH, N.C.—Jim Goodmon, chief executive of Capitol Broadcasting Co., has maintained a successful relationship with Viacom Inc.'s CBS for almost 20 years. His TV station here, WRAL, is one of the most profitable CBS affiliates in the country and has helped cement Mr. Goodmon's position as an influential community figure.

Yet in May, when he found himself seated with Viacom President Mel Karmazin at a Senate hearing on media concentration, Mr. Goodmon said: "I need to suggest that I basically do not agree with anything that Mr. Karmazin said."

Mr. Goodmon has emerged as one of the most vocal combatants in the fierce battle over media ownership, which has drawn activists across the political spectrum concerned about the power of Big Media. At issue is the fate of sweeping Federal Communications Commission proposals that would ease restrictions on how many media businesses one company can own. Mr. Goodmon and other critics argue that allowing conglomerates to own more outlets will stifle independent media voices.

Jim Goodmon

But the fight is also being fueled by something far more parochial: the rising antagonism between broadcast networks and their local affiliate stations, whose partnership forms the backbone of the TV industry.

Most of the nation's television stations are owned by independent companies that contract with the national networks, much as car dealerships are linked to auto makers. The local stations, or affiliates, usually take their network partner's prime-time lineup, morning and late-night show, soap operas and weekend sports events. The affiliates assemble the rest of the schedule themselves, either buying reruns and talk shows or making their own programs, most importantly the local news. Networks need affiliates to reach the biggest possible audience and command higher rates from advertisers. Affiliates need strong network programming to help their own local ratings.

The two sides have jostled for years over how much control networks have over affiliates. In the early days of television, the fledgling networks were the weaker partner, enticing station owners to sign on with them. But today affiliates say they're getting squeezed as the networks acquire more stations of their own. They complain the networks increasingly interfere with the way they want to run their local stations, clamping down, for example, on longstanding "pre-empting" rules that allow affiliates to tinker with network programming lineups to cater to local audience tastes.

It's not just pride and independence at stake. Affiliates get to sell only a couple of minutes' worth of ads on network shows, and they have to give up more and more of their own airtime to promote network lineups.

For their part, the networks say affili-

Please Turn to Page A16, Column 1

ates have as much independence as before. As for buying up more stations, networks say it's a must in this climate. The rise of cable and rapidly increasing programming costs are jeopardizing the network model of free television for viewers, they say; buying cash-rich stations will help the networks' bottom lines. The FCC's proposed rule change would allow networks to own stations reaching 45% of the nation's television households, up from 35%.

Mr. Goodmon, 60 years old, is a third-generation owner who started working at his family's company, closely held Capitol Broadcasting, when he was 13. As a locally prominent businessman, he fits the mold of an old-fashioned, down-home affiliate owner—a type that was common when most local stations were mom-and-pop affairs. His company owns the local minor-league baseball team, the champion Durham Bulls, and he's leading one of Durham's most significant urban-renewal projects. When CBS anchor Dan Rather came to visit, they dined at a local Shoney's. Employees get turkeys at Thanksgiving and poinsettias at Christmas.

Capitol Broadcasting is also a powerhouse, both editorially and financially. Capitol owns five television stations in North Carolina, as well as a radio station and two digital channels. Its Raleigh-Durham stations scoop up about 36% of all the TV revenue in that market, according to BIA Financial Network, a consulting firm in Chantilly, Va. Sen. Jesse Helms announced his intention to retire on WRAL's early evening newscast in August 2001.

"It is not a genteel Carolina 'we'll get around to it tomorrow' sort of place," says Bill Peterson, a former WRAL general manager.

Mr. Goodmon uses his pre-empting power to dump prime-time lineups, either for local basketball games or because he doesn't think the shows are appropriate for the community. WRAL, for example, axed CBS's Victoria's Secret fashion show in November 2002 for a Burt Bacharach Christmas special. Earlier this year, it refused to run CBS's "Cupid," a reality-TV dating show, saying it demeaned the institution of marriage. Instead, WRAL ran reruns of "The Andy Griffith Show," the folksy 1960s sitcom.

"I know they were grumpy about it, but that's the way it is," Mr. Goodmon says of CBS. CBS says no other affiliates pre-empted "Cupid."

Likewise, WRAZ, Capitol's Fox affiliate in Durham, refused to run the first two seasons of "Temptation Island" as well as "Who Wants to Marry a Multi-Millionaire?" and "Married By America." WRAZ also re-edits promotional material from News Corp.'s Fox when it's deemed too racy.

The networks complain that Capitol's cherry-picking of programs violates the spirit of the broadcaster-affiliate relationship, even though Capitol hasn't exceeded the number of pre-emptions allowed by CBS. "I get that they don't entirely agree with everything we want to do, but this isn't a Chinese menu," says CBS Chairman Leslie Moonves. "You can't say I want 'Everybody Loves Raymond,' David Letterman, the Super Bowl and the Grammy Awards and then say I don't want 'Cupid.' "

Responds Mr. Goodmon. "I know they might think we are a little sort of independent, but I think they are used to us."

Mr. Goodmon believes local stations, not networks, should have more say in programming decisions. At the same time, he wants to protect his lucrative local enterprise. He says he fears that if the networks grow more powerful they will simply ignore his station. He has long complained that networks no longer seek his input on programming at the early stage of a show's development.

Moreover, he complains, as many affiliates do, that as the networks buy more stations, they make it harder for locally owned affiliates to buy syndicated programs, such as game shows and afternoon talk shows. The companies that sell those shows would rather do business with larger groups of local stations—the kind that the networks, among others, now control.

When the networks began to grow after World War II, federal rules tightly restricted how many stations a broadcaster could own. So when William Paley and David Sarnoff were building CBS and NBC, respectively, they plied local stations with cash to persuade them to sign on.

For decades, networks headed off fights by soliciting affiliates' opinions when drawing up schedules. And affiliates had lots of power to pre-empt network shows and run their own, which gives them the ability to sell many more ads during a broadcast. At the end of a quarter, for example, stations often run movies instead of a network's prime-time lineup in order to sell enough ads to make their revenue targets.

The balance of power began to shift in the early 1990s after networks were allowed to acquire more local stations. For example, Viacom, through its ownership of CBS and UPN stations, now owns 39 stations reaching 39% of the nation's audience, compared with 10 years ago when it owned six stations reaching just 19%.

As the networks' power grew, they started to cut payments to locally owned affiliates for carrying their programs and in some cases even demanded payments from affiliates. Growing accustomed to the close control they had over the local stations they own, the networks became more restrictive when negotiating pre-emption deals.

The result, say many affiliates: Networks, in effect, force programs down their throats without considering the local market. When NBC launched its controversial XFL football league with Vince McMahon's World Wrestling Entertainment, West Coast NBC stations objected loudly, since they would have to pre-empt their local news to carry the games. But their arguments with NBC failed, and they were forced to run the games.

Network executives and some station owners dismiss the suggestion that local affiliates are losing power. Even some stations owned by networks say they have plenty of latitude to make their own decisions about programming. "We operate exactly the same as Capitol Broadcasting," says Bernie Prazenica, general manager of the ABC-owned station in Raleigh. "You can't be successful if you don't understand the community."

WRAL prides itself on being the most local of local enterprises. The station employs over 100 staffers in its news department, a large number for the market it covers, and runs documentaries on subjects such as North Carolina's fishing industry and the moving of the Cape Hatteras lighthouse. All of this pays off: WRAL's local news beats its NBC-owned and ABC-owned competitors in evening and late-night local news broadcasts.

Earlier this year, Mr. Goodmon took his programming battles to Washington—and, by late April, had become a player in the ad hoc coalition opposing the FCC. What had previously been an issue only for corporations and their lobbyists was turning into a major political stink. Fanning the flames were pressure groups from the left and the right as well as a number of industry and religious groups that had banded together to oppose the FCC's planned move.

Capitol, armed with its own lobbyist, rallied supporters, provided facts and figures to FCC commissioners opposed to deregulation and pressured lawmakers. The coalition made big inroads, especially with House Republicans, who were keenly aware of the power of local media barons such as Mr. Goodmon. On May 1, in the office of Rep. Richard Burr, a North Carolina Republican, Mr. Goodmon pushed for legislative action to block the changes to the TV-ownership cap.

"If you are not going to do this for us, we are committed, and we are going to go door to door until we find someone who is," Mr. Goodmon replied, according to people familiar with the meeting. Rep. Burr, who says he doesn't recall the specifics of the conversation, introduced a bill to strike down changes to the ownership cap with Rep. John Dingell, a Michigan Democrat. The bill didn't go anywhere but gave the anti-FCC group a platform to make its case.

Since then, the House passed an appropriations bill with an amendment that would keep the ownership cap at the old 35% level, and the Senate is planning its own version of the bill. On a separate track, the Senate passed a "resolution of disapproval," a little-used measure, that would kill the entire FCC reform package, but it's highly unlikely the House will follow suit. The FCC's opponents are also pursuing their case in the courts.

The White House has threatened to veto any appropriations bill that scuttles the regulatory changes, but it's not definite that will actually happen. The Senate is considering wrapping many of its appropriations bills together, which will make them harder to veto.

Describing Mr. Goodmon's efforts to defeat the rule changes, CBS's Mr. Moonves calls the station owner a "rabble rouser."

Mr. Goodmon prefers to see himself as a Plott Hound, North Carolina's state dog, famed for its enthusiasm and its persistence. Having chased a bear into a tree, the hounds have "been known to sit at the bottom of the tree until they starve," says Mr. Goodmon.

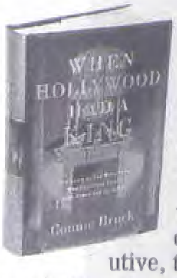
THE WALL STREET JOURNAL.

FRIDAY, JUNE 6, 2003

The Mogul Left His Mark

WHEN HOLLYWOOD HAD A KING
By Connie Bruck
(RANDOM HOUSE, 512 PAGES, $29.95)

By JOHN LIPPMAN



LEW WASSERMAN, the longtime chief executive of MCA Inc. who died last year at the age of 89, was the first suit. A "suit" is Hollywood argot for corporate executive, the pragmatic and bottom-line-obsessed executive who makes a business out of the creative efforts of unruly actors, writers and directors.

Wasserman insisted that his employees actually wear dark business suits to burnish their image as slick hustlers. But it wasn't only that. Over the course of nearly a half-century, he transformed a talent agency into a movie studio and finally into the first vertically integrated entertainment giant. In short, he became the most powerful and feared mogul who ever ruled Hollywood. Now that's a suit.

To play down his mythic status—or perhaps to increase it—Wasserman refused to step into the limelight, didn't like to talk in public and rarely granted interviews. In a business that craves publicity, Wasserman disdained it, preferring to work behind the scenes. He resisted frequent attempts to tell the story of how he rose to power and operated in Hollywood. Judging from what has appeared to date, he succeeded admirably.

The Originator

So it is only appropriate that the hard work of penetrating Wasserman's world should be taken up by Connie Bruck, whose previous books exposed the operations of junk-bond financier Michael Milken and showed how a onetime funeral-home and parking-lot magnate named Steve Ross created Time Warner Inc. "When Hollywood Had a King" is an indefatigably reported work that finely details Wasserman's reign in Hollywood as well as the influence he wielded.

People with an awareness of Hollywood that does not go further back 25 years might have a difficult time grasping just how much MCA and Wasserman shaped the present-day entertainment industry. As Ms. Bruck shows, MCA and its predecessor company, the talent agency Music Corp. of America, put in place just about every Hollywood business practice in use today.

"Packaging" stars and shows to generate more business? MCA started it when booking bands in Midwestern music halls in the 1930s. Giving a profit participation to a star in a movie? Wasserman cut the first deal for Jimmy Stewart in "Winchester 73" in 1950. Leveraging the renewal of a hit series to get another slot on the network? Wasserman forced CBS to do that in order to renew Jack Benny's TV show in the 1950s. The summer blockbuster? That was started by MCA with Steven Spielberg's "Jaws" in 1975.

Many of these practices are now to blame for what has turned the movie business into a financial mess: movies where the talent siphons off 35% of the revenue, making it impossible for the studio to make a profit; where producers are forced to take a talent's agency other clients if they want one of the agency's big stars, resulting in mismatched casts, directors and writers; where a "franchise" strategy leads to ever-more-formulaic, tired sequels that cannibalize one another by jamming the summer and holiday movie seasons.

Still, it's not clear whether Wasserman himself deserves to be blamed for such latter-day excesses. And if he does, well, he earned the right to them: His life is a true Horatio Alger story. The son of Russian-Jewish immigrants who settled in a rundown section of Cleveland, Wasserman went to work at an early age, selling candy in a theater, serving as an usher and then working in the advertising department of a casino. Jules Stein, the ophthalmologist-turned-agent who founded MCA as a band-booking agency, hired the gangly 23-year-old as a publicist in 1936. He was so impressed by the young man's smarts that he overlooked Wasserman's lack of a college education and his garish suit.

Within three years Stein moved Wasserman to MCA's new Los Angeles office, where his skill with numbers dazzled his colleagues—"a walking computer before there were computers," recounts one co-worker. He quickly proved to be more shrewd and hard-working than anyone else. Stein was pushing MCA from its music roots into the burgeoning movie business. MCA's Los Angeles office had just seven agents when Wasserman arrived. One of its biggest clients was a young actor named Ronnie Reagan.

Sharp Elbows

Generally reserved and formal, Wasserman could switch on the charm when he needed to woo clients or court an advertiser. Soon enough, Stein gave Wasserman the authority to run MCA's office as he saw fit. That meant going on a buying spree gobbling up rival talent agencies. By the 1940s MCA was one of the top talent agencies in Hollywood. (Its sharp-elbow tactics of raiding the clients of rivals served as the model for Michael Ovitz's Creative Artists Agency takeover of Hollywood talent 40 years later.)

Eventually, Wasserman realized that there was better money to be made by employing talent in movies than by selling their services for a percentage. He led MCA out of the talent-agency business and into the studio business with Universal, just as movies and TV were set to become one of the country's largest net exporters.

One of Wasserman's prescient ideas was to see the potential, for Hollywood studios, of the nascent TV business. While other studios scorned TV, fearing that it would rob them of audiences, Wasserman embraced it. The public equates Hollywood with movies, but Wasserman found that it was really TV that provided the key to success, ensuring steady profits and evening out the up/down cycle of box-office hits and bombs.

All Work

Ms. Bruck has produced a remarkable account, digging up countless anecdotes about Wasserman's savvy deal-making, which included brokering peace with the labor unions and becoming Hollywood's go-to guy among Democratic politicians. She has unearthed forgotten oral histories of MCA's early days and conducted some 250 interviews. Among her revelations: that Wasserman had no qualms about dealing with people he surely knew had ties to "the big boys," especially his close friend Sidney Korshak, a mobbed-up labor lawyer.

But the portrait she paints is frustratingly one-dimensional. We hear a great deal about business machinations, business deals, business conversations, business strategy. But a personal sense of Lew Wasserman, one that connects him to the times in which he lived, is regrettably missing. Indeed, he comes across as a bore, so consumed by work that he has no personal interest in the subject that is his business—leisure. Ms. Bruck never tells us what movies Wasserman liked or which stars he admired, beyond obvious ones like Bette Davis. If he had any point of view about the movies his studio should make—or any feelings about what made certain movies work and others fail—we simply do not know.

Stranger yet, Ms. Bruck's narrative is almost devoid of comedy. One of the perks of being a mogul, one would think, is a steady supply of jokes, laughs and riffs from the oddballs and entertainers in the business. But Wasserman comes across as dark as his suits. For this we may have Wasserman himself to blame: He seems obsessed by the morning box-office reports and the hourly updates on Universal's theme-park attendance.

One juicy tidbit that Ms. Bruck drops in her book concerns Wasserman's marriage with his wife, Edie, publicly portrayed over the decades as a loving partnership. The Wassermans slept in separate bedrooms, and although Lew Wasserman seems to have been one of the few Hollywood executives who was never rumored to have bedded starlets, Ms. Bruck writes that "numerous people spoke about Edie Wasserman's philandering." Why a man who exerted unrelenting control over everything he did would accept this unusual arrangement, writes Ms. Bruck, "remained mysterious." In the end so is much about Lew Wasserman.

> All the business practices in place in Hollywood today began with him.

THE WALL STREET JOURNAL. OPINION FRIDAY, JUNE 6, 2003

Wonder Land / *By Daniel Henninger*

The Only News That Is Bigger Than Martha

What is the only news story this week that caused nearly every Democratic presidential candidate to issue a public statement?

The Martha Stewart indictment? No. The Sharon-Abbas peace initiatives? No. The story about how George Bush and Tony Blair faked the Iraq war? Un-uh. The Dow breaking 9,000? Fat chance. Sammy Sosa's corked bat? Nope. The only event that Joe Lieberman, John Kerry, Howard Dean, Bob Graham and John Edwards formed up a chorale to denounce was the decision by the Federal Communications Commission to allow media companies to own more media properties. DON'T TURN THE PAGE!

I have a rule of thumb that there is a handful of words and subjects in this business that guarantee the instant evaporation of readership, and that includes "the FCC." But because "the media" remains the sole source of news for most people, it was inevitable they'd wake up this week to discover that "media consolidation" is a hugely important story, even if 99% of the population doesn't care, doesn't know that media consolidation exists, and if it were pointed out to them, still wouldn't know what you were talking about.

The single point made by the five Democrats, pretty much in the same words, was that the FCC decision proves that George Bush wants to "enrich the pockets of a privileged few" (Bob Graham). About all these remarks suggest is that the Democrats' presidential campaigns are still off in the corner trying to figure out how to get their coughing turboprops into the air. "Try the FCC decision, John."

What should really interest us about the FCC decision, or more precisely the blowback against it, are the things we may discover about what might be called the nation's cultural and political anthropology.

If you read down deep into the stories about the FCC decision (ok, I get paid to do that and you get to read the Sammy Sosa stories), you encounter complaints about how allowing large media companies to expand their holdings of television stations and newspaper properties will suppress "a greater diversity of viewpoints" (Consumers Union) and that "This is about democracy having as many ideas and opinions out there as possible" (the Media Access Project).

Translated, what these complaints about "diversity of opinion" mean is that the American left feels—and it has been saying so publicly for at least 25 years—that its political opinions are not well represented on television and obviously to a lesser extent in daily newspapers. In their perfect world, the FCC would require an ABC or CBS, in return for the license, to include in its broadcasts a measurable amount of the "views" normally heard on National Public Radio.

The reason that no one other than NPR does this, however, is there is no sustainable market whatsoever for this stuff. But if even a smidgen of profit could be made with a 24/7 cable broadcast of the views of Jesse Jackson and Michael Moore, it would be available now. It isn't, and never will be, unless you move to France (though even there, the airwaves are mostly saturated now with pornography).

A further reason behind the diversity-of-opinion complaints about the FCC's decision to loosen ownership rules is the deep belief on the Democratic left that the Republican-led commission took this action so that Rupert Murdoch will be freed to buy up and "control" more media with his right-wing compulsions. Why so many people now watch Fox Cable News without Rupert Murdoch holding a gun to their heads is a frustrating glitch in the theory that still needs to be worked out.

Even if one were at all sympathetic to these "diversity" pleas, there is nothing that can be done for them short of requiring media outlets to force-feed them into their programming. But talk-radio would program people hiccuping all day if it sold ads, and the hard truth is there is no market for left-liberal talk radio. Maybe the harder truth is that the market itself and left-liberalism are simply incompatible. No one's FCC will ever solve that problem. There's also some fear that the new rules will lead to more consolidation in newspaper ownership, suppressing diversity of views in the news. No use getting into that.

With all that irrelevancy out of the way, we can turn to the one truly intriguing aspect of greater media consolidation—whether it will produce programming even blander and baser than what we have now. Will Disney, News Corp., Viacom and Clear Channel turn TV into...what? A vast wasteland?

Speaking for "small" media interests, Ben Turner of Seattle's Fisher Broadcasting, said the FCC rule "was a blow to localism." My compliments to Fisher if Seattle's local evening news broadcasts resembles "60 Minutes," but I suspect there are seniors in college now who in their lifetimes, growing up in any city in America, have never seen a "local" newscast that didn't begin, whenever possible, with the day's fire or murder. How consolidation will make local TV news more homogenous in a way anyone would recognize is hard to imagine.

The fact is that media, as understood in this context, is primarily about ad sales and audiences; politics is a mere speck in the torrent. Most programming is bland and dumber because the audiences are dumber, which is the way our dumbed-down, oh-so politically sensitive school systems left them. Disney and Viacom didn't create the kind of mass culture we've got now; they took the audiences we created for them.

* * *

One of the famous big-media success stories now is the WB Television Network, which has captured the prime 18-35 year-old audience with shows criticized for unprecedented chin-dribble. Presumably consolidation will cause more of this. But most of the 20-year-old girls in WB's thrall have spent their lives reading textbooks consciously designed to offend no one. Everyone says politics turns them off, hardly a surprise since they've been sheltered against anything politically honest for most of their lives. Why is it WB's responsibility to undo that?

The day after the FCC's decision, Sen. Olympia Snowe (R., Maine) said it "will undermine the basic tenets of democracy." She went to school in the 1950s. What's her excuse?

THE WASHINGTON POST

MONDAY, JUNE 2, 2003

Michael Powell and the FCC: Giving Away the Marketplace of Ideas

Unless something dramatic and unexpected occurs to stop it, this is what will happen today in Washington: The Republican chairman of the Republican-dominated Federal Communications Commission (FCC) and his Republican majority will revise long-standing rules on media ownership in ways that will hugely benefit, among others, rich Republicans.

Revising and relaxing the rules that prohibit a single entity from controlling too large a percentage of American media will allow corporations that are already too big to become much, much bigger. Also much more powerful and much more oblivious to the common good.

The proposed changes are such a threat to First Amendment freedoms that even some Republicans on Capitol Hill have been brave enough to oppose them. And yet, a fat lot of good it does. FCC Chairman Michael Powell wants to plow ahead with his deregulation scheme no matter what. It appears he is trying to do more damage than any other chairman in FCC history.

Never mind that a diversity of voices—voices with the ability to be heard—is integral to the health and maintenance of a democracy. While Powell and his supporters claim that the existence of dozens, even hundreds, of channels on cable and satellite systems proves there's diversity unbound, Powell's critics note that the diversity is a mere illusion if only five fat companies own all those channels.

Maybe this isn't a "sexy" issue, and it's received only perfunctory coverage from the networks and stations affected—because it isn't visual, or because reporters and producers know that corporate management would prefer no such stories appear. But unless the word gets around somehow, unless people wise up and rise up, they'll discover that America's "marketplace of ideas" is owned and controlled by only a handful of appallingly powerful and interdependent corporations.

America in the 21st century faces dozens of socioeconomic problems requiring prompt government attention, obviously—but would anyone argue that expanding the power and profits of omnivorous conglomerates is among them? Maybe Powell would, because he has made relaxing the ownership restrictions an obsessive crusade, pushing the changes through with little considerable secrecy.

"I'm opposed to the changes," says Barry Diller, chairman of USA Interactive and nothing if not a media mogul himself, "but I'm much more upset that this has not produced enough conversation and dialogue. The way Michael Powell has gone about it is to hide the issue as much as possible, organizing it to avoid debate and hearings, and getting it done largely under the cover of night."

Diller calls the rule changes "dark and dispiriting—on the merits for sure, but also on the method." He says he doesn't understand why Powell and his supporters won't stop for a moment—even just a 30-day delay—to give the public more input. "Why are they so afraid of a mere pause?" Diller asks. "It's not like there's a bridge on fire."

Jeff Chester, executive director of the public-interest Center for Digital Democracy, says Powell has declined even to debate Diller, among others. "He refused to conduct [adequate] public hearings, he refused to have 30- or 60-day debates on the rules, he has been unwilling to reach out to the public," Chester says. "If Saddam Hussein had stayed in business, Powell might have made a great minister of information."

Powell's motive in ramming these changes through can't have anything to do with "the public interest, convenience and necessity" that the FCC is mandated to safeguard, because it's all about corporate interest, convenience and (to stretch the term) necessity instead. Perhaps Powell, who is the son of Secretary of State Colin Powell and a communications lawyer, believes that by making this generous bequest to corporate America, he is enhancing his own political future. He may have his eyes on a cabinet-level position if Bush gets a second term, and might even imagine himself being named attorney general.

Fortunately for the country but unfortunately for Powell, his stubbornness and arrogance have antagonized groups and individuals that might otherwise not have paid that much attention to the rules being changed. And the informal coalition opposing the changes is not—unlike the FCC itself—drawn along partisan political lines. Thus the conservative National Rifle Association is among the groups protesting the changes, and conservative columnist William Safire has called the rule changing a "power grab" by the rich and powerful. Safire also blasted the FCC for its refusal to hold ample public hearings on "the most controversial decision in its history."

In a May 22 column in the New York Times, Safire wrote, "The concentration of power—political, corporate, media, cultural—should be anathema to conservatives . . . Why do we have more channels but fewer real choices today? Because the ownership of our means of communication is shrinking. Moguls glory in amalgamation, but more individuals than they realize resent the loss of local control and community identity."

Andrew Jay Schwartzman, executive director of the activist Media Access Project, says "hundreds of thousands of postcards" protesting the proposed changes have taken Powell and his two fellow Republicans on the commission by surprise.

"The Internet group 'moveon.org' got a much bigger response than they expected" when they exposed the issue on the Web, Schwartzman says. "They got 3,000 responses on the Bush tax cut, but they've received 180,000 and counting on media ownership. People may not understand the details—things like 'lifting the cap' and 'the top 12 markets' and so on—but they know this is bad. They know the idea of a few companies owning everything is a bad one.

“This is about democracy having as many ideas and opinions out there as possible. That’s why it’s so important, and people are starting to realize that.”

Ted Turner, one of the most influential communications entrepreneurs in American history, has also come out against the Powell’s precipitous plan. The new, relaxed rules would “stifle debate, inhibit new ideas and shut out smaller businesses trying to compete,” Turner wrote in The Washington Post on Friday. “If these rules had been in place in 1970, it would have been virtually impossible for me to start Turner Broadcasting or, 10 years later, to launch CNN.”

Bob Edwards, anchor of NPR’s “Morning Edition,” talked about the myth of media diversity in a lecture last month at his alma mater, the University of Kentucky.

“It’s kind of a cruel, ironic joke,” Edwards said. “The rise of cable TV and the Internet were supposed to democratize the media and give us many voices and numerous points of view. Instead, market forces and deregulation have clobbered diversity. The networks and cable channels have the same owners—Hollywood studios, mainly—and the most popular Web sites for news are those of organizations firmly established before the Web was spun.”

Edwards used the example of the Dixie Chicks to show how monolithic media can manipulate public opinion. During that not-so-long-ago pre-war era—before America “liberated” Iraq—one of the Chicks uttered the now infamous opinion that as a Texan she was “ashamed” to be from the same state as Bush. There followed a huge tsunami of anti-Chicks protest. Or did there? Edwards said the supposedly populist “backlash against the Chicks” was mainly manufactured by Clear Channel Radio, a powerful and Texas-based corporation that owns 1,250 radio stations throughout the country. Songs by the Dixie Chicks, meanwhile, quietly dropped out of the playlists of many Clear Channel’s country stations.

“Clear Channel loves George W. Bush,” Edwards said. “Clear Channel would like the administration of George W. Bush to remove all remaining restrictions on the ownership of media properties. That is exactly what the Bush administration is considering.”

If there is one public figure more than any other that symbolizes media greed and the lust for power, as well as profit, that figure is Rupert Murdoch, the megalomaniac Australian with an insatiable lust for broadcast and cable properties. Murdoch’s support of the Bush administration has been rewarded over and over by non-regulating regulators and Republicans in Congress. Murdoch is poised to acquire controlling interest in DirecTV, the nation’s largest satellite delivery system. This comes shortly after another company, EchoStar, was rebuffed by the Justice Department in its attempt to buy the same company. Murdoch’s desire to acquire it was already well known.

Although it would be economically unwise, Murdoch could conceivably drop CNN, chief competitor to Murdoch’s Fox News Channel, from the DirecTV bill of fare. However, we can all rest easy. Why? Because Murdoch says he won’t do that. And surely it would be uncharitable to imagine that Murdoch’s easy win on the DirecTV decision had anything to do with the conservative slant of Fox News or the fact that the channel was easily the loudest national media cheerleader on behalf of Bush’s Iraq war.

Fittingly and shrewdly, a group opposing the changes in the ownership rules is using a picture of Murdoch as its symbol of power-mad gluttony in commercials designed to arouse public opinion. To support the changes, say the ads, is to give Murdoch and his empire even greater influence over American life.

Cross-ownership rules that prohibit one company from owning a TV station, radio station and a newspaper in the same market would also crumble and fall under the Powell initiative. This worries Chester, who says that while newspapers are now “the last bastion of serious journalism,” making them part of the TV empire will subject them to the tyranny of ratings, lead to a “dumbing-down” of newspapers and result in news budgets being “slashed,” because when corporations grow, the first thing they always do is look for ways to cut costs.

“History shows that when you borrow a lot of money to buy new properties,” says Schwartzman, “you plow profits back into debt service and you cut costs. And viewers suffer.”

NBC, owned by General Electric, has been permitted “temporarily” to operate three TV stations in the Los Angeles market, Schwartzman says. If Powell’s rule changes go into effect, the arrangement is bound to become permanent, “and that will be the rule in the very largest markets across the country. The Tribune Company will own two stations in every market where it has a newspaper. So will Gannett.”

Bigness leads to homogenization, sameness, conformity and mediocrity. And this will be some of the biggest bigness America has ever seen.

Schwartzman, for one, sees hope. Angry reaction on Capitol Hill to Powell’s crusade has been “quite bipartisan,” he says, and he thinks the White House may be getting “a little uneasy” about the sudden, if belated, public reaction. Such network news programs as “Nightline” and “NBC Nightly News” have even done stories on the proposals. By and large, though, the network reports have hugely underplayed the importance of the story—and the tremendous bonanza awaiting the networks’ corporate owners if Powell’s public-be-damned philosophy is allowed to reign supreme.

In testimony supporting the rule changes at a Senate Commerce Committee hearing, Viacom President Mel Karmazin said more deregulation of the business was overdue. Viacom owns CBS, MTV, UPN, Paramount and a herd of other cash cows. Karmazin whined that under the present rules, broadcasters are “handcuffed in their attempts to compete for consumers.”

Yesterday on "This Week With George Stephanopoulos," Powell made a rare public appearance to defend the changes, saying they will be less drastic than has been speculated and necessary so that broadcasters can "remain economically viable in the advertising market."

Oh, they're really hurting. Diller scoffs. "Anybody who thinks they're in trouble hasn't read the profit statements of those companies," he says. "The only way you can lose money in broadcasting is if somebody steals it from you."

Michael Powell and the FCC are riding to the rescue of huge media conglomerates that need rescuing about as much as Spider-Man, Batman and the Terminator do. Unfortunately, you and I and the freedom of speech are the ones getting trampled in the stampede.

PETER FERRARA

Unleash the new TV

11/05/03

A new TV technology has been developed that would enable new competitors to offer the full range of cable and satellite TV channels, plus all local TV channel and high speed Internet access. Moreover, this new technology would not only come to consumers at low cost, it would reduce existing cable and satellite TV prices as well through the new competition.

The new TV system, developed by Northpoint Technologies of Austin, Texas, utilizes microwave signals that hop across a network of ground-based retransmitters to a reception dish at your home or office. It is called "Multichannel Video Distribution and Data Service," or MVDDS.

This new technology is ideal for bringing the full scope of cable TV services and high-speed Internet access to rural areas. It can be installed to cover the entire nation within two years.

But there is one problem. The cable and satellite TV companies don't want any more competition. So they have prevailed on the Federal Communications Commission to squelch the new technology.

As a result of their furious lobbying, the FCC is demanding that any new MVDDS providers pay for the transmission spectrum bandwith they would use through an open auction. Yet, the technology would only share the same spectrum band that satellite TV providers now use. Most importantly, the satellite TV providers never paid anything for use of that spectrum. They were granted their licenses to use it free of charge.

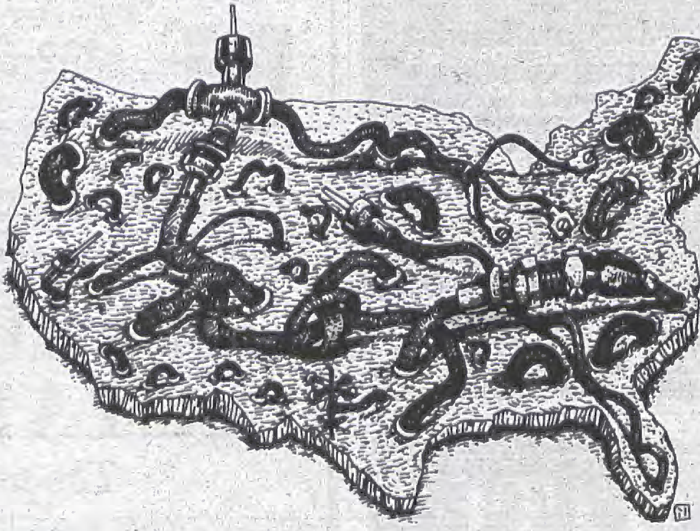
How can the FCC expect MVDDS to operate if it has to pay a fortune to use the same transmission spectrum band that its satellite TV competitors use for free? Even if MVDDS could operate on this basis, the discriminatory charge for spectrum use would eliminate any cost advantage or cost competition for consumers.

Fortunately, bipartisan legislation now pending in the Senate, spearheaded by Sens. John Sununu, New Hampshire Republican, Maria Cantwell, Washington Democrat, Kay Bailey Hutchison, Texas Republican, and Mary Landrieu, Louisiana Democrat would correct this problem. It would require the FCC to apply the same rules for spectrum use by ground-based transmitters like MVDDS as for satellite TV. This would eliminate the discriminatory and onerous auction requirement for MVDDS spectrum use.

This legislation would liberate MVDDS and free consumers to choose this new TV and Internet alternative if they desire. It would offer these services to consumers at lower costs than are available now. Moreover, the competition from this new technology would force down the current prices of cable and satellite TV, and high speed Internet.

Cable TV rates rose 8.2 percent last year, over 5 times the rate of inflation. The average family now pays over $40 per month, or nearly $500 a year, for cable programming.

The introduction of high cost, upscale, satellite TV has not reduced cable prices. But, according to the General Accounting Office, in the 2 percent of local markets that have competing cable providers, cable prices are 17 percent lower than elsewhere.



Indeed, Thomas Hazlett, former FCC chief economist, estimates competition for the new TV technology would reduce subscription TV prices and high-speed internet access fees by at least 5 percent. That would save consumers $2.78 billion per year. If it reduced prices by 17 percent, that would save consumers more than $10 billion per year.

As Mr. Hazlett says, "FCC license auctions are, in this case, an extremely inefficient way to raise a trivial amount of revenue compared to the vast consumer gains that are squandered."

In addition to the consumer cost savings, many rural areas do not now have any high-speed Internet access or cable TV options at all. MVDDS would bring those services to these areas for the first time. That has helped to expand bipartisan support for the legislation.

The FCC and the special-interest satellite and cable TV lobbyists have failed to make any argument against the legislation grounded in the public interest. As a result, the Senate Commerce Committee recently voted the legislation out to the floor as an amendment to the FCC funding bill. A vote is expected on this bill within the next two weeks.

Congress should pass this proposal and free the new TV. Consumers who want another option to their local cable TV provider should contact their congressional representatives now.

Peter Ferrara is director of the International Center for Law and Economics.

UNE Order Unlikely Before August as FCC End Game Drags On

July 25, 2003

Blair Levin blevin@leggmason.com (202)778-1595
Michael J. Balhoff, CFA mbalhoff@leggmason.com (410)454-4842
Rebecca Arbogast rarbogast@leggmason.com (202)778-1978
David Kaut dpkaut@leggmason.com (202)778-4341

- **SUMMARY. There are fresh signs that the FCC is struggling to conclude its UNE proceeding. It now looks like the agency probably won't issue an order until early-to-mid August, as commissioners continue to battle over the final wording of their statements and the related legal and policy arguments in the order. While we don't believe the basic view of the FCC decision's impact is likely to be altered - that the Bells largely lost on UNE-P but won on broadband - the order's details could prompt some modifications in the assessment.**

The Federal Communications Commission continues to labor over its UNE order fleshing out the summary decision it issued on Feb. 20, and it may not finish for a few more weeks. Partially in response to a court remand, the FCC is updating the obligations of the Bells (VZ, SBC, BLS, Q) and some other ILECs to lease out their facilities (unbundled network elements or UNEs, including the entire UNE-platform or UNE-P), at "cost-based" discounts to AT&T (T), MCI/WorldCom (MCWEQ), and other IXC/CLEC competitors. Completing the proceeding has been difficult due to the high stakes of local phone competition as well as the complexity and contentiousness of the issues. It has been further complicated by the fact that the chairman, who generally controls the staff, is in the minority on some key issues (UNE-P and "line sharing"), and the majority has had to draft parts of the order virtually from scratch after agreeing on Feb. 20 to a "term sheet" that only outlined its decisions.

The FCC basically concluded work on the order in early June, but since then commissioners have been wrangling over their separate statements explaining their decisions and dissents. The disagreements have resulted in a form of regulatory ping-pong as commissioners have traded draft statements, responses, and counter-responses, with each side fine-tuning its legal and policy justifications in anticipation of litigation. It's still not clear when the back-and-forth is going to end as both sides have to agree that there is no further advantage to be had by refining their arguments. There could still be further exchanges as commissioners attempt to get the final word.

Our understanding is that the release of the order is at least a week away. If the warring commissioners reach an armistice in coming days, it is conceivable that the FCC could still act by next Friday, August 1. However, that best-case scenario is threatened by the continuing disputes and the plans of a number of FCC commissioners and staffers to attend the NARUC state regulatory meetings next week in Denver. In addition, some officials are on, or going on, vacation. So we believe the order is unlikely to be issued before the week of Aug. 4, and if the commissioners exchange further fire, it could be delayed beyond that. We have even heard speculation that the order may not come out until after Labor Day, given the deep divisions and August doldrums, but we suspect it will be released in early-to-mid August.

On the substance of the FCC's decisions, as we've said many times, we believe the Bells basically suffered a near-term defeat on UNE-P, but won a long-term victory on broadband deregulation. Though we are skeptical that the looming UNE order will significantly change that basic assessment, industry parties and investors are interested in learning numerous details of the text, which is hundreds of pages long, and will require significant study.

Among the areas of most significance, in our opinion, are the specifics regarding (1) guidance for state regulators to determine whether and where unbundled switching, and thus UNE-P, should continue to be made available; (2) line limitations for small businesses served by new competitors using unbundled switching/UNE-P; (3) rules of the road governing possible and proposed transitions away from UNE-P and "line sharing," the latter of which is important to Covad (COVD); (4) technical distinctions determining where Bell broadband unbundling relief begins and the rights of new competitors end; and (5) IXC/CLEC wholesale local access to discounted incumbent high-capacity business loop-transport combinations (enhanced extended links or EELs), and related safeguards to prevent new competitor "gaming" - unjustified bypass of lucrative Bell special-access services for long-distance traffic that bring in an estimated $12-13 billion a year .

Of course, releasing the order will only move matters to new phases of battle, as state regulators carry out extensive UNE reviews over the next year and industry parties file promised legal challenges that will probably result in multiyear litigation.

The New York Times
nytimes.com

July 24, 2003

Bush's Four Horsemen

By WILLIAM SAFIRE

WASHINGTON
On the domestic front, President Bush is backing into a buzz saw.

The sleeper issue is media giantism. People are beginning to grasp and resent the attempt by the Federal Communications Commission to allow the Four Horsemen of Big Media — Viacom (CBS, UPN), Disney (ABC), Murdoch's News Corporation (Fox) and G.E. (NBC) — to gobble up every independent station in sight.

Couch potatoes throughout the land see plenty wrong in concentrating the power to produce the content we see and hear in the same hands that transmit those broadcasts. This is especially true when the same Four Horsemen own many satellite and cable providers and already influence key sites on the Internet.

Reflecting that widespread worry, the Senate Commerce Committee voted last month to send to the floor Ted Stevens's bill rolling back the F.C.C.'s anything-goes ruling. It would reinstate current limits and also deny newspaper chains the domination of local TV and radio.

The Four Horsemen were confident they could get Bush to suppress a similar revolt in the House, where G.O.P. discipline is stricter. When liberals and conservatives of both parties in the House surprised them by passing a rollback amendment to an Appropriations Committee bill, the Bush administration issued what bureaucrats call a SAP — a written Statement of Administration Policy.

It was the sappiest SAP of the Bush era. "If this amendment were contained in the final legislation presented to the President," warned the administration letter, "his senior advisers would recommend that he veto the bill."

The SAP was signed by the brand-new director of the Office of Management and Budget, Joshua Bolten, but the hand was the hand of Stephen Friedman, the former investment banker now heading the president's National Economic Council.

Reached late yesterday, Friedman forthrightly made his case that the F.C.C. was an independent agency that had followed the rules laid down by the courts. He told me that Bush's senior advisers had focused on the question "Can you eliminate excessive regulation and have diversity and competition?" and found the answer to be yes. He added with candor: "The politics I'm still getting an education on."

The Bush veto threat would deny funding to the Commerce, State and Justice Departments, not to mention the federal judiciary. It would discombobulate Congress and disserve the public for months.

And to what end? To turn what we used to call "public airwaves" into private fiefs, to undermine diversity of opinion and — in its anti-federalist homogenization of our varied culture — to sweep aside local interests and community standards of taste.

This would be Bush's first veto. Is this the misbegotten principle on which he wants to take a stand? At one of the White House meetings that decided on the SAP approach, someone delicately suggested that such a veto of the giants' power grab might pose "a communications issue" for the president (no play on words intended). Friedman blew that objection away. The SAP threat was delivered.

In the House this week, allies of the Four Horsemen distributed a point sheet drawn from Viacom and Murdoch arguments and asked colleagues to sign a cover letter reading, "The undersigned members . . . will vote to sustain a Presidential veto of legislation overturning or delaying . . . the decision of the FCC . . . regarding media ownership."

But they couldn't obtain the signatures of anywhere near one-third of the House members — the portion needed to stop an override. Yesterday afternoon, the comprehensive bill — including an F.C.C. rollback — passed by a vote of 400 to 21.

If Bush wishes to carry out the veto threat, he'll pick up a bunch of diehards (now called "dead-enders"), but he will risk suffering an unnecessary humiliation.

What next? Much depends on who is chosen to go into the Senate-House conference. If the White House can't stop the rollback there, will Bush carry out the ill-considered threat?

Sometimes you put the veto gun back in the holster. The way out: a president can always decide to turn down the recommendation of his senior advisers.

The New York Times
nytimes.com

July 24, 2003

F.C.C. Media Rule Blocked in House in a 400-to-21 Vote

By STEPHEN LABATON

WASHINGTON, July 23 — The House of Representatives overwhelmingly passed legislation today to block a new rule supported by the Bush administration that would permit the nation's largest television networks to grow bigger by owning more stations.

The vote, which was 400 to 21, sets the stage for a rare confrontation between the Republican-controlled Congress and the White House, because there is strong support in the Senate for similar measures, which seek to roll back last month's decision by the Federal Communications Commission to raise the limit on the number of television stations a network can own. The F.C.C. has ruled that a single company can own television stations reaching 45 percent of the nation's households, but the House measure would return the ownership cap to 35 percent.

Only a few weeks ago, support for the F.C.C.'s move by House Republican leaders had been expected to counter the Senate uprising. But many House members from both parties have evidently taken note of the vocal resistance to the F.C.C. action by many members of the public and a broad spectrum of conservative and liberal lobbying groups — from the National Rifle Association to the National Organization for Women.

Today's House rebuke of the F.C.C. was embedded in a spending bill. The White House, which has threatened to veto the bill if the network provision remains in it, today sought to play down the lopsided size of the vote. Claire Buchan, a White House spokeswoman, said that presidential advisers had recommended approval of the legislation so that it could proceed to a House-Senate conference committee where the network ownership provision might be stripped out.

If, as is becoming more likely, the provision survives in final legislation, President Bush will face a difficult political predicament. He could carry out his veto threat and alienate some of his traditional constituents, which include several conservative organizations opposed to a number of new rules adopted by the F.C.C. Or, he could sign the legislation, abandon the networks and undercut his own advisers who have recommended that he reject the legislation.

A number of Republicans said privately today that they were surprised that the president would be willing to expend significant political capital over the issue; others said the White House felt compelled to defend the decisions of a regulatory agency whose leaders it had appointed.

Judging political sentiment from today's vote, a veto could be easily overridden in the House, and perhaps in the Senate, where there is also broad support for repealing some of the F.C.C.'s new media rules.

Five weeks ago, the Senate Commerce Committee adopted a provision similar to the one the House passed today. The Senate committee passed the provision by voice vote after a wide majority of Democrats and Republicans on the committee expressed support for it.

At the time of that vote, network executives and top aides to Michael K. Powell, the F.C.C. chairman and architect of the new rules, predicted that the effort to overturn the rules would die in the House because its leadership had supported them. The vote, a clear repudiation of Mr. Powell, suggested that he miscalculated the widespread opposition to the new rules.

One of the main sponsors of the Senate provision, Senator Ted Stevens, Republican of Alaska, is the chairman of the

Senate Appropriations Committee, and other Senate supporters of reversing the rules include Trent Lott, Republican of Mississippi, and Ernest F. Hollings of South Carolina, the ranking Democrat on both the Senate Commerce Committee and the Appropriations subcommittee that oversees the F.C.C.'s budget. Senate officials said they expected that a measure to roll back the F.C.C.'s decision would reach the floor soon after the Senate returned from its summer recess in September.

Supporters of the effort to overrule the F.C.C. said that today's action demonstrated that the leadership in the House, as well as the White House, had lost control over the legislation.

"The House has now repudiated the F.C.C.'s attempted giveaway of the public airways to national media giants based in New York and L.A.," said Representative David R. Obey of Wisconsin, the ranking Democrat on the House Appropriations Committee and author of the network ownership provision in the bill. "I hope the administration is listening and will fix its flawed policy, so citizens can get accurate, free-flowing information — the lifeblood of democracy."

Administration officials appeared committed to the new rules and to opposing Congressional attempts to repeal them.

After the vote, Stephen Friedman, the president's top economic adviser, dismissed the assertion by the legislation's backers that further media consolidation would reduce the diversity of voices on the airwaves. He said that if all four networks reached 45 percent of the nation's homes, that would demonstrate that there is competition in the media market.

Asked in a brief telephone interview how the administration might be able to turn the tide in Congress, he said, "I think we try to educate the members and make the case."

He also conceded that he was not a media specialist and that he was only beginning to understand the political forces at play. "The politics I'm still getting an education on," he said.

A number of Democratic presidential contenders, meanwhile, have criticized the rules and the consolidation in the media industry. They include Howard Dean, the former Vermont governor; Senator John Edwards; Senator John Kerry; and Representative Dennis J. Kucinich.

But traditional allies of the administration, most notably a coalition of religious and conservative groups, have also joined liberal organizations in attacking the new rules. The religious and conservative organizations have said they fear the growth of the media may reduce their access to the airwaves. They also blame the networks for programming that they say is increasingly violent and indecent. The coalition includes the Parents Television Council, the United States Conference of Catholic Bishops, Consumers Union, the Writers Guild of America and the Leadership Conference on Civil Rights.

The concern over the growth of media conglomerates transcends traditional party lines in part because of the personal experiences of many politicians. Congressional aides say lawmakers fear that they could suffer political problems if there are too few media outlets in their home districts, making it more difficult for them to convey their messages to their constituents and increasing the influence of the remaining newspapers and stations.

Mr. Powell and the networks have responded with the assertion that without some regulatory relief for the networks, free over-the-air television could be eliminated. The networks say that they need to find new ways to raise revenues to support expensive programming like the Olympic Games and the Super Bowl, and that owning more stations will give them the money to do so.

Mr. Powell, who had been largely silent during the Congressional debate, today issued a statement defending the F.C.C.'s rules.

"Our democracy is strong," he said, saying that critics have overlooked the various ways the public receives information besides broadcast television. "It would be irresponsible to ignore the diversity of viewpoints provided by cable, satellite and the Internet."

Network executives agreed. They have been unhappy that the commission under Mr. Powell did not relax the rules even further and have suggested that they may bring a lawsuit to challenge even the new rules.

"NBC was disappointed, and today's action by the House was a huge step backwards in giving broadcasters the regulatory relief needed to compete with cable," Shannon Jacobs, an NBC spokeswoman, said.

There are also signs that investors are nervous about the possible reimposition of the old rules. Stock prices of several of the parent companies of the networks — General Electric, Owner of NBC; Viacom, owner of CBS; and the News Corporation, which owns Fox — have declined slightly from their highs in early-to-mid June, around time of the approval of the new regulations. The broader market indexes, including media stocks more generally, continued to rise through mid-July. The shares of the companies were little changed today.

The networks had sought the elimination of the cap entirely, or at least raising it well above 45 percent. Two of the networks, CBS and Fox, are already slightly over the 35 percent limit and had been allowed to do on a temporary basis, pending the rule change.

The F.C.C.'s rule change had touched off deep divisions within the broadcasting industry.

The networks' local affiliate stations and smaller owners of broadcast stations had sought to keep the cap at 35 percent, saying they feared that any further growth in the networks' power would be detrimental to viewers in a variety of ways: homogenizing entertainment, discouraging local news coverage in favor of national broadcasts, and reducing the commercial leverage of the local stations to offer independent programming.

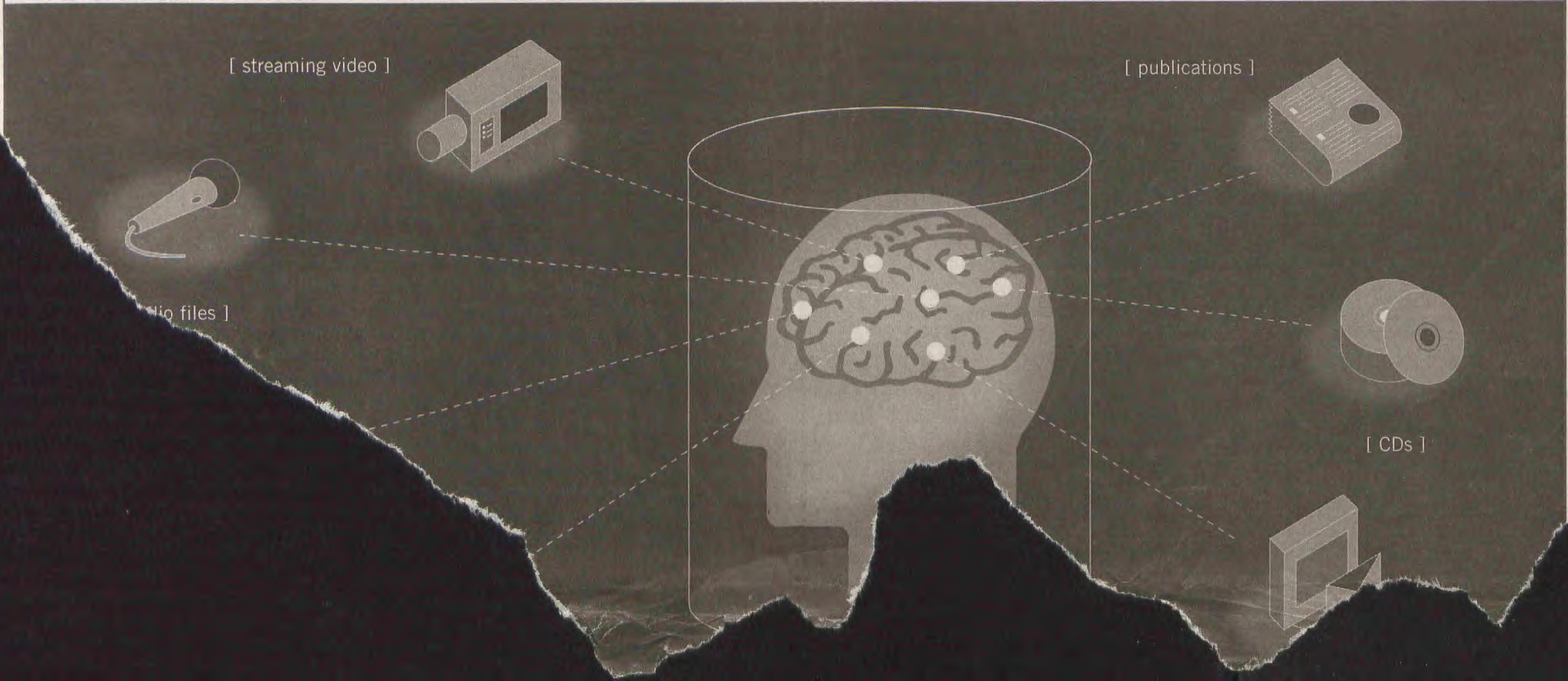
The networks' stakes in the fight was evident this week as their lobbyists desperately attempted to defeat the House measure. Congressional aides said that lobbyists for the News Corporation helped to circulate a one-sentence petition, endorsed by House leaders, saying that the undersigned members would vote to sustain a presidential veto.

Attached to the memo, the aides said, was a set of policy "talking points" on the merits of the new rule that had been prepared by lobbyists from CBS's owner, Viacom, and the Walt Disney Company, parent of ABC.

With Documentum,

Content is Knowledge —

and Knowledge is **Power**



Intel Shifts Communications Lines

Networking Unit Will Absorb Wireless Group; Maloney Will Run Merged Operations

By DON CLARK

Intel Corp. announced a major reorganization of its struggling communications efforts, less than a week after announcing a $600 million write-off in the company's wireless chip business.

As part of the changes, Intel's communications group, which makes chips for networking devices, will absorb the separate wireless communications and computing group, which mainly supplies chips for cellular phones. Sean Maloney, the 46-year-old executive vice president who had been running the networking business, will run the combined operations. Senior Vice President Ron Smith, 53, who had run the wireless unit, will retire from Intel early next year.

The two executives weren't available for comment. Bill Calder, an Intel spokesman, wouldn't comment on whether Mr. Smith's departure was linked to his group's performance. He added that "the decision to retire was Ron's."

Intel, despite its highly profitable business in microprocessor chips for computers, has stumbled in the two communications segments, both of which are unprofitable. Intel has few successful products to show for more than $10 billion on communications-related acquisitions during the Internet bubble and its aftermath.

The $600 million write-off, announced as part of Intel's regular midquarter update for the fourth quarter, reflects goodwill from the biggest acquisition associated with the wireless business, the 1999 purchase of DSP Communications Inc. for $1.6 billion. Intel annually assesses the value of such assets on its books in a process that weighs the current prospects of the business.

During a conference call last week, chief financial officer Andy Bryant told analysts the wireless unit had been late with products and had "underperformed" in other ways. In one major mistake, Intel imposed a price increase for one category of chips, known as flash memory, that are used to store data in cellular phones. The move caused some major phone makers, including Nokia Corp., to shift to other flash-memory suppliers. The wireless unit's operating loss in the third quarter was $124 million, slightly wider than the year-earlier period, while revenue declined 3% to $450 million.

Mr. Bryant called the need for the write-off "very uncomfortable and very negative," according to a transcript of the call provided by CCBN StreetEvents.

Analysts questioned whether Intel, based in Santa Clara, Calif., shouldn't also be taking write-offs for acquisitions associated with the networking business. Mr. Bryant made the case that prospects appeared to be improving within that business, though Intel remains hampered by slow spending on networking gear from telecommunications companies.

The networking group includes Intel's wireless-communications chips associated with the successful Centrino technology for laptop computers. The group narrowed its loss in the third period to $94 million from $143 million, while revenue rose 7% to $544 million.

In cellular phones, by contrast, Intel can't blame its struggles on a sluggish market. Rather, Intel faces entrenched competitors in chips that run communications and computing functions on handsets, including **Texas Instruments** Inc. and **Qualcomm** Inc. "You'd expect the incumbents to simply be in better shape unless they really stumble," said Mark Edelstone, an analyst at Morgan Stanley.

Mr. Calder, the Intel spokesman, said Intel remains No. 1 in chips for handheld computers and also remains committed to the cellular market. "We continue to think we have exciting opportunities, particularly in high-end phones" that have multimedia features, he said.

Despite the recent problems in his group, Mr. Smith has been a major contributor in 26 years at the company. In the 1980s, he led Intel's shift into what became a fundamental method of manufacturing—known as CMOS, for complementary metal-oxide semiconductor—for Intel's hit 80386 microprocessor. He also helped build Intel's lucrative business in chip sets, which are accessory products that work with microprocessors in PCs.

"He's been a key contributor to our success, and he will be missed," said Craig Barrett, Intel's chief executive.

In 4p.m. Nasdaq trading yesterday, Intel's shares rose 17 cents, or 0.56%, to $30.42.

Gadget-Makers Rush To Make Stereos, TVs Function Like PCs

Continued From Page B4

developing smart gadgets, boasts its next generation of consumer-electronics devices will surpass PCs in speed and functionality. Sony is spending 200 billion yen ($1.86 billion) on the chip to power those devices, which it is creating in collaboration with Toshiba and **International Business Machines** Corp.

And Sony's latest home-electronics device, a cross between a video-game machine and a DVD recorder called the PSX, alrea pull up and play movies store rive faster than most P uns on a chip Sony d for Sony's Pl to the living one of the

AT&T to Launch Internet-Based Telephone Service

By SHAWN YOUNG

AT&T Corp. is joining the rush to offer consumers phone service using Internet technology.

The technology, known as voice over Internet protocol, or VOIP, will allow the company to sell cheaper local and long-distance service without having to rent local-phone lines from its archrivals, the regional Bells. AT&T, based in Bedminster, N.J., expects to register more than one million consumers in the next two years, according to people familiar with the company's plans.

The company plans to have the service available in 100 markets, starting with three on the East Coast, and also plans a major expansion of existing phone programs for businesses that rely on VOIP. David Dorman, chairman and chief executive of AT&T, the nation's largest long-distance carrier, is expected to announce the VOIP initiative today.

VOIP, which sends phone calls as bits of digital data over the Internet or privately managed data networks, is already shaking up the phone business by allowing a wide range of competitors to sell phone service without having to recreate elaborate and costly telephone networks. VOIP service is targeted at consumers who already have high-speed Internet connections.

A range of companies including upstarts such as **Vonage Holdings** Corp. and Time Warner Cable, a unit of **Time Warner** Inc., have unveiled a slew of VOIP initiatives in recent months. The Bells themselves, seeking to hang onto customers and take advantage of the features and lower costs associated with VOIP, are planning their own offerings. **Qwest Communications International** Inc. yesterday began offering the service to some customers in Minneapolis and St. Paul, and plans to expand the offering in coming months.

"VOIP is the most significant, fundamental new technology shift in telecommunications in decades, and will deliver tremendous value to all customers," AT&T said in a statement.

Some analysts fear that the price-cutting that VOIP makes possible will worsen deflationary trends in an already weakened industry. Most VOIP plans available offer consumers rates of about $35 a month for unlimited local and long-distance calling, along with features such as voice mail and caller ID.

Advanced features—such as being able to choose whether to receive messages as voice mails or e-mails, or programming the phone automatically forward calls to several alternative numbers—are also possible, said Cathy Martine, a senior vice president of AT&T's consumer division, who is in charge of the VOIP program.

Offering VOIP to consumers will help AT&T bypass the regional Bells and save on the cost of access to Bell networks, which is the company's largest single expense at about $10 billion a year.

Regulators are still wrestling with thorny questions about how to define, tax and regulate Internet-based calling, which is free from many of the rules and levies that apply to traditional phone service. Ms. Martine said she is confident the current freedoms will be maintained.

Mossberg's Mailbox

Technology columnist Walter S. Mossberg answers readers' questions

Q: *We have accumulated a number of digital gadgets (digital camera, camcorder, etc.) but are having some difficulty bringing them together for editing, sharing, etc., using Windows XP. We understand Apple's "iLife" software suite (iTunes, iPhoto, iMovie, and iDVD) makes the peripheral and family-media experience so much easier to manage. Is there a comparable Windows-based software package that would allow us to approximate the "iLife" experience?*

A: There's none that I've seen. One of the iLife programs, iTunes, is available in a free Windows version from Apple, but not the others. There are a variety of Windows programs for organizing photos, editing video and authoring DVDs that are pretty good. But in my opinion, none of these products does as well as Apple's iLife programs do on the Macintosh at balancing ease of use and power. More important, these Windows programs aren't integrated into a suite as they are on the Macintosh. In Apple's iLife suite, the programs share a similar, consistent user interface and they can each easily tap into the others' library of media files. For instance, the iDVD program can easily locate and use songs, photos and movies that are being managed by, or have been created by, its sister iLife programs—without forcing the user to dig through folders and files on the hard disk. This whole excellent suite comes free on every new Mac. It's a major selling point for Apple.

Q: *You recently wrote that LCD televisions can't be found in sizes larger than about 40 inches. But I see LCD TVs in stores that measure 50 and 60 inches. Did you get your facts wrong?*

A: Nope. I was writing about ultra-thin, big-screen, flat-panel TVs. These come in two types—plasma and LCD. The LCD type—that is, very thin TVs that have a display similar to laptop computer screens—don't come in sizes larger than around 40 inch Next year, that will chang "LCD" TVs you are see larger sizes aren't panel TVs. They made by Sony which work from th th

jection system. But they don't use a large LCD panel as a display. As a result, they are much thicker than either LCD flat-panel TVs, or plasma TVs, even though they are skinnier than older-style projection TVs. By calling these projection sets "LCD" TVs, the manufacturers are relying on a technicality and confusing consumers. They are just adding to the huge wave of techno-babble and sales jargon that confounds shoppers in the TV aisles.

Q: *Will devices such as cameras and memory cards, intende for fast USB 2.0 connections, also work on older USB 1.1 ports, al more slowly? If not, is there adapter?*

A: Most USB 2.0 d encountered c their data-transfe with older US the trans much

ADAM THIERER / CLYDE WAYNE CREWS JR.

Wash Times 6/1/03

Massive media bogeyman

A heated debate over the relaxation of media ownership rules that artificially restrict media business activities is set to culminate in a ruling tomorrow by the Federal Communications Commission. Consumer groups already decry what they see as growing media concentration or even monopolization, and caution that our democracy is somehow at risk of being dictated to by a handful of media barons. How real are these fears?

In reality, the media are less concentrated and more competitive today than they were 30 years ago. And consumers are unambiguously better off. Consider two families, circa 1973 vs. 2003, and the media and entertainment options available to them. The 1973 family could flip through three major network television stations, or tune in to a PBS station or a UHF channel or two. By compassion, today's families can take advantage of a 500-plus channel universe of cable and satellite-delivered options, order movies on demand, and check out a variety of specialized news, sports, or entertainment programming — in addition to those same three networks.

Or, these hypothetical families could just listen to the radio together. Seven thousand stations existed in 1970 nationwide to choose from. Today more than 13,000 stations exist and subscription-based music services are delivered nationwide and uninterrupted via digital satellite.

And then, of course, there's the Internet and the astonishing cornucopia of communications, information and entertainment services the World Wide Web offers today's families.

In the media Dark Ages of 1973, it would have taken a great deal of time and money to publish your own newsletter. Today, the Internet gives every man, woman and child the ability to be a one-person publishing house or broadcasting station and communicate with the entire planet. Instead of going to the library to retrieve information, as our hypothetical 1973 family might have done, today the library comes to us as the Net puts a world of information at our fingertips. While the 1973 family could read the local newspaper together, today's families can view thousands of newspapers from communities across the planet.

And the list goes on: video recorders, DVD players, interactive TVs and cell phones, MP3 players, and a seemingly endless array of other portable/wireless computing and communications devices are available to us today that the families of 1973 only dreamed of, or saw in a "Star Trek" episode.

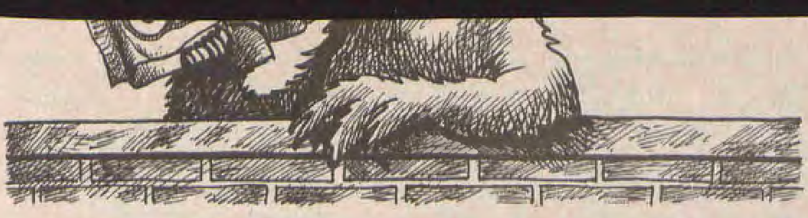
But while America's mass media marketplace is evolving rapidly, the same cannot be said for the regime of rules that govern it, which are stuck in regulatory time warp. Federal regulations that limit how much of the national market can be served by broadcast and cable companies, or prevent a company from owning a newspaper and television station in the same market, or prohibit a television network from buying another network, should be abolished. Why should media companies be forced to play by a distinct set of random ownership rules that we impose on no other industry?

These rules have become historic anachronisms that ignore new market conditions and the intense competition for our eyes and ears. Indeed, far from living in a world of "information scarcity" that some fear, we now live in a world of information overload. The number of information and entertainment options at our disposal has almost become overwhelming and most of us struggle to figure out ways to filter and manage all the information we can choose from in an average day.

It is important to keep such facts in mind when debating changes to the archaic media ownership rules that the FCC is considering revising. Even as the underlying business structures and relationships in this industry continue to change, the one undeniable reality of our modern media marketplace is that information and entertainment are commodities that cannot be monopolized. Accordingly, the FCC should relegate these outdated media ownership rules to the dustbin of telecom history.

Adam Thierer is the director of telecommunications studies and Clyde Wayne Crews is the director of technology studies at the Cato Institute. Their forthcoming book is "What's Yours Is Mine: Open Access and the Rise of Infrastructure Socialism" (Cato Institute, 2003).

posals in several states where food is exempt from the sales tax seek to remove the exemption for foods that are not politically correct. The disfavored foods in one such bill include bottled, ready-to-drink tea or coffee, sports drinks, spring or mineral water, and flavored milk products.



fine. But the final choice belongs to each one of us, not some mad, self-appointed, food fascist in his laboratory.

Peter Ferrara is director of the International Center for Law and Economics.

American in the helicopter and infantry combat units that I covered look like this:

On average, he's 19.6 years old — about 6 months older than his grandfather who served in World War II or Korea. He isn't old enough to buy a beer, and if he were home we would call him a "boy." But because he is at war, we call him a soldier or a Marine. He was a high-school athlete who also worked part-time and unlike many of his peers, he has never drawn an unemployment check and never wants to.

A few times a week he writes to his sweetheart back home and hopes that when the mailbag arrives he'll get a letter from her — and his mom — though he would never admit to the latter. If he gets a care package from home with disposable razors, shaving cream, toothpaste, beef jerky, toilet paper and baby wipes, he'll share them with his squad and be a hero for a day.

He has a short haircut, tight muscles, wears a 3-pound Kevlar helmet an 18-pound flak jacket to work and can march all day in 100-degree heat with a 50-pound pack on his back. He knows how to use every weapon in his unit and can fieldstrip and reassemble his personal weapon in less than a minute — in the dark. He has gone weeks without bathing but cleans his weapon before he sleeps.

His company "Gunny" or sergeant first class has been in combat before — but this is the first time he and his lieutenant have been shot at. Under fire, he obeys orders instantly, but if asked, will always have an opinion on how to do something better. Often he'll be right.

He has been taught chemistry, physics and ballistics and can navigate with a map and compass — but prefers the GPS he bought at the Base Exchange. He's remarkably self-sufficient. He prepares his own meals, washes and mends his own clothes, digs his own foxhole and latrine, keeps his feet dry and his canteens full.

The kid who wouldn't share a candy bar with his brother will now offer his last drop of water to a wounded comrade, give his only ration to a hungry child and split his ammo with a mate in a firefight. He has been trained to use his body as a weapon and his weapon like it was part of his body. And he can use either to save a life — or take one.

He has already had more responsibility and seen more suffering and death than his civilian contemporaries will see in their lifetimes. The fellow who used to stay in the sack until noon now exists on 3 to 4 hours of sleep a day — and when he comes home, he'll be on average, 12 pounds lighter than when he left.

He has learned a whole new vernacular of military shorthand — words like "CONUS," "H-hour," "Zulu time," "SNAFU," and "FUBAR." They mean nothing to civilians, and he doesn't care.

He knows grown men don't cry, but he has wept unashamed in public over a fallen friend because he knows heroes aren't defined just by the way they die — but how they live.

He can now take profanity to the level of a new art form — but carries a Bible in his rucksack — and is unafraid to be seen reading from it. He is proud to be serving his country, reveres his commander in chief — and knows he is respected in return. While he is modest about his own courage and military prowess, he's absolutely certain his is the toughest unit in the U.S. Armed Forces.

When he gets home, he won't talk much about the horror of war, but he will want more fresh milk, salads and homemade cookies than you ever thought possible.

This fall when he goes to a ballgame — he'll resent those who fail to stand in silence when they play our national anthem. He's enough to drive the liberals nuts. And somewhere this year, we need to find another 180,000 just like him who will volunteer to serve.

Oliver North is a nationally syndicated columnist and the founder and honorary chairman of Freedom Alliance.

fig. 1

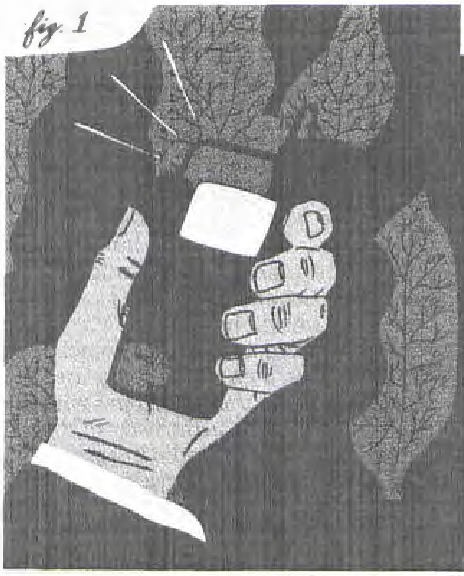
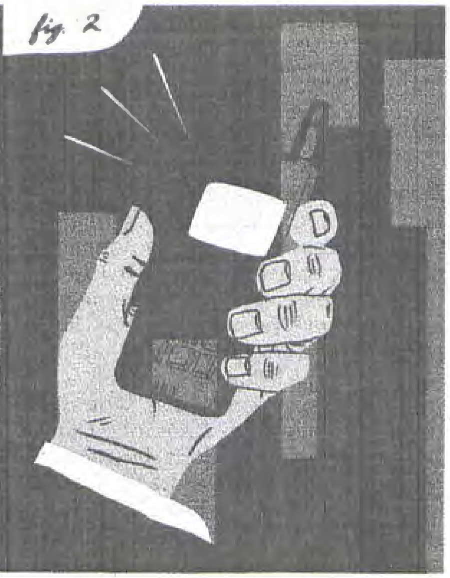


fig. 2



How the radio changed its spots

Smart radios: Radios capable of switching from one wireless standard to another, with nothing more than a dose of new software, are at last emerging from the laboratory

WHEN is a radio not a radio? When it's a computer program. Whether in a mobile phone, a fireman's walkie-talkie or a laptop's Wi-Fi card, a radio plucks a raw signal from the air and translates it into a useful stream of information (and vice versa). This translation involves several steps, most of which are normally done by dedicated signal-processing chips. But given enough processing power, the same job can also be done using software, rather than hardware. The result is a "software-defined radio" (SDR), also known as a "reconfigurable" or "smart" radio. As these names suggest, such a device can switch from being one kind of radio to another simply by loading some new software.

This chameleon-like ability is useful for a number of reasons. A mobile phone based on smart-radio technology might, for example, be able to switch between cellular standards used in different parts of the world. Mobile-phone base stations could be quickly and easily reconfigured to support new wireless standards. Smart radios could also ensure compatibility between the various radio standards used by different emergency services in a disaster-recovery situation, or link up soldiers in a multinational force whose radios might otherwise be incompatible.

Such flexibility comes at a cost, however. Dedicated signal-processing chips are designed to do one thing well, and use much less power than a general-purpose microprocessor. But as general-purpose chips continue to become smaller, cheaper and more powerful, the smart-radio approach will become increasingly practical, even in mobile devices where power consumption is constrained.

Smart radios will also make more sense as new wireless technologies proliferate, increasing the number of radio standards that a single device is expected to support, which in turn increases the number of dedicated radio chips required. A wireless-data card for a laptop might have to support various cellular standards, the Wi-Fi wireless local-area network standard, and Bluetooth, a short-range technology used to link computers with mobile phones. With exotic new standards such as 3.5G, 4G, WiMax and 802.20 on the horizon, smart radios could provide flexibility and compatibility. Now, after years in the laboratory, they are starting to emerge into the market.

Alphabet soup with chips

Next year, for example, Sandbridge Technologies of White Plains, New York, plans to launch a new smart-radio chip called Sandblaster. Once the appropriate software has been loaded, this chip can support a range of wireless standards, including GSM and CDMA cellular standards, their respective "third-generation" (3G) standards, W-CDMA and CDMA2000, plus Wi-Fi, Bluetooth and global-positioning system (GPS) standards. Sandblaster can even support more than one of these standards at the same time, such as W-CDMA and Bluetooth, for example. A single smart chip can thus replace several dedicated ones.

The trick to doing all this while maintaining low power consumption, says Guenter Weinberger, the company's boss, is that Sandblaster is both optimised for signal processing and based on a very efficient "multi-threaded" design which allows it to run several interleaving programs, or threads, at once. Supporting one of the 3G protocols, he says, requires the chip to run multiple threads. Simpler standards such as GSM and Bluetooth require just one thread. The chip throttles back its power consumption when performing less arduous tasks. The goal, says Mr Weinberger, is for the chip's power consumption to be comparable to that of dedicated signal-processing chips.

These are bold claims, but they are being taken seriously. Sandbridge has heavyweight backers including Siemens and Infineon Technologies. It demonstrated a prototype chip, acting as a Wi-Fi radio, at the 3GSM wireless conference in Cannes earlier this year. Sandblaster chips could be used to make mobile phones capable of working on both the CDMA standard, popular in America, South Korea and Japan, and the GSM standard that is dominant elsewhere. Mr Weinberger says he can also imagine smartphones for corporate users that include Wi-Fi capabilities too.

But smart-radio chips, from Sandbridge and other firms, will initially be used to build 3G handsets. The 3G standard being adopted in Europe, W-CDMA, is completely different from existing GSM technology. So 3G handsets must be able to switch between two radio standards in order to ensure coverage outside 3G areas. This is currently done using multiple radio chips. But, notes Mr Weinberger, this "dual mode" design lends itself to the smart-radio approach.

Another motivation is that 3G standards are still evolving. "W-CDMA is changing every year, but it takes two years to implement on a chip," says Mr Weinberger. A handset based on a smart radio, however, just needs a software upgrade, which can be devised quickly and ▸▸

"Smart radios could promote innovation by allowing new wireless standards to flourish, while concealing the underlying complexity from users"

then delivered to the handset over the air. This approach appeals to network operators, because it is far cheaper than recalling hundreds of thousands of handsets when an upgrade is needed.

Another school of thought, however, claims that the greatest opportunity for smart radios lies in cellular base stations, rather than in handsets. Al Margulies of the SDR Forum, an industry body that is dedicated to the development and deployment of software-based radio technology, says that size and power constraints mean that the technology will appear in radio infrastructure first, and handsets later. But the benefit is the same: flexibility. As wireless standards evolve, "you don't want to do fork-lift upgrades every two years," he says.

PicoChip, based in Bath, England, is one of several companies building wireless base stations using smart-radio technology. It has built a 3G/W-CDMA base station based on its specially designed smart-radio chip, the PC102, and appropriate software. The high-speed upgrade to W-CDMA, called HSDPA, can be added as a software upgrade, and the company is working on new software to support additional protocols such as CDMA2000, 802.16 (a fixed-wireless protocol) and TD-SCDMA (yet another 3G technology expected to be adopted in China).

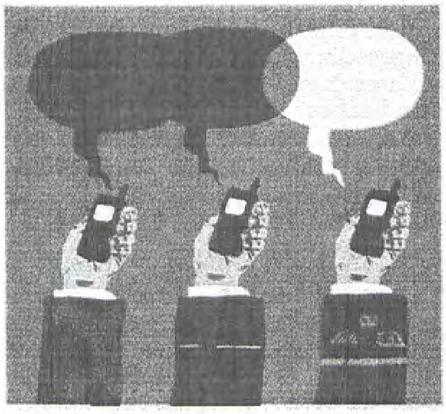
Building base stations on a flexible, software-based foundation means there is no need to send engineers out to install upgrades when new protocols emerge or existing ones are updated. "Operators are worried about interoperability, bug fixes, obsolescence, new features, so they want software upgrades in the base station so that their investment will live as long as possible," says Rupert Baines of picoChip. In future, he suggests, operators might even choose to reconfigure base stations dynamically in response to usage patterns so that, for example, they offer more data capacity at some times of day, and more voice capacity at others.

"The wonderful thing about the software approach is that it frees you from the tyranny of the standards cycle," says Vanu Bose of Vanu, a smart-radio spin-out from the Massachusetts Institute of Technology. His firm's software-based GSM base station runs on industry standard Hewlett-Packard servers. The software-based approach has particular appeal in America, he suggests, where multiple wireless standards co-exist and overlap. Several operators use three different standards—AMPS, TDMA and GSM—within their networks. With a software base station, they could reallocate channels between these standards automatically depending on demand, says Dr Bose.

Software-defined base stations might also be more reliable, suggests Joseph Mitola, a pioneering smart-radio researcher at the Mitre Corporation, a non-profit research organisation, who is currently working with America's Defence Department. Conventional base stations, he points out, have hundreds of coaxial cables connecting the bits of various signal-processing circuitry. Replacing all this circuitry with a powerful computer, and doing the processing in software instead, means there are fewer things to go wrong as the circuitry heats up and cools down, and fewer cables for rats to chew.

Smart radio on the march

As with many technologies, however, smart radio will make its first widespread appearance in the military arena, says Mr Margulies. Military users are less sensitive to price, weight and power constraints. In America, the first radios based on smart-radio technology are about to be delivered as part of the Joint Tactical Radio System (JTRS). A software-based approach, says Mr Margulies, will enable new radios to communicate with existing radios, but will also allow future upgrades, both to improve security and ensure interoperability between emergency services and the various branches of the armed forces. "These new radios will allow the army, navy and air force to talk," he says. In addition, JTRS is expected to reduce maintenance costs by replacing multiple incompatible radios, all of which require different spare parts, with a single radio. Work is under way to make JTRS compatible with the military radios used by Britain and other countries, for use in multinational operations.



Interoperability is also a cause of concern in the field of public safety. "In the United States it is not uncommon for city police to be unable to communicate with the fire department, the county police, or federal organisations," says Mr Margulies. At the moment, the usual approach is to standardise on a single radio channel. But this limits capacity and interferes with the chain of command. In the wake of the terrorist attacks of 2001, radio interoperability has been identified as a key priority by the Department of Homeland Security. But issuing new radios would be prohibitively expensive. A smart radio, however, can switch from one network to another.

Vanu has developed just such a radio, based on an iPaq handheld computer. Clicking on different icons on its screen reconfigures the radio's software, so that it can switch between different emergency bands. Cleverer still, however, is the radio-bridging technology the company is developing under a military contract. A cluster of smart radios is configured to transmit and receive on different emergency bands, and an icon-based control system allows a controller to decide who can communicate with whom. If the police need to talk to the National Guard, for example, says Dr Bose, "the system listens to traffic on both networks, and patches them together."

Taking this several steps further, the ultimate smart radio, says Dr Mitola, would be aware of its surroundings, be able to adapt itself in response and learn from experience—a concept he has dubbed "cognitive radio". Such a radio might take into account its location, the local spectrum policy, the weather and the amount of battery power left, and then agree a suitable protocol with the local network infrastructure. "The handset talks to the infrastructure and says 'I want to do a video call, and I have this much battery left'," says Dr Bose. "And the infrastructure says 'This is the spectrum available, use this standard, here is the software'. The standard is dynamic."

This is a far cry from the current state of affairs, where standards take years to hammer out. Ultimately, smart radios could do away with the standards wars that bedevil the wireless industry and so irritate users. The technology would promote innovation by allowing all kinds of new standards to flourish, while concealing the underlying complexity from users who are currently mired in an alphabet soup of incompatible standards. Now that really would be smart. ■

John C. Dvorak

Co-opting the Future

Blogs, or *Web logs*, are all the rage in some quarters. We're told that blogs will evolve into a unique source of information and are sure to become the future of journalism. Well, hardly. Two things are happening to prevent such a future: The first is wholesale abandonment of blog sites, and the second is the casual co-opting of the blog universe by Big Media.

Let's start with abandoned blogs. In a white paper released by Perseus Development Corp., the company reveals details of the blogging phenomenon that indicate its foothold in popular culture may already be slipping (*www.perseus.com/blogsurvey*). According to the survey of bloggers, over half of them are not updating any more. And more than 25 percent of all new blogs are what the researchers call "one-day wonders." Meanwhile, the abandonment rate appears to be eating into well-established blogs: Over 132,000 blogs are abandoned after a year of constant updating.

Perseus thinks it had a statistical handle on over 4 million blogs, in a universe of perhaps 5 million. Luckily for the blogging community, there is still evidence that the growth rate is faster than the abandonment rate. But growth eventually stops.

The most obvious reason for abandonment is simple boredom. Writing is tiresome. Why anyone would do it voluntarily on a blog mystifies a lot of professional writers. This is compounded by a lack of feedback, positive or otherwise. Perseus thinks that most blogs have an audience of about 12 readers. Leaflets posted on the corkboard at Albertsons attract a larger readership than many blogs. Some people must feel the futility.

The problem is further compounded by professional writers who promote blogging, with the thought that they are increasing their own readership. It's no coincidence that the most-read blogs are created by professional writers. They have essentially suckered thousands of newbies, mavens, and just plain folk into blogging, solely to get return links in the form of the blogrolls and citations. This is, in fact, a remarkably slick grassroots marketing scheme that is in many ways awesome, albeit insincere.

Unfortunately, at some point, people will realize they've been used. This will happen sooner rather than later, since many mainstream publishers now see the opportunity for exploitation. Thus you find professionally written and edited faux blogs appearing on MSNBC's site, the *Washington Post* site, and elsewhere. This seems to be where blogging is headed—Big Media. So much for the independent thinking and reporting that are supposed to earmark blog journalism.

So now we have the emergence of the professional blogger working for large media conglomerates and spewing the same measured news and opinions we've always had—except for fake edginess, which suggests some sort of independent, counterculture, free-thinking observers. But who signs the checks? The faux blog will replace the old personality columns that were once the rage in newspaperdom. Can you spell *retro*? These are not the hard-hitting independent voices we were promised. They are just a new breed of columnist with a gimmick and a stern corporate editor.

This trend is solid. A look at *Columbia Journalism Review*'s recent listing of traditional-media blogs shows everyone getting into the act: ABC News, FOX, *National Review, The New Republic, The Christian Science Monitor, The Boston Globe, The Wall Street Journal,* and so on. The blogging boosters, meanwhile, are rooting like high-school cheerleaders over this development. To them, it's some sort of affirmation. In fact, it's a death sentence. The onerous Big Media incursion marks the beginning of the end for blogging. Can you spell *co-opted*?

I'm reminded of the early days of personal computing, which began as a mini-revolution with all sorts of idealism. Power to the people, dude. IBM was epitomized as the antithesis of this revolution. But when IBM jumped on board in 1981 and co-opted the entire PC scene, it was cheered. Welcome, brother! Apple even took out a semiflippant full-page national newspaper ad welcoming IBM. Actually, the ad reflected Apple's neediness and low self-esteem. IBM represented affirmation about as much as Big Media is affirmation for the hopeless bloggers.

Another so-called revolution bites the dust. Big surprise.

MORE ON THE WEB: *Read John C. Dvorak's column every Monday at* **www.pcmag.com/dvorak.** *You can reach him directly at* pcmag@dvorak.org.

The onerous Big Media incursion marks the beginning of the end for blogging.

WHEN YOU NEED POWER PROTECTION THINK TRIPP LITE!

Backed by an 80-year history of trusted reliability, Tripp Lite offers over 1,000 high-quality power protection solutions for protecting your valuable equipment against all power problems, including prolonged blackouts. Tripp Lite products provide a full range of premium features that allow you to customize your protection solution to suit your specific needs. Best of all, Tripp Lite products are typically priced lower than comparable competitive models!

UPS Systems

Protect Datacenters & Mission-Critical Equipment

SmartOnline™ Intelligent On-Line UPS Systems

True on-line operation with pure sine wave output for the highest level of protection available. Models available from 1kVA – 10kVA.

Protect Workstations & Servers

SmartPro® Intelligent Line-Interactive UPS Systems

Intelligent power management and control with automatic voltage regulation. Models available from 450VA – 5,000VA.

OmniPro® & OmniSmart™ Line-Interactive UPS Systems

Automatic voltage regulation provides constant, 120V computer-grade power. Models available from 300VA – 1400VA.

Protect PCs & All Peripherals

Internet Office® Standby UPS Systems

All-in-one units offer battery backup, surge suppression and telephone/DSL line surge protection. Models available from 300VA – 750VA.

BC Personal® & BC Pro® Standby UPS Systems

Excellent basic battery backup and surge suppression. Models available from 300VA – 1400VA.

Surge Suppressors

AC, tel/modem, Ethernet and coaxial protection with the highest UL-verified joule ratings; includes #1-selling Isobar® series.

Cables & Connectivity Products

Over 400 solutions available including USB/FireWire®, PC/Mac, Cat6/Cat5e, network, SCSI cables and KVM switches.

2 Great Products at One Low Price!

Get Tripp Lite's popular surge suppressor/mini-hub bundle at a special low price! Limited time offer! Visit: www.tripplite.com/promo/pcm for details.

Hot Selling Products!

SU10KRT3U UPS System

All the benefits of the SmartOnline series plus 120 and 200-240V output.

16-Port KVM Switches

1U space-saving models can control up to 512 PCs or servers.

4-Port USB 2.0 Ultra-Mini Hub

USB 2.0 certified hub links multiple devices to one computer with up to 480 Mbps data transfer. Now available as part of a new, low-priced mini-hub/surge suppressor bundle! See below.

UPS Replacement Battery Cartridges

12 models compatible with all major UPS brands to extend the life of older UPS systems.

TRIPP·LITE
POWER PROTECTION

Tripp Lite World Headquarters
1111 West 35th Street, Chicago, IL 60609
Tel: 773.869.1234 • www.tripplite.com

ISO 9001

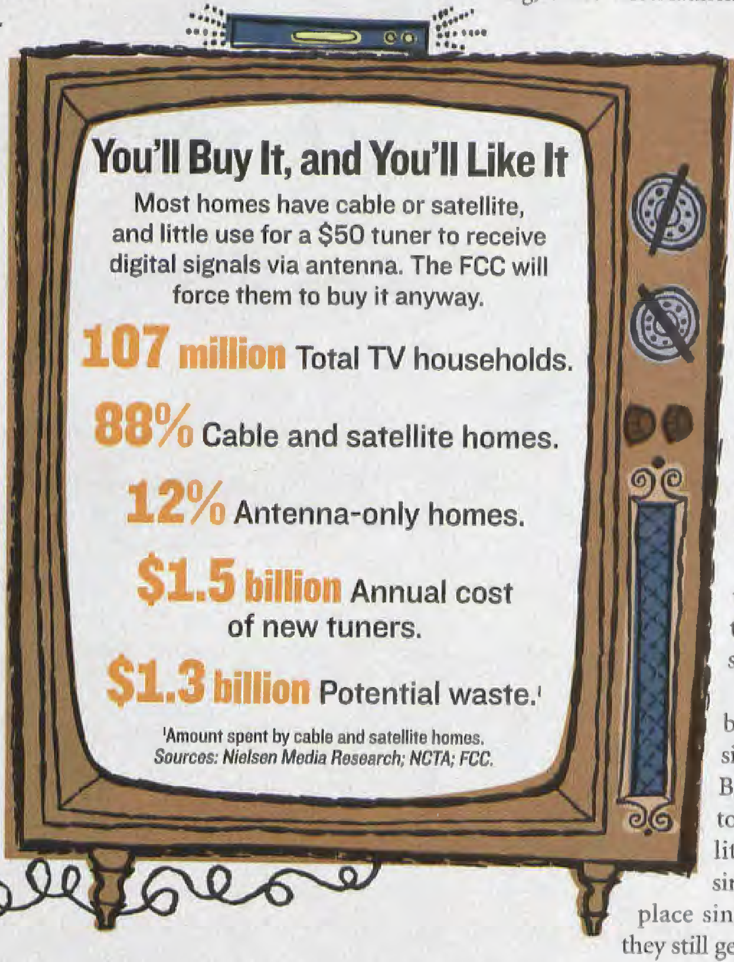
Mad TV

How to waste $100 billion, hobble the tech industry and make consumers buy things they don't want

BY SCOTT WOOLLEY

DOES ANYBODY WATCH UHF TELEVISION? IT'S KNOWN more for its snow than its content. Today 88% of homes have satellite or cable; antennas are anachronisms. Even the other 12% generally stick to VHF, channels 2 to 13.

Yet UHF squats on immensely valuable broadcast spectrum. Auctioned off for better uses, like cell phone calls, high-speed wireless links or the next Wi-Fi, the UHF band might be worth $100 billion.



You'll Buy It, and You'll Like It

Most homes have cable or satellite, and little use for a $50 tuner to receive digital signals via antenna. The FCC will force them to buy it anyway.

107 million Total TV households.

88% Cable and satellite homes.

12% Antenna-only homes.

$1.5 billion Annual cost of new tuners.

$1.3 billion Potential waste.[1]

[1] Amount spent by cable and satellite homes.

Sources: Nielsen Media Research; NCTA; FCC.

Both VHF and UHF airwaves were supposed to be returned to the public in 2006, a deadline Congress set six years ago when it gave existing TV stations some new slices of spectrum for use in digital broadcasts. But a massive loophole slipped into the bill. Unless 91 million American homes could receive the new over-the-air digital programming, the broadcasters could keep using the analog spectrum indefinitely. Today, two years from the ostensible deadline, the number of digitally equipped over-the-air receivers stands at around 1 million.

The uptake has been slow for one very good reason: The satellite and cable TV homes that dominate the market don't need a tuner for over-the-air signals. They can get a growing number of digital signals—including high-definition programs—through a cable or satellite box.

Undeterred, the Federal Communications Commission decided to use force. It decreed that all new TVs must include a tuner that can receive over-the-air digital signals, a rule that will be phased in beginning next year. That will add at least $50 apiece, or $1.5 billion a year, to the cost of TV sets. Yet even with the mandate the magic 85% goal may still not be reached by the end of the decade.

Last month the U.S. Court of Appeals approved the TV digital mandate, assuring that it will go into effect next year. The court rejected TV makers' argument that the FCC was unfairly forcing cable and satellite subscribers to foot the bill for an unnecessary feature. Tough, a three-judge panel said last month, citing an FCC report that claimed a digital tuner may be the only access a cable or satellite household has to many digital broadcast services.

Yet, a dearth of channels, digital or otherwise, is clearly not America's biggest problem. In the same month as the court ruling, Cablevision launched a new satellite service with 21 HDTV channels, Cox Communications launched high-definition digital service in nine cities and Scientific-Atlanta unveiled new gear that will soon let cable companies carry even more digital shows.

So while the real digital television transition rushes ahead, in the law's eyes the transition is frozen, and therefore the airwaves must be frozen, too. "The reasoning is completely wacky," says Thomas Hazlett, a former FCC chief economist. "There is no rational connection between the rules and the benefit [of freeing the spectrum]."

Here's a solution: Simply begin shutting off transmission of UHF channels in 2006. Broadcasters who own licenses to these channels would have little ground for complaint, since the deadline has been in place since 1997 and, in any event, they still get to keep the newly awarded space for their digital signals. It would be hard to find consumers damaged by the demise of analog UHF stations, says Hazlett, because almost nobody tunes in to those stations over the air. (This summer the city of Berlin, Germany simply cut off *all* analog signals cold turkey.) The federal government could either auction the liberated frequencies or just open them to public use, Wi-Fi style.

A bill, backed by the Bush Administration, would charge broadcasters who kept using analog airwaves, giving them incentive to clear off. But it is stalled in committee. Washington, it seems, prefers to give away a valuable public asset for free and stick consumers with a bill for something they don't want. **F**

MELINDA BECK FOR FORBES


SUCCESS

ages of €10m ($11.7m) and the publication of a judgment (if in Morgan Stanley's favour) in 20 newspapers and magazines, in a legal battle over biased stock research. LVMH had issued writs against Morgan Stanley both last October and in February this year seeking €100m for the alleged damage Morgan Stanley did through its "unfair" reports on LVMH.

The LVMH litigation is a first in Europe. The company claims that, between 1999 and 2002, Morgan Stanley was deliberately and systematically unfair to LVMH in its stock research. The reason, it says, is that Gucci, another luxury-goods firm, was one of Morgan's best investment-banking clients: making LVMH look bad was good for Gucci. Morgan Stanley helped to take Gucci public in 1995 and then helped it to fend off a takeover bid by LVMH in 1999. The bank brought in as a "white knight" François Pinault, head of Pinault-Printemps-Redoute (PPR), another French conglomerate, and arch-rival of Bernard Arnault, boss of LVMH. Mr Pinault bought 42% of Gucci. Two years later LVMH sold its remaining stake in Gucci.

Yet the battle over Gucci was not the end of the feud between the two French barons. Five journalists have resigned at *La Tribune*, a financial newspaper owned by LVMH, in protest at the paper's biased coverage of PPR. One of LVMH's allegations, on the other hand, is that in an interview with *Corriere della Sera*, an Italian newspaper, in April 2001, Claire Kent, Morgan Stanley's luxury-goods analyst, tried to blacken the firm's reputation so as to enhance the image of Gucci. LVMH doctored quotes from the article to prove its case, counters Morgan Stanley.

Another accusation is that Morgan Stanley alluded in a "fanciful" way to a possible deterioration of LVMH's credit rating. That was merely a reaction to a negative outlook published by Standard & Poor's, a rating agency, says Morgan Stanley. Morgan is also accused of speculating about the impact of a weak yen on LVMH's profits, of suggesting that Donna Karan, a clothes retailer, integrated badly into LVMH, and of producing an indulgent report on Gucci results in September 2002. Morgan claims that it was right about the impact of the yen on LVMH, as well as problems with integrating Donna Karan, and also says it was not too nice to Gucci. All its comments on LVMH in the four contentious years were justified, it maintains.

This battle, pitting wounded Gallic pride against American self-assurance, will drag on until at least the end of the year. Few would be surprised to see Messrs Arnault and Pinault suing each other before the end of the case. They have made a habit of taking each other to court in recent years. In the meantime Morgan Stanley must balance fighting its corner with being contrite elsewhere. ■

Finance in Kazakhstan

Small but elegant

ALMATY

A model sector that wants to grow

A question of scale

THE Kazakh financial system was less damaged than those of other central Asian countries by Russia's debt crisis in 1998. Kazakh banking assets have quadrupled since then to nearly $9 billion, while the 230 banks that existed in 1993 have consolidated to 38. The three largest hold 60% of the country's banking assets.

The financial sector is small for a land of 2.7m square kilometres with a GDP (mostly from oil) of $24 billion. But thanks to determined regulation, and a mimicking of western financial products, it is growing. In 1999, household deposits in banks were a meagre $311m, while $1.2 billion was held in cash, mostly dollars. Today, Kazakhstanis have over $1.8 billion in their bank accounts.

Inspired by Chile's pension reform, Kazakhstan has been moving since 1998 from a pay-as-you-go to a funded system, helped by mandatory contributions of 10% of salary. Today, 5.5m Kazakhstanis—over 70% of the workforce—contribute to pension funds, which have accumulated $2 billion. There is a third tier of voluntary contributions, but this has attracted only 35,000 accounts. The pension funds have in turn supported the development of new financial instruments. In the early days, they invested heavily in short-term treasury paper, but today government securities make up less than half of pension assets. Corporate bonds appeared in 2000, and over $730m have been issued since then—without a single default—at an average maturity of five years.

Mortgages were introduced in 2001 and total $130m. The central bank expects volume to double this year. Billboards advertising mortgages adorn the streets of Almaty. Interest rates, now at 15%, have been falling. "Each time rates go down, more borrowers come out of the woodwork," says David Lucterhand of Pragma Corporation, a consulting firm funded by USAID working with the central bank. Last November, the Kazakhstan Mortgage Company was the first in the Commonwealth of Independent States (CIS) to issue a mortgage-backed bond; securitised car loans and credit cards should soon follow.

Financial standards and regulation are claimed to be up with international practices in most areas. In 2001, Grigori Marchenko, the central-bank governor, fought hard to introduce consolidated financial supervision, which will be devolved next year to a separate agency. An electronic payment system is up and running. An actuarial training centre has been set up; a body of professional mortgage practitioners has been developed; and a central consumer credit database—another first in the CIS—is being created.

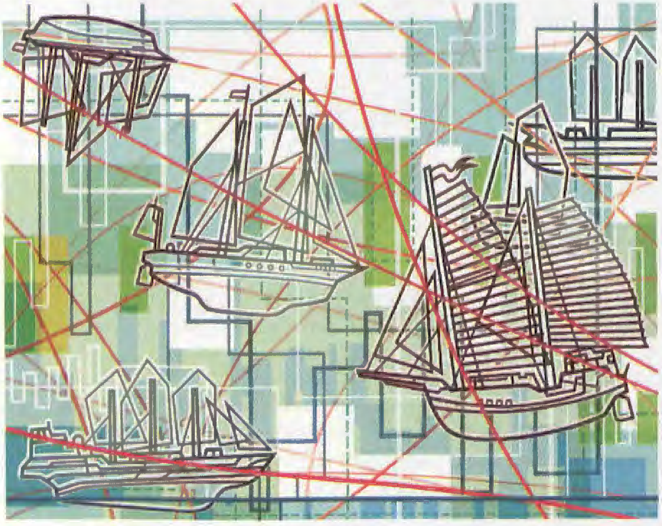
Yet the overall market is small and heavily concentrated in Almaty. In relation to the country's GDP, bank deposits total only 16%. Most loans and deposits are still in dollars. Mr Marchenko believes that the tide is turning as the local currency (the tenge) appreciates against the dollar and pays higher interest rates. The recent fast growth in credit also raises some questions about the quality of loans. And Mr Marchenko singles out the deposit-insurance system, introduced only in 2000, as ripe for further improvement.

Equity trading on the electronic stock exchange has been slow to pick up. This limits the options for pension funds, which are sitting on cash—although they have so far shown little appetite for more volatile instruments. According to Mr Marchenko, most listed companies are owned by strategic investors who do not wish to sell. In future, A-listed companies may be required to keep 25% of their capital as a free float. Selling off remaining state companies would help, say observers.

True beneficial ownership and control of financial institutions in Kazakhstan, as in much of the CIS, remains somewhat murky. Minority-shareholders rights are often flouted. But the biggest barrier to an effective financial market may be demography. Since independence in 1991, people have been leaving the country, while mortality remains relatively high and birth rates low. The potential market for financial services is therefore shrinking. Low incomes keep down contributions to pension funds and life-insurance policies. Such financial services, for most Kazakhstanis, remain a bit of a luxury. ■

Economics focus | Freeing the airwaves

Should radio spectrum be treated as property, or as a common resource?



WHAT is the best analogy for radio spectrum? Is it, as most people intuitively believe, a palpable resource like land, best allocated through property rights that can be bought and sold? Or is it, thanks to technological progress, more like the sea, so vast that it doesn't need to be parcelled out (at least for shipping traffic), in which case general rules on how boats should behave are enough to ensure that it is used efficiently.

Wireless folk have been discussing these questions for some time. Now, regulators are starting to take an interest, because increasing demands for wireless services require more efficient use of the spectrum. Earlier this month, America's Federal Communications Commission (FCC) decided to allow leasing and trading of frequency licences—the property model—as a first step towards establishing a market in radio spectrum. However, when regulators meet for the World Radiocommunication Conference in Geneva, starting on June 9th, they will try to harmonise their plans to expand the part of the spectrum that can be used without a licence, treating it as a common resource.

These two different regulatory models are already competing across the airwaves. On the one hand, telecoms companies have spent vast sums on licences for third-generation (3G) wireless services—but are facing serious financial and technical obstacles to building networks. On the other, there are already many wireless local access networks, called WiFi, which operate in unlicensed spectrum—and are growing at a phenomenal rate.

The question of how best to allocate spectrum is not new. Over 40 years ago Ronald Coase, who won the Nobel prize for economics in 1991, argued that there is no reason why spectrum should be treated differently from, for example, land. Both are scarce—so a market is the best way to allocate their use. Although this seems blindingly obvious today, it took the FCC more than two decades to start auctioning radio frequencies.

The debate has since moved on. Auctions alone are now considered unsatisfactory, because they do not change the traditional structure of spectrum allocation. And even after last month's reforms allowing leasing and trading, the FCC remains a *dirigiste* bureaucracy which decides, in most cases, how the spectrum is divvied up, who gets which slice, and for what use.

So what is the best way to replace this command-and-control regime? Proponents of the property approach want to create, as soon as possible, a market in which rights to spectrum blocks can be freely traded—rather in the way that pollution rights now are. Some have already drawn up plans for a "big bang": a giant simultaneous auction of as much spectrum as possible.

Hold hard, say the advocates of common access. If spectrum were scarce by some law of nature, they argue, selling licences would certainly be the best solution. But in fact it is scarce only in terms of old, clunky technology. When radio equipment needed "channels", defined by frequency and power, to allow communication without interference, airwaves were indeed a scarce resource.

Now, however, thanks to the dramatic decline in the cost of computer power, wireless devices are far cleverer, meaning that they can use spectrum more efficiently and are more tolerant of interference. They are able to communicate over a broad range of frequencies at once (this is called "spread spectrum"), to help each other out ("mesh networks") and to adapt to the local environment ("agile radio"). Instead of creating a spectrum market, argues Yochai Benkler, a law professor at New York University, it should now be possible to rely on the market in smart radio equipment without anybody having to control the airwaves.

Technological progress is not the only reason why spectrum markets would be a second-best solution, Mr Benkler argues. For one, they are likely to come with high transaction costs. If spectrum is priced efficiently in an increasingly dynamic wireless world, the necessary overhead in network management and metering is likely to be quite costly. Innovation could suffer as well: rights holders could ignore technological improvement just because it does not fit their business model. With spectrum as commons, anybody can innovate, as users do on the internet.

Keeping the options open

Despite their differences, the two camps agree that they do not have enough hard data to bet everything on one regime: they must experiment with both. David Farber and Gerald Fulhaber, telecoms professors at the University of Pennsylvania, for instance, want a big-bang auction. But they also want to let others use spectrum freely, as long as they do not "meaningfully" interfere with the owner's right to a clear broadcast.

Despite its recent move toward a spectrum market, the FCC too prefers a hybrid approach, saying in a recent report that "no single regulatory model should be applied to all spectrum". Early last year, it authorised systems using a technology called ultra-wideband to operate at very low power to avoid interference. The agency is also looking into expanding the part of the spectrum for which no licence is needed.

If experiences in other areas of technology are any guide, there is a good chance that both approaches will be around for some time, although the commons solution may eventually come to dominate. The internet, at least from the perspective of the end-user, is a common resource, with bandwidth allocated on a first-come-first-served basis. In software, the commons is growing, in the form of free open-source programs developed by volunteers.

Technology may thus help to create markets; but it also makes some of them obsolete. In this case it has turned land into sea, metaphorically speaking. To draw a historical parallel: the development of better ships did not lead to parcelling up the world's oceans but to something called free trade. ■

Nixon & National
19E

William F. Baker

Masters of the Media

The recent decision by the federal appeals court in Washington to relax television ownership limitations has been praised by the networks and condemned by consumer advocates. Once again in the continuing debate about media deregulation, the lines have been drawn between corporate power and the public interest. And once again the public interest has come out the loser.

The 1996 Telecommunications Act was designed to be a means by which media companies could remain competitive in a new multimedia economy dominated by large conglomerates. But if the 1996 act encouraged economic competitiveness across industries, it clearly stifled competition in the marketplace of ideas by reducing the number of owners and thus consolidating, centralizing and homogenizing formerly disparate voices.

The effects have been most dramatic in the radio industry, which was all but completely deregulated in 1996. Since then, there have been more than 10,000 radio station transactions worth more than $100 billion, and there are now at least 1,100 fewer station owners than before—a decline of nearly 30 percent in six years.

The result is that in almost half the largest markets, the three largest companies control 80 percent of the radio audience. Today, as the remaining vestiges of television regulation preserved by the 1996 act are finally stripped away, a new wave of merger mania, this time among television networks and stations, is a foregone conclusion.

From the point of view of economic competition, the easing of ownership caps and the lifting of cross-media ownership rules are positive, creating opportunities for growth and profit. As corporate parents increasingly control not only mass media content (television, movies, newspapers, magazines, books, etc.) but also the national delivery systems for that content (networks, cable, satellite and telephone systems), they gain financial leverage, increase returns and expand control over their properties, fully monetizing them from conception to reception.

But the economic benefits to media conglomerates come at the expense of the public's access to a healthy marketplace of ideas. Take the example of television news. To increase margins, media giants are closing newsrooms, merging staff and producing multiple newscasts on different stations from the same desk. As commercial news programs—folded into entertainment companies whose goals are providing diversion and attracting ad revenue—try to retain audiences that have hundreds of channels to choose from, journalistic quality has plummeted, and news editors increasingly are resorting to sensation, scandal and oversimplification to keep ratings up and ad dollars flowing.

BY MARGARET SCOTT

World news, in particular, has been a front-line casualty in the merger wars. A study by Harvard's Shorenstein Center shows that television news time devoted to international coverage dropped from 45 percent in the 1970s to less than 14 percent in 1995. Is it any surprise that so many Americans had such scant understanding of the forces that led to Sept. 11?

Some industries may thrive with little or no oversight. But the media are an exception. Television remains our most powerful medium for news, information, cultural awareness and the dissemination of ideas. Just as we have fought wars to preserve the vitality of free expression, so we must defend the integrity and openness of the media through which we manifest that expression. To do this, we must look to leadership and vision that is representative not only of corporate shareholders or the laws of supply and demand but of individuals and American society at large.

The courts have left it to the Federal Communications Commission to justify the 35 percent cap on national station ownership (that is, the rule preventing companies from acquiring additional TV stations if those they have cover more than 35 percent of the national audience). FCC Chairman Michael Powell has made it clear that he is not interested in preserving ownership caps beyond the restrictions of the antitrust laws that govern other industries. It's now up to Congress to take a stand by holding public hearings with an eye to protecting the quality and diversity of American media through legislation.

Deregulation is concentrating power, squeezing opportunity and decreasing quality by leashing television content to the bottom line. To treat television as a mere commodity, we endorse the philosophy of one former FCC chairman who said: "Television is a toaster with pictures."

That statement will come back to haunt us. Like our national parks, the airwaves are a national trust. Left unprotected, our parks would soon be deforested. Without enlightened regulation, our airwaves will continue to suffocate.

The writer is president of Thirteen/WNET New York, the nation's largest PBS station, and co-author of "Down the Tube: An Inside Account of the Failure of American Television."

AN MIT ENTERPRISE
TECHNOLOGY
REVIEW
Emerging Technologies and Their Impact

INSIGHT

ESSAYS REVIEWS OPINIONS

THE DIGITAL DIVIDEND

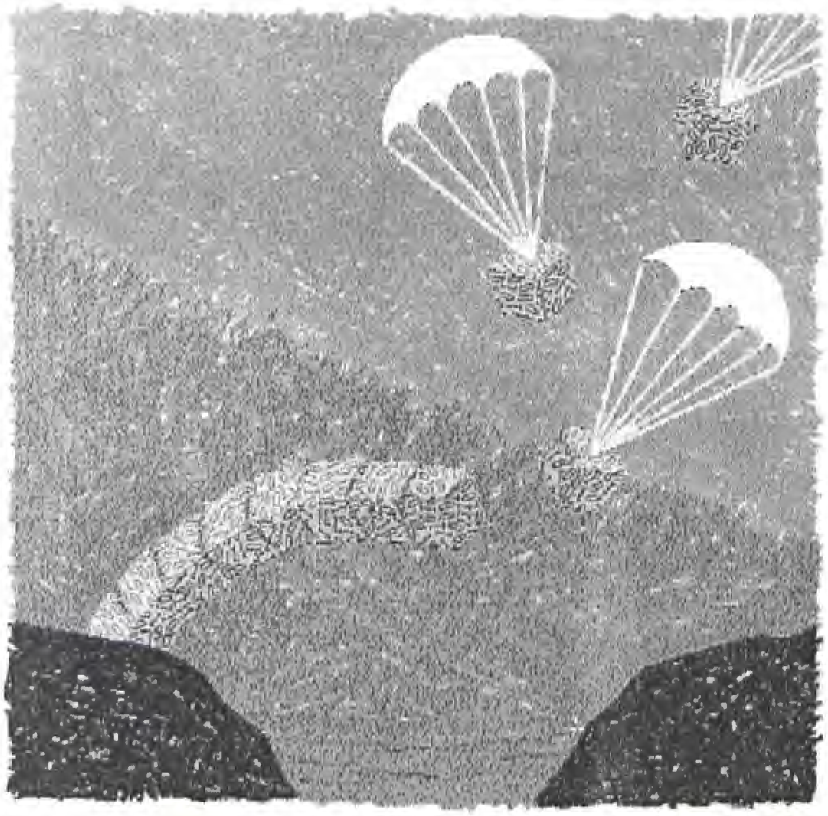
Bridging the digital divide will pay off for business *and* government.

BY STUART N. BROTMAN

Political, intellectual and business leaders are engaged today in a vigorous and far-ranging debate over what should be done to address the "digital divide"—the fact that various geographic, socioeconomic and cultural subpopulations have widely varying access to a range of digital technologies, including computers, the Internet, mobile phones and, increasingly, TV. These conversations encompass multiple perspectives and options—everything from giving schools, community organizations and citizens of lesser-developed countries broader access to computers and the Internet to simply letting market forces run their course. And they are truly global, whether in various meetings of the United Nations or as a prominent agenda item at the annual G8 summit of the world's leading industrial countries. Yet strikingly, they lack a single organizing principle.

The Luddites, for example, argue that no digital divide exists because technology doesn't really organize anything. The Technologists believe that with a few government policy tweaks, hardware and software dispersion through the marketplace will address any gaps. The Market Adherents say that market forces will eliminate the divide without any government involvement. Meanwhile, the Digital Egalitarians want to mandate equal access to technological tools throughout all strata of society, the Digital Democrats seek a political order that enables all people to participate as e-citizens in a cyberdemocracy, and the Globalists view the divide as proof that the United States is digitally isolating itself from the rest of the global economy. In short, there are many perspectives, but no encompassing view.

None of these characterizations captures the full extent of the digital divide, which in fact comprises many fissures rather than a single fault line. Yet the most significant divide today—one that will bear upon the way all the others play out—may be that between policymakers and the business community.



The digital divide is not only about offering Internet access to every citizen, nor is it only about social policy or computer penetration. The stakes are in fact much greater. Creating what I call the "digital dividend" will enable businesses to thrive at a new level of post-industrial innovation. The digital dividend is the set of outcomes that the private sector can achieve by promoting widespread penetration and use of digital technologies. Within companies, this can translate into better-trained, more productive employees; outside, it can lead to expanded sales and marketing opportunities at home and abroad, as well as a more diverse supply chain.

Government has taken the first steps in identifying and addressing aspects of the digital divide. Yet government cannot and should not be expected to lead on this issue. Instead, the business community must take on that role.

Government initiatives are insufficient for several reasons. First, many innovations are fundamentally driven by the marketplace—and government can't dictate the market. Second, with budget surpluses turning into deficits, policymakers today have fewer resources with which to close the fissures.

19E

Given these factors, and more importantly, because of the tremendous stakes for the private sector, business leaders must engage with the policy community to develop strategies for spreading digital technologies.

Businesses today are uniquely poised to realize the benefits of this effort. Today's technologists are pursuing a "digital manifest destiny" featuring robust networks connected by wires, cables and the ether. Satellite and wireless communications, content digitization, broadband network access via cable or telephone lines, and many other technologies are inexorably converging. The result of such connectivity is a web of networks, each of which becomes exponentially more powerful as it grows. The business community must make this happen better, faster and in ways that help business.

For example, within corporations, managers must make sure lower-skilled workers get the training they need to participate in new forms of work. The digital-proficiency gap between high- and low-skilled employees must be closed. Mobile and work-at-home personnel also need an adequate technological infrastructure to link them to company systems, customers and coworkers.

The digital dividend will not only bring greater access to computers and the Internet; it will enable businesses to thrive at a new level of postindustrial innovation.

Beyond the office walls, the private sector must also help to prepare tomorrow's work force. U.S. workers will slip further behind their competitors abroad unless the educational system gets corporate help to prepare students to work in the digital economy.

The emergence of the electronic marketplace as the hub of domestic and global commerce creates another compelling argument for business to help close the digital divide. As trade occurs today on an increasingly global stage, there are numerous opportunities to develop relationships with suppliers in Bombay as well as in Boston. Additionally, the spread of digital technologies offers an opportunity to meet new consumer demand and to create more sophisticated customers for products and services.

In order to realize the digital dividend, the business community must form a new compact with the policy world. Policymakers have long promoted the concept of "universal service" to ensure that income and geography are not insurmountable barriers to telecommunications access. The business community recognizes the economic efficiency of having as many people connected as possible, but it looks to the bottom line rather than social policy as the rationale for supporting network expansion. Joining these two principles can generate exponential growth in digital-technology penetration by virtue of both government support and private investment.

Let's focus on these two principles in further detail. In the United States, universal service—the idea of extending the telephone network to all—was the brainchild of Theodore Vail, chairman of AT&T from 1907 to 1919. Vail believed a private-/public-sector compact was the most effective mechanism for realizing his ambitious goal, and he prevailed upon the government to grant AT&T a regulated monopoly in exchange for building out the telephone network. Vail's idea was to make a ubiquitous telephone network into a source of both private profit and public good.

The insights of Ethernet inventor [and *TR* board member—ed.] Bob Metcalfe are equally compelling. "Metcalfe's Law" states that the value of a network increases exponentially as it grows. Such a law applies geometrically to the digital dividend, which encompasses not one network but many. But in order to achieve the promise of Metcalfe's Law, it will not be enough to stand by as government develops targeted subsidy programs and technology drives prices down to more affordable levels—processes that will require considerable time.

Combining Vail's wisdom with Metcalfe's insight offers a better base for promoting government support and private investment simultaneously. And it can be done without creating any monopolies. For example, if businesses agreed to underwrite access to digital networks and devices for far larger populations, government could provide appropriate tax incentives in support. This emphasis on a digital dividend can generate obvious payoffs for both the private and public sectors.

At the 2001 G8 summit in Genoa, Italy, President George W. Bush and other heads of state approved an action plan for seeking private-sector involvement in improving connectivity, lowering costs, establishing national Internet strategies, deploying information technology in health care and development aid, and fostering entrepreneurship. But if this plan is to be realized, policymakers in each nation will have to consult closely with the multinational business community, which is starting to realize how the spread of digital technologies can expand its markets. One vital first step is to ensure that there is a pro-competitive regulatory framework in place so that business can calibrate strategies for investing and achieving profits.

Between now and the June 2002 G8 summit in Canada, the leaders who met in Genoa must bring together social-policy and business policy interests to address this critical issue. Linking the digital divide and the digital dividend is something that Luddites, technologists, egalitarians, globalists and free-market adherents need to agree upon if we are to achieve real-world results both in the United States and abroad.

Stuart N. Brotman (sbrotman@brotman.com) is the author of Creating the Digital Dividend: How Business Benefits by Closing the Digital Divide *(Harvard Business School Press). The book is scheduled for publication in late 2002.*

19E

Bernie Bites the Dust

By Andy Kessler

Bernie Ebbers blew it, and under board pressure has resigned as CEO of WorldCom. Now there is almost zero chance of saving his baby. With $28 billion in burdensome debt, WorldCom is wavering on the precipice of bankruptcy, and Qwest, owing its own 25 big ones, doesn't seem far behind. To make matters worse, both are forced to compete with already bankrupt companies resurrected with no effective debt.

How did we get to this sorry state? Me, I blame Mr. Ebbers for the whole telecom mess. Starting with a long-distance company, Mr. Ebbers went on a buying binge using his inflated stock as currency. IDB WorldCom, an international long-distance company was bought at the end of 1994, followed by WilTel, a carrier's carrier, in early 1995. A year later, Congress passed the quasi-deregulating Telecommunications Act, issuing Mr. Ebbers a hunting license to bag trophies beyond long distance.

Multiple Personalities

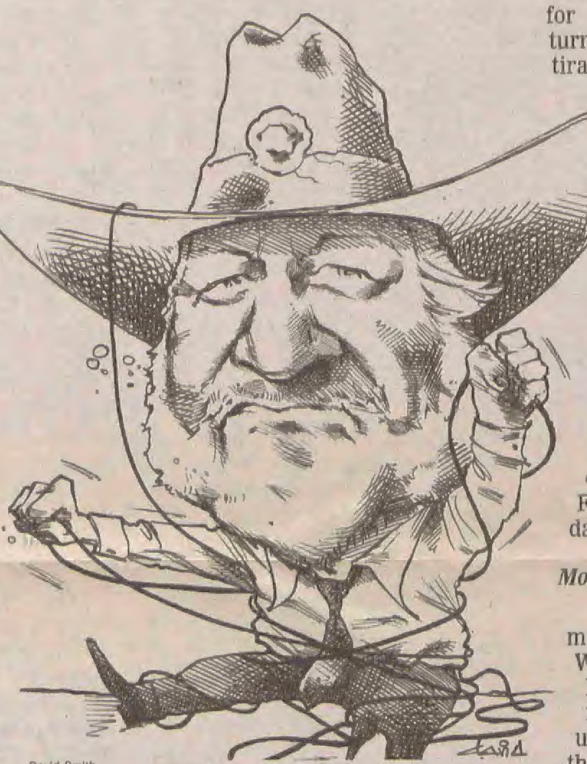
In August of 1996, Mr. Ebbers bought MFS Communications which ran fiber to office buildings in dozens of cities. With MFS came UUNET, the hot Internet access company that Bill Gates and Steve Case fought over to invest in, but that MFS stole from them both. In one deal, Mr. Ebbers created what the world heralded as the new phone company, combining local, long distance and Internet access, naming it WorldCom. What more could you want? WorldCom's stock started 1990 around a split-adjusted $1 and ended 1996 over $17.

But like Cybil, WorldCom now had multiple personalities. The long-distance business was a cash cow, milked to build out more fiber. But UUNET, like all Internet service providers, was selling data, not voice traffic. Everyone in Silicon Valley was excited that Internet networks would someday devour voice, making it just another type of data that runs next to e-mail. In other words, one side of WorldCom could one day kill the other side, but until then they got along fine, riding the bull market to new heights.

Complicating Mr. Ebbers' life was the fact that he wasn't the only game in town. In 1998 anyone who announced plans to layer fiber could get $1 billion from Wall Street, no questions asked. Dozens of companies strung thousands of miles of fiber. Prices hardly budged, because WorldCom, and everyone else, was enjoying high margins, selling under the regulated umbrellas erected for AT&T and the regional Bells. WorldCom's ride up was based on the artificial economies created by regulation.

In 1997, charged with investing in these weird markets, I thought long and hard about WorldCom. I liked the concept, but was bothered by all these new players. But then it hit me. Mr. Ebbers was brilliant. He built the new-fangled telecom company first, and would quickly cut prices on bandwidth to the marginal cost of installing new fiber optics. This is straight out of Economics 101: At some lower price, it no longer was profitable for new players to lay fiber, funding would dry up, and WorldCom would own, I mean really own, the market.

A few weeks later, I attended a dinner at the Four Seasons restaurant in New York, featuring WorldCom vice chairman (and now CEO) John Sidgmore, hosted by one of the many Wall Street firms salivating over banking fees. I cornered Mr. Sidgmore at the bar before dinner, ready to test my theory. "I figured it out," I told him breathlessly, drooling my gin and tonic. "You are going to cut the price for bandwidth to the marginal cost of putting in new fiber." He looked at me like I was from Planet Zorb, and walked away.



David Smith

Now this happens to me all the time, so I didn't think anything of it, until he gave his dinner speech. In it, he used his trademark line investors would hear for the next several years. "As far as WorldCom cutting prices, Bill Gates says bandwidth should be free . . . Well, I say software should be free." Laughter, applause. Forget about marginal anything, they were intent on milking high prices. Within a month, WorldCom bought MCI, and the debt piled up, locking the company into these high prices.

Instead of reshaping the telecommunications world, WorldCom was happy to join the old guard, despite knowing full well the devastating effects of new technology. Mr. Ebbers was enjoying the ride, and the stock kept going up, hitting a split-adjusted $60 in 1999. He was known to wear cowboy boots around the office, and berate investors who asked him questions at analyst meetings.

At one meeting, the guy next to me nudged me and whispered, "Watch this." He raised his hand and asked, "So what do you intend to do for a wireless strategy?" Mr. Ebbers's face turned red as he launched into a five-minute tirade on how stupid the cellular business was, and they are all losing money and who needs them. Is that your final answer? A better one would have been "We need a cellular strategy," since cellular firms were burying long distance into their per-minute rates and 500 minute plans. People began using their cell phones, instead of MCI, to call friends and family.

Mr. Ebbers was too busy with other things. Every time the stock went up, he would raise more debt. WorldCom had around $5 billion in debt at the end of 1996, $20 billion at the end of 1998, and almost $28 billion today. But it never cut prices to stop competitive fiber build-out from Metromedia Fiber, 360 Networks, XO, Global Crossing—today, a bankruptcy lawyer's dream list.

More Cowboy Boots?

As fiber miles proliferated, prices plummeted. Ah, Economics 101 does work! As WorldCom's stock began its slide, Mr. Ebbers held on for dear life. When he borrowed money personally (more cowboy boots?), he used his WorldCom stock as collateral. As these loans came due, he was unwilling to sell at "depressed prices" of $10 to $15 (it's now around $2.50). So WorldCom lent him the money to consolidate his loans, to the tune of $366 million. How a board of directors, representing you and me at the table, allowed this to happen is beyond comprehension. They should resign with Bernie.

Today, prices are probably below the marginal cost to install new fiber. WorldCom denies it's heading for bankruptcy, but it's hard to see any alternative. There are too many other bankrupt fiber companies out there already, busy restructuring. For instance, Ted Forstmann is fighting with Carl Icahn for the rights to pump money into XO and McCleodUSA's resurrection. Out of all this will emerge a large number of debt-free and really nasty competitors that can set their prices to just below the marginal cost of interest payments for WorldCom and Qwest. Their only choice may be to head into bankruptcy to get rid off all that debt. What a strange twist to an old economics lesson.

Mr. Kessler, a former hedge-fund manager, is writing a book on technology and markets.

Guess Hu's Coming to the White House

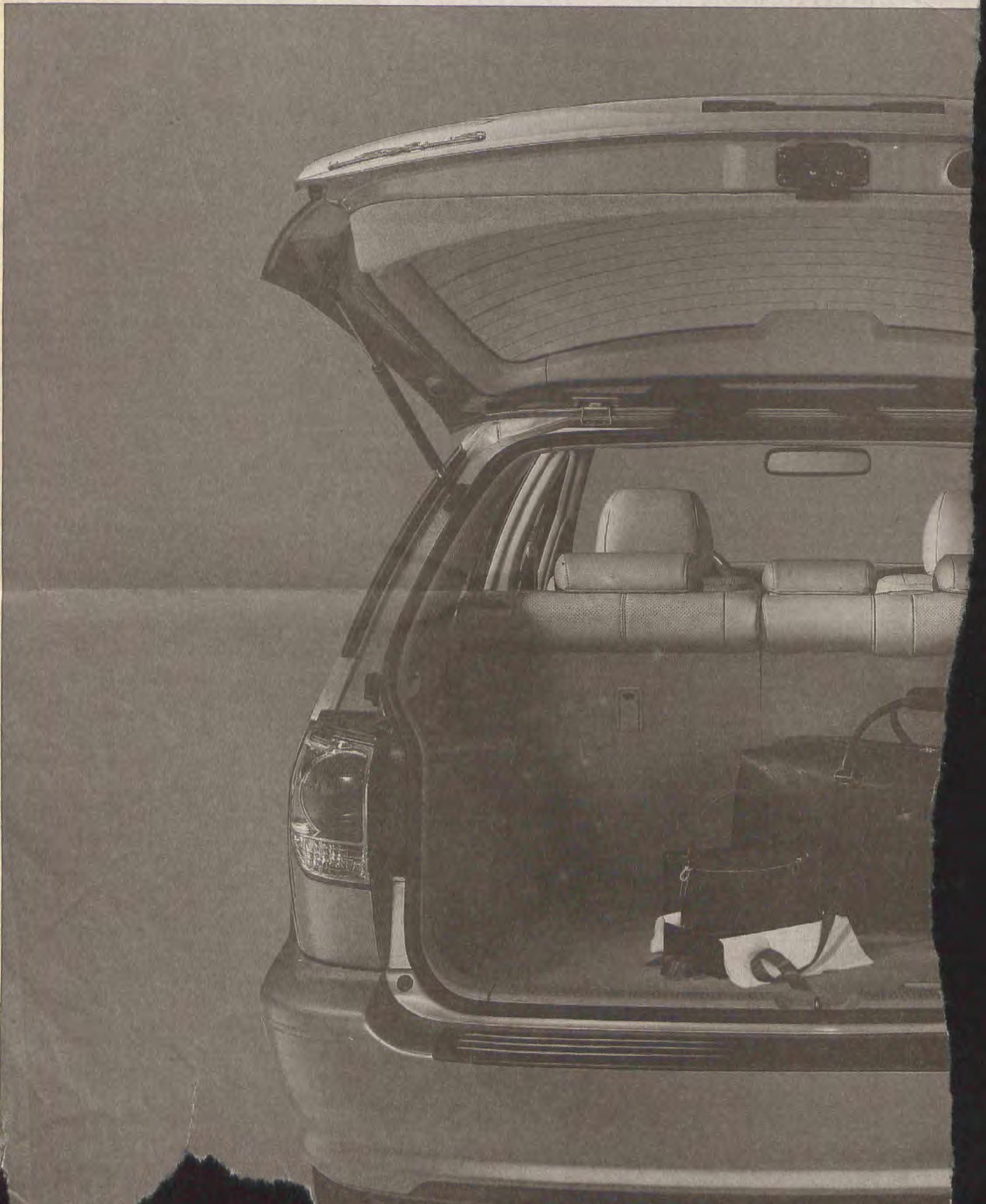
By Arthur Waldron

Hu Jintao—the heir apparent in
eets President Bush today, it is worth
uch real substance remains in the
lationship. Economic ties remain
if lopsided. The U.S. is China's
ket, a major source of invest-
more, i

help the U.S. India has provided public support and invaluable intelligence cooperation, drawing Washington and New Delhi closer together. Japan has gone further than ever befor
ing his international missio
li ve tracked d
d shared i

" to defend the island, t
ment of a low-key b
ship

e-
at
vo
in
ad
d.
as
art-
ert.



GEORGIE ANNE GEYER

Turmoil of the 'Week'

For many people — but especially for those of us who have been on PBS' venerable "Washington Week in Review" for years — last week was truly one we wish we never had to review.

Seemingly out of nowhere, the news burst upon us early in the week: First, our respected colleague, moderator Ken Bode, had been suddenly and unceremoniously fired, and, second, our popular producer, Elizabeth Piersol, soon followed him.

Dalton Delan, the show's new executive vice-president, hails from New York and from shows that are more "show biz" than the serious, yet lively "Washington Week." He was quoted in ways that soon brought a torrent of criticism from viewers and donors. He was widely quoted as saying the show needed more liberal-conservative "edge" and "attitude," that high school journalism students might appear, and that the respected 32-year-old show should be more like "The View" (the Barbara Walters talk show often lampooned for sheer sillinesss on "Saturday Night Live").

Well, the town went up in flames. Most of the regulars — I have been one for 23 years — refused to be on Friday's show, leaving it with four panelists never associated with the program. One had the feeling of being left bereft and marooned on a desert island. It was, one of the leading officials of public television told me at the end of the week, "the worst public relations disaster we have ever had."

Now, we have to realize that this little scandal over "Washington Week," far from just another flap, is actually a case study of television in our times — and for many good reasons.

First, public television itself was never supposed to be anything like the networks. Indeed, it was founded in 1961 as an "alternative" broadcasting system to them. It only existed — and, what some insouciant people should remember, exists today — in order to present higher-caliber and more discriminating shows. "Washington Week," started a few years later, was to be PBS' flagship: a talk show of journalists who did original and accurate reporting, plus the sound interpretation stemming from it.

"The idea was that it should be like 'listening in' to a conversation," Elizabeth Campbell, one of the early pioneers and founder of public television, reminisced with me this week. "That was the reason for the round table. With a round table, you can listen in. At that time, there was nothing like it. I was there at the beginning. I saw the first show."

These were, indeed, halcyon years. I joined the show in the spring of 1976, when I moved to Washington and began my syndicated column. I think I was the first woman panelist, at least one of the first two or three. We were a great band of brothers — and, more and more, sisters. When I traveled around the country and people recognized me from the show, they would almost always say something like, "You all like one another, don't you? I'll bet you all socialize?" The answer to both of those questions was an enthusiastic "Yes."

But by the time Paul Duke, who had been the respected and popular moderator of the show for 20 years, retired exactly five years ago this month, the television field was already changing. Most of the other journalist talk-shows had become "scream shows," where journalists good and bad indiscriminately exercised their lungs and their opinions. Then, in the five years since Ken Bode took over as moderator, changes came ever more quickly.

By 1995, the Corporation for Public Broadcasting was fighting for its life against the Republican revolution's attempt to cut congressional aid to PBS (a fight that PBS won, in great part through the active intervention of tens of thousands of loyal PBS listeners and donors).

At the same time that viewers were fighting valiantly to save the funding, the real threat was elsewhere: Local public television stations all over the country were now leaning toward the popular and the cheapened. Eyeing the higher ratings of the networks as they vulgarized themselves without surcease, local PBS stations began to complain about such worthy programs as "Washington Week." Many stations wanted more "commercial" shows in such top hours. And viewership was going down.

"They were feeling much more competitive than people imagine," one of the former top people in PBS told me this week. "It's important that they not lose sight of why they have a separate network, and stick with its basic principles."

And here, I think, is where we ought to focus on what is important here. If public television starts to cheapen itself, if it does not continue to be a real alternative to network television, and if it does lose sight of its mission, then there will be no reason for caring people, or for Congress for that matter, to fund it. Donors and viewers feel, rightly, that today they own it. If they forsake it, it's gone.

And if public television loses its soul, of course, its officials will not say outright they are doing that. They will just say they are making shows more interesting and more engaging, and they are bringing more viewers in. But everybody will know the truth.

I personally believe this sad case of "Washington Week" has warned enough of the many thoughtful people at PBS that this will not happen. And surely viewers will not countenance the demise of an old and trusted friend.

Georgie Anne Geyer is a nationally syndicated columnist.

The board

of regional groups overseas that it did not identify, saying it wanted to protect the young churches. In one of the anonymous groups, there were 30 congregations a decade ago, compared with 2,000 today with 50,000 members. The other group had 85 believers five years ago; last year, 355 new congregations were established.

Reform rabbi to head new united Jewish body

NEW YORK — The North American Boards of Rabbis, established this week as the only religious body covering all branches of Judaism in the United States and Canada, has named Rabbi Jay Rosenbaum as its first executive vice president.

Rabbi Rosenbaum, who leads a Reform congregation in Freeport, N.Y., will be the top-salaried staffer at the group's New York offices.

The new organization unites rabbinical boards in 25 metropolitan areas whose members come from all branches of Judaism.

When she started work in her final year of college as a Minnie Pearl impersonator at the Opryland USA theme park, she recalls: "It was the oddest thing I had a job making people laugh because I was so miserable. ... The Bible says laughter doeth good like a medicine, and it was a medicine for me all those years."

But it didn't heal the deeper hurt in Mrs. Pierce's life. Eventually, through the counsel of the Grand Ole Opry's Minnie Pearl, whom Mrs. Pierce regards as her mentor, the young comedian rededicated her life to God.

Mrs. Pierce says that Miss Pearl told her, "You'll never really know what laughter is all about until you make peace with God and love him first."

The words struck her hard, and she realized she had been trying to forget God rather than get to know him. She decided to leave entertaining to go home, care for her children and teach Sunday school at her church. Her daughter, Chera Kay, 15, had just turned 6,

Out," a video

book ("It's Always Darkest before the Fun Comes Up"), and a phone that keeps ringing. "I never dreamed that here all these years later, I would be this busy, but God is good."

She attributes her success to "blind servanthood" to God and "settling for one piece of the puzzle at a time. When you take your hands off and let God give you one piece at a time, you'll be amazed at how it turns out."

Mrs. Pierce has been a popular performer at Christian women's conferences like Renewing the Heart, Aspiring Women and Women of Faith, where her ability to poke tasteful fun at church folk earns her lots of laughs from the flock. On her "Girls' Nite Out" video, she classifies skirt hemlines according to three traditions: Methodist ("about right here"), Southern Baptist ("below the knee"), and her own Nazarene denomination ("drugging the ground").

She also talks about living next

could only do this."

To women who have protested the exclusively male meetings, she says with give-me-a-break mock disgust, "Why don't you go to the mall?"

Seriously, Mrs. Pierce says, she has been gratified to see Christian women coming together in the past few years through big arena-sized conferences and in local church women's ministries.

"We're well overdue a time of encouraging one another as women and in what we're doing out there."

Mrs. Pierce says that knowing God is in charge of her career helps her keep things in perspective.

"I always told the Lord, 'When the phone started ringing, I started working. When it quits ringing, give me the grace and knowledge to stay home.' There is a lot of peace in that. Peace is knowing someone else is in charge."

• *Distributed by Scripps Howard*

Lack v. Wal-Mart

Miles of aisles of boredom at a Wal-Mart in West Virginia invited crude, but not illegal, behavior.

Lack, the court argued, failed to prove that he was subject to discrimination as a man. Instead, his tormentor had been revealed to be an equal-opportunity harasser, 'obnoxious to men and women alike.'

appeals court overturned the verdict in September 2001. "Since the conduct complained of in many of these sexual-harassment cases is so offensive," wrote Judge Ralph Guy, "a sense of decency initially inclines one to want to grant relief." But Guy overturned the decision because, in his view, the E.E.O.C. had failed to prove that Carlton's harasser discriminated against men. Even though Louis Davis had never goosed women at Harbert-Yeargin, he might well have had there been more of them in goosing range. Besides, Guy argued, it could hardly be said that Davis was motivated by a general hostility to men in the workplace. "Mr. Davis liked nothing better than to have men in the workplace," he reasoned. "If not, who else would he roughhouse with?" (The E.E.O.C. recently asked for a rehearing of the case, though Carlton himself reached a settlement with Harbert-Yeargin.)

The case law is made all the more confusing by the fact that while some male victims of sexual harassment were clearly chosen because they are gay, sexual orientation is not covered by Title VII, and anyone who claims harassment on that basis, no matter how terrible the facts of the case, has no recourse. One way to get around this is to argue that a man was harassed not because he is a homosexual but because he is "effeminate" or "walks like a woman" or wears an earring or lives with his mother and is therefore a victim of what is known as gender stereotyping. Sometimes he is or does one or more of these things and is heterosexual, like the teenager who worked at the Illinois cemetery. And sometimes he is gay, in which case he stands the best chance of winning *if* he has never acknowledged at work that he is gay.

Earlier this year, for instance, a judge allowed a Boston postal carrier named Stephen Centola to proceed with his Title VII claims case against his employer. Centola had been taunted by co-workers who demanded to know if he had AIDS yet and left pictures of Richard Simmons in pink hot pants and a sign that read "Heterosexual Replacement on Duty" in his work space. Centola is homosexual, but because he had not said so at work, the judge found sufficient evidence to support his claim that his co-workers had "punished him for being impermissibly feminine." Surely one interpretation of such a ruling is that it pays to stay closeted at work. Deborah Zalesne, a CUNY law professor, sums up the problem this way: "Basically, if your *harasser* is gay, you stand a good chance of winning a same-sex harassment case. If *you* are gay, you lose."

But even this basic rule of thumb is subject to strange variations. Last month a federal appeals court in San Francisco overturned two earlier rulings dismissing the claims of a gay butler named Medina Rene who said he was harassed on the job at the MGM Grand Hotel in Las Vegas. Rene claimed that he had been repeatedly poked in the behind and forced to look at pictures of men having sex. In a 7-4 ruling by the Ninth Circuit Court of Appeals, Judge William A. Fletcher declared that a worker's sexual orientation is "irrelevant" in Title VII cases. By Fletcher's lights, the simple fact that the physical assaults Rene claimed to have endured had "a sexual nature" made them discrimination, and actionable under federal law. But Fletcher's reading was a highly idiosyncratic interpretation of Title VII. And the dissenting judges recognized this, concluding that however "appalling" the behavior alleged, it did not constitute a violation of federal antidiscrimination law. Meanwhile, two of the judges who sided with Fletcher offered a very different reason: Rene had a legitimate case not because the teasing he suffered was sexual in tone and content but because he had been gender-stereotyped. Of course, this argument raises its own questions: Does gender stereotyping cover cases in which the man harassed is straight-acting but gay or only those in which the victim, to put it bluntly, acts like a queen but doesn't say he's gay? The only thing made clear by the Rene ruling is that sexual-harassment law is messier and less coherent than ever.

Of course, when you're a man in the midst of making a sexual-harassment charge against another man, you're probably not thinking all that much about the vexed doctrine behind it. You probably couldn't care less about the historical contradictions of sexual-harassment law. Mostly you're thinking about how angry you felt at work and about how relieved you are to have a way of legally avenging yourself.

Not long ago I spent an afternoon with Joseph DePronio, a graphic designer from Buffalo, N.Y., who recently became a plaintiff in a same-sex harassment suit. DePronio is a handsome, angular 35-year-old with close-shaved hair, alert green eyes and the half-hopeful, half-exasperated manner of somebody who has always been a little more serious than the people around him. Since he has been struggling with the weird burden of his lawsuit, that divide has become even sharper. Relatives tease him about the case at family parties, trotting out some choice smutty lines. Though DePronio has a sense of humor, that kind of ribbing doesn't go over well with him these days. He got himself a T-shirt this summer whose slogan sums up his mood: "I Get Enough Exercise Just Pushing My Luck."

DePronio's wife, Tina, is a hairdresser whose fingernails that day were

Continued on Page 82

PHOTOGRAPH BY DALE W. FERRELL FOR THE NEW YORK TIMES

The Myth of '18 to 34'

Since the day an ad exec came up with the notion of the targeted demographic, advertisers' fetishizing of this audience block has transformed our culture. But the business premise behind it is bunk.

By Jonathan Dee

Who says Shakespeare doesn't matter to young people anymore? On a recent episode of "Gilmore Girls," the hourlong flagship drama of the Warner Brothers television network, Rory Gilmore's high school English class performed scenes from the Bard. Rory, cast as Juliet opposite the handsome and frequently suspended Tristan as Romeo, fretted that the heat of their onstage kiss would expose to her current boyfriend, Dean, the fact that Rory had once kissed Tristan at a party when she and Dean were temporarily broken up. Still, the performance had to be convincing, because it counted for 50 percent of her grade. "People who fail Shakespeare don't get into Harvard," admonished the group's alpha female, named Paris — who, upon seeing that their rehearsal space has not yet been vacated by an adult aerobics class, remarks, "What's with the cast from 'Cocoon'?"

Tough stuff for older folks to identify with, to be sure, but we've all had a generation or more to grow accustomed to the fact that, while we ourselves may age, popular culture remains a kind of garden of attenuated youth. And while we may not like it, we all think we understand the reason for it: youth is where the money is. The WB, after all, is not run by a bunch of teenagers bent on self-expression; it's part of a multibillion-dollar entertainment conglomerate whose programming decisions are based on sober business acumen. So if they took the risk of launching a new broadcast network in 1995 — when the network TV audience overall was shrinking — then they must have a pretty good idea of who that audience is and what it wants. Right?

Well, if you assume that a TV show's "audience" consists of the people who watch it when it's on, your first conclusion might be that the folks at the WB are laboring under a gross misconception. Nielsen ratings for "Gilmore Girls," when considered as raw numbers, are horrible. Somewhere around five million people watch an average episode, which puts it in 121st place among the 158 shows broadcast in prime time this past season.

But if you consider that a TV network's true audience is advertisers, then you're on your way to understanding why Tuesday night is, in fact, a big moneymaker for the WB. The network more than makes up for its abysmal ratings by charging an inflated ad rate for those few viewers its shows manage to attract. A 30-second commercial spot on "Gilmore Girls" costs about $82,000 — nearly three-quarters of the fee for advertising on an episode of, say, "Law and Order: SVU," an NBC program that regularly has about three times the

Down to their level: TV networks continue to court the youth market despite dwindling numbers and reduced spending power.

PHOTOGRAPH FROM CORBIS BETTMANN. TV IMAGES, FROM LEFT: FRED NORRIS/WB; RON BATZDORFF/WB; DAVID GRAY/WB; PAUL MCCALLUM/WB.

number of viewers. The WB gets away with this because its overall ratings, poor as they appear, were up 5 percent in the 18-to-34-year-old category last season, and while "Gilmore Girls" may be among the least-watched series on television, it's also No. 2 in its time slot among viewers aged 18 to 34.

Eighteen to thirty-four: for decades, conventional advertising wisdom has attached the adjective "coveted" to this slice of the viewing audience. According to an analysis by the former NBC News president Lawrence K. Grossman, advertisers pay an average of $23.54 to reach 1,000 viewers in that age bracket, versus $9.57 per 1,000 over the age of 35. And since commercial television, whatever else it may be, is fundamentally a system for delivering audiences to advertisers, network executives lose a lot of sleep trying to figure out what will hold fast the slippery attention of people in their late teens, 20's and early 30's. It is, as it has been for 40 years, the principle by which a great deal of our popular culture — not just TV, but music, movies, radio — comes into existence.

The odd thing is, there's no real reason for it anymore.

People over the age of 50 account for half of all the discretionary spending in the United States. Proportionally speaking, there are more of them than there ever were, and they are voracious cultural consumers. They watch more television, go to more movies and buy more CD's than young people do. Yet Americans over 50 are the focus of less than 10 percent of the advertising.

What makes advertising an entertaining field of study is that its twin natures — pop art and dismal science — are never really reconciled. If the notion of the "target demographic" lives on well past the point where it stopped obeying any kind of economic logic, it may be worth wondering how much sound, unsentimental business sense was ever behind this juggernaut to begin with.

Brand loyalty: this was the concept that turned the minds of young people into an advertising battleground, before television was even invented. Get them early, the thinking went, and if your product isn't junk, then you'll have that customer's fidelity for life. And, of course, advertising aimed at the young has always had a secondary target as well: those who aren't young but want to appear so, who believe that purchased commodities have the power to stave off time.

But in the earliest days of television, when the popularity of network programming was measured mostly by the sales of TV sets themselves, there was no question of "targeting" anything but the broadest possible audience. It wasn't until the 1950's that the A.C. Nielsen Company started breaking down its crude data on the TV audience by age as well as income, geography and other categories — at which point advertisers began to develop more of an interest in some TV viewers than in others.

"Embedded within the 18-to-34 cliché is a lot of social and economic history," says Stuart Ewen, author of "Captains of Consciousness" and several other books on the history of advertising. "The development of that group coincided with the dramatic expansion of the American middle class in the years right after World War II. The notion was that these young people coming out of the war were going to be the engine that drove the American economy."

It would be giving advertisers of the late 40's and 50's too much credit, though, to say that they got onto the demographic bandwagon right away. The work of such Eisenhower-era ad barons as Rosser Reeves and David Ogilvy relied almost smugly on simplicity and repetition, on what Reeves termed the Unique Selling Proposition drilled mercilessly into the public consciousness: "Wonder Bread Helps Build Strong Bodies 12 Ways," "Pepsi Refreshes Without Filling" and so on. Indeed, Reeves's famous Anacin ad featuring an animated hammer pounding inside one's head could function as a metaphor for both the intent and the effect of late-50's advertising in general. The very idea of targeting some demographic niche would have been unknown to Reeves; his own ad-spending mantra was characteristically drab and concise: "the most people at the lowest possible cost."

By 1960, though, when Bill Bernbach, the man generally credited as the father of Madison Avenue's "creative revolution," placed a photo of a Volkswagen just above the large-type word "Lemon" (an event that had roughly the effect on advertising that the 1913 Armory Show had on the history of American art), the pendulum had begun its long swing from paternalistic notions of brand loyalty to exuberant iconoclasm. The advertising industry ushered in its own version of the Age of Aquarius, in which youthfulness — being young, thinking young, speaking young, buying young — was all.

TO BE SURE, there was a hard-numbers aspect to the initial explosion of youth-targeted advertising in the 1960's and early 70's. By 1966, 48 percent of the U.S. population was under the age of 25. Failure to speak their language meant kissing off half of the market.

Still, this is advertising, in which numbers never tell the whole story. Thomas Frank, in his brilliant study of 60's advertising, "The Conquest of Cool," offers the example of automobile ads; in the 40's and 50's they preached reliability and endurance (a typical ad might picture a happy nuclear family out for a Sunday drive), but in the 1960's they suddenly aspired to the symbolism of revolution: Oldsmobiles were rechristened "Youngmobiles," consumers were exhorted to join the "Dodge Rebellion" and as staid a make as Buick promised consumers "Now We're Talking Your Language." This all seems understandable enough in the context of the times, until you consider that in the mid-60's young adults accounted for only 9 percent of all new car sales. So why would the car business bother to target them?

The business world, it seems, was going through its own generational insurgency, and the old model of customer relations was tossed gaily out the window. In a society in which young people predominated numerically and were acknowledged as the vanguard of change, the idea of brand loyalty was turned upside down. What advertisers prized in American young people was their disloyalty, their insistence upon the new. The notion of "revolution" (i.e., fashion) could be applied to any and every commodity — and common sense was no obstacle: when Pepsi adopted its wholly metaphorical slogan "Join the Pepsi People Feelin' Free," sales soared.

Such ads were never designed to extract riches from the nation's youth — "youth" simply became their new subject matter. They posited a plain-speaking friendship between the advertisers and the young, a friendship that was entirely fictional but seemed really cool, and the way to get in on it was to purchase the product being advertised. The genuine counterculture was, of course, tiny in comparison to the legions of people who admired it and wanted to be a part of it in some small, risk-free way — by, for instance, joining the Pepsi Generation. It was a seductively undemanding model, for advertisers and consumers alike, and it kept the business world's focus squarely on the 18-to-34 bull's-eye for the next three decades.

HOW DID THE TV networks satisfy their advertisers' demand for this newly calibrated audience? Well, if they couldn't always bridge the gap between themselves and the bona fide counterculture, they could certainly attract the attention of those who wanted at least to feel that they could lay some claim to membership in it by watching TV.

"That period — the end of the 60's, the beginning of the 70's — was really an extraordinary moment in our culture," says Robert Thompson, director of the Center for the Study of Popular Television at Syracuse University. "In one fell swoop, CBS canceled a whole bunch of programs that were still fairly high-rated — 'Mayberry, R.F.D.,' 'Hee Haw,' 'Gomer Pyle' — and replaced them with a very different kind of show."

The highest-rated show for the 1970-71 season was the decidedly unrevolutionary "Marcus Welby, M.D."; No. 2, though, was "The Flip Wilson Show," and other programs like "The Mod Squad" and "Rowan and Mar-

---

Jonathan Dee is the author, most recently, of the novel "Palladio."

VIDEO STILLS FROM THE PEPSI-COLA COMPANY

The history of Pepsi's advertising campaigns — from the era of "Pepsi Refreshes Without Filling" and Polly Bergen in the early 1950's (top) to Britney Spears in 2001 (bottom) — typifies the transition from selling the product to promising the lifestyle.

tin's Laugh-In" sneaked into the Top 20. These hybrids of old forms (sketch comedy, the cop show, the family sitcom) and young subject matter became the entree into the cycles of hip for millions of viewers, and the advertisers who paid for those programs gave their viewers a way to make the idea of permanent revolution not just a philosophy but something they could take home and put on a shelf, or in their closet, or in the fridge.

"TV definitely became more research-driven and more demographically self-conscious in the 60's and 70's," says Mark Crispin Miller, director of the Project on Media Ownership at New York University. "I think one can safely say that entertainment generally is research-driven now, but television, being the most directly responsible to advertisers, was the first to take the plunge."

The first, but not the last. Hollywood discovered, somewhere around the release of "Star Wars," that movies could also profit by functioning as advertisements for their own merchandise; whereupon they, too, started pitching their work to a younger audience. Commercial radio, determined to lead rather than follow music's fruit-fly-like cycles, undertook the ghettoization of programming intended for anyone above the age of 29. Thus the cultural productions of what Variety magazine, in its inimitable style, calls the Zitgeist continued to snowball. By the early 80's it had grown into the self-fulfilling prophecy (Why are movies designed to appeal to people in their teens and 20's? Because those are the people who go to the movies.) that we're still living with today.

IT WAS A LONG TIME before anyone cared to notice that the target demographic itself, and its status in American society, had gone through some profound changes. The population bubble caused by the baby boom kept floating up; whereas in 1940 only 6.8 percent of the population was 65 or older, as of 2000 that number was 12.4 percent. And the economic news wasn't bullish either. Between 1973 and 1990, median real income for families with children headed by persons under 30 fell an amazing 16 percent. And in 1990, three out of four men between the ages of 18 and 24 were still living at home, the largest proportion since the Depression.

"Young people's hopes and prospects for the future have in very real terms become diminished," says Stuart Ewen, "and in a situation like that, obviously you have to rethink whom you're selling to."

And what of the theory of brand loyalty — the idea that winning over the young consumer means winning him or her over for life? There the big change has come about not so much in the young but in the old. The baby-boom generation, raised in front of the TV, just never became brand-loyal in the way their parents were. Everyone is pretty malleable these days: 67 percent of female heads of household between 18 and 34 were willing, in a Nielsen study, to try a new brand even if it went against their customary buying habits; the corresponding number in the 35-to-64 age bracket was 70 percent.

Even the argument that most pop culture is for young people because young people consume the most pop culture has begun to fall apart. ESPN's highly promoted X Games, a kind of "alternative" Olympics featuring skateboarders, BMXers and the like (referred to by The Wall Street Journal as "the Holy Grail of youth marketing") was outperformed this summer on the network's primary channel by the bargain-basement Great Outdoor Games, a decidedly non-youth-oriented event featuring lumberjack contests and the talents of various sporting dogs. Over the last decade, the proportion of the national moviegoing audience between the ages of 50 and 59 doubled, while the proportion of teenagers shrank steadily. The percentage of CD's sold to consumers over 45 doubled as well.

And yet the romanticization of youth persists: the adjective "coveted" has been joined by the phrase "hard to reach" as a justification for the premium advertisers continue to pay to speak to the 18-to-34 crowd. Put aside for the moment the fact that these so-called hard-to-reach young adults spend an awful lot of time with the TV on — men between 18 and 24 watch more than 20 hours a week, according to the Nielsen people; put aside the fact that those young X Games rebels come plastered head to toe with corporate logos. What logic suggests that, because there are proportionally fewer young people than there used to be, because they have less money than they used to and because it's harder to separate them from that money than ever, advertisers should spend more money trying to court them? It would make as much sense to say that advertisers really ought to pay top dollar for viewers who don't have any spending money at all.

IF YOU ASK the agencies themselves about the relevance of the target demographic, they're likely to tell you that numbers-oriented research of any kind is so last year. Forty years after creative advertising's Big Bang, the study of demographics is a "science" many now scorn as outdated and crude. "Now they call it psychographics," Thomas Frank says. "They hire sociologists, anthropologists — it's very elaborate." The methodology of today's market research often approaches the mystical.

So who's willing to pay the WB extra to reach today's young adults? The ads featured on "Gilmore Girls" themselves paint a portrait of the coveted youth audience. Apparently, they spend as if they still get an allowance. Wendy's, Snickers, Cover Girl makeup, chocolate milk — there was hardly a product advertised on "Gilmore Girls" that would cost a consumer more than $10. With one glaring exception: new cars. Ford and Honda advertised throughout the Tuesday-night lineup.

"These younger folks may not be big-ticket purchasers now," says a Ford spokesperson, "but they may one day be. Ford wants to form a relationship with these younger buyers now and grow them up into our various brands." As for Honda, it has, according to a company representative, "pretty much one of the youngest buying demographics of any car company out there. The Civic in particular — almost all the ads on the WB are for Civics. And we're on MTV all the time."

And how many of these youth-oriented Civics, sticker-priced at a minimum of $14,000, are actually sold to people under the age of 26? One in five. Not so different from the 60's.

They'll catch on eventually. But advertising is a vast mechanism, risk-averse and inertia-driven, and like most multibillion-dollar industries it changes course with all the agility of an oil tanker. And so, for now, the polestar of the target demographic endures. It has gone from an ecstatic confluence of societal change and economic opportunity to a fusty business institution.

Of course, it's more than that as well. No matter how many dollars might be squandered in the process, you see in modern TV advertising what you see in, say, Greek statuary: a cultural key, a worldview whose increasing irrelevance to cold economic models only testifies to how compelling it remains for us.

In the meantime, the Fox network, eager to reassure advertisers made restless by its drop last year to second place among 18-to-34-year-olds, has just announced that this fall it will become "bold, younger, more noisy." The network's new motto? "It's Good to Be Bad." ■

Where The Really Wild Things Are

Disney has seen the future of children's fantasy, and it's the provocative horror writer Clive Barker.

By Dwight Garner

Clive Barker is not a scary guy. At 50, he is tanned and buff and amiable — his big vices are cigars and endless cups of strong tea. With his trimmed goatee and twin hoop earrings he looks like a pirate who is settling into middle age after years of successful plundering. But when he cracks open the door to one of his Beverly Hills houses — Barker owns three of them, all in a row, all with wide-angle views over Century City — and croaks, "Welcome to the inside of my head," I can't help it: I get a little creeped-out anyway.

Clive Barker may have the spookiest voice in Los Angeles. It's a Tom Waits-meets-Wolfman Jack rasp that makes it sound as if he's dredging his consonants from the bottom of a tar pit. "If I talk for too long," he says. "I start to sound like Carol Channing."

That voice, which betrays only a hint of Barker's blue-collar upbringing in postwar Liverpool, is a terrific instrument for talking about his long career as a man with a knack for, as he puts it, "scaring the bejesus out of people." Since 1984, Barker has published 18 books of horror and baroque fantasy fiction that, while rarely winning over critics, have typically sold hundreds of thousands of copies. Two films based on his work — "Hellraiser," which he directed, and the urban fable "Candyman" — have each spawned multiple (and increasingly awful) sequels. He has branched out into toys and video games and Halloween costumes.

Today, however, Barker doesn't want to talk about any of that. He is beckoning me inside — "C'mon, c'mon," he growls happily — to show me the hundreds of canvases he has spent the last five years painting for *children*. "This probably isn't what people are expecting from me," he says. "But here it is."

Walking into what Barker calls the inside of his head — that is, his private art studio — is like tripping into a punk-rock version of Oz. Brightly colored oil paintings, some of them as wide as 13 feet, cover the walls of six large rooms from floor to ceiling. There are 386 of these paintings, and while some portray ethereal landscapes and bashful-looking animals, most are a little freaky. In one, a creature sprouts seven tiny heads out of the tips of its antlers; in another, a beast with cat's eyes holds out an assortment of skulls on stems, as if they were a

"Mr. Hellraiser" at home: Barker with some of his "Abarat" paintings.
Photograph by Ari Marcopoulos

Too many debts; too few calls

The telecoms industry is in a mess. What went wrong, and how can it be fixed?

THE bigger they are, the harder they fall. And in recent times nothing has got much bigger, or fallen much harder, than the telecoms industry. WorldCom, a disgraced industry giant embroiled in an accounting scandal, teeters on the verge of bankruptcy. Its collapse, were it to happen, would be the biggest in corporate history. But it would also be only the latest in a line of telecoms firms to have gone under.

WorldCom is currently subject to a criminal investigation, as is Qwest, another American telecoms giant. But telecoms firms untainted by scandal are also struggling to service their huge debts. Banks' global exposure to the industry is estimated at $1 trillion, according to Ovum, a consultancy. Some analysts reckon that as much as half of that may yet have to be written off.

Telecoms share prices have plunged and chief executives are being steadily booted out. This week it was the turn of Ron Sommer, the boss of Deutsche Telekom, who was forced to resign on July 16th. But the job losses extend far beyond the boardroom. Telecoms operators and equipment vendors have laid off nearly 500,000 people in America alone since the beginning of last year, according to figures from Challenger, Gray & Christmas, a firm of headhunters.

The dotcom crash, it turns out, was merely the warm-up. The telecoms crash is many times bigger. Michael Powell, chairman of America's Federal Communications Commission (FCC), surprised nobody when he declared this week that the industry is facing "utter crisis". The situation is being likened to the Dark Ages. The old empires have fallen and a prolonged period of uncertainty looms. How did telecoms companies get into such a hole, and how can they climb out of it?

Fallacious foundations

Now that the crash has happened, there is no shortage of theories to explain it. The simple one is that too many firms got caught up in Internet mania, assumed astronomic rates of traffic growth and, egged on by bullish investors, started building networks to carry that traffic. The trouble is, this construction boom was founded on a number of fallacies.

The first, says Allan Tumolillo, an analyst at Probe Research and a long-time telecoms sceptic, was the old saw of "build it and they will come". Alas, they did build it—but they did not come. Since 1997, Internet traffic has roughly doubled every year. But much of the industry was betting on it doubling every 100 days (see box on next page). This mythical growth rate was then expected to apply to all forms of telecoms traffic. And what better way to prepare for the coming deluge than to lay vast amounts of fibre-optic cable?

This was a big mistake. Between 1998 and 2001, says Andrew Odlyzko, a researcher at the University of Minnesota, the amount of fibre in the ground increased fivefold. Meanwhile, advances in the technology of feeding signals into fibres at one end and extracting them at the other increased the transmission capacity of each strand of fibre 100-fold. So total transmission capacity increased 500-fold. But over the same period, demand merely quadrupled.

To be fair, when digging up the ground and laying fibre, it makes sense to lay far more than is currently needed. If you are laying 24 strands, you may as well lay 240. The problem was not that individual firms laid too much fibre, but that there were so many firms building almost identical networks. In the United States, more than a dozen national fibre backbones were constructed; a similar duplication happened in Western Europe.

The second destructive fallacy, says Mr Tumolillo, was the almost ritual invocation of Metcalfe's Law, a finding from computer science which states that the number of possible cross-connections (and hence the usefulness of a network) is proportional to the square of the number of nodes or users. This was used to justify the building of enormous pan-European or

▸▸

global networks, on the basis that bigger is exponentially better. But the real world is more complicated than computer science, notes Mr Tumolillo. When two American telecoms firms, SBC and Ameritech, merged in 1999, the combined firms' network became larger, but the value of the merged firm still fell.

A third myth is the notion of "Internet time", which Mr Odlyzko defines as "the perception that product development and consumer acceptance were now occurring in a fraction of the traditional time." He does not dispute that the Internet is a significant advance in communications technology, and he admits that 100% annual growth in traffic is not to be sniffed at. But, he says, new technologies take many years to diffuse, and the Internet is no exception. Telecoms firms, however, were betting on an overnight transformation that would translate into a sudden leap in demand.

As upstart firms splurged on vast infrastructure investments, the incumbents followed suit. The former national monopolies in Europe, AT&T in America and NTT in Japan all tried to transform themselves into global operators. They built new networks and bought stakes in foreign operators. European companies gambled that the supposed surge in demand for fixed communications capacity would be followed by a similar leap in demand for mobile capacity, and they paid over €100 billion ($90 billion) for licences to run "third-generation" (3G) mobile networks. In the process, they ran up huge debts.

When it became clear that the industry had bet on an increase in demand that was not likely to materialise in the near future, ferocious competition and frantic price-cutting ensued. Equipment vendors' sales dried up. And some firms resorted to fiddling to conceal the lack of revenue.

After the party

The industry's hangover has two components: overcapacity and debt. If it is to recover, it must tackle these two closely intertwined problems. When an operator goes bankrupt, its capacity does not go away. Instead, the new owner (or the original owner, operating under bankruptcy protection) can run the network far more cheaply, having been freed from much of the need to service the debts incurred in building it. The result is a domino effect: prices fall, driving other tottering operators into bankruptcy. If WorldCom fails to reach agreement with its creditors over its $32 billion of debt and seeks the protection of Chapter 11, it may well drag other firms with it.

By contrast, former national monopolies (such as France Telecom and Deutsche Telekom) can be sure that their governments will stand behind them. It is inconceivable that either would be allowed to fail. But they still have to do something about their debts: France Telecom owes €60 billion; Deutsche Telekom almost €70 billion. Both will have to sell assets, retrench in their home base, and raise new money from the capital markets.

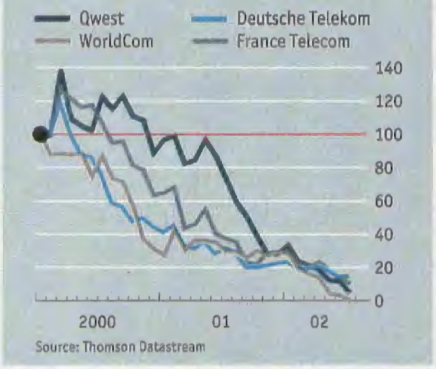
Of Europe's former national monopolies, British Telecom has led the way in pursuing this kind of debt-reduction strategy. By spinning off O2, its wireless arm, selling minority stakes in overseas operators and launching a rights issue, it has reduced its debts from around £30 billion ($47 billion) to less than £14 billion over the past 18 months. It has also replaced its senior management team—a step that other telecoms firms will want to take to restore investor confidence. For this is the industry's greatest challenge. Only when confidence has been restored, balance sheets are cleaned up and new management put in place can the next phase of the revival begin: a massive round of consolidation. Given the current fragile state of stockmarkets, this is still some way off.

Widespread consolidation seems likely to happen first in mobile telecoms. A shake-out in America's fragmented wireless market is long overdue and will probably centre around the sale of VoiceStream, the country's sixth-largest mobile operator, which Deutsche Telekom bought last year for €33 billion. In Europe, Vodafone is expected to buy SFR, a French mobile operator, from Vivendi, a struggling conglomer-

▸▸

Lines down 1

Share prices, January 1st 2000=100, $ terms



Source: Thomson Datastream

Internet traffic

The power of WorldCom's puff

Exaggerated figures for Internet traffic inflated the telecoms bubble

IT WAS an essential ingredient of dot-com business plans and conference slide-shows: Internet traffic, went the industry's favourite statistic, doubles every 100 days. The claim assumed unimpeachable status when it appeared in a report published by America's Department of Commerce in April 1998. Unfortunately for the telecoms firms that rushed to build networks to carry the reported surge in traffic, it wasn't true.

So where did the claim come from? According to Andrew Odlyzko, a former researcher at AT&T who is now at the University of Minnesota, the short answer is WorldCom. Every time that Mr Odlyzko tried to trace the claim to its source, he says, he was always "pointed at folks from WorldCom", typically Bernie Ebbers, its recently departed chief executive, or John Sidgmore, his replacement. The claim in the Department of Commerce's report, for example, is attributed to UUNET, WorldCom's Internet subsidiary. As the world's largest carrier of Internet traffic, UUNET was assumed to know the numbers.

To be fair, says Mr Odlyzko, Internet traffic did grow this quickly in 1995 and 1996, when the Internet first went mainstream. But since then, he estimates, annual growth has settled down at around 70-150%, a far cry from the 700-1,500% trumpeted by WorldCom. The myth of 100-day doubling, however, refused to die. In a press release from 1997 WorldCom referred to traffic "almost doubling every quarter". At a conference in 1998, Mr Sidgmore's presentation included graphs that referred to 1,000% annual growth. In fact, he was referring to the growth of network capacity, not network traffic. But it was widely assumed that traffic was growing just as fast. WorldCom executives made similar claims in interviews published in 2000.

Rival telecoms companies believed the myth and cited UUNET's figures, even if their own traffic figures disagreed. That just meant their salesmen were not selling capacity fast enough. Mr Odlyzko recalls meetings at AT&T where his claims that growth was actually far slower were dismissed. Instead, he was told, "we just have to try harder to match those growth rates and catch up with WorldCom." Companies such as Global Crossing and Qwest soon resorted to "hollow swaps" and other dubious tricks to boost sales and traffic figures. Meanwhile, shares in Internet companies soared, and the telecoms industry engaged in an orgy of network construction in preparation for a deluge that never came. WorldCom executives, says Mr Odlyzko, are thus "more responsible for inflating the Internet bubble than anyone."

ate. (Vodafone paid for acquisitions during the boom with its own shares, so it is relatively low in debts.) And O2 looks like an acquisition target, with its most likely partners being Spain's Telefonica Moviles or Italy's TIM.

The bigger question is what will happen to America's struggling backbone operators, such as WorldCom, Qwest and Level 3. One of these might absorb its weaker rivals and emerge victorious. But how would it pay for such a consolidation? Last week, a group of investors including Warren Buffett of Berkshire Hathaway, a long-time telecoms sceptic, invested $500m in Level 3, which will use the money to fund acquisitions. This was taken by some as a sign that the consolidation game had begun. But $100m will not buy much, even in today's markets. "This is not a sign of the market turning," says Morgan Stanley's Alok Sama.

The last left standing

Another possibility, which inched closer this week, is that one of America's Baby Bells—Verizon, SBC and Bell South, which operate local-phone networks—might be allowed to buy WorldCom. The FCC's Mr Powell has signalled that he would consider allowing such a deal, even though antitrust barriers at present stop the Baby Bells from fully entering the long-distance market. He told the *Wall Street Journal* that the antitrust implications of relaxing this rule would have to be balanced against the potential disruption that would ensue if WorldCom were forced to shut down.

Amid the turmoil, the local operators—the Baby Bells in America, and the former national monopolies in Europe—are now seen as relatively safe havens. They own the "last mile" of the network that runs into homes and offices, and this local monopoly gives them a firm grip on their customers and solid revenues. SBC makes much of its stability: on its website the firm declares that it is "prepared to accommodate new customers looking for dependable, reliable voice and data services during the current uncertainty in the telecommunications industry."

The local operators are certain to be among the last left standing. And even with assets selling at knock-down prices, they are currently the only buyers. If the upstarts are taken over by the local operators (or just vanish), the telecoms industry could end up looking much as it did before the liberalisation of the 1990s.

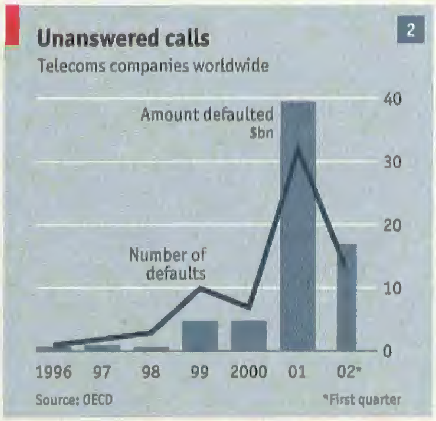
In both Europe and America, the local operators have close ties with wireless firms, and are doing their best to establish new monopolies in broadband Internet access. Admittedly, they face competition in this area from cable companies. But it looks increasingly likely that, from the current turmoil, the local operators will emerge in the industry's driving seat. This poses a challenge for regulators. The local operators will argue for a lighter regulatory touch, given the industry's crisis. But a concentration of power in the hands of fewer companies implies a need for stronger, not lighter, regulation.

This month a consortium of European telecoms firms, all of which compete with former monopoly incumbents, complained to the EU's competition commission that the incumbents are engaged in "methodological anti-competitive behaviour" by refusing to open up their local networks to competitors. Mario Monti, the EU's competition commissioner, who is already investigating France Telecom and Deutsche Telekom for discriminating against would-be competitors, said he might soon launch further investigations. It has long been clear that the incumbents' unspoken strategy is to be as obstructive as possible in opening up the local network to competitors, in the hope that these rivals all go bust before the incumbents are forced to let them in.

What will pick the telecoms industry up off the floor? Eventually, the problem of overcapacity will be overcome and supply and demand will be brought back into line. But only then will equipment sales start to pick up. The few analysts prepared to speculate about when this might happen talk vaguely about 2004.

Unanswered calls 2

Telecoms companies worldwide



Source: OECD

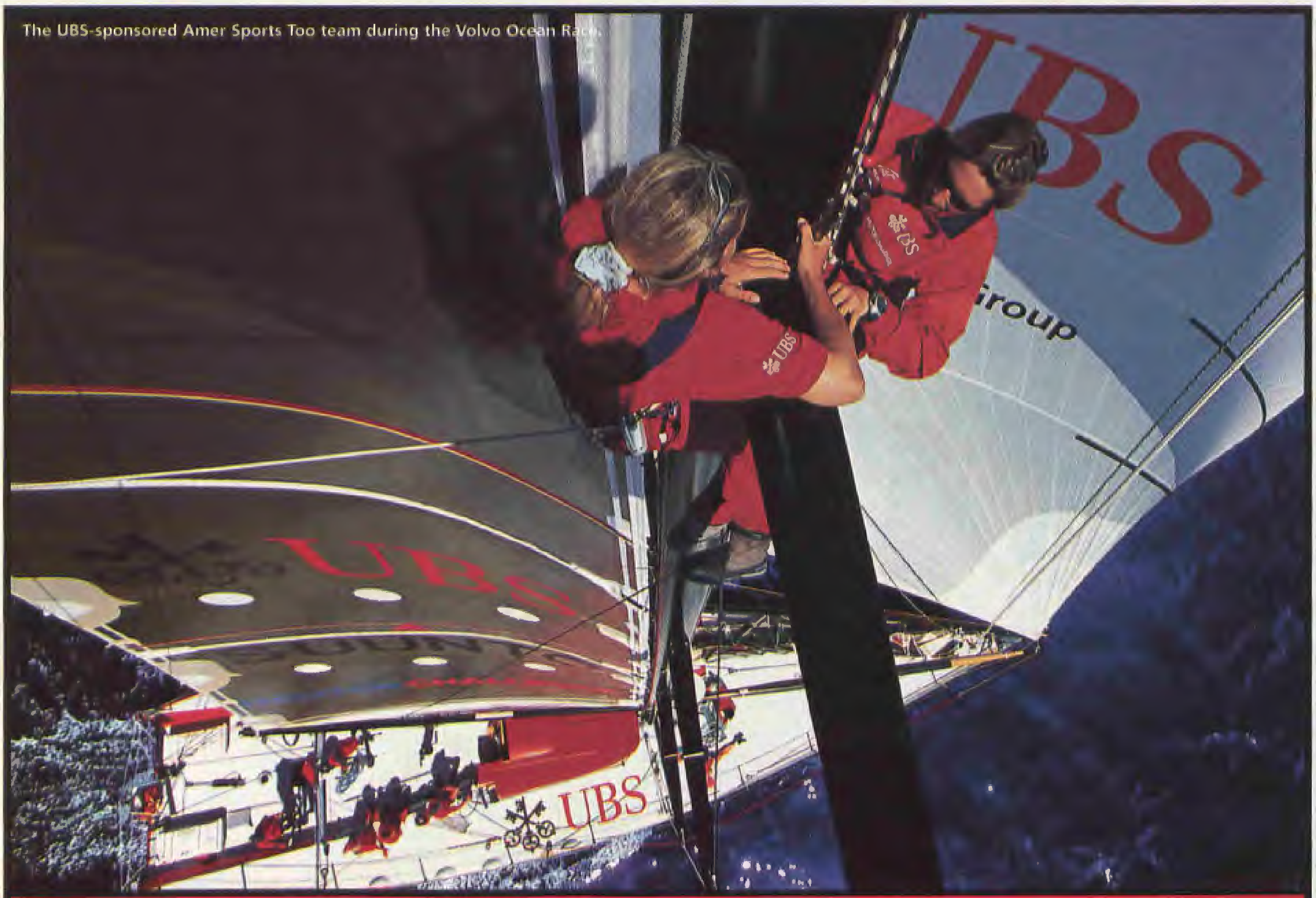
*First quarter

There is no shortage of traffic growth. Internet traffic is (reliably) said to be doubling every year, and voice traffic on both fixed and mobile networks is rising. But as the industry has found to its cost, traffic growth does not translate into revenue growth. Moreover, in the rich world at least, markets are saturated. So new revenue cannot come from new subscribers either, which is what has recently fuelled the mobile-phone industry. Instead, it will have to come from new services for which customers are prepared to pay.

What might such services be? On fixed networks, operators are betting on network-management services for large firms and broadband connections for consumers. Telecoms operators, says Henry Elkington of the Boston Consulting Group, find themselves in a similar position to America's transcontinental railways in the 19th century. Having built high-capacity networks, they need to find new ways to drum up valuable new forms of traffic. The railway firms sold land and transported immigrants in order to generate freight traffic. The incumbent telecoms operators are not renowned for their ability to deliver innovative new services. "The challenge is to move from a single-product utility to selling 100 different applications," says Mr Elkington.

The mobile industry faces the same challenge. The idea behind 3G was that new data services, delivered to whizzy phones with colour screens, would provide new revenue for operators, to compensate for falling revenue from voice calls. But nobody knows what kind of services consumers really want. The current best bet, based on the runaway popularity of text messaging (which now accounts for 14% of European operators' revenues) is that consumers will pay extra to zap photos between camera-equipped phones, a service that is already popular in Japan. After that, the industry has high hopes that customers will fork out to play electronic games with each other while on the move.

But the lesson of the past few years is that the industry is notoriously bad at gauging demand for its services. The two most successful new telecommunications technologies of the past decade—Internet access on fixed networks, and text messaging on mobile networks—were both unexpected breakthroughs that emerged in spite of, rather than because of, the industry's best efforts. So, once the smoke has cleared and the dust settled, expect the telecoms revival to come riding on the back of an unexpected technology that nobody in the industry has yet heard of. ■



Paths of Learning

Life and death in the consumer electronics and computer industries

by WALTER A. FRIEDMAN

It is a testament to his energy, vitality, and ambition that, in the ninth decade of his life, the business school's Alfred Chandler '40, Ph.D. '52, LL.D. '95, Straus professor of business history emeritus, has written two new books. The volumes comprise a series entitled Paths of Learning: The Evolution of High Technology Industries. The first, published in 2001, covers the evolution of the consumer electronics and computer industries. The second, to be published later this year, analyzes the chemical and pharmaceutical industries. Together, the two books explore the institutional and organizational infrastructure of what Chandler calls the "Industrial Century" (the twentieth) and the "Electronic Century" (the twenty-first).

In the book on consumer electronics and computers, Chandler continues his grand analysis of business history. His earlier writings described almost the entire chronological span of American business, from the mining of anthracite coal at the origins of the industrial revolution, to the growth of railroads, to the rise of multiunit corporations. His Pulitzer Prize-winning book, *The Visible Hand: The Managerial Revolution in American Business*, published a quarter-century ago, remains the most influential work on the history of American business ever written. In it, Chandler explored the evolution of modern business organization and methods of management at the nation's largest firms.

Inventing the Electronic Century: The Epic Story of the Consumer Electronics and Computer Industries, by Alfred D. Chandler Jr. (The Free Press, $35.)

Unlike previous historians who had written about the rise of big business, Chandler did not focus on the personalities of the robber barons, nor on social and economic contexts. Rather, he described the internal workings of the businesses themselves. In particular, he analyzed the different ways in which business organizations came to control the flow of resources through the firm, from raw materials to the delivery of finished products—a process that, he argued, had become controlled in many industries by the "visible hand" of management, rather than by the impersonal marketplace of Adam Smith's "invisible hand." Also, unlike prior historians of business, Chandler offered a sociological perspective acquired through his reading of the works of Max Weber and through his years studying at Harvard under Talcott Parsons, a great scholar best remembered for his structural-functional approach to sociology.

This sociological influence is also evident in the titles of two of Chandler's other well-known books. In *Strategy and Structure: Chapters in the History of American Industrial Enterprise* (1962), he presented a detailed study of four large American companies—DuPont, General Motors, Standard Oil, and Sears, Roebuck—and their early development of the multidivisional organizational structure, one of the most im-

Photomontage by Stuart Bradford

Ancient Shores, Azure Seas aboard *Callisto*.

Sail along the southern coast of Turkey aboard *Callisto* and see some of the world's most dramatically situated sites from antiquity. Begin with two nights in Istanbul, then call at Antalya for visits to three of Turkey's most famous ancient sites: Perge, Aspendos, and Side. Sail through Kekova Bay, then visit the charming Greek Islands of Kastellorizo, Symi, and Kalymnos in the Dodecanese. End with two nights in Kusadasi for a visit to Ephesus. Lectures by Jane Ayer Scott.
OCTOBER 25 – NOVEMBER 4.

New Zealand by Private Air.

The heart of this program is the fully restored Douglas DC-3 that transports us across the length and breadth of New Zealand. Reconfigured to accommodate no more than 27 passengers, the plane is capable of flying at low altitudes at a speed of 150 m.p.h., allowing for close-up views of the landscape. The itinerary—from Christchurch to Queenstown, Milford Sound, Wellington, Rotorua, Bay Islands, and Auckland—includes landings at out-of-the-way places accessible only to this unique aircraft. Hosted by Jack Reardon.
NOVEMBER 3 – 14.

Jungle Rivers and Island Paradises aboard *Sun Bay II*.

Embark the ship in Barbados and sail south, calling at St. Lucia, Dominica, and Tobago Cays before entering the Orinoco River. Four days on the Orinoco include a flight to Angel Falls. The program ends with two days in Trinidad.
NOVEMBER 18 – 27.

Costa Rica and the Panama Canal aboard *Yorktown Clipper*.

Overnight in San José before embarking *Yorktown Clipper* in Puerto Caldera. Visit the Curu Wildlife Refuge and Marenco Biological Station before cruising Panama's Pacific coast. Explore the Darien Jungle in small boats, and visit a village inhabited by the Choco Indians. Back on *Yorktown Clipper*, transit the Panama Canal, and disembark in Colón for Panama City and your flight home. Lectures by Otto Solbrig.
NOVEMBER 26 – DECEMBER 6.

Rivers of West Africa aboard *Sun Bay I*.

Begin with two days in Dakar, Senegal, then embark *Sun Bay I* for a cruise on the Saloum, Gambia, and Casamance Rivers. Highlights include Kiang West National Park in The Gambia and Saloum Delta National Park. Optional extension to Mali and Timbuktu. Lectures by John Hope Franklin.
NOVEMBER 30 – DECEMBER 11.

Natural and Cultural History of the Yucatán: A Family Learning Adventure.

An opportunity for the entire family to explore the cultural and natural history of the Yucatán Peninsula over the winter holiday. Spend eight days cruising aboard *Sun Bay II* and exploring Maya sites including Cozumel, Chichén Itzá, Uxmal, and Palenque. There will also be time for snorkeling and learning about the sea and life beneath its surface. Lectures by Robert Woollacott.
DECEMBER 27, 2002 – JANUARY 3, 2003.

The Valley of Oaxaca: A Family Learning Adventure.

The broad Valley of Oaxaca in southern Mexico offers a combination of pre-Columbian sites, an intact Spanish colonial city, and a vibrant present-day society rich in arts and culture. From our base in the city, we will take excursions to the Zapotec sites at Monte Albán and Mitla and to the village artisans in San Bartolo, Coyotopec, and San Martín Tilcajete. A highlight of the program will be joining the Oaxaqueos in their New Year's celebration traditions. Lectures by Evon Vogt.
DECEMBER 28, 2002 – JANUARY 4, 2003.

The Circumnavigation of Africa aboard *Sun Bay I*.

This is a truly epic voyage of 70 days, encompassing the entire African continent. This excursion takes us to some of the most fascinating places on earth, from Marrakech to Mombasa, from Agadir to Zanzibar. Lecturers include Peter Matthiessen, Ambassador David Rawson, and James L. Woods. The program is also available in shorter segments.
JANUARY 3 – MARCH 16.

Exploring the Yachtsman's Caribbean aboard *Yorktown Clipper*.

We return in 2003 to one of our most popular winter programs—a leisurely cruise through the Virgin Islands, including St. Thomas, Jost Van Dyke, Tortola, Virgin Gorda, Salt Island, Norman Island, and St. John. Lectures by Karel Liem.
JANUARY 18 – 25.

Mysteries of the Maya: Exploring the Yucatán and Central America aboard *Sun Bay II*.

This itinerary combines Maya sites on the Yucatán Peninsula—including Chichén Itzá, Uxmal, and Palenque—with sites in Honduras and Guatemala—particularly Copán and Tikal. In addition, we explore the Barrier Reef of Belize. All in all, the program offers a wonderful introduction to the cultural and natural history of Central America. Lectures by Christopher Jones.
JANUARY 24 – FEBRUARY 7.

Antebellum South aboard *Nantucket Clipper*.

Embark the ship in Jacksonville and sail along the Intracoastal Waterway. Call at St. Marys and enjoy a day-long excursion to Cumberland Island. Continue with calls at Jekyll and St. Simon's Islands, then cruise to Savannah, where *Nantucket Clipper* docks within easy walking distance of the city's elegant squares. Continue with a call at Beaufort on the way to Charleston, where you will also disembark for the flight home. Lectures by William E. Gienapp.
MARCH 8 – 15.

Coexistence of Cultures and Faiths aboard *Sun Bay I*.

This program examines the history of relations among Christianity, Islam, and Judaism in the Maghreb and Andalus. Begin with three nights in Seville, then embark the ship and sail for Marrakech, Casablanca, Fez, and Tangier in Morocco before returning to Spain for visits to Granada and Cadiz. Disembark in Seville. Lectures by Karen Armstrong.
MARCH 12 – 23.

The World of the Minoans.

This program, aboard the 34-passenger *Callisto*, explores Europe's first civilization on a journey that circumnavigates the island of Crete and includes a day on Santorini. Highlights of the program include the Palace of Knossos, the museum in Heraklion, the Palace of Mallia, and the archaeological site at Akrotiri, preserved by a volcanic eruption, much like Pompeii and Herculaneum.
MARCH 18 – 29.

Mississippi aboard *Delta Queen*.

The return of a favorite itinerary of Harvard travelers. Begin in Memphis and end in New Orleans. Visit Shiloh before embarking the legendary *Delta Queen* and calling at Helena, Vicksburg, Natchez, St. Francisville, and Baton Rouge. Disembark in New Orleans for a two-night stay.
APRIL 2 – 11.

Historic Cities of the Sea aboard *Sun Bay I*.

This program recreates the grand Mediterranean voyage. Beginning in Seville, we sail down the Guadalquivir and through the Straits of Gibraltar, along the coasts of Spain and France, to Corsica and on to Italy, then through the Adriatic to Venice. Calls along the way include Granada, Barcelona, Marseilles (for Arles and Les Baux), Naples (Pompeii), Salerno (Paestum and Amalfi), Dubrovnik, and Urbino.
APRIL 5 – 19.

For more information, visit the travel study website at **www.haa.harvard.edu** or if you'd like a question answered you can email us at **travelstudy@harvard.edu** or call us at **1-800-422-1636.**

Correspondence can be directed to
Travel Study Programs
Harvard Alumni Association
124 Mount Auburn, 6th Floor
Cambridge, MA 02138

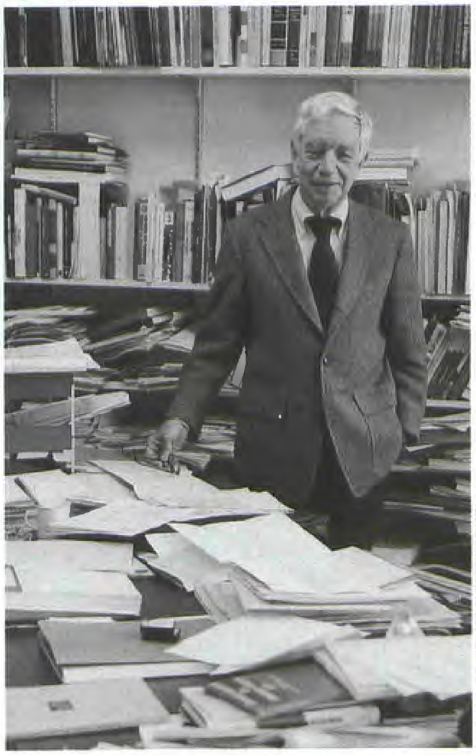
portant corporate innovations of the twentieth century. In *Scale and Scope: The Dynamics of Industrial Capitalism* (1990), he extended his analysis of modern business enterprise from the American to the British and German business systems.

An interest in the internal dynamics of large firms, a sociological perspective that emphasizes business organization and strategy, and a reliance on meticulous empirical research are the hallmarks of Chandler's work. It would be hard to overestimate his influence on the field of business history worldwide. As historian Richard John ['81, Ph.D. '89, now at the University of Illinois at Chicago] has noted: "Perhaps the best barometer of the magnitude of Chandler's achievement has been the extent to which the tag phrase 'Chandlerian' has joined Marxian, Weberian, and Schumpeterian as a convenient shorthand for an entire tradition of scholarship."

ACCORDING TO CHANDLER, the consumer electronics and computer industries will form the basis for the Electronic Century. By the dawn of the twenty-first century, he writes, the American consumer electronics industry had collapsed, while Sony, Sanyo, Matsushita, Sharp, and other Japanese manufacturers had become global leaders—making videocassette recorders, compact-disk players, DVDs, radios, and televisions. American manufacturers still dominate the computer industry, with IBM, Microsoft, Intel, and other firms. But Japanese companies such as Fujitsu, NEC, and Hitachi compete in certain markets for mainframes, and NEC and Toshiba for servers. In Europe, meanwhile, no manufacturer has the ability to bring new products to market in either industry.

Things were not always this way. The consumer electronics industry began in the United States and Europe with the commercializing of radio by RCA and the German company Telefunken. RCA dominated consumer electronics from the 1920s to the 1960s, especially in research and development. It pioneered in black-and-white television during the 1940s and color TV during the 1950s and early 1960s. But in the late 1960s and early 1970s, its supremacy was challenged by Matsushita and Sony, and by the Dutch company Philips—which all had significant research and production facilities. All three, unlike RCA, began to market their products globally. Between 1975 and 1985, the Japanese consumer electronics manufacturers came to dominate the industry.

According to Chandler, the key battle that led to the Japanese firms' supremacy concerned the development and marketing of video home-recording systems. RCA, which by the early 1970s had become a bloated conglomerate after acquiring a variety of unrelated companies (including Random House, Hertz Rent-a-Car, and even Coronet carpets!), pursued videodisk technology. Meanwhile, Japanese manufacturers maintained their focus on videotape. Matsushita and allies also pioneered VHS, which became the industry standard. Matsushita ensured its place as the industry leader in part through a smart marketing decision: the company operated as an original equipment manufacturer (OEM), selling its product to other companies, which could brand and distribute the product under their own names. Japanese exports of VCRs rose from 973,000 units in 1978 to 15.2 million in 1983. Sales grew even faster after the rise of video rental stores. In 1984, RCA shut down its videodisk project; it had sold only 550,000 units, at a loss of more than $500 million.


COURTESY OF HARVARD BUSINESS SCHOOL

Alfred Chandler has pioneered modern historical research on business strategy and organization.

Although Sony, which had tried to market its Betamax video system, was also a loser in the VCR competition, its research helped it to pioneer in the development of the next technology to take off in consumer electronics: the compact disk (CD). Sony introduced audio CDs in 1982; by 1985 the sales of CD players in the United States exceeded one million units. Sony also led the way in producing the compact disk read-only memory (CD-ROM), which provided the computer with audio and video capabilities as well as storage for written text, and—importantly—the digital videodisk (DVD). The main European firm in this market, Philips, had been Sony's partner in many of these projects, but lost its leadership after a heavy investment in a product called CD-interactive, which never took off. By the late 1990s, only Japanese firms had the capacity to bring such products to market. The U.S. consumer electronics industry was dead.

The computer industry's dynamics, by contrast, differed from those of consumer electronics. According to Chandler, a single firm—IBM—dominated computers from the 1950s to the 1990s. It practically created the commercial computer industry during the 1950s, when it applied electronics to its long-successful punch-card machine technology. The company truly separated itself from competitors with the introduction, during the 1960s, of its System 360 computer, a line of compatible machines that represented a great technological advancement. Named for the number of degrees in a full circle, System 360 computers could be linked together and to a series of peripheral devices and could perform broad ranges of tasks, including scientific and business applications.

To build System 360, IBM exerted tremendous effort, literally betting its own future on the project by investing a staggering $5 billion and hiring tens of thousands of new employees. The company's revenues soared after the system's introduction in 1967: in 1963, its data-processing revenues had been $1.2 billion; by 1973, they had grown to $8.7 billion. IBM also came to dominate the personal-computer market after the introduction of its PC in 1981, but its leadership soon began to wane. The industry's most profitable players became two other American compa-

OFF THE SHELF

Recent books with a Harvard accent

Above: Evil wolf in bed with innocent maiden, from Charles Perrault's 1697 version of the story. But what might a Freudian say about that enormous snout and Red's subliminal desires? Left: The wolf enjoys his submissive side on this adult postcard. Both illustrations are from the book.

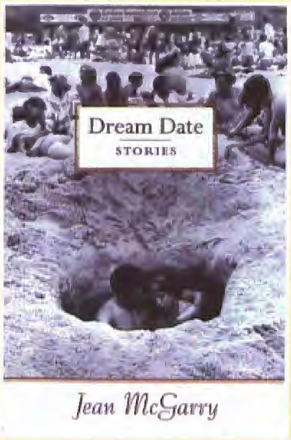
Little Red Riding Hood Uncloaked: Sex, Morality and the Evolution of a Fairy Tale, by Catherine Orenstein '90 (Basic Books, $25). Much we need to know about men, women, and the shiftiness of morality is taught in the 10 tellings of the famous fairy tale presented here and in commentary by the author—a folklorist, contemporary culture critic, and freelance writer. While exploring some of Little Red Riding Hood's multitude of reincarnations—"not in search of universal truths, but...as evidence of how human truths change"—Orenstein cloaks her scholarship in the most appealing prose. The book began as her senior honors thesis.

This Side of Doctoring: Reflections from Women in Medicine, edited by Eliza Lo Chin, M.D. '93 (Sage Publications, $29.95). Chin organizes her collection of more than 160 essays, anecdotes, poems, and quotations into categories such as internship and residency, mothering and doctoring, and barriers confronting women in medicine. Do not be misled by the treacly book jacket full of pink tulips.

A Call to Heroism: Renewing the American Vision of Greatness, by Peter H. Gibbon '64, with a foreword by Peter J. Gomes, B.D. '68 (Atlantic Monthly Press, $24). For 30 years a teacher and educational administrator, now a research associate at the School of Education, Gibbon has traveled widely in recent years speaking to young people about what it means to be a hero. He thinks we need to get a fresh grip on the concept to bolster our ideals as we brace ourselves for challenges to come.

When Every Moment Counts: What You Need to Know about Bioterrorism from the Senate's Only Doctor, by Bill Frist '78, M.D. (Rowman & Littlefield, $14.95, paper). "An understanding of some of the basics on how to prepare for, and respond to, the use of microbes as weapons goes a long way to reduce anxiety and minimize any chance of paralysis in our lives," Senator Frist (R-Tenn.) advises. "In the war against bioterrorism, information is power."

Dream Date, by Jean McGarry '70 (Johns Hopkins University Press, $16.95, paper). The author teaches writing at Hopkins. In this fifth collection of short stories, she tinges with surrealism her inventive and often droll accounts of encounters between women and men.



Driven: How Human Nature Shapes Our Choices, by Paul R. Lawrence, IA '43, M.B.A. '47, D.C.S. '50, Donham professor of organizational behavior emeritus, and Nitin Nohria, Chapman professor of business administration (Jossey-Bass, $28). We act in response to conscious choices, the authors say, but the choices are fired by four subconscious drives: to acquire, to bond, to learn, and to defend. The book, says jacket-blurb commentator Terry Burnham, author of *Mean Genes*, is "sure to change the way we view the bipedal ape in the corner office."

Rebels with Applause: Broadway's Groundbreaking Musicals, by Scott Miller '86 (Heinemann, $18.95, paper). The artistic director of New Line Theatre in St. Louis explicates 10 greats, from *The Cradle Will Rock* (1937) to *Hair* (1967) and *Rent* (1996).

Partners, Not Rivals: Privatization and the Public Good, by Martha Minow, Ed.M. '76, professor of law (Beacon Press, $25). Companies out to make a dollar are now running schools, prisons, hospitals. Market forces *can* improve public services, Minow argues, but the arrangements—the partnerships—need to be structured properly so that important public values survive.

Maximum Danger: Kennedy, the Missiles, and the Crisis of American Confidence, by Robert Weisbrot, Ph.D. '80 (Ivan R. Dee, $27.50). The way President John F. Kennedy '40, LL.D. '56, handled the Cuban missile crisis, writes the myth-debunking Weisbrot, the Johnson distinguished teaching professor of history at Colby College, was "a mainstream profile in caution..."

The Essays of Henry David Thoreau, selected and edited by Lewis Hyde (North Point Press; $35, cloth; $15, paper). The Thomas professor of creative writing at Kenyon College offers an annotated collection of 13 of the best short prose pieces by Thoreau, A.B. 1837. (See also "Open Book," page 26.)

nies, Microsoft (which made the operating system for most personal computers, including IBM's) and Intel (which made the microprocessors). As Chandler summarizes it: in the case of large computer systems, the most successful IBM competitors were those enterprises that followed its lead, producing and selling IBM-designed "plug-compatible" hardware. In the case of personal computers, the chief competitors made and sold IBM "clones."

Comparing the actions of the leading U.S. firms in the consumer electronics and computer industries, Chandler writes: "[T]he contrast between the roles of [RCA and IBM] could hardly be more dramatic. Where the decisions of RCA's executives led to the destruction of the U.S. consumer electronics industry, those of IBM's managers continued to define the evolution of not only the U.S., but also the European and Japanese computer industries."

But, as Chandler sees it, Japanese manufacturers are now poised to compete aggressively in computers *and* to continue their dominance of consumer electronics products. He notes that in the mid 1990s Japanese manufacturers Fujitsu, NEC, and Hitachi ranked second, third, and fourth in revenues in large-scale computers (behind IBM). In servers, NEC and Toshiba were fourth and fifth in total revenues (behind the U.S. leaders). One of the advantages Japanese manufacturers have is that they work in a strong "supporting nexus" of suppliers, who manufacture a wide range of electronic equipment and peripherals. All of these firms are in close proximity to one another, unlike similar American companies, which are spread across the continent. Chandler argues that the Japanese manufacturers are able to produce and market both consumer electronics and information technology products, giving them greater range and flexibility than their American rivals.

Some will contest these conclusions, especially with regard to the computer industry, in which entrepreneurial start-ups have quickly risen to challenge older and larger concerns. Moreover, since the early 1990s, Japan has suffered a recession that has hurt manufacturers' home sales and local capital markets. Such is the problem for historians when they write about recent events.

CHANDLER'S NEW BOOK bears the characteristics of his earlier writings. It describes the history of large firms and is comparative in nature, analyzing the differences between two industries. He focuses on explaining the sources of competitive advantage and the internal workings of firms, asking how they researched, developed, and manufactured their products, rather than how they coped with external factors such as the regulatory policies of their home countries. His story is not one of heroic entrepreneurs, but rather of the companies' ability to commercialize products made, essentially, from four items: the vacuum tube, the transistor, the inte-

CHAPTER & VERSE

A correspondence corner for not-so-famous lost words

Robert Boardman seeks a source for the assertion that, if political and military leaders are from different backgrounds, "the armies will be led by idiots and the politics ruled by cowards."

Herb McArthur is looking for a poem that began "When In Remembrance of Things Past/I take down my copy of that novel vast" and ended "...Proust/And back upon the shelf I him do boost."

"only the strong survive" (September-October 2001). No one has provided a source for the rhymed English translation submitted to this column, but Francke professor of German art and culture Karl S. Guthke identified the original poem as Bertolt Brecht's "Ich, der Überlebende" ("I, the Survivor," in *Gesammelte Werke in 20 Bänden*, volume 10, page 882). Marje Schuetze-Coburn of the Feuchtwanger Memorial Library, Los Angeles, sent an unrhymed translation by John Willett (in *Bertolt Brecht Poems 1913-1956*, edited by Willett and Ralph Manheim with the cooperation of Erich Fried, second edition, page 392).

Send inquiries and answers to "Chapter and Verse," Harvard Magazine, 7 Ware Street, Cambridge 02138.

grated circuit, and the microprocessor.

But Chandler breaks new ground with *Inventing the Electronic Century* in his emphasis on what he calls "paths of learning" as a source of competitive strength. A firm's learned organizational capabilities, he argues, have several essential parts: technological capabilities, functional knowledge (the ability to develop, produce, and market products), and managerial skills. In his analysis of the consumer electronics industry, Chandler praises Matsushita's functional capabilities in marketing its videocassette recorders as an original equipment manufacturer, and Sony's technical capabilities in researching compact-disk technology. Together these capabilities form an "integrated learning base." The first firms to build such a base in high-technology areas and to commercialize new products create significant barriers to entry for would-be competitors.

By focusing on "learned organizational capabilities," Chandler expands his discussion beyond a few core firms, describing the ways that industrial leaders shape the agenda for a "nexus" of suppliers: the range of supporting firms that complement, rather than compete, with the industrial leaders. "First movers, of course, cannot create an industry by themselves," Chandler writes. "They have to develop close relationships with supporting enterprises—with suppliers of both capital equipment and materials to be processed, with research specialists, distributors, advertisers, and providers of financial, technical, and other services."

The emphasis on learning also gives the book a philosophical turn. Chandler compares industrial battles to classic Greek dramas—battles in which IBM followed a "virtuous path" by trusting its organizational capabilities, while RCA was lured to disaster by sirens after entering into product areas it did not understand. The ability of industries to remain vital, and not to die or disappear, depends on the capacity of leading firms to renew and enhance their technical and functional abilities. Here the firm, as a repository of knowledge, is engaged in an essentially creative process, not entirely unlike that of scholarship—the best of which, like Chandler's, opens up new and challenging areas of inquiry. ▽

Walter A. Friedman is coeditor of Business History Review *(www.hbs.edu/bhr), a quarterly published by Harvard Business School.*

OPEN BOOK

What's All This About Boodh?

When we think of Henry David Thoreau, A.B. 1837, we conjure up a literary stylist, a close observer of nature, a political oppositionist, and a counselor who advised us not to live our lives like serfs. Alan D. Hodder '73, M.T.S. '81, Ph.D. '86, associate professor of comparative literature at Hampshire College, gives us in *Thoreau's Ecstatic Witness* (Yale University Press, $35) the first in-depth study of the man's religious thought. Here's a passage about *A Week on the Concord and Merrimack Rivers* (1849). Thoreau's first book is both an adventure story about a boat trip to the White Mountains and back with his brother and a sustained rumination on the author's Transcendentalist religious ideology. Some of that didn't go over well with readers.

FROM THE STANDPOINT of marketing and sales, *A Week* turned out to be something of a fiasco, a fact hardly mitigated by Thoreau's famously stoic, as well as humorous, avowals of failure. When, four years after its first appearance, he finally acquiesced to his publisher's petitions that he accept the 706 unsold copies piled in the warehouse, he noted wryly in his journal, "I have now a library of nearly nine hundred volumes, over seven hundred of which I wrote myself."... In addition to the commercial disappointment, Thoreau must have found the book's critical reception somewhat disheartening also. Though reviewers generally commended the book's author for his rare glimpses of nature, some notices were also at times carping and critical. Various factors might be cited for this guarded reception—the book's "pantheism," its lack of ostensible structure and mixing of genres, the digressive and ruminating character of its argument—but surely another was its insistent, perhaps zealous, and sometimes saucy Orientalism. Even critics otherwise sympathetically disposed to Transcendentalist eccentricity were clearly put off by Thoreau's seeming sacrilege. To James Russell Lowell, Thoreau's approving recitals of Eastern lore seemed like so many unnecessary digressions: "What...have Concord and Merrimack to do with Boodh?" he sneered....

In promoting the Buddha to the same rank as Christ, in elevating the scriptures of the East alongside those of the West, he was plainly striking a raw nerve. It was not the case of course that liberally educated readers of 1849 were unprepared for objections, in the abstract, to the ascendency of the Christian faith; what they found hard to take, though, was this brazen assault on Christian supremacy by way of a series of irreverent comparisons with various, to them, preposterous Hindu, Buddhist, and Chinese religious forms. As always, Thoreau was stubbornly unrepentant in the publication of his pagan infidelities. When [newspaper editor Horace] Greeley later complained of the stumbling block created by his "defiant Pantheism," Thoreau retorted simply that unfortunate as that might be, it could not be helped, since he "was born to be a pantheist."

Above: A 1900 photograph of White Pond, Concord, Massachusetts, by Herbert W. Gleason, from *The Illustrated Walden* (Princeton University Press, 1973).

The zany, madcap Führer

the advert, says the Hitler segment was intended only as "zany, madcap comedy" (though Jewish groups, war veterans and the German embassy failed to see the joke). Beneath the zaniness, though, this is a classic example of the Führer manoeuvre: Hitler would have liked the euro, it suggests; so you shouldn't.

The pro-euro camp—which contains more statesmen, but fewer comedians—has confidently predicted that the Nazi skit will damage their adversaries, by revealing the past-bound little-Englander motivations of the euro's enemies. But perhaps they are too confident—because the truth is that many British voters are past-bound Hitlerphobes. One anthem of choice for England's football fans at the World Cup was the theme tune to "The Great Escape"—a film about a mass outbreak from a German POW camp. The fans' band played this hymn to resilience amid adversity even when England were winning. Nazism dominates the nation's history lessons and historical television documentaries. Lots of people do think the euro is a German plot to put a monetary, but nonetheless Teutonic roof over Europe.

Both sets of euro-warriors claim to want an honest debate about the single currency. Since the outcome of any referendum will partly depend on the persistence or otherwise of atavistic fear and loathing, in a funny (or not so funny) way, the Fuhrer manoeuvre has identified one of the things they need to discuss. ■

Hotel prices

Chequing in

EAST PORTLEMOUTH, DEVON, AND LONDON

Why are Britain's hotels so expensive?

IN THE aftermath of the foot-and-mouth crisis, Kim Howells quipped that a lot of British hotels "make 'Fawlty Towers' look like a documentary". Not the sort of thing you'd expect to hear from the tourism minister. But he's got a point. Your recently married correspondent, for one, is still reeling from a hotel honeymoon of unforgettable, unutterable awfulness—a stunning exhibition of incompetence on every level, from grubby crockery and dysfunctional plumbing to a service ethos that would have made Basil himself cock an admiring eyebrow.

Such experiences don't come cheap. According to the "Which? Hotel Guide 2002", British hotels are the most expensive in Europe, from the lowliest doss-house up (see chart). The situation is especially bad in London, where a shortage of hotel rooms, coupled with strong demand, keeps prices sky-high. "You can find a good, individual hotel in the middle of Paris for €60 a night," says Patricia Yates, co-editor of the "Which? Hotel Guide", "but I wouldn't like to try to find one at that price in London—or to have to stay there."

The strength of the pound is often blamed. VAT is certainly a factor: at 17.5% it is the second highest in Europe, after Denmark. Elsewhere it hovers between 3% and 10%. But any independent hotelier will tell you that it is above all the cost of property that accounts for the scarcity of well-designed, moderately priced, owner-run hotels in central London.

Would sir like his extortionate bill?

Peter McKay, who co-owns two of the city's finest small hotels—Hazlitt's in Soho and The Gore in Kensington—says the problem starts with finding a suitable building. "You're going to need between 25 and 55 rooms," he says. "In the West End, that means an outlay of £6m-7m on the property alone." After successfully fending off competition from residential and commercial bidders, gaining the necessary planning permission and converting the existing building from top to bottom, all according to strict building regulations, you could easily be looking at a capital investment of £10m ($15m).

High price to bed down

Hotel prices, £ per room per night, 2001

Source: *The Which? Hotel Guide 2002*

"And then," says Mr McKay, "there are the rates." Commercial property rates are calculated according to an arcane formula whose secrets, it seems, are fully understood only by a select few initiates among the bureaucratic brotherhood. Those hoteliers who have the wherewithal to do so regularly challenge their assessment. This can save them hundreds of thousands of pounds—underscoring the apparent arbitrariness of the whole process.

No wonder, then, that most London hotels are run by multinational chains. Continental Europe, by contrast, still has a strong tradition of independent hotels, many of which remain in the same family for generations, and can thus operate with a lot less pressure from bank managers or shareholders.

Mr McKay has nothing against corporation-owned hotels; he just doesn't want to run one himself. A really good hotel, he believes, bears the personal imprimatur of its owner—it should reflect his or her "commitment to the *thing*". Flexibility is the key. "The nearer you are to your customers, the easier it is to be flexible." That can affect every aspect of how you do business—from the overall look and feel of a hotel to its willingness to serve butter on a dish instead of in a packet. Not for Mr McKay the dead hand of chain-hotel sameness. This sentiment is one his Continental counterparts would recognise immediately—*vive la différence*. ■

Bagehot Happy birthday, BT

The government's refusal to let telecoms alone says a lot about its attitude to the private sector

TWENTY years ago this month, Margaret Thatcher's government embarked on what was at that stage its boldest experiment with the announcement that it intended to sell a 51% stake in the state-owned telephone company, British Telecommunications. "Privatisation", as the transfer of public enterprises to private-sector ownership and control became known and a term, Bagehot can brag, invented by Norman Macrae, then deputy editor of this organ, grew into Britain's most successful policy export since parliamentary democracy.

Not that you'd think it from attitudes at home. To start with, the very idea of introducing competition was regarded as perverse by the telecoms establishment. Almost everybody was against it, from MI5, which worried about its ability to keep track of subversives, to the unions, who warned that armies of engineers would face electrocution. But it is the government's attitude today that is most worrying. Twenty years on, the government is run by Labour, and it says it favours competition. But does it? There is still no consistent view about the proper relationship between normal competition policy and the sectoral regulation that was invented to deal with the particular problems caused by the former nationalised monopolies. As BT's story shows, the habit of regarding an industry regulator as a means of micro-managing an industry rather than establishing competitive markets lingers on.

For all their supposed Thatcherite zeal, the Conservatives never set much of an example. The government's main aims were to shift the burden of financing BT's new digital exchanges to the private sector and to make a killing for the Treasury. A competitive telecoms market, and the benefits it would bring to consumers, could come later. The result was the so-called "duopoly"—a seven-year settlement during which the only firm allowed to compete with BT was the fledgling Mercury, a division of Cable & Wireless.

That had two unfortunate consequences. The first was to create a precedent for the nascent mobile-phone industry in which a similar duopoly between BT's Cellnet and Vodafone was allowed to persist until 1993. The predictable outcome was a snug little cartel that kept prices high and service innovation low for too long. The second was that another set of newcomers, cable-television operators, came close to being strangled at birth. The government, egged on by BT, decreed that they should not be allowed to offer voice and data services over their networks and could have access to no more than 5m homes each. Belatedly, the government relented but the effort to consolidate the industry and develop a rival telephony service to BT has financially crippled and strategically distracted the two survivors, Telewest and NTL.

It wasn't until the appointment of a tough new director-general of the Oftel watchdog in 1993, Don Cruickshank, that a coherent framework for promoting a competitive telecoms market began to emerge. Mr Cruickshank saw that the key to this was to establish a set of rules governing interconnection to BT's network that were transparent and economically attractive to new entrants. Without it, the investment to create the scale needed to take an incumbent on would never be forthcoming. Oftel under Mr Cruickshank became the model for other countries in Europe as they liberalised their telecoms markets.

Fiddle, fiddle, fiddle

The measure of Mr Cruickshank's success in advancing a normally functioning market is that by the time he left, five years later, the proportion of BT's revenues that Oftel regulated had fallen from 60% to 18% and control over BT's retail pricing was no longer deemed necessary. With a far-reaching competition act passed in 1998, Mr Cruickshank hoped that micro-regulation of specific industries would soon be superseded by a general set of competition rules.

It was a nice idea, but hopelessly over-optimistic. As one former regulator put it: "New Labour intellectually understood that competitive markets were needed, but they can't resist grabbing, influencing and controlling everything themselves." The government's gyrations over broadband Internet connections are a case in point. After the prime minister announced that it was vital for Britain to become a world leader in "e-business", it became an obsession to speed up the rate of broadband adoption. Instead of setting itself the objective of continuing with Mr Cruickshank's work in developing a genuinely competitive telecoms market, the object of policy was something that became known as "Broadband Britain".

What followed was a doomed attempt by the current director-general at Oftel, David Edmonds, to choreograph the market into dancing to the government's tune. Mr Edmonds convinced himself that the key to stimulating the market for high-speed Internet was to force BT to allow rival companies to install their gear into its exchanges. BT, always better at dealing with the regulator than at running its business, dug in and delayed until its cash-strapped would-be competitors lost heart or went bust. The irony is that if the government had just concentrated on promoting competition rather than trying to implement a half-baked industrial policy, "Broadband Britain" might be a little closer to reality than it actually is.

If Oftel has become a shambles, the new Ofcom that the government is setting up to oversee the entire communications industry looks like being even more flawed than the agencies it is replacing. With responsibilities for taste and broadcasting standards added to its competition remit, it cannot but be deeply confused about its purpose. The government probably knows what it should do—retreat from sectoral regulation and rigorously enforce just one set of tough competition rules for every industry. But can a fish ride a bicycle? ■

19E

GAME

Maximo: Ghosts to Glory

$50

Forget big-ass proton packs and crappy one-liners. Kill spooks the old-fashioned way – one overhand chop t a time.

In this sequel to the arcade ssic *Ghosts'N Goblins*, I set ersonal exorcism record hting armored skeletons soul-snarfing ghouls e my heroic alter ego heart-emblazoned s. Dodging bouncing skulls as I tromped through lengthy 3-D levels of morphing oved to be as enter- s it was goofy. Despite sphere that's more *are Before Christmas ight of the Living Dead,* 2 title held my attention ours with tight play and ptuous visuals.
ott Steinberg

ul-
ng
re

com: *www.capcom.com.*

BOOK

Wondrous Contrivances: Technology at the Threshold, by Merritt Ierley

$21

The thing about new technologies is that they weave into our daily lives so quickly and seamlessly that any aha moments almost instantly become "been there, done that" experiences.

In my work as the director of exhibits at the Tech Museum of Innovation in San Jose, I freeze these fleeting reactions. As I prepare a show on Internet technologies, a sneak preview of Merritt Ierley's book helps to tease out the themes universal to emerging technologies versus those unique to the Net.

Ierley presents vivid, sometimes breathless accounts of Americans as their lives are transformed by their first interaction with something new: "We flew on the wings of the wind at the varied speeds of 15 to 20 miles an hour, annihilating time and space," reports an early railroad passenger. Other times, the author goes to more unusual sources. One excerpt from a 1908 phonograph manual gives what now seems a curious suggestion: "A NEW NEEDLE should be used EVERY TIME a record is played."

Ierley also delves into the cumulative process by which each technology served as a frame of reference for the next. Radio prepared the public for television, as Franklin Roosevelt illustrated when he appeared on TV proposing to "take Americans sightseeing by radio." Later, the PC was embraced by a generation adapted to the typewriter's keyboard, the TV's screen, and the telephone's instant connection. "If the computer had inexplicably arrived on the scene, say, in 1876," says the author, "it would have been so baffling as to have had no chance of acceptance other than among mathematicians and engineers."

The impressive brevity of the work – a veritable *CliffsNotes* on 15 technologies in 256 pages – makes the parallels really pop. Compare typewritten letters to emails: Typed missives offended turn-of-the-century Americans expecting handwritten notes, just as email today is criticized as impersonal. Or look at the struggles of early TV producers attempting to fill a three-day weekly programming schedule in 1939 ("The fare was down to 'ancient newsreel stuff such as Sponge Fishing in Florida'"). Their challenge recalls the scramble for content and repurposed material in the early days of the Web. *Wondrous Contrivances* is an engaging read, even for those who've never heard of punch cards. – *Rachel Hellengo*

> **Breathless accounts of early adopters**

Random House: *www.randomhouse.com.*

HARDWARE

Compact Theater

$1,349

In the face of a pervasive less-is-more worldview, RBH Sound obviously believes *more* is more. The company has released the first all-in-one 7.1 surround-sound package – that's seven speakers and a subwoofer.

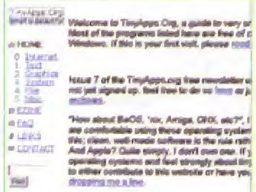
Beyond bulk, there's a practical purpose for those two extra speakers: They go *behind* your head to create 360 degrees of immersive audio. In my dinky, overpriced Los Angeles apartment, I set up the squat speakers and the subwoofer. I throw in *Episode I* and brace myself. The movie is the first of a slew of releases mixed with a Surround EX soundtrack. Surround EX takes the information from a 5.1 recording, processes it, and sends it to the two rear channels. So, the side-to-side pans during the Pod race sound insane as the rear speakers fill the void at the back of my head. Naboo starfighters fly over me from behind, making their way onscreen with disquieting realism. With two additional speakers to help spread out the sound, effects such as these, or a ghost circling the room in *The Haunting*, become much more convincing and cohesive. With a traditional five-unit system the sound field would be like a broken circle.

Meanwhile, somewhere in San Antonio amid the tortillas and tumbleweeds, there's a room that contains enough speakers to damage the frail of bone. There, Tomlinson Holman, the *TH* in *THX*, boasts the next new thing: surround sound through 12 speakers and 2 subwoofers. When will the madness end? Never, I hope. – *Krissy Rushing*

> **7 speakers hit you from all sides**

RBH Sound: (800) 543 2205, *www.rbhsound.com.*

3320.
4639
784



WEB

TinyApps.org

FREE

While building a home-brew PC recently, I ran into one of Microsoft's catch-22s. I had a legit new CD-ROM of Windows 98, but I couldn't load it onto my blank hard drive without first formatting the drive with a system floppy disk. And I couldn't make a floppy until I had installed the CD. I was stumped for a few hours, until I came across TinyApps.org, a software repository that specializes in small Windows and DOS programs and had just what I needed – links to system disks for all versions of Windows. After copying the appropriate disk image onto a floppy, I was set to go.

Miles Wolbe, a teacher and Web designer living in Hawaii, runs TinyApps and is, not surprisingly, an evangelist for more elegant software that doesn't take up a ton of space and is less likely to crash. Need a simple graphics editor? He presents one that's just 349K. How about a bare-bones word processor? Just 4K. For my newly formatted PC, small is beautiful once again. – *Aaron Pressman*

A little goes a long way

TinyApps.org:
www.tinyapps.org.

EXHIBITION

US Design: 1975-2000

$8

Put 250-odd items from the past quarter century of American design in a room and what do you get? A funky garage sale or the Denver Art Museum exhibition *US Design: 1975-2000*. The collection demystifies the daunting world of design and presents historically significant results of American creativity during a period that brought us some of our most undeniably poetic and highly usable products – and put the United States on the map as an aesthetics power center.

The show, which took five years to pull together, features Comfort Products' fabric-and-plastic Flexon T Ski Boot (1979) and Donald Booty Jr.'s clunky Double Plus Calculator, with its large red, yellow, and blue buttons (1986). Also on display are Karim Rashid's handled Garbo trash can (1996); Apple's iBook (1999); and Microsoft's ergonomically friendly TrackBall Explorer Mouse (dating way back to, um, 2000).

The exhibition's organizer, R. Craig Miller, recruited several industry heavies to select items for inclusion and contribute essays to the accompanying catalog ($65 from Prestel) to help viewers understand why contemporary American design deserves its own show. Journalist Thomas Hines speaks to current examples of design's significance in culture (remember the butterfly ballots in the 2000 presidential election?); scholar Rosemarie Haag Bletter presents a brainy synopsis of recent architectural theory; University of Pennsylvania professor David G. De Long offers a greatest hits of American architecture; Virginia Commonwealth University professor Philip B. Meggs lays out a similar approach to the graphic arts. Miller himself chimes in with a surprisingly less-than-hyperbolic look at recent American design, including problematic elements of its history. What this all-star cast of commentators provides is an analytic framework, an unusually multifaceted context.

Demystifying our material world

While the catalog's introduction clarifies that the exhibit "in no way pretends to be a survey of everything that has happened in American design since the 1970s," it is brave, fascinating, and extremely practical. *US Design* reminds us that our current world and culture are being defined for posterity through the forms and materials designers choose. And these choices help us make better sense of our lives, activities, and interactions. As Thomas Hines writes, "We're all part of the show." – *Reena Jana*

February 23 through May 26 at the Denver Art Museum:
www.denverartmuseum.org; Prestel: (888) 463 6110.

Contributors

Jon Caramanica (*jonc@rs1winc.com*) is an associate editor at *360HipHop* and contributes to *The Village Voice* and *Vibe*.

Adrienne Day (*thecurlicue@yahoo.com*) is associate editor at *CMJ New Music Monthly*.

Cory Doctorow (*www.craphound.com*) is cofounder of OpenCola.

Rachel Hellenga (*www.thetech.org*) is director of exhibits at the Tech Museum of Innovation in San Jose.

Chris Hudak (*gametheory@mindspring.com*) is a San Francisco-based tech columnist and pool shooter.

Reena Jana (*reenamj@yahoo.com*) is a New York-based cultural critic.

Beth Johnson (*beth_johnson@ew.com*) is a senior reporter at *Entertainment Weekly*.

Ray Kurzweil (*raymond@kurzweiltech.com*), an inventor and entrepreneur, is the author of *The Age of Spiritual Machines: When Computers Exceed Human Intelligence* and a recipient of the National Medal of Technology.

Jennifer Maerz (*maerz@earthlink.net*) is a freelance music writer for *Salon*, *Spin.com*, and *Revolver*.

Tank Menzies (*tank@filmson.com*) founded *FilmsOn*

Chris Nickson (*cnicks@seanet.com*) writes about w music and runs *globalvillageidiot.net*.

Stacy Osbaum (*osbaum@hotmail.com*) is an LA-b freelance writer.

Joseph Patel (*thejazzbo@earthlink.net*) has co to *Vibe*, *The Village Voice*, and *Flaunt*.

Aaron Pressman (*aaron@serialscifi.com*) is a in Boston and proving that size doesn't matt

Krissy Rushing (*rushingk@primediacmmg.co* executive editor of *Stereophile Guide to Home*

Paul Semel (*beerhound@aol.com*) writes abou *Rolling Stone.com*, *CDnow*, *VirginMega.com*, and

Scott Steinberg (*steinbergs@hotmail.com*) is a f entertainment journalist and columnist based in

Derek Tarnow is a freelance writer and high scho student in New York.

August 23, 2001

Capital

As Businesses Innovate, Regulators Must Follow Suit

YOU CAN ALMOST feel sorry for **Microsoft** Corp. Last year, when the company was looking like the techno-has-been of the Internet age, its antitrust problems seemed to be fading. But now, with the upstarts put down -- and with interesting new products on the horizon -- Microsoft's business prospects have been revived. So, too, have its antitrust woes. Antitrust scrutiny seems to be an inevitable byproduct of success.

"I suspect that as long as we keep doing a good job, the level of interest in our business will not go away from competitors nor from appropriate government authorities," complains Chief Executive Steve Ballmer.

Much of Microsoft's problem is of its own making. The company's exclusionary contracts and other competitive practices were custom-made to attract the scrutiny of antitrust cops. But much, too, may be an inevitable outgrowth of the kind of business Microsoft is in.

It's increasingly clear that products whose primary value lies in intellectual property -- products such as software, pharmaceuticals, movies, records and any of the other things that drive today's economy-- are fundamentally different from staples of the industrial economy such as autos and steel, or service-economy products such as banking and insurance. And those fundamental differences are wreaking havoc with traditional notions of economics that underlie antitrust laws, patent laws, copyright laws and indeed, the whole public policy underpinnings of today's economy.

Businessmen, economists and policymakers are struggling with the profound implications of those differences. Microsoft Chairman Bill Gates took a stab at describing them in a speech he gave during his CEO summit in May.

"With intellectual property, the upfront costs are what it's all about," he explained to the business titans assembled at the Redmond, Wash., campus. "Say a piece of software costs $10 million to create and the marginal costs, because it's going to be distributed electronically, are basically zero." Once the costs of development have been recouped, "every single additional unit is pure profit." But if someone comes along with a significantly superior product, "your demand can literally almost drop to zero." That's different from a manufacturing or service business that's subject to capacity constraints. You either win big -- like Microsoft -- or lose big -- like the pile of dot-com carcasses building up in Nasdaq's wreckage. In these industries, there is no Avis.

Please send comments to capital@wsj.com[1]. We'll post selected replies at WSJ.com/CapitalExchange[2] on Sunday. David Wessel is on vacation.

THE PROBLEM for policy makers in such a world is that it's not clear you can rely on Adam Smith's invisible hand to look after society's interests. Smith imagined a world in which competition among producers would drive prices down to something close to marginal cost. But Mr. Gates lives in a world where the marginal cost is zero. Smithian competition destroys the business. The only way to make money is to have monopoly power.

The implications in all of this go well beyond antitrust policy. Next week, some of the nation's brightest economic minds will gather at the Federal Reserve Bank of Kansas City's annual conference in Jackson Hole, Wyo., to grapple with how intellectual-property businesses are changing the fundamental dynamics of the market economy. Former Treasury Secretary Lawrence Summers, now president of Harvard, will lead off the discussion with a paper co-authored by University of California at Berkeley economist Bradford DeLong. Hal Varian, co-author of the book "Information Rules," will show how these changes lead to higher levels of concentration in many industries. Others will explore the implications for overall economic performance and for the conduct of monetary policy. And Fed Chairman Alan Greenspan will weigh in with his own views on the topic.

THE SAME ISSUES are being fought out in a host of different public-policy settings. The U.S. Congress, the

United Nations, and other world policy makers are struggling to balance the interests of pharmaceutical companies, eager to recoup their research costs, against those of consumers, rebelling against the high price tag on drugs that cost little to produce. The courts are trying to balance the rights of songwriters and producers to control distribution of their work against the desire of music lovers to use Napster-like technologies to share their favorite songs. And trade officials are trying to figure out how to retool rules designed for auto makers and insurance companies to fit the peculiar realities of products that travel over fiber-optic lines at the speed of light. In each case, the old rules of economics provide no clear guidance. New rules are being made up as they go along.

In each of these cases, as in the Microsoft antitrust case, there is always the danger that government policymakers and the courts could end up doing more harm than good. But a simple hands-off approach by government won't work. In a world where intellectual property serves as the source of greatest value, antitrust policy, patent rules, copyright rules and successful monetary policy may turn out to be more important than ever before. That means the government and the courts face a greater challenge to get it right.

-- *Alan Murray*

Write to Alan Murray at capital@wsj.com[3]

URL for this Article:
http://interactive.wsj.com/archive/retrieve.cgi?id=SB998512904412669083.djm

Hyperlinks in this Article:
(1) mailto:capital@wsj.com
(2) http://WSJ.com/CapitalExchange
(3) mailto:capital@wsj.com

Close Window

Earth Stations

Faster, Cheaper, Better

by Peter J. Brown

EARTH STATIONS NO LONGER FIT INTO A NEAT, NARROWLY DEFINED CATEGORY. NO, VSAT VENDORS ARE NOT THREATENED BY ANY ATTEMPT TO EXPAND THE DEFINITION OF EARTH STATION, AND THE STANDARD A EARTH STATION STILL SITS AT THE TOP OF THE SCALE. HOWEVER, EVERYTHING IN BETWEEN IS SUBJECT TO REVISION AS THE ACCELERATING DEMAND FOR TWO-WAY SOLUTIONS VIA SATELLITE IS COMPELLING THE INDUSTRY TO REDRAW THE MAP. IN THE PROCESS, THE ACCEPTED BOUNDARIES WHICH ONCE SEPARATED PRODUCTS INTO DISTINCT CATEGORIES ARE BECOMING MORE DIFFICULT TO MAINTAIN.

Photo courtesy of L-3 Communications.

"When it comes to earth stations, the satellite industry is addressing the needs of both the consumer and the professional or enterprise markets simultaneously. Not only is the industry willing and able to sacrifice spectral efficiency in order to reduce costs for consumer terminals, but it is also devising better ways to implement Bandwidth On Demand (BOD) in multi-user enterprise environments," says Shaul Laufer, president of Israel-based Shiron Satellite Communications Ltd.

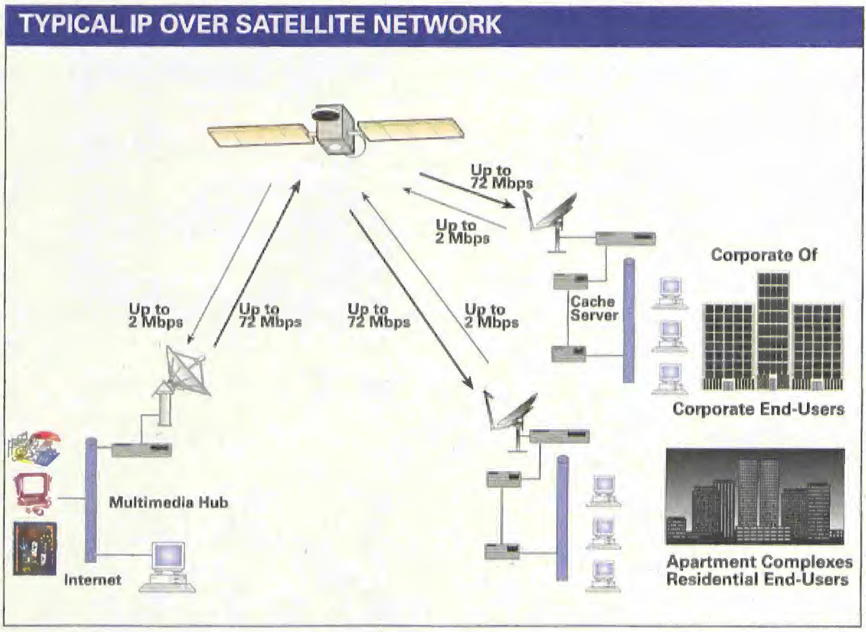
Internet Protocol (IP) is the dominant force. With IP come new twists to the old point-to-multipoint grid. Things such as asynchronous data delivery including faster than real-time delivery to caching stations, and strict adherence to service level agreement (SLA) parameters are becoming more commonplace. Hybrid satellite/fixed wireless access (FWA) and wireless local loop (WLL) solutions represent another noteworthy trend.

"The days when a VSAT simply had to set up and tear down 6 kbps voice circuits are not over entirely, but the emphasis now is on IP traffic which involves new traffic profiles, and the pursuit of optimization where real-time protocols in particular need special attention," says Michael Rudeen, director of program development and systems engineering at Phoenix-based Radyne ComStream.

"Multiple access return channels, and the fact we can integrate the IP stack and routing equipment together into one piece of equipment, thereby eliminating the need for an external router, means that we can open up the market to more users," he adds.

Whereas in the past, earth stations were large international gateways that carried a percentage of the total network

ByTheWay - Clarissa Leahy / Stone


TYPICAL IP OVER SATELLITE NETWORK

Artwork courtesy of Radyne Comstream.

Radyne ComStream is one example of a satellite equipment vendor that has allowed its product lineup to synchronize itself to the overall shift to IP-based services.

traffic, earth stations today are often small VSAT terminals, whose strength is their ability to share the available satellite resources with other terminals in the same network, according to Don Osborne, senior vice president and general manager at Montreal-based EMS Technologies Inc.s' Space and Technology Group.

"This has resulted in a trend towards lowering the emphasis put on the terminal itself, and increasing the emphasis on the network management and bandwidth sharing software," says Osborne. "By a twist of circumstances, the new generation broadband Ka-band Satellite Interactive Terminals (SITs) are renewing the emphasis on the terminal. This is due to the need to drive down terminal costs to the consumer level. This in turn can produce networks large enough to easily amortize any sophistication in the network management or control facilities."

Radyne ComStream is just one example of a satellite equipment vendor that has allowed its product lineup—earth stations including its DVB-compliant IPSat SCPC and TDMA solutions, broadband modems and multi-purpose DBR series IRDs—to synchronize itself seamlessly to the overall shift to IP-based services. A customer can either select the IPSat delivery system as a standalone product, or it can tap Radyne ComStream for a complete end-to-end system solution.

At the same time, this company is similar to so many others in this earth station space in terms of its multiple roles. It can be a partner, customer or a competitor, depending upon the specific circumstances in question.

SO MANY CHOICES

Let's face it, much smaller earth stations are popping up everywhere, including new units in beta test phase at Betzdorf, Luxembourg-based SES Multimedia, for example, which are capable of receiving up to 38 Mbps, and beaming traffic back at 2 Mbps.

Despite a lengthy track record when it comes to cross-strapping satellites with C-band and Ku-band, there is a tendency in the industry these days to lock in a certain frequency limitation for the business model in question as if one is either going to proceed with Ku-band or Ka-band over the next few years.

Thankfully, SES Multimedia is one of the few industry heavyweights which has embraced the Ku-/Ka-band model with much enthusiasm. SES Multimedia's Broadband Interactive (BBI) Group has now reached the beta testing phase of its multi-year project, and it has turned to EMS Technologies, and to Raytheon Satellite Access Systems Group in Marlborough, MA, for its SITs.

"EMS and Raytheon together represent a strong combination of two different SIT vendors. They prove that interoperability with a single EMS Ka-band hub using a full open-standards based Digital Video Broadcast-Return Channel System (DVB-RCS) is both feasible and practical," says Robert Feierbach, BBI business director. "We currently have beta customers on our BBI system, transmitting at up to 2 Mbps on the return link to satellite, and SES is scheduled to begin commercial service by mid-year 2001."

With the successful demonstration of Ku-band outbound data at speeds up to 38 Mbps, along with inbound or return channel speeds at 144 kbps, 384 kbps and 2 Mbps using EMS terminals, Feierbach indicates that in some instances the Ka-band return link proved to be even more sustainable than the Ku-band feed.

"With DVB-RCS, the link margin is really quite good. We lost the Ku-band signal in heavy rain only to discover the SIT variable power controls were able to ensure that the return channel held up in the same adverse weather conditions," says Feierbach.

"On the return channel, we can carry live MPEG-1 files in full screen with quasi-broadcast quality. Of course, while the 38 Mbps Ku-band outbound feed is suitable for most high-end servers, it far exceeds the ceiling for the average PC which can only process IP data at approximately 6 to 8 Mbps," Feierbach adds.

Osborne indicates that in all respects, the transmission system is fully operational on an end-to-end basis. Satellite loop tests have been ongoing for over nine months in both Ku-/Ku-band in Canada, and Ka-/Ku-band in Europe. A number of prototype and pre-production terminals have been deployed and are in operation at beta customer sites in the United Kingdom and Spain. EMS has delivered its first commercial return link platform to ND Satcom facilities, where it will be integrated with broadcast (forward link) and network management facilities prior to delivery to SES in Luxembourg.

Friedrichshafen, Germany-based ND Satcom, formally Nortel DASA Satcom and now under different ownership, is responsible for the network management system, the traffic manager, the local hub manager and the integration with the return link and forward link sub-systems, according to Osborne.

Challenges that remain are the completion of the hub to its full level of func-


Global connectivity is within our reach.
And new opportunities are within yours.

tionality and capacity in 3Q 2001, and the deployment of production terminals this summer. James Rooney, director of Raytheon's Satellite Access Systems Group, describes Raytheon's participation in the commercial broadband satellite terminal marketplace as a natural progression for Raytheon.

"With our many years of involvement in U.S. DoD Milstar at Extra High Frequency (EHF or 20 GHz receive and 44 GHz transmit), we have developed considerable expertise in the development and manufacturing of broadband terminals which engage in very fast frequency hopping (FDMA), and time division multiplexing (TDMA)," says Rooney. "As we evolve from the military to the commercial marketplace, we are stripping away some of the robustness of the military terminals in order to focus on ultra low-cost, high-volume production."

Raytheon is currently manufacturing 500 DVB-RCS terminals. These beta units will be field-tested this summer—with DVB-RCS under construction for SES Multimedia, according to Rooney. Among other things, the design of the Satellite Multimedia Delivery System (SMDS) with its integrated 1 to 10-watt SSPA-LNA, eliminates the possibility that someone could look directly into the feed. Service providers need to make sure their customer's safety is adequately addressed. In addition, using a concentric dual band feed with a dual shaped offset Gregorian reflector made sense to Raytheon for performance and installation reasons, and the added safety benefit is just icing on the cake.

"Refining the product, and achieving cost-savings in the installation is also important, especially when the Ka-band beam is so narrow. We designed our Beamtrac 2100 automatic positioning system to assist installers in aligning the antenna without the need for hub interaction, and our co-boresight approach allows them to do Ka- and Ku- pointing simultaneously," Rooney says.

FASTER, CHEAPER, BETTER AND ALWAYS-ON

Incorporating the right features to manage satellite resources efficiently, while allowing simultaneous multiple access with time zone shifting and application sharing is essential. For example, Shiron's InterSKY solution is a two-way broadband Internet access via satellite system which uses a star configuration. It incorporates unique Demand Assigned Multiple Access (DAMA) and BOD with power and frequency controls, while the users at a remote LAN assume their connecting terminal is in always-on mode. InterSKY reduces the operational costs for the service providers significantly. According to Laufer, the typical saving of satellite spectrum assigned to return channels is 50 to 60 percent.

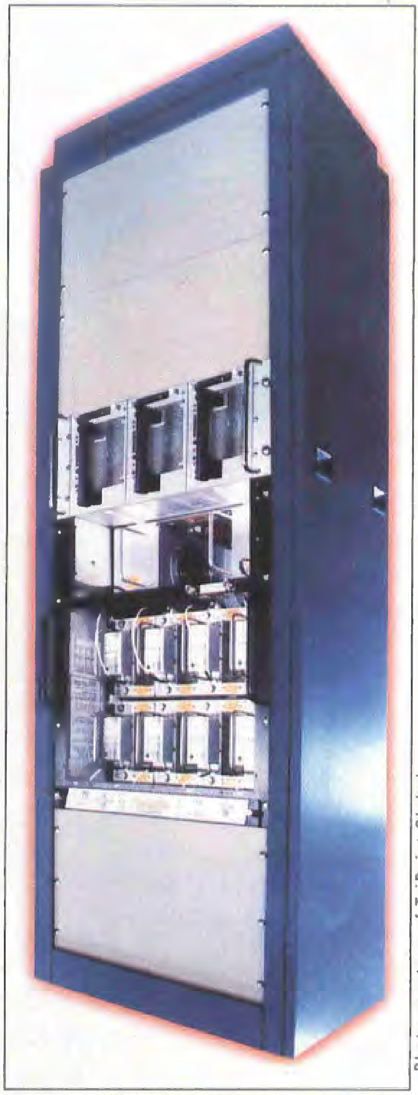


Photo courtesy of TriPoint Global.

The emphasis at TriPoint Global is on earth station modularity, rapid deployment and rapid servicing including hot swapability in the case of the Modumax SSPA.

"The InterSKY BOD software measures the traffic at the remote sites, and dynamically assigns bandwidth to each remote site, according to the actual instantaneous needs," says Laufer. "The committed information rate (CIR) and link budget are all taken into account. The BOD software manages the remote site power levels to ensure that transmissions are undertaken with the exact power level necessary to meet the terms of the designated SLA."

Having the ability to adhere firmly to service level agreements may attract customers, but having a longer-term strategy means going the extra mile from the moment the earth station component in question begins to take shape.

"DSL and cable modems are having a profound effect on the satellite industry as a whole. As manufacturers we have to do things much more efficiently," says John Sciberras, vice president of marketing for North Carolina-based TriPoint Global, which includes the Prodelin line of antennas, and the new modular solid state power amplifier (SSPA) known as Modumax from VertexRSI.

"New customers are popping up who do not know what they want. They see a market opportunity, but they do not know how to get there. There is a much greater emphasis on complete solutions with fixed wireless interfaces," he adds.

While the emphasis is on standards with off-the-shelf platforms, Sciberras indicates that once you look beneath the surface, things are not so uniform or consistent. "Take DVB for example. I think DVB is still trying to sort itself out. Some customers use pure DVB including DVB-RCS, others broadcast DVB but use another return channel format, while others use no DVB whatsoever," Sciberras says. "No single technique dominates."

"When you take a macro perspective of the market, it is much more than some sort of a simple virtual private network (VPN) concept unfolding. As manufacturers, we have to be spun up on all these different approaches such as how customers stack their data, do modulation or what specialized return paths they employ," Sciberras adds.

With its ModuMAX Solid State Power Amplifier (SSPA), NetMac control software and the 1.8-meter lineup of Quick Deploy antennas, the emphasis at TriPoint Global is on earth station modularity, rapid deployment and rapid servicing including hot swapability in the case of the Modumax SSPA. "Our customers are becoming more carrier-like with more data going to more ISPs in the process," Sciberras says.


SSPA HUBMOUNT
250 W
Ku-Band SSPA
advantech
advanced microwave technologies
SSPA RACKMOUNT
800 W
C-Band SSPA

BETWEEN THE GATEWAY AND THE VSAT

Hauppauge, NY-based L-3 Communications Group Corporate Vice President Stuart Mackiernan who oversees L-3 Satellite Networks Division—formerly LNR / STS—believes the demand for earth stations that sit somewhere between the gateways and the VSATs will be increasing.

According to Mackiernan, the very large earth station market is going through a slowdown as everyone awaits the next generation of domestic and international satellites, among other things. "The industry as a whole remains enthusiastic about IP transport over satellite. We see opportunities for two-stage ISP rollouts involving transportable earth stations for rapid deployment followed immediately thereafter with a permanent installation as very attractive," says Mackiernan.

Photo courtesy of Globecomm Systems.

Globecomm Systems operates and maintains an international teleport in Long Island, NY.

With the recent acquisition of the ISAT frame relay-based trunking system from Gilat, Satellite Networks is not only reinforcing its IP transport via satellite capabilities, but it is also setting the stage for a wireless play as Satellite Networks unites ISAT with its Prime Wave FWA platform.

In terms of what is hot in the new earth station domain, Satellite Networks is working with United Pan-Europe Communications N.V. (UPC), one of the largest cable service providers in Europe, on two major facilities in Amsterdam and Helmund in the Netherlands.

"This is the first true multimedia distribution network. It extends throughout Europe, and it is a multi-phase project. In addition to the two large facilities in the Netherlands, we have already installed three spoke terminals at cable headends, and we have been contracted to install a total of 17," says William P. Kinsella, chief technical officer at Satellite Networks. "The network is designed for voice over IP (VoIP) and Internet traffic to flow back into Amsterdam via satellite where it is tied into UPC's vast fiber network known as AORTA."

UPC is the first customer for Satellite Networks' GMACS-32 network management software. It is installed at the huge UPC Digital Media Center outside Amsterdam where digital content is layered with multiple language tracks and subtitles, and then distributed via satellite. UPC uses faster-than-real-time distribution in order to reduce the cost of satellite time on Telstar 12, and to maximize the use of video servers in UPC's distributed caching environment. UPC's Chello broadband unit oversees AORTA, which stands for "Always On Ready To Access."

A COMPLETE IP NETWORK SOLUTION IS NEEDED

Not only is everything converging in IP format, but there is also a noticeable trend that involves the creation of new media centers that look a lot like data centers. At least that is the view from Hauppauge, NY-based Globecomm Systems Inc. where David Hershberg, chairman and CEO, believes the sun has set on the very large earth station market, at least for the foreseeable future. He uses the Thailand-based BEC Multi-Media Co. Ltd.'s multimedia data center—BEC Multi-Media recently selected GSI to design, engineer, support and install this facility—as a good example of what constitutes a state-of-the-art IP-based content management and distribution system.

"With deregulation in the marketplace, it is not a great market now for large gateways. It will take a year or two for any new customers to emerge in the Intelsat Standard 'A' environment," says Hershberg. "Besides, many of the large carriers in the United States and elsewhere, for example, already own four or five large earth stations."

The noticeable shift to IP—as well as VoIP—is driving overseas demand for smaller terminals in general in the 3.8, 4.6 and 5.5-meter range. "Transportables and IP-based terminals with data and IP on the same carrier are where the market is going. Along with wireless WLL interface capabilities, what customers want is a complete network solution," Hershberg says.

Globecomm and its subsidiary, NetSat Express, are pursuing clients in overseas markets exclusively with numerous projects underway. The possible provision of WLL connectivity has been added to the Globecomm product and services menu recently.

"Our value proposition is a complete solution. We provide everything including routers and servers, and we integrate them into the network," Hershberg says. "The money is just not in RF terminals any more. In an end-to-end satcom service solution, the earth station portion might account for as little as 20 percent of the total price tag."

For Telefonica Data S.A.'s Para Network in Latin America, for example, where IP traffic flows as two 45 Mbps streams via twin 16-QAM carriers combined in a single 36 MHz Hispasat transponder, Globecomm tapped five different teleport operators along with a team of vendors including Cisco Systems, Vertex/RSI, Andrew, CPI, Xicom, Miteq and Newtec.

"This international Internet distribution and access network operates off a 9-meter Ku-band dish here in New York. We put all of this in place in just four months, using up to 9-meter Ku-band dishes at the remote sites to provide lots of margin.

When I say end-to-end solution here, I mean everything," Hershberg says. That list includes the entire regulatory and licensing apparatus, network and earth station design and implementation, operations and maintenance of the network from their Long Island Network Operations Center (NOC), logistics support and, legal and tariff framework.

The noticeable shift to IP—as well as VoIP— is driving overseas demand for smaller terminals in general in the 3.8, 4.6 and 5.5-meter range.

TURNKEY GATEWAY SYSTEMS: TAKING FULL ADVANTAGE OF AUTOMATION

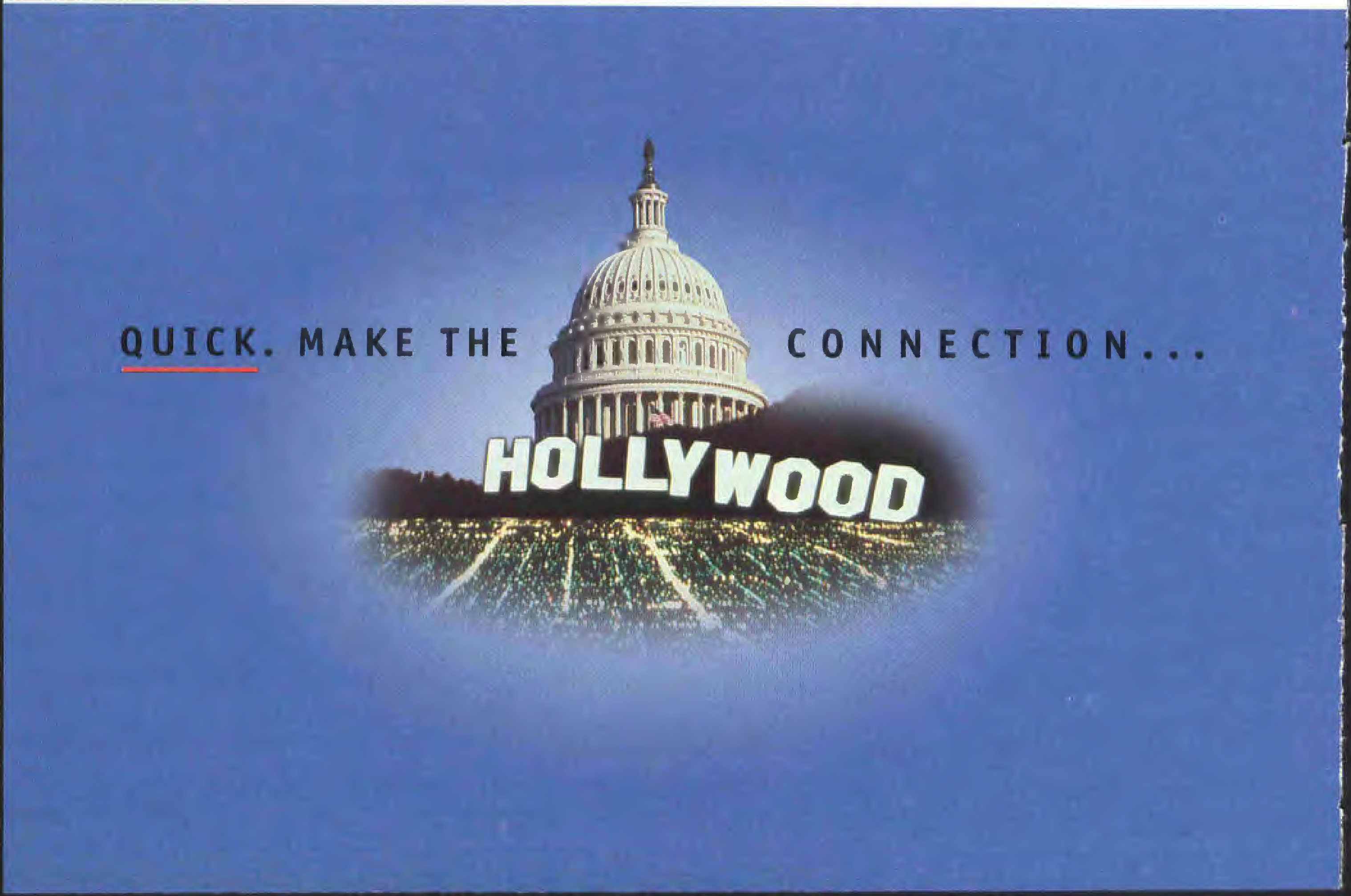
With CO-based WildBlue Communications Inc. rushing to fill the Ka-band broadband gap over North America starting in the United States early next year with low-cost two-way satellite systems, the goal is to install twin Ka-band antennas in six gateways nationwide by the end of this year. WildBlue is turning to Orland Park, IL-based Andrew Corp. to design and install these modular, unmanned facilities.

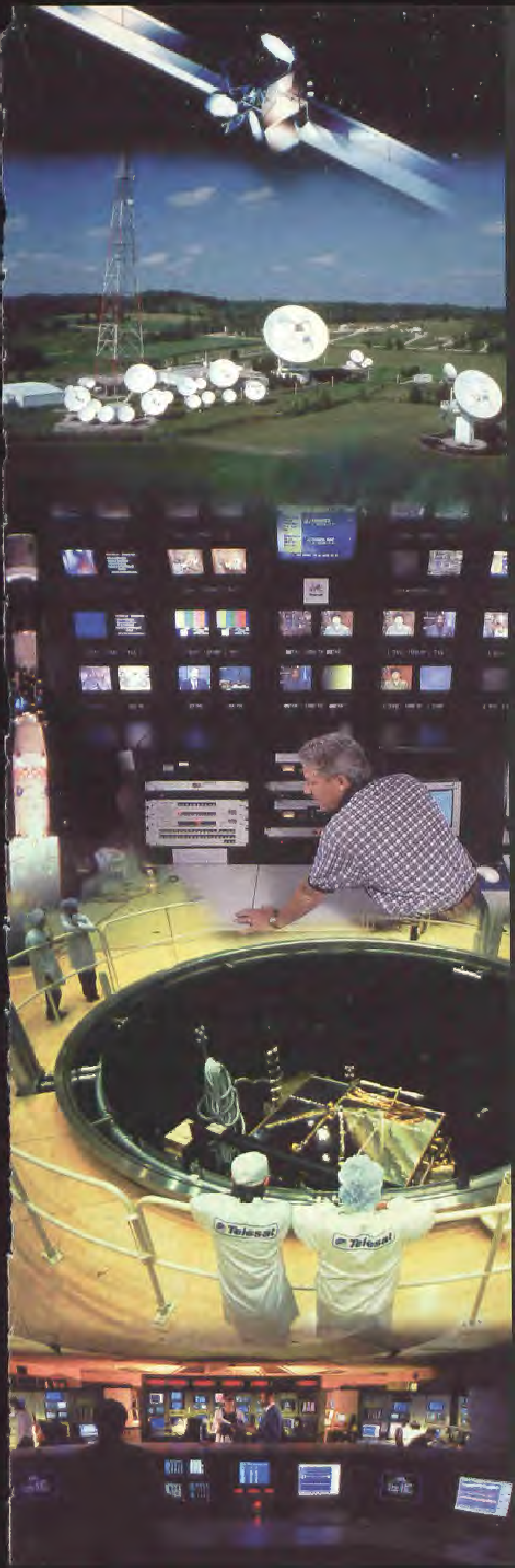
The primary site consists of a 20 x 30-foot concrete shelter which is linked to a 5.6-meter antenna. It contains approximately 21 racks of equipment including ViaSat modems. Approximately 20 or 30 kilometers away sits the "diversity" site—providing spatial diversity—which provides redundancy in the event of adverse weather conditions at the primary site.

"We are taking advantage of automation with all the SNMP-based monitoring and control (M&C) equipment tied back to operators at the NOC who are using an advanced graphical user interface (GUI)," says Joe Ducey, WildBlue's director of gateway development. "System wide network management will occur at the NOC, while each gateway will also be capable of monitoring all of its own local operations automatically."

"In the area of control systems, Ethernet interfaces and SNMP protocols are pretty widely accepted as part of the trend involving open architecture systems. The antenna control systems and the new generation of IRDs tend to be Open System Interface (OSI)-controlled) instead of serial RS-232. This represents a vast improvement over the situation in the past where you had to look up the interface for each device in the manual," says Anthony Campbell, business unit manager at Andrew Corp.'s satellite products/systems.

Campbell sees an automated environment for broadband satellite services requiring two additional distinct control elements in the network architecture on




Telesat
Telesat

top of satellite control. These involve M&C of the hardware and traffic including Quality of Service (QoS) monitoring synchronized to M&C of the remote sites where temporal and frequency channel assignments are in play.

"These control elements may or may not collocate in a single layer," says Campbell. Campbell is making the point that the issue of how to best address the control of the uplink, network and subscriber terminals in a dynamic environment is just one of many complex issues that lends itself to the sort of turnkey solution that WildBlue has embraced.

"There is a temptation to bite off bits and pieces. With critical data and two-way traffic flowing over a network sustained by automated or unmanned gateways—similar to the model that WildBlue is adopting—it is important for operators to actually achieve the full range of cost advantages and not to do so simply on paper," Campbell says.

PUSHING HYBRID SATELLITE / WIRELESS EARTH STATIONS

Along with a few other companies mentioned earlier, Greenwich, CT-based AlphaStar International is also pursuing a hybrid satellite/wireless Internet access strategy. It launched SkyCrossing.net. last August. The SkyCrossing.net service comes in three flavors. One is a hybrid architecture integrating satellite broadband for IP backbone connectivity, and local wireless access—both fixed and mobile—for the last mile solution. SkyCrossing also offers a direct two-way satellite service for the multi-dwelling unit (MDU) and SOHO markets. It is currently using space segment on GE Americom GE 5 and GE 6 to cover all of North America, the Caribbean and parts of Latin America.

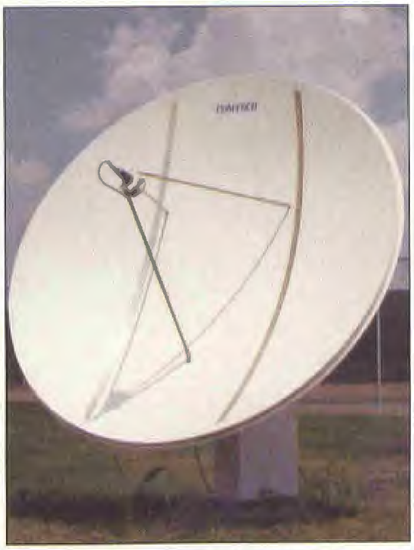


Photo courtesy of Comtech Antenna Systems.

Comtech Antenna Systems has seen an increased demand for its 3.8-meter antenna.

"Our hybrid model integrates the best of satellite broadband with the best of local wireless. The signal is delivered by satellite to a two-way satellite dish at a local wireless gateway mounted at a wireless tower or on a rooftop. From the wireless gateway, the signal is transmitted back and fourth via radio waves to a radio antenna at the subscribers residence," says AlphaStar International CEO Mahmoud Wahba. "Wireless gateways also allow insertion of local content cheaply and quickly unlike DTH."

Wahba emphasizes that although this entails a direct line-of-sight delivery platform, this is not an MMDS solution. As far as the components at the local remote station or gateway, Wahba is not prepared to divulge all the details about what lies between the two-way satellite dish and the wireless base antenna. However, he does describe a 4RU modular solution that includes Cisco Systems routers, and a caching engine from Infolibria.

Wahba sees this as the ideal answer for unserved areas, and under-served Internet users. Not only is it designed for self-installation, but the subscriber does not interact directly with the satellite as one would with DTH; rather interaction is with the local wireless gateway, which includes a cache that is constantly updated via satellite.

"With the most popular 1,000 Web sites cached at the local wireless gateway, this greatly reduces the need for any direct interaction with the satellite by 50 percent or better. The hybrid model also allows for the use of shared BOD among local wireless gateways, which can save an additional 25 percent of the cost of space segment," says Wahba. "In short, the hybrid model offers substantial savings in the cost of the space segment when compared to the DTH model."

DISH SIZES SHRINKING AND GROWING

Antennas are going through a rather odd metamorphosis. Much has been said about the shrinking dish size, but the antenna experts we spoke with tell a slightly different story. "Antenna sizes are actually growing with the advent of digital carriers. The size is increasing not for gain reasons, but in order to ensure selectivity—to reject unwanted signals from adjacent satellites," says Tom Christy, president of St. Cloud, FL-based Comtech Antenna Systems Inc. "Due to this more hostile digital environment, we have seen an increased demand for our 3.8-meter antenna."

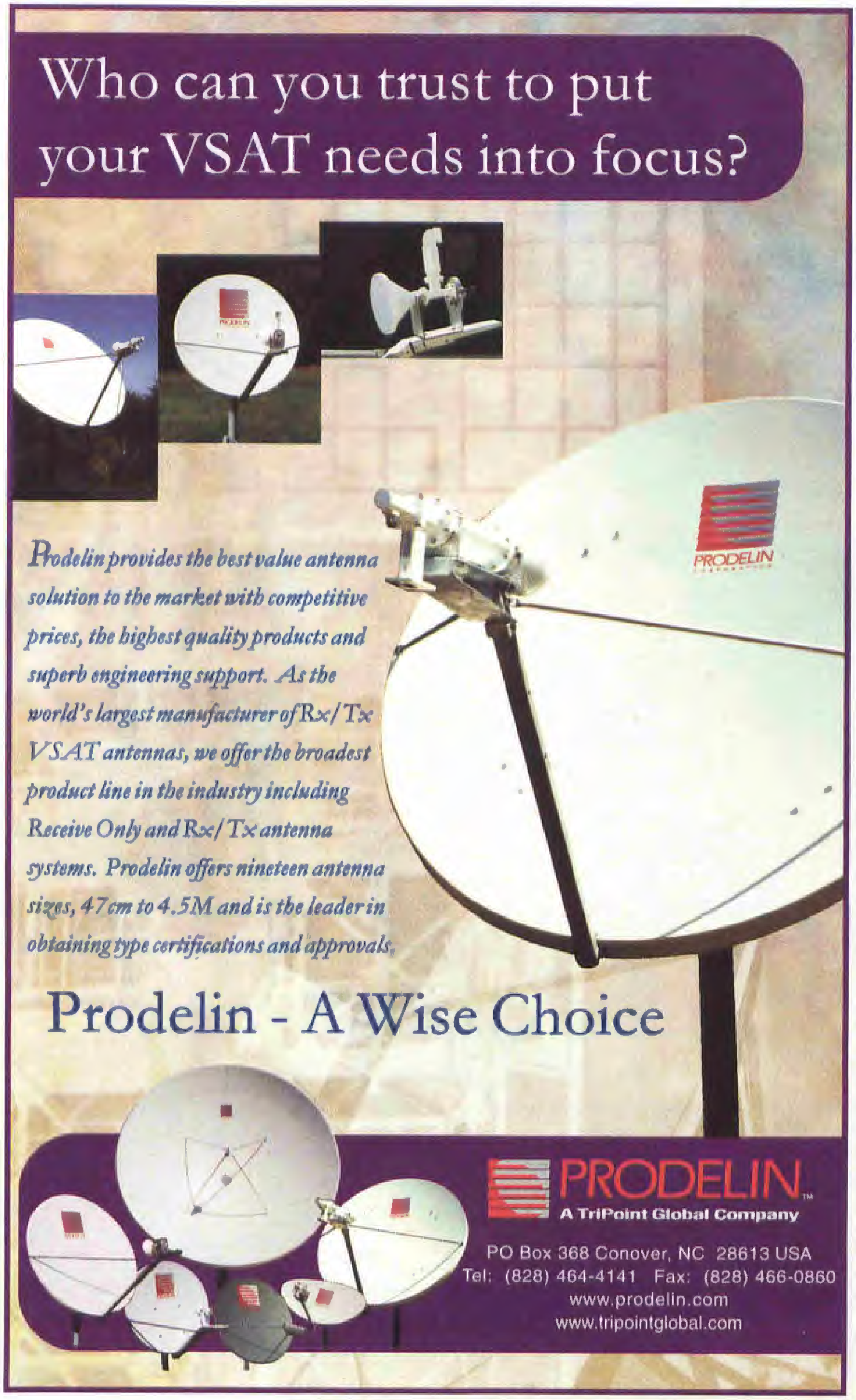
With more and more carriers being squeezed into the same amount of satellite bandwidth, Christy does not expect to see this trend soon ending. Comtech has addressed the need for lower-cost mobile antenna systems by providing quick deployables in addition to its standard flyaway and transportable products.

"Quick deployables and flyaways have seen the most dramatic growth in the past couple of years. Not everyone needs a flyaway that is air checkable, so the quick deployables are ideal for a lot of rapid response scenarios. They are also less expensive than flyaways," Christy says.

Steve Pokornicki, account manager at Satellite Export & Engineering Inc. (SEE) in Albion, MI, does not see the digital carrier-related side lobe issue adversely impacting on the demand for multi-feed antennas. He estimates that perhaps 15 percent of his company's Patriot brand antenna sales involve multi-feed antennas which are given away by satellite operators such as PanAmSat, GE Americom, and Loral, to name a few.

Pokornicki indicates that demand for Patriot 3.8-meter and 4.5-meter antennas, with multi-beam feedhorns and phase stable LNBs, is quite strong. The same is true for the company's line of small aperture units in the .76-meter, .9-meter, 1-meter and 1.2-meter offsets.

"These are not flyaways, but receive-only units for customers such as DBS service providers, and for music distribution networks such as DMX, and Musix. Our focus is now on Ka-band, and on obtaining Intelsat uplink approval for our two-way antennas," Pokornicki says. "It can take up to six months for us to obtain this Intelsat certification which ensures that




Multiple **Satellites**

when private networks are installed for large enterprise customers in particular, all the antennas in the network can talk to each other.”

The export market for VSAT antennas is growing, and SEE is responding by opening offices in Argentina and Portugal, and it plans to open a pan-Asian distribution center in Australia. While the international market is expanding, it is not outpacing the domestic market, according to Pokornicki.

In addition, signal degradation research involving so-called wet antenna effects in the Ka-band environment is ongoing. This phenomenon only compounds the challenge for the network design team. For example, Beatriz Soares at Andrew Corp. has been evaluating the performance of 1-meter aluminum and composite reflectors with an emphasis on the exploring the application of hydrophobic treatments to aluminum reflectors.

USING FINITE BANDWIDTH TO DO THE JOB RIGHT

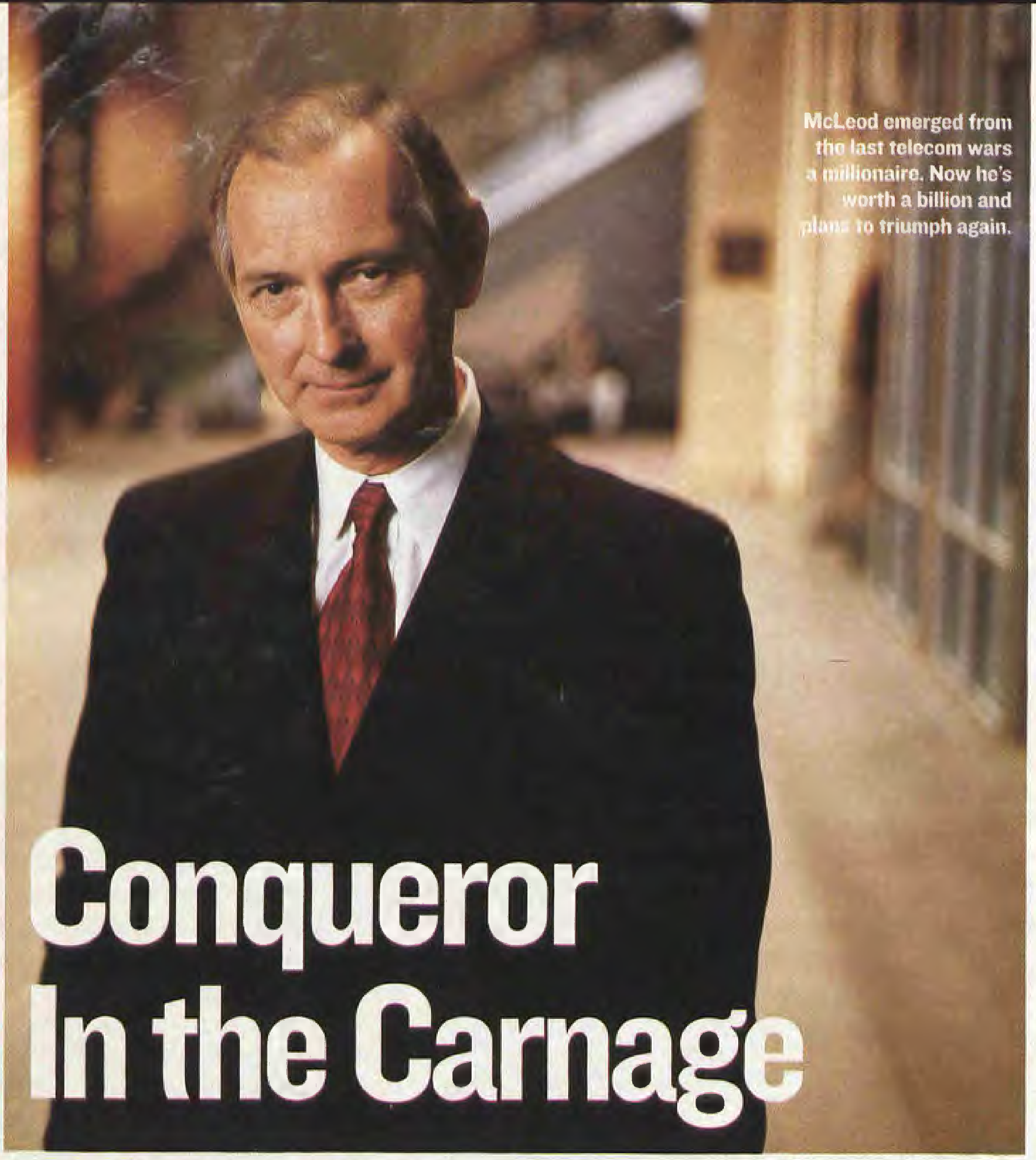
As our economy cools and as the telecom industry is nervously bracing for further consolidation, there is talk of restructuring and the presence of fiber overcapacity on the ground. Will it unwind a few business plans? You can bet on that.

Meanwhile, the ground segment in the satellite industry is rapidly evolving, and preparing its earth stations to meet a variety of needs, while constantly stressing the use of bandwidth in the most efficient way possible. This is in striking contrast to the terrestrial side of the equation where bandwidth in abundance gets thrown at a particular business model, and where bandwidth seems to exist in infinite supply.

The lean and mean IP-driven strategy employed by most earth station companies today will no doubt woo enterprise customers in particular who want affordability, flexibility, reliability and scalability all in one robust platform. The satellite-based content and data distribution model is quite attractive, and you can be sure that many satellite professionals are going to devote considerable energy to make sure it stays that way. ❖

> **The very large earth station market is going through a slowdown as everyone awaits the next generation of domestic and international satellites.**

PETER J. BROWN IS VIA SATELLITE'S SENIOR MULTIMEDIA EDITOR. HE LIVES ON MOUNT DESERT ISLAND, ME



McLeod emerged from the last telecom wars a millionaire. Now he's worth a billion and plans to triumph again.

BLAIR JENSEN FOR FORBES

Conqueror In the Carnage

Most telecom startups are doomed. Clark McLeod will survive to own their assets.

BY QUENTIN HARDY

CLARK MCLEOD HAS SEEN THIS mess before: Wall Street loves telecom deregulation, so it throws billions at bad businesses. A bloodbath ensues. The survivors remake their markets. And he gets rich.

At least, he did after long-distance service was deregulated, emerging from the 1980s shakeout with a company that MCI bought for $1.25 billion in 1990. Now McLeod competes in the even bigger chaos of local phone service—and he looks to be the acquirer. The 1980s were "a bake sale compared to now," says McLeod, the 54-year-old founder and co-chief executive of McLeodUSA. "There are more disruptive trends going on than in any other business."

McLeod has built a cash-generating business based on the humble phone book—a big difference from the standard high-tech, high-cost telecom newcomer. McLeod used the money from the books to augment his local, long-distance and high-speed Internet services, serving smaller businesses in second- and third-tier markets. They spend an estimated $84 billion a year on phone services and don't get the same attention from the Bells that big companies do.

Today McLeodUSA has cobbled together 18 telecom companies, at a cost of $4 billion, and sells service from 136 cities in 25 heartland states. The buying is getting bigger: Its 2000 revenues of $1.4 billion yielded a net loss of $530 million, largely from purchases of a regional phone company for $530 million and a nationwide data network for $840 million. Earnings before interest, taxes, depreciation were $60.8 million.

McLeod has plenty of other candidates for purchase now, thanks to the carnage among scores of competitive local exchange carriers, or CLECs, that sprang up to challenge incumbent Bells after a 1996 law sought to crack the local monopolies.

CLECs sold everything from regular service to high-speed digital subscriber lines. Most liked technology, but weren't good enough at customer service to really bother the Bells. ICG Communications, which filed for Chapter 11 in December, specialized in its own fancy offices and selling advanced optical-transport capacity. DSL providers like Covad and NorthPoint Communications compounded the problem by selling their expensive technology to Internet service providers. These turned into deadbeat accounts;

> **"There isn't anyone of significance I'm not talking to every 30 to 60 days."**

NorthPoint filed for bankruptcy in January, and Covad is on the ropes.

Five years after dereg, the incumbents still hold a 93% market share, and the bills have come due on the CLECs. Yet in McLeod's home state of Iowa, the outfit has 30% of business lines. The other CLECs, he says, "didn't identify the opportunity; they all looked at the Internet. Is the Internet controlled by a monopoly? Hell no, there are thousands of providers. What is the protected monopoly? Local service."

The 17 CLECs that have gone public have shed a collective $53 billion of market cap, off 58% from their highs. McLeodUSA represents $6 billion of that loss, but the stock is still 400% over its 1996 debut. In January, when most CLECs couldn't raise a dime, McLeod sold $750 million in high-yield debt.

"The market thinks McLeod will look to buy other CLECs that meet its investment criteria—ones with complementary network assets that won't compromise McLeod's funding position," says Trent Spiridellis, an analyst at Banc of America Securities. McLeod shares haven't moved much lately, possibly out of concern over how much debt McLeod might incur in a binge *(see table for possible targets)*.

M&A on Line One!

Clark McLeod won't say what he's buying next, but there are a handful of beat-up local phone companies that could meet his investment criteria. Here are a few.

	PRICE					
		52-week				
Company	**recent[1]**	**high**	**low**	**Sales[2] ($mil)**	**Profit[2] ($mil)**	**Debt / capital (%)**
Allegiance Telecom	$28.56	$110.08	$12.81	$229	$-251	54%
Focal Communications	14.25	85.00	6.06	203	-81	64
ITC DeltaCom	7.94	43.50	4.38	334	-59	70

[1]Prices as of Feb. 7. [2]Latest 12 months. *Sources: Market Guide and Interactive Data Corp. via FactSet Research Systems.*

One likely candidate is Focal Communications, which serves businesses but depended on too many faltering Internet service providers for revenues. Focal Chief Executive Robert Taylor says he has no plans to sell, but adds that France Telecom or McLeod would fit Focal well. Allegiance Telecom in Dallas also is viewed as a takeover possibility. "Anybody out there has a 50-50 chance of being acquired," says Allegiance Chief Royce Holland.

McLeod says "There isn't anyone of significance I'm not talking to every 30 to 60 days." He has also brought in just the kind of guy you want in a consolidation—Roy Wilkens, who unified the systems of 35 companies acquired in the building of WorldCom.

Given how many companies are struggling, McLeod could just buy selected assets once a company falters. Last May GST Telecommunications filed for bankruptcy with $1.2 billion in debt. Time Warner Telecom, 44%-owned by AOL Time Warner, got the parts it wanted over the summer for $690 million. Another likely survivor is Craig McCaw's XO Communications, which sells data services to U.S. and multinational companies. Both firms say they don't plan any big deals.

Originally a junior-high math teacher, McLeod got into the long-distance business soon after a 1981 ruling forced AT&T to sell services to MCI. His company, TelecomUSA, got big enough to consider buying out other newcomers but instead sold out to MCI. McLeod walked away with about $50 million and tried philanthropy—briefly. "I decided I was better at creating jobs for people than giving money away," he says. (He now employs 11,000 people at McLeodUSA, and his 12% stake is worth $930 million.)

The Cedar Rapids, Iowa native returned home and called Stephen Gray, a TelecomUSA vet at MCI. Gray is now co-chief executive of McLeod. Instead of focusing on technology, the two studied Wal-Mart, which focused on rural markets and customer service.

McLeod made his big move with the phone book, since directory ads are a Bell's most profitable business. Also, "Once you get in somebody's house, they think you're a phone company," says McLeod—putting a catalog of services in each book. McLeod and Gray, a no-nonsense salesman, realized the Bells limited their books' distribution to their network areas. Advertisers wanted to reach further out. With broad distribution and color maps, McLeod's books caught on. Its salesmen could also offer phone service, which McLeod leased from the Bells.

The strategy still works because, five years into dereg, a small business' average monthly local phone bill remains about $40 per line. As a reseller, McLeod gets local access to customers at $15 a month. He figures he can undercut the Bells at $35. Factoring in marketing and other costs, gross margins can still approach 50%.

McLeod also bundles Internet and long-distance services in one bill and suggests ways customers can get by with fewer lines. Salesmen are held to Gray's "beat cop" schedule of continual customer visits. If more than 0.55% of a region's customers leave McLeodUSA in a single month, Gray is notified.

To some of McLeod's customers, service counts for even more than price. "Out here, the other guys can be pretty slow," says Butch Coleman, who owns the Radiator King heating company in Hiawatha, Iowa.

As cash flow builds, McLeodUSA invests in its own infrastructure, increasing margins and branching into high tech as needed. This includes custom software that calculates the services and rates of each market, in order to better undercut the Bells. McLeod will spend more than $100 million on an experimental fiber network that provisions new lines and monitors system bottlenecks anywhere, from a phone switch to a particular truck driver.

McLeod worries most about staffing for growth. "Anybody who thinks this isn't survival of the fittest is kidding themselves, and that starts with people. There are quality people out there," he says. But so far, of the companies he has bought, "We just haven't kept a lot of the CEOs." **F**

White House: hands Off the Internet
By Will Rodger
Interactive Week
12/02/96

Limiting Cable Porn, Privately
By David Andrew Price

FCC Seeks Voluntary TV Ban on Liquor Ads
Yahoo-Reuters
11/09/96

Industry gives Thumbs up to New Bill
By Rich Brown
Broadcasting and Cable Magazine
2/5/96
Telecommunications executives poised to enter new markets, increase portfolios

Spectrum Action Still Looms
Broadcasting and Cable Magazine
2/5/96
"Dole gets assurances the FCC will not award digital TV channels without congressional review"

Wireless' Wild Wild North
Suddenly, there's a rush for the spectrum's upper reaches
By Mark Lewyn
Business Week
3/11/96
Article about Winstar
**Chart of businesses using frequencies
NOTE (Leo I George learned a lot about the ways of Washington as a top outside lawyer for MCI in the early 1970's. MCI drove a wedge into the century old Bell system with a handful of intricate microwave links it got for free from the FCC.)

The FCC Is Besieged as it Rewrites rules in Telecommunications
By Bryan Gruley
3/29/96
"Executives, Lobbyists Cram the agency's schedule and offer lots of advice" "Porridge with Mr. Murdoch"

Telecom AM news bulletin 4/05/96
-States, Industry concerned over FCC Micromanagement
-EON, win join hands on road to National IVDS Network
-Matsushita joins Hughes for Japanese satellite system

The Digital -TV Disaster
By John C. Dvorak
PC Magazine
10/22/96
"The U.S. Government is on the verge of selling the public down the river to Japanese TV manufacturers…because the computer industry does not represent itself well in Washington"

Media Hype
By Lisa Gubernick
Forbes 4/22/96
Commentary on the capitol of major media companies

Telecom AM news bulletin 4/24/96
-spectrum bill may demand b'cast channel auctions
-AT&T inks deal with caps to bypass RBOC networks
-RIM plans to offer Free Middle ware on Web Site

Pushmepullyou
Something between TV and Internet is bound to happen
The Economist Review
11/16/96

Behind Media-ownership Fight, an Old Power struggle is Raging
As TV networks get bigger, local affiliates fear a loss of autonomy
By Matt Rose and Joe Flint

The Land Grant of the Airwaves
By Newton N. Minow and Craig Lamay
Before the 1996 Telecom bill passed
Three suggestions for Dole and company

Review and Outlook *Off the Dole*
"The TV industry seems to want all benefits of the public service designation, with none of the obligations"
"Senator Dole's speech indicates that the digital giveaway, which everyone Washington had assumed to be a done deal, isn't set in concrete after all."
1996

FHO receives the Big Bucks from Big Bird and Barney?
The beloved children's programs, though financed by tax dollars, are leaving taxpayers holding the bag
By John Berlau
Insight
06/02/97

Televisions New boss
As the audience gets smaller, it will also get more powerful
The Economist
08/23/97

The Survival of the Left
Discredited elsewhere, the nostrums of the left live on in public television
By Thomas Sowell
Forbes magazine
09/08/97

Escape from Nerdistan
Artistic types run with the Geeks in the New Centers of Multimedia
By Joel Kotkin'
Washington Post
11/14/97

When It Comes to the Web, the ACLU is clueless
By Jake Kirchner
PC Magazine
10/07/97
"The knee jerk anti-censorship crowd is making it harder to limit children's access to harmful information online"

Judicial Activism May Lower Your Phone Bill
By Robert W. Crandall
1/07/98
Wall Street Journal Interactive
"Judge Joe Kendall declared unconstitutional those provisions of the 1996 telecommunications Act that bar local Bells companies entry into long-distance service until the Bells pass a tortuous set of regulatory hurdles."

An Attack on Broadcasters Rights
By Nat Hentoff
Washington Post
3/04/98
On the fairness doctrine and Bill Kennard

Digital TV Demystified
Answers to the Most common questions
By Jim Barry
Stereo Review
July '98

UK's ONdigital to begin Broadcasting in November
By Bill Mcintosh
9/29/98

New Definitions For Television
"The big battle in television isn't between Letterman and Leno, its behind the scenes war over digital TV.
Euip: Buzz

FCC Responds to Digital TV Critics
By Joel Brinkley
New York Times
9/16/98

Meanwhile Back on the Hill
Washington Post
Robert Samuelson
9/17/98

UK-ITC Favors Terrestrial Over Satellite Digital
By
Newspage.com
9/16/98

Digital TV Demystified
Answers to the Most common questions
By Jim Barry
Stereo Review
July '98

UK's ONdigital to begin Broadcasting in November
By Bill Mcintosh
9/29/98

New Definitions For Television
"The big battle in television isn't between Letterman and Leno, its behind the scenes war over digital TV.
Euip: Buzz

FCC Responds to Digital TV Critics
By Joel Brinkley
New York Times
9/16/98

Meanwhile Back on the Hill
Washington Post
Robert Samuelson
9/17/98

UK-ITC Favors Terrestrial Over Satellite Digital
By
Newspage.com
9/16/98

What the U.S. Film Industry can Teach the Europeans
Book by David Puttnam
Washington Times
12/12/98

The Entertainment Glut
9 page article
Companies spend more and more on content but the audience is continually more fragmented
By Elizabeth Stevens and Ronald Grover
Business Week
02/16/98

That Sinking Feeling
The dropping costs of laying transatlantic cable-with a map
Forbes ASAP
11/29/99

The Public Square
On John Summerville's "How the News makes us dumb", whose concepts are expanded in a book:
The Death of Wisdom in an Information Society
By Richard John Neuhaus

The Idea of Moral Progress
By Richard John Newhaus
On reference in the text to Henry Luce's "American century"

And Robert Nisbet's "History of the Idea of Progress"

The Critical Open Entry Decision
Determining Winners in the Satellite race
By Robert N. Wold
VIA Satellite 06/99
7 pages

Beyond the Information Revolution
By Peter Drucker
The author uses history to gauge the significance of e-commerce" a totally unexpected development" and to throw the future of "the knowledge worker", his own coinage
Atlantic Monthly
10/99

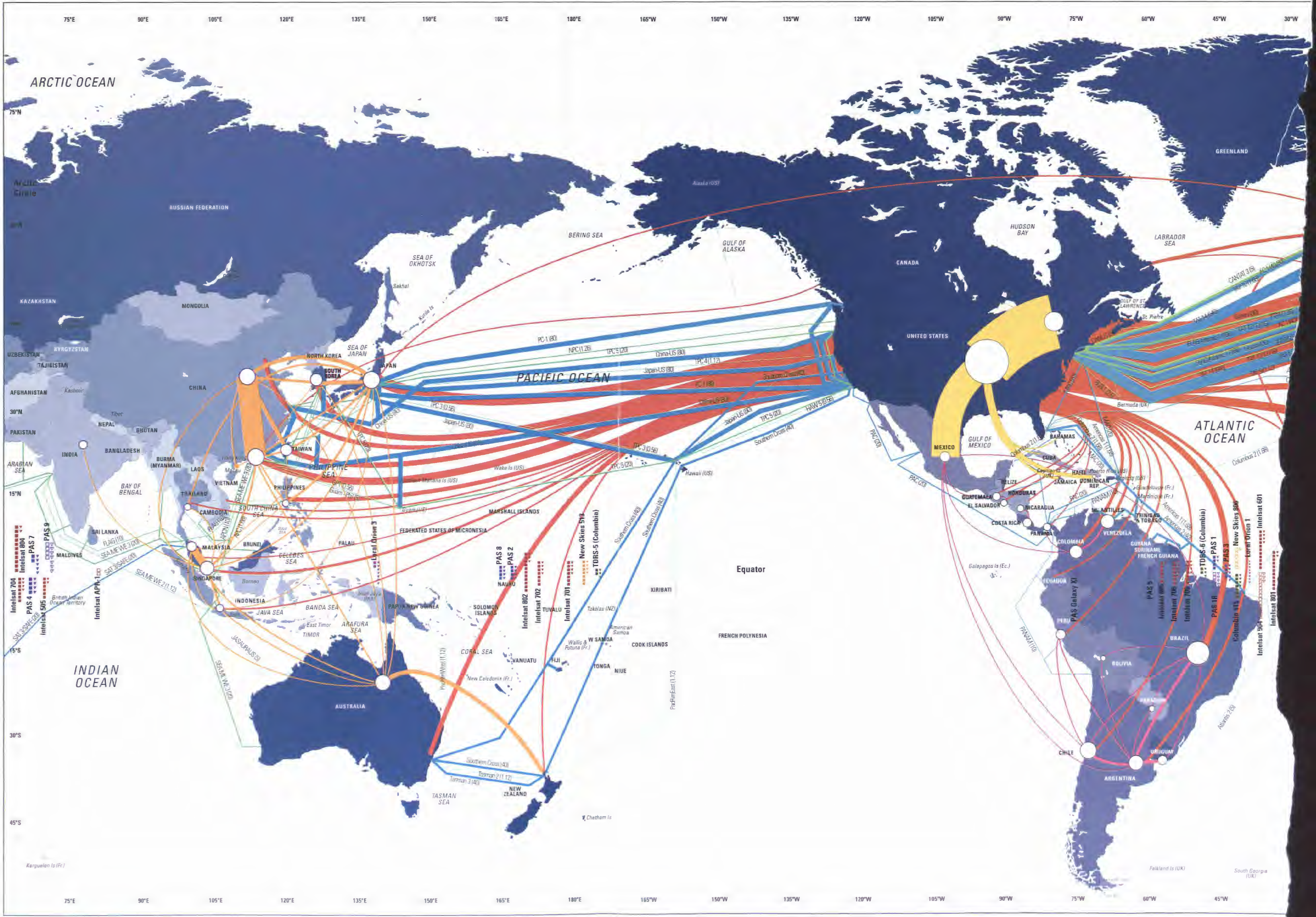
It Didn't Begin With Sesame Street
A review of Public radio and television in America: A Political History, by Ralph Engleman
By Jesse Walker
11/08/99

In Ivory Tower that Spins Pure Gold
As the R&D arm of Lucent technology, Bell labs has a big hand in profits
Timeline of Bell's breakthroughs
Business Week
4/19/99

TV's Racial Divide Reflects the Real World
Cable has reversed trend of integration between actors and audiences
By Clarence Page
Washington Times
1/03/99

Schools in Brief –
Culture is local, so why are the news and entertainment increasingly global?


ELEVATING TELECOMMUNICATIONS IS SPELLED WITH A CAPITAL "T"


75°E
90°E
105°E
120°E
135°E
150°E
165°E
180°E
165°W
150°W
135°W
120°W
105°W
90°W
75°W
60°W
45°W
30°W
75°N
30°N
15°N
15°S
30°S
45°S
ARCTIC OCEAN
Arctic Circle
RUSSIAN FEDERATION
KAZAKHSTAN
MONGOLIA
UZBEKISTAN
KYRGYZSTAN
TAJIKISTAN
AFGHANISTAN
PAKISTAN
Kashmir
Tibet
NEPAL
BHUTAN
CHINA
INDIA
BANGLADESH
BURMA (MYANMAR)
LAOS
VIETNAM
THAILAND
CAMBODIA
ARABIAN SEA
BAY OF BENGAL
SRI LANKA
MALDIVES
MALAYSIA
SINGAPORE
BRUNEI
INDONESIA
Borneo
JAVA SEA
BANDA SEA
East Timor
TIMOR
ARAFURA SEA
British Indian Ocean Territory
PHILIPPINES
TAIWAN
SOUTH CHINA SEA
PHILIPPINE SEA
CELEBES SEA
NORTH KOREA
SOUTH KOREA
JAPAN
SEA OF JAPAN
SEA OF OKHOTSK
Sakhal
Kurile Is
BERING SEA
GULF OF ALASKA
Alaska (US)
PACIFIC OCEAN
PALAU
FEDERATED STATES OF MICRONESIA
MARSHALL ISLANDS
Guam (US)
Northern Mariana Is (US)
Wake Is (US)
Hawaii (US)
PAPUA NEW GUINEA
Irian Jaya
SOLOMON ISLANDS
NAURU
TUVALU
KIRIBATI
Tokelau (NZ)
American Samoa
W SAMOA
Wallis & Futuna (Fr.)
COOK ISLANDS
FRENCH POLYNESIA
TONGA
NIUE
FIJI
VANUATU
New Caledonia (Fr.)
CORAL SEA
AUSTRALIA
TASMAN SEA
NEW ZEALAND
Chatham Is
INDIAN OCEAN
Kerguelen Is (Fr.)
Equator
CANADA
HUDSON BAY
LABRADOR SEA
GREENLAND
GULF OF ST LAWRENCE
St. Pierre
UNITED STATES
MEXICO
GULF OF MEXICO
Bermuda (UK)
ATLANTIC OCEAN
BAHAMAS
CUBA
Cayman Is (UK)
HAITI
DOMINICAN REP.
Puerto Rico (US)
JAMAICA
BELIZE
GUATEMALA
HONDURAS
EL SALVADOR
NICARAGUA
COSTA RICA
PANAMA
Guadeloupe (Fr.)
Martinique (Fr.)
NL ANTILLES
TRINIDAD & TOBAGO
VENEZUELA
COLOMBIA
GUYANA
SURINAME
FRENCH GUIANA
ECUADOR
Galapagos Is (Ec.)
PERU
BRAZIL
BOLIVIA
PARAGUAY
CHILE
ARGENTINA
URUGUAY
Falkland Is (UK)
South Georgia (UK)
PC-1 (80)
NPC (1.26)
TPC-5 (20)
China-US (80)
Japan-US (80)
TPC-4 (1.12)
Southern Cross (40)
PC-1 (80)
China-US (80)
TPC-3 (0.56)
Japan-US (80)
TPC-5 (20)
HAW-5 (0.56)
Southern Cross (40)
PAC (20)
APCN (10)
SEA-ME-WE 3 (20)
FLAG (10)
SAT-3/SAFE (20)
SEA-ME-WE 2 (1.12)
JASAURUS (5)
PacRimWest (1.12)
PacRimEast (1.12)
Southern Cross (40)
Tasman 2 (1.12)
Tasman 3 (40)
PAN-AM (10)
Columbus 2 (1.68)
Americas 1 (1.68)
Americas 2 (5)
Atlantis 2 (5)
CANTAT 3 (5)
Intelsat 704
Intelsat 804
PAS 4
PAS 7
Intelsat 505
PAS 9
Intelsat APR-1
Loral Orion 3
PAS 8
PAS 2
Intelsat 802
Intelsat 702
Intelsat 701
New Skies 513
TDRS-5 (Columbia)
PAS Galaxy XI
PAS 5
Intelsat 805
Intelsat 706
Intelsat 709
PAS 1R
TDRS-6 (Columbia)
PAS 1
Columbia 515
PAS 3
New Skies 806
Loral Orion 1
Intelsat 601
Intelsat 904
Intelsat 801

Four-Page Foldout Poster ☛

Will They Come?

Builders of high-bandwidth networks may be overestimating their potential market. By Blaise Zerega and Scott Lajoie

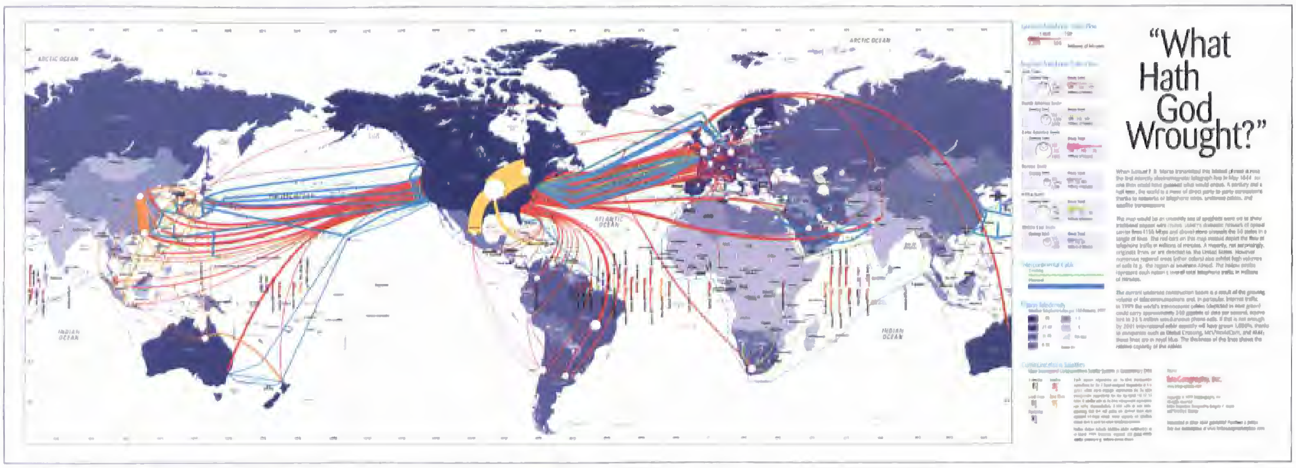
WITH A COMBINED MARKET CAPITALIZATION of nearly $75 billion, upstart communications companies Qwest, Level 3, and Global Crossing have managed to win the confidence of investors. But their overnight success may prove to be their undoing. Critics of these carriers insist that their advanced fiber-optic networks — being rolled out at record speed and at record cost — will result in excess network capacity. If true, their business models, which anticipate high-bandwidth applications, are in peril.

This may also be a boon to *users* of bandwidth ... meaning everybody. With bandwidth all but free, we may see the greatest telecommunications land rush ever. "By the year 2002, the backbone network's capacity will be 30 times what is needed," says Mark Bruneau of Renaissance Worldwide, a telecom consultancy in Boston. Bruneau considers his estimate "conservative," based on optimistic assumptions about adoption rates of high-bandwidth services like DSL and cable modems.

One need only look at the billions of dollars being raised and the millions of miles of fiber-optic cables being laid to sense the potential for a train wreck. For starters, Level 3 has raised about $5 billion from its initial public offering, revolving credit facilities, and junk bond issues, allowing it to start on its $10 billion, 20,700-mile end-to-end Internet protocol network for Asia, Europe, and the United States.

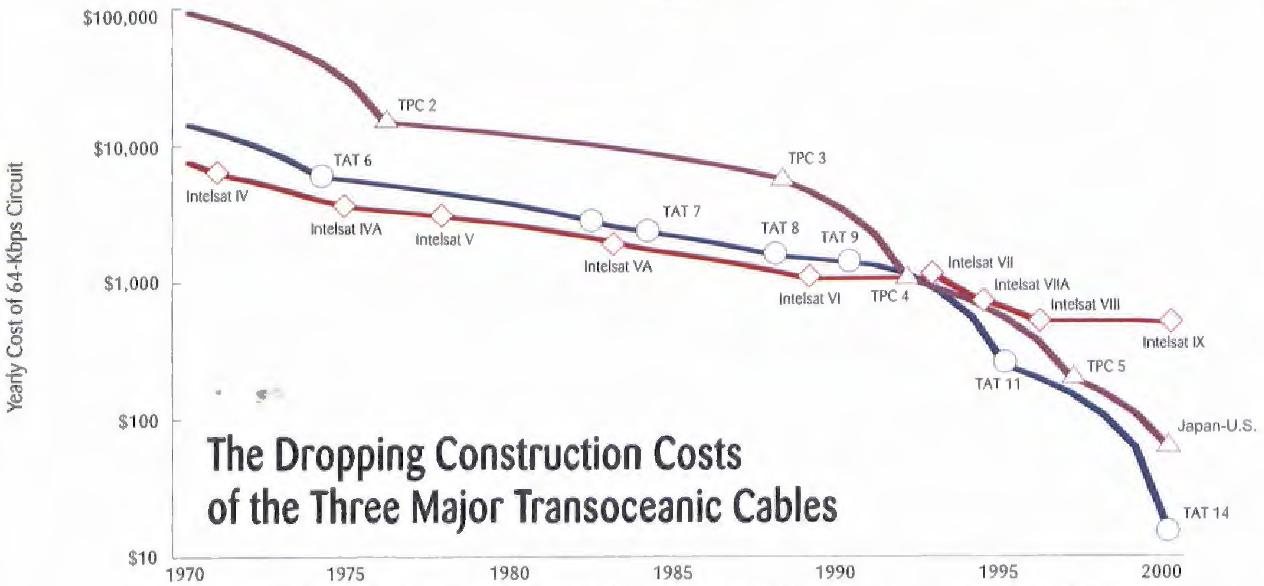
Similarly, Global Crossing has raised about $3.5 billion from similar sources to build its terrestrial and undersea network of fiber-optic cables connecting 100 cities in the United States, Europe, Asia, and Latin America. Both companies' networks are scheduled to be completed in 2001.

According to Bruneau, more than 23 million miles of new fiber-optic cable were laid in 1998 alone. Furthermore, total capacity of the transoceanic cables spanning the Atlantic will grow from 128 gigabits per second at the end of 1999 to 1,600 gigabits per second by the end of 2001. Over the same ► *136*



Reach Out and Touch Someone *Global communication connections make possible telephone transmissions all over the planet. The four-page foldout on the following pages details where those calls go and what upcoming technologies are shuttling them to their destinations.*

That Sinking Feeling...



The Dropping Construction Costs of the Three Major Transoceanic Cables

Data reflect construction costs of each iteration of Intelsat,Trans-Atlantic (TAT), and Trans-Pacific (TPC) cable systems (amortized over the expected lifetime of a system)
Sources: TeleGeography; Euroconsult. From the upcoming **TeleGeography 2000**

Cheaper Cable *One of the factors that will inevitably drive down worldwide telephone rates is the falling cost of laying cable. In the quarter century since the Trans-Atlantic 6 (TAT 6) cable was laid, its 2000 counterpart will cost nearly three orders of magnitude less.*

Will They Come?

◄*129*

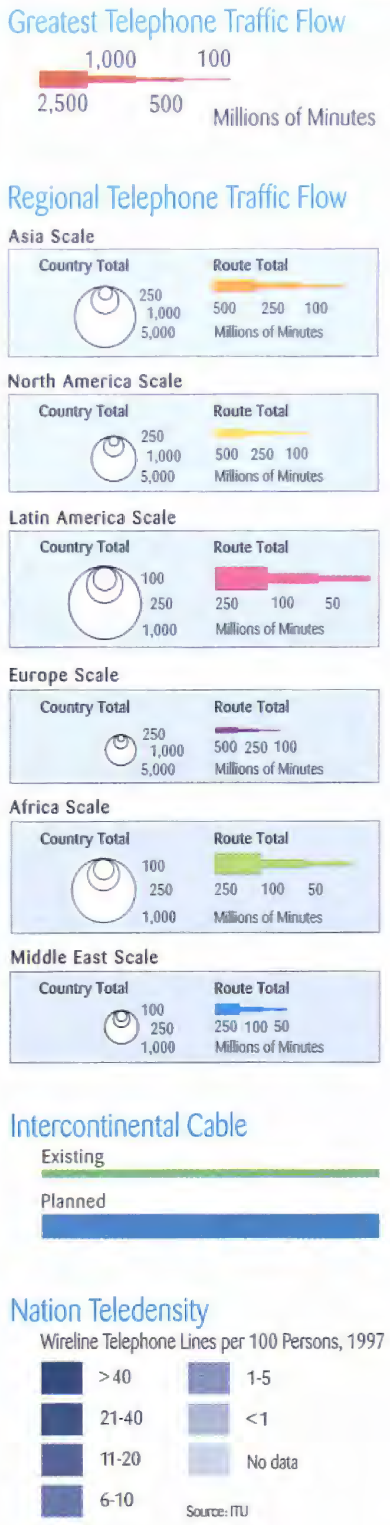
period, those across the Pacific will grow from 104 gigabits per second to 944 gigabits per second, according to TeleGeography, a communications research firm in Washington, D.C. (The firm is the source for the foldout on the previous pages.) The ability of these young companies to repay their creditors depends largely on network capacity remaining a high-value and scarce commodity. "If these companies were to light their fiber at the same time, it would be suicidal," says Melanie Posey, an analyst at International Data Corporation in Framingham, Massachusetts. A more likely scenario is that the companies will turn on their networks in stages as demand emerges.

The question remains whether there is a compelling demand for high-bandwidth applications. To date, there is little agreement regarding the form of these next-generation applications. Even Qwest concedes this point. "I have no idea what shape these new applications might take," says Qwest chairman and CEO Joe Nacchio, speaking at George Gilder's Telecosm conference in September. But supporters of the "new" telecommunications players, including Gilder himself, argue the following economic view: Supply of the conduit affects, or even creates, a demand for and supply of the content. This is similar to PC computing, where more memory and larger hard drives made new applications possible.

Recognizing the possibility of a bandwidth glut, some companies have already changed their business models to cope with such an event. One tactic is to evolve from merely selling network capacity toward developing and selling content and services in local markets. This move is an attempt to outflank the bottleneck presented by regional Bell operating companies and local carriers that control "last mile" access by doling out drinking straws, in the form of copper wires, to contain the raging aqueduct of capacity soon to be flowing through the new fiber-optic channels. Thus, Global Crossing has partnered with Microsoft and Softbank to blend content with bandwidth for the Asian market.

According to Nacchio, Qwest has already changed its business model three times, as evidenced by its pending acquisition of US West, an RBOC that offers local communications services to more than 25 million customers, and by its agreement with Hewlett-Packard and KPMG to develop broadband content and services. "We've gone from being a wholesale carrier's carrier, to a retail carrier, to a broadband Internet player," he says.

Even while arguing that Qwest is creating excess capacity, Bruneau still picks the company, along with AT&T and Global Crossing, as a winner in the coming shake-up caused by the bandwidth glut. "Only companies that are serious about content, applications, and carriage and have a strong financial footing will survive," says Bruneau. These companies cannot bet on the *Field of Dreams* mantra: Building the network doesn't guarantee that applications or profits will come. ■



"What Hath God Wrought?"

When Samuel F. B. Morse transmitted this biblical phrase across the first intercity electromagnetic telegraph line in May 1844, no one then could have guessed what would ensue. A century and a half later, the world is a maze of direct party-to-party connections, thanks to networks of telephone wires, undersea cables, and satellite transmissions.

The map would be an unwieldy sea of spaghetti were we to show traditional copper-wire routes. UUNET's domestic network of optical carrier lines (155 Mbps and above) alone shrouds the 50 states in a tangle of lines. The red bars on this map instead depict the flow of telephone traffic in millions of minutes. A majority, not surprisingly, originate from, or are directed to, the United States. However, numerous regional areas (other colors) also exhibit high volumes of calls (e.g., the region of southern Africa). The hollow circles represent each nation's overall total telephone traffic in millions of minutes.

The current undersea construction boom is a result of the growing volume of telecommunications and, in particular, Internet traffic. In 1999 the world's transoceanic cables (depicted in mint green) could carry approximately 350 gigabits of data per second, equivalent to 24.5 million simultaneous phone calls. If that is not enough, by 2001 international cable capacity will have grown 1,000%, thanks to companies such as Global Crossing, MCI/WorldCom, and AT&T; those lines are in royal blue. The thickness of the lines shows the relative capacity of the cables.

Communications Satellites

Major Interregional Communications Satellite Systems in Geostationary Orbit

Columbia	Intelsat
■▼ ■▼ ▼	■▼ ■▼ ▼
Loral Orion	**New Skies**
■▼ ■▼ ▼	■▼ ■▼ ▼
PanAmSat	
■▼ ■▼ ▼	

Each square represents six 36-MHz transponder equivalents for the C-band (assigned frequencies at 4/6 GHz), while each triangle represents six 36-MHz transponder equivalents for the Ku-band (11-12/14 GHz). A satellite with six 36-MHz transponder equivalents can carry approximately 4,500 calls at one time, assuming that five call paths are derived from each standard 64-Kbps circuit. Some capacity on satellites shown here is used for video broadcast services.

Hollow shapes indicate satellites under construction as of March 1999. Domestic, regional, and global mobile satellite systems (e.g., Iridium) are not shown.

Source:
TeleGeography, Inc.
www.telegeography.com

Miller Projection. Designed by Gregory C. Staple
and Timothy J. Stronge

At Deutsche Telekom, innovation drives our business

Innovation opens new markets and enhances productivity. It is the engine of growth at the heart of our competitive strategy. From our laboratories to the marketplace, innovation is at work, driving our advances in voice, data, and multimedia convergence, as well as IT and telecommunications integration. Innovation is also at work in our business practices through our strategic alliances and development partnerships with the most forward-looking companies around the globe.

Opening new markets

Deutsche Telekom has not only realized fixed-cellular integration, but is fully committed to the integration of cellular communication and the Internet. We continue to pioneer solutions in online security with advanced chip design and TrustCenter technology. What's more, with innovations in telemedicine, telelearning, teleservice, and traffic telematics, we are positioned to gain even greater share in new markets.

Today's vision, tomorrow's reality

Deutsche Telekom is a proving ground for the next millennium. With SmartHome we've developed a comprehensive design for the home of the future. Our third generation UMTS digital cellular technology will allow mobile multimedia communication with transfer rates of up to 2 Mbps. And we're breaking new ground in agent technology, for use in 3-D visualization and knowledge-based systems. These are just a few highlights of what we have in store. And, there's much more to come.

To find out more about the company that's engineering the future of telecommunications, contact us.

1-877-FOR-DTNA
1-877-367-3862

www.telekom.de/international

Deutsche Telekom
North America
280 Park Avenue
26th Floor
New York, NY 10017

DT
Listed
NYSE

Deutsche
Telekom

Beyond the Information Revolution

by PETER F. DRUCKER

The author uses history to gauge the significance of e-commerce— "a totally unexpected development"—and to throw light on the future of "the knowledge worker," his own coinage

THE truly revolutionary impact of the Information Revolution is just beginning to be felt. But it is not "information" that fuels this impact. It is not "artificial intelligence." It is not the effect of computers and data processing on decision-making, policymaking, or strategy. It is something that practically no one foresaw or, indeed, even talked about ten or fifteen years ago: *e-commerce*—that is, the explosive emergence of the Internet as a major, perhaps eventually *the* major, worldwide distribution channel for goods, for services, and, surprisingly, for managerial and professional jobs. This is profoundly changing economies, markets, and industry structures; products and services and their flow; consumer segmentation, consumer values, and consumer behavior; jobs and labor markets. But the impact may be even greater on societies and politics and, above all, on the way we see the world and ourselves in it.

At the same time, new and unexpected industries will no doubt emerge, and fast. One is already here: biotechnology. And another: fish farming. Within the next fifty years fish farming may change us from hunters and gatherers on the seas into "marine pastoralists"—just as a similar innovation some 10,000 years ago changed our ancestors from hunters and gatherers on the land into agriculturists and pastoralists.

It is likely that other new technologies will appear suddenly, leading to major new industries. What they may be is impossible even to guess at. But it is highly probable—indeed, nearly certain—that they will emerge, and fairly soon. And it is nearly certain that few of them—and few industries based on them—will come out of computer and information technology. Like biotechnology and fish farming, each will emerge from its own unique and unexpected technology.

Of course, these are only predictions. But they are made on the assumption that the Information Revolution will evolve as several earlier technology-based "revolutions" have evolved over the past 500 years, since Gutenberg's printing revolution, around 1455. In particular the assumption is that the Information Revolution will be like the Industrial Revolution of the late eighteenth and early nineteenth centuries. And that is indeed exactly how the Information Revolution has been during its first fifty years.

The Railroad

THE Information Revolution is now at the point at which the Industrial Revolution was in the early 1820s, about forty years after James Watt's improved steam engine (first installed in 1776) was first applied, in 1785, to an industrial operation—the spinning of cotton. And the steam engine was to the first Industrial Revolution what the computer has been to the Information Revolution—its trigger, but

Illustrations by Valerie Sinclair

above all its symbol. Almost everybody today believes that nothing in economic history has ever moved as fast as, or had a greater impact than, the Information Revolution. But the Industrial Revolution moved at least as fast in the same time span, and had probably an equal impact if not a greater one. In short order it mechanized the great majority of manufacturing processes, beginning with the production of the most important industrial commodity of the eighteenth and early nineteenth centuries: textiles. Moore's Law asserts that the price of the Information Revolution's basic element, the microchip, drops by 50 percent every eighteen months. The same was true of the products whose manufacture was mechanized by the first Industrial Revolution. The price of cotton textiles fell by 90 percent in the fifty years spanning the start of the eighteenth century. The production of cotton textiles increased at least 150-fold in Britain alone in the same period. And although textiles were the most visible product of its early years, the Industrial Revolution mechanized the production of practically all other major goods, such as paper, glass, leather, and bricks. Its impact was by no means confined to consumer goods. The production of iron and ironware—for example, wire—became mechanized and steam-driven as fast as did that of textiles, with the same effects on cost, price, and output. By the end of the Napoleonic Wars the making of guns was steam-driven throughout Europe; cannons were made ten to twenty times as fast as before, and their cost dropped by more than two thirds. By that time Eli Whitney had similarly mechanized the manufacture of muskets in America and had created the first mass-production industry.

IN THE NEW MENTAL GEOGRAPHY CREATED BY THE RAILROAD, HUMANITY MASTERED DISTANCE. IN THE MENTAL GEOGRAPHY OF E-COMMERCE, DISTANCE HAS BEEN ELIMINATED. THERE IS ONLY ONE ECONOMY AND ONLY ONE MARKET. THE COMPETITION IS NOT LOCAL ANYMORE—IT KNOWS NO BOUNDARIES.

These forty or fifty years gave rise to the factory and the "working class." Both were still so few in number in the mid-1820s, even in England, as to be statistically insignificant. But psychologically they had come to dominate (and soon would politically also). Before there were factories in America, Alexander Hamilton foresaw an industrialized country in his 1791 *Report on Manufactures*. A decade later, in 1803, a French economist, Jean-Baptiste Say, saw that the Industrial Revolution had changed economics by creating the "entrepreneur."

The social consequences went far beyond factory and working class. As the historian Paul Johnson has pointed out, in *A History of the American People* (1997), it was the explosive growth of the steam-engine-based textile industry that revived slavery. Considered to be practically dead by the Founders of the American Republic, slavery roared back to life as the cotton gin—soon steam-driven—created a huge demand for low-cost labor and made breeding slaves America's most profitable industry for some decades.

The Industrial Revolution also had a great impact on the family. The nuclear family had long been the unit of production. On the farm and in the artisan's workshop husband, wife, and children worked together. The factory, almost for the first time in history, took worker and work out of the home and moved them into the workplace, leaving family members behind—whether spouses of adult factory workers or, especially in the early stages, parents of child factory workers.

Indeed, the "crisis of the family" did not begin after the Second World War. It began with the Industrial Revolution—and was in fact a stock concern of those who opposed the Industrial Revolution and the factory system. (The best description of the divorce of work and family, and of its effect on both, is probably Charles Dickens's 1854 novel *Hard Times*.)

But despite all these effects, the Industrial Revolution in its first half century only mechanized the production of goods that had been in existence all along. It tremendously increased output and tremendously decreased cost. It created both consumers and consumer products. But the products themselves had been around all along. And products made in the new factories differed from traditional products only in that they were uniform, with fewer defects than existed in products made by any but the top craftsmen of earlier periods.

There was only one important exception, one new product, in those first fifty years: the steamboat, first made practical by Robert Fulton in 1807. It had little impact until thirty or forty years later. In fact, until almost the end of the nineteenth century more freight was carried on the world's oceans by sailing vessels than by steamships.

Then, in 1829, came the railroad, a product truly without precedent, and it forever changed economy, society, and politics.

In retrospect it is difficult to imagine why the invention of the railroad took so long. Rails to move carts had been around in coal mines for a very long time. What could be more obvious than to put a steam engine on a cart to drive it, rather than have it pushed by people or pulled by horses? But the railroad did not emerge from the cart in the mines. It was developed quite independently. And it was not intended to carry freight. On the contrary, for a long time it was seen only as a way to carry people. Railroads became freight carriers thirty years later, in America. (In fact, as late as the 1870s and 1880s the

Introducing the future of employee benefits

Imagine... a program that's as easy to manage as clicking an icon or dialing a phone. ***Imagine...*** having a whole team of benefits specialists dedicated to your account. ***Imagine...*** a complete benefits marketplace–designed to fit your employees' needs–with a single point of access. At Prudential we're not just imagining it, *we're building it.* Join us as we define the future of employee benefits.

Prudential means benefits... and beyond

Our commitment to serving institutions around the world has helped us grow employee benefits into a $6 billion business. How can we help you?

401(k) and Other Retirement Services

Group Annuities and Stable-Value Products

Group Life

Group Disability

Group Long-Term Care

Relocation and Real Estate Services

Voluntary Benefits

- Auto and Homeowners Insurance
- Long-Term Care
- Financial Planning
- Real Estate Services
- and more

The future is... a renewed focus on employees.

Great benefits have always been a key to attracting and retaining great employees. But today's employees want something more: products and services that respond not just to their needs as employees, but to their needs as *people*. Needs like managing their finances. Building personal wealth. Or finding the ideal location to raise a family. Nobody's better positioned to deliver it all than Prudential.

The future is... having as many providers as you need, and a single system for managing them.

At Prudential, we have a proven ability to integrate products, technology and the Internet. And we're using it to build a system that lets you seamlessly manage all of your current and future benefit providers—from relocation to group life, disability, 401(k)s, and health care. It's a streamlined approach that can respond quickly to marketplace changes, lower your costs, and ultimately make your job easier.

The future is... voluntary benefits.

What do you do when your employees demand more benefits than your bottom line can afford? You turn to voluntary benefits. Prudential's WorkingSolutions℠ program gives employees access to an extensive menu of voluntary products and services, including group auto and homeowners insurance, long-term care coverage, financial planning, even real estate services.

The future is... right at your fingertips.

Learn more by requesting a copy of our article, *"**A New Vision For Employee Benefits**."* Go to **Spotlight** on the Prudential Home Page at **www.prudential.com**.

Prudential

© 1999 Revenue source: Internal financial statements as of March 1999. Prudential Real Estate brokerage services are offered in most cases through the network of independently owned and operated franchisees of The Prudential Real Estate Affiliates, Inc., a subsidiary of The Prudential Insurance Company of America. Equal Housing Opportunity. Prudential Relocation, 200 Summit Lake Drive, Valhalla, NY 10595. The investment products are offered through Prudential Investment Management Services LLC, a registered broker dealer. Prudential Investment Management Services LLC is a subsidiary of The Prudential Insurance Company of America. Financial planning is offered by Pruco Securities Corporation, a subsidiary of Prudential, 751 Broad Street, Newark, NJ 07102. The insurance coverages are underwritten by The Prudential Insurance Company of America, 751 Broad Street, Newark, NJ 07102. Auto and Homeowners provided by Merastar Insurance Company, Chattanooga, TN 37411-6101. Not all products available in all states.

British engineers who were hired to build the railroads of newly Westernized Japan designed them to carry passengers—and to this day Japanese railroads are not equipped to carry freight.) But until the first railroad actually began to operate, it was virtually unanticipated.

Within five years, however, the Western world was engulfed by the biggest boom history had ever seen—the railroad boom. Punctuated by the most spectacular busts in economic history, the boom continued in Europe for thirty years, until the late 1850s, by which time most of today's major railroads had been built. In the United States it continued for another thirty years, and in outlying areas—Argentina, Brazil, Asian Russia, China—until the First World War.

The railroad was the truly revolutionary element of the Industrial Revolution, for not only did it create a new economic dimension but also it rapidly changed what I would call the *mental geography*. For the first time in history human beings had true mobility. For the first time the horizons of ordinary people expanded. Contemporaries immediately realized that a fundamental change in mentality had occurred. (A good account of this can be found in what is surely the best portrayal of the Industrial Revolution's society in transition, George Eliot's 1871 novel *Middlemarch*.) As the great French historian Fernand Braudel pointed out in his last major work, *The Identity of France* (1986), it was the railroad that made France into one nation and one culture. It had previously been a congeries of self-contained regions, held together only politically. And the role of the railroad in creating the American West is, of course, a commonplace in U.S. history.

Routinization

LIKE the Industrial Revolution two centuries ago, the Information Revolution so far—that is, since the first computers, in the mid-1940s—has only transformed processes that were here all along. In fact, the real impact of the Information Revolution has not been in the form of "information" at all. Almost none of the effects of information envisaged forty years ago have actually happened. For instance, there has been practically no change in the way major decisions are made in business or government. But the Information Revolution has routinized traditional *processes* in an untold number of areas.

The software for tuning a piano converts a process that traditionally took three hours into one that takes twenty minutes. There is software for payrolls, for inventory control, for delivery schedules, and for all the other routine processes of a business. Drawing the inside arrangements of a major building (heating, water supply, sewerage, and so on) such as a prison or a hospital formerly took, say, twenty-five highly skilled draftsmen up to fifty days; now there is a program that enables one draftsman to do the job in a couple of days, at a tiny fraction of the cost. There is software to help people do their tax returns and software that teaches hospital residents how to take out a gall bladder. The people who now speculate in the stock market online do exactly what their predecessors in the 1920s did while spending hours each day in a brokerage office. The processes have not been changed at all. They have been routinized, step by step, with a tremendous saving in time and, often, in cost.

The psychological impact of the Information Revolution, like that of the Industrial Revolution, has been enormous. It has perhaps been greatest on the way in which young children learn. Beginning at age four (and often earlier), children now rapidly develop computer skills, soon surpassing their elders; computers are their toys and their learning tools. Fifty years hence we may well conclude that there was no "crisis of American education" in the closing years of the twentieth century—there was only a growing incongruence between the way twentieth-century schools taught and the way late-twentieth-century children learned. Something similar happened in the sixteenth-century university, a hundred years after the invention of the printing press and movable type.

But as to the way we work, the Information Revolution has so far simply routinized what was done all along. The only exception is the CD-ROM, invented around twenty years ago to present operas, university courses, a writer's oeuvre, in an entirely new way. Like the steamboat, the CD-ROM has not immediately caught on.

The Meaning of E-commerce

E-COMMERCE is to the Information Revolution what the railroad was to the Industrial Revolution—a totally new, totally unprecedented, totally unexpected development. And like the railroad 170 years ago, e-commerce is creating a new and distinct boom, rapidly changing the economy, society, and politics.

One example: A mid-sized company in America's industrial Midwest, founded in the 1920s and now run by the grandchildren of the founder, used to have some 60 percent of the market in inexpensive dinnerware for fast-food eateries, school and office cafeterias, and hospitals within a hundred-mile radius of its factory. China is heavy and breaks easily, so cheap china is traditionally sold within a small area. Almost overnight this company lost more than half of its market. One of its customers, a hospital cafeteria where someone went "surfing" on the Internet, discovered a European manufacturer that offered china of apparently better quality at a lower price and shipped cheaply by air. Within a few months the main customers in the area shifted to the European supplier. Few of them, it seems, realize—let alone care—that the stuff comes from Europe.

In the new mental geography created by the railroad, humanity mastered distance. In the mental geography of e-commerce, distance has been eliminated. There is only one economy and only one market.

One consequence of this is that every business must become globally competitive, even if it manufactures or sells only within a local or regional market. The competition is not local anymore—in fact, it knows no boundaries. Every company has to become transnational in the way it is run. Yet the traditional multinational may well become obsolete. It manufactures and distributes in a number of distinct geographies, in which it is a *local* company. But in e-commerce there are neither local companies nor distinct geographies. Where to manufacture, where to sell, and how to sell will remain important business decisions. But in another twenty years they may no longer determine what a company does, how it does it, and where it does it.

At the same time, it is not yet clear what kinds of goods and services will be bought and sold through e-commerce and what kinds will turn out to be unsuitable for it. This has been true whenever a new distribution channel has arisen. Why, for instance, did the railroad change both the mental and the economic geography of the West, whereas the steamboat—with its equal impact on world trade and passenger traffic—did neither? Why was there no "steamboat boom"?

Equally unclear has been the impact of more-recent changes in distribution channels—in the shift, for instance, from the local grocery store to the supermarket, from the individual supermarket to the supermarket chain, and from the supermarket chain to Wal-Mart and other discount chains. It is already clear that the shift to e-commerce will be just as eclectic and unexpected.

Here are a few examples. Twenty-five years ago it was generally believed that within a few decades the printed word would be dispatched electronically to individual subscribers' computer screens. Subscribers would then either read text on their computer screens or download it and print it out. This was the assumption that underlay the CD-ROM. Thus any number of newspapers and magazines, by no means only in the United States, established themselves online; few, so far, have become gold mines. But anyone who twenty years ago predicted the business of Amazon.com and barnesandnoble.com—that is, that books would be sold on the Internet but delivered in their heavy, printed form—would have been laughed off the podium. Yet Amazon.com and barnesandnoble.com are in exactly that business, and they are in it worldwide. The first order for the U.S. edition of my most recent book, *Management Challenges for the 21st Century* (1999), came to Amazon.com, and it came from Argentina.

Another example: Ten years ago one of the world's leading automobile companies made a thorough study of the expected impact on automobile sales of the then emerging Internet. It concluded that the Internet would become a major distribution channel for used cars, but that customers would still want to see new cars, to touch them, to test-drive them. In actuality, at least so far, most used cars are still being bought not over the

Internet but in a dealer's lot. However, as many as half of all new cars sold (excluding luxury cars) may now actually be "bought" over the Internet. Dealers only deliver cars that customers have chosen well before they enter the dealership. What does this mean for the future of the local automobile dealership, the twentieth century's most profitable small business?

Another example: Traders in the American stock-market boom of 1998 and 1999 increasingly buy and sell online. But investors seem to be shifting away from buying electronically. The major U.S. investment vehicle is mutual funds. And whereas almost half of all mutual funds a few years ago were bought electronically, it is estimated that the figure will drop to 35 percent next year and to 20 percent by 2005. This is the opposite of what "everybody expected" ten or fifteen years ago.

The fastest-growing e-commerce in the United States is in an area where there was no "commerce" until now—in jobs for professionals and managers. Almost half of the world's largest companies now recruit through Web sites, and some two and a half million managerial and professional people (two thirds of them not even engineers or computer professionals) have their résumés on the Internet and solicit job offers over it. The result is a completely new labor market.

This illustrates another important effect of e-commerce. New distribution channels change who the customers are. They change not only *how* customers buy but also *what* they buy. They change consumer behavior, savings patterns, industry structure—in short, the entire economy. This is what is now happening, and not only in the United States but increasingly in the rest of the developed world, and in a good many emerging countries, including mainland China.

Luther, Machiavelli, and the Salmon

THE railroad made the Industrial Revolution accomplished fact. What had been revolution became establishment. And the boom it triggered lasted almost a hundred years. The technology of the steam engine did not end with the railroad. It led in the 1880s and 1890s to the steam turbine, and in the 1920s and 1930s to the last magnificent American steam locomotives, so beloved by railroad buffs. But the technology centered on the steam engine and in manufacturing operations ceased to be central. Instead the dynamics of the technology shifted to totally new industries that emerged almost immediately after the railroad was invented, not one of which had anything to do with steam or steam engines. The electric telegraph and photography were first, in the 1830s, followed soon thereafter by optics and farm equipment. The new and different fertilizer industry, which began in the late 1830s, in short order transformed agriculture. Public health became a major and central growth industry, with quarantine, vaccination, the supply of pure water, and sewers, which for the first time in history made the city a more healthful habitat than the countryside. At the same time came the first anesthetics.

With these major new technologies came major new social institutions: the modern postal service, the daily paper, investment banking, and commercial banking, to name just a few. Not one of them had much to do with the steam engine or with the technology of the Industrial Revolution in general. It was these new industries and institutions that by 1850 had come to dominate the industrial and economic landscape of the developed countries.

This is very similar to what happened in the printing revolution—the first of the technological revolutions that created the

---

THE NET
(Long Island Sound, 1960)

I saw the black maid park the Cadillac
in the lot of the Indian Harbor Yacht Club.
When she hefted the first huge silver tray
of delicacies for that evening's soiree
on her boss's yacht, I offered help.

No, she said, in her starched gray uniform
on orders from her employer. The launch man,
in wrinkled khakis and a black cap with gold
braided on the bill, told her no, she couldn't
ride the launch. Against Club rules.

But I am just bringing out the food, she said.
Everyone looked at the ground. The launch man
and the maid in their uniforms with strict orders,
me, at twelve, with my marlinspike and stopwatch,
still learning the lines, the tactics of yachting.

I'd never been so close to a black person.
I could see the whites of her eyes flash.
She was caught. He was caught. I
didn't know that I'd been caught. I couldn't
feel the hook that pinned my tongue to my cheek.

But stepping aboard the launch, I felt the net,
woven so carefully by so many hands,
the seamless, almost miraculously strong,
transparent canopy that keeps everyone
in Greenwich exquisitely and forever in place.

—PETER HARRIS

1 mg. "tar", 0.1 mg. nicotine av. per cigarette by FTC method. Actual tar and nicotine deliveries will vary based on how you hold and smoke your cigarette. It is not our intention to suggest that a 1 mg. "tar" cigarette is safer than other cigarettes. For more information, contact www.bwtarnic.com

SURGEON GENERAL'S WARNING: Quitting Smoking Now Greatly Reduces Serious Risks to Your Health.

www.brownandwilliamson.com

modern world. In the fifty years after 1455, when Gutenberg had perfected the printing press and movable type he had been working on for years, the printing revolution swept Europe and completely changed its economy and its psychology. But the books printed during the first fifty years, the ones called incunabula, contained largely the same texts that monks, in their scriptoria, had for centuries laboriously copied by hand: religious tracts and whatever remained of the writings of antiquity. Some 7,000 titles were published in those first fifty years, in 35,000 editions. At least 6,700 of these were traditional titles. In other words, in its first fifty years printing made available—and increasingly cheap—traditional information and communication products. But then, some sixty years after Gutenberg, came Luther's German Bible—thousands and thousands of copies sold almost immediately at an unbelievably low price. With Luther's Bible the new printing technology ushered in a new society. It ushered in Protestantism, which conquered half of Europe and, within another twenty years, forced the Catholic Church to reform itself in the other half. Luther used the new medium of print deliberately to restore religion to the center of individual life and of society. And this unleashed a century and a half of religious reform, religious revolt, religious wars.

At the very same time, however, that Luther used print with the avowed intention of restoring Christianity, Machiavelli wrote and published *The Prince* (1513), the first Western book in more than a thousand years that contained not one biblical quotation and no reference to the writers of antiquity. In no time at all *The Prince* became the "other best seller" of the sixteenth century, and its most notorious but also most influential book. In short order there was a wealth of purely secular works, what we today call literature: novels and books in science, history, politics, and, soon, economics. It was not long before the first purely secular art form arose, in England—the modern theater. Brand-new social institutions also arose: the Jesuit order, the Spanish infantry, the first modern navy, and, finally, the sovereign national state. In other words, the printing revolution followed the same trajectory as did the Industrial Revolution, which began 300 years later, and as does the Information Revolution today.

What the new industries and institutions will be, no one can say yet. No one in the 1520s anticipated secular literature, let alone the secular theater. No one in the 1820s anticipated the electric telegraph, or public health, or photography.

The one thing (to say it again) that is highly probable, if not nearly certain, is that the next twenty years will see the emergence of a number of new industries. At the same time, it is nearly certain that few of them will come out of information technology, the computer, data processing, or the Internet. This is indicated by all historical precedents. But it is true also of the new industries that are already rapidly emerging. Biotechnology, as mentioned, is already here. So is fish farming.

Twenty-five years ago salmon was a delicacy. The typical convention dinner gave a choice between chicken and beef. Today salmon is a commodity, and is the other choice on the convention menu. Most salmon today is not caught at sea or in a river but grown on a fish farm. The same is increasingly true of trout. Soon, apparently, it will be true of a number of other fish. Flounder, for instance, which is to seafood what pork is to meat, is just going into oceanic mass production. This will no doubt lead to the genetic development of new and different fish, just as the domestication of sheep, cows, and chickens led to the development of new breeds among them.

But probably a dozen or so technologies are at the stage where biotechnology was twenty-five years ago—that is, ready to emerge.

There is also a *service* waiting to be born: insurance against the risks of foreign-exchange exposure. Now that every business is part of the global economy, such insurance is as badly needed as was insurance against physical risks (fire, flood) in the early stages of the Industrial Revolution, when traditional insurance emerged. All the knowledge needed for foreign-exchange insurance is available; only the institution itself is still lacking.

The next two or three decades are likely to see even greater technological change than has occurred in the decades since the emergence of the computer, and also even greater change in industry structures, in the economic landscape, and probably in the social landscape as well.

The Gentleman Versus the Technologist

THE new industries that emerged after the railroad owed little technologically to the steam engine or to the Industrial Revolution in general. They were not its "children after the flesh"—but they were its "children after the spirit." They were possible only because of the mind-set that the Industrial Revolution had created and the skills it had developed. This was a mind-set that accepted—indeed, eagerly welcomed—invention and innovation. It was a mind-set that accepted, and eagerly welcomed, new products and new services.

It also created the social values that made possible the new industries. Above all, it created the "technologist." Social and financial success long eluded the first major American technologist, Eli Whitney, whose cotton gin, in 1793, was as central to the triumph of the Industrial Revolution as was the steam engine. But a generation later the technologist—still self-taught—had become the American folk hero and was both socially accepted and financially rewarded. Samuel Morse, the inventor of the telegraph, may have been the first example; Thomas Edison became the most prominent. In Europe the "businessman" long remained a social inferior, but the university-trained engineer had by 1830 or 1840 become a respected "professional."

By the 1850s England was losing its predominance and beginning to be overtaken as an industrial economy, first by the United States and then by Germany. It is generally accepted that neither economics nor technology was the major reason. The main cause was social. Economically, and especially financially, England remained the great power until the First World War. Technologically it held its own throughout the nineteenth century. Synthetic dyestuffs, the first products of the modern chemical industry, were invented in England, and so was the steam turbine. But England did not accept the technologist socially. He never became a "gentleman." The English built first-rate engineering schools in India but almost none at home. No other country so honored the "scientist"—and, indeed, Britain retained leadership in physics throughout the nineteenth century, from James Clerk Maxwell and Michael Faraday all the way to Ernest Rutherford. But the technologist remained a "tradesman." (Dickens, for instance, showed open contempt for the upstart ironmaster in his 1853 novel *Bleak House*.)

Nor did England develop the venture capitalist, who has the means and the mentality to finance the unexpected and unproved. A French invention, first portrayed in Balzac's monumental *La Comédie humaine*, in the 1840s, the venture capitalist was institutionalized in the United States by J. P. Morgan and, simultaneously, in Germany and Japan by the universal bank. But England, although it invented and developed the commercial bank to finance trade, had no institution to finance industry until two German refugees, S. G. Warburg and Henry Grunfeld, started an entrepreneurial bank in London, just before the Second World War.

> NEW KNOWLEDGE-BASED INDUSTRIES WILL DEPEND ON ATTRACTING, HOLDING, AND MOTIVATING KNOWLEDGE WORKERS. WHEN THIS CAN NO LONGER BE DONE BY SATISFYING KNOWLEDGE WORKERS' GREED, IT WILL HAVE TO BE DONE BY GIVING THEM SOCIAL RECOGNITION AND SOCIAL POWER.

Bribing the Knowledge Worker

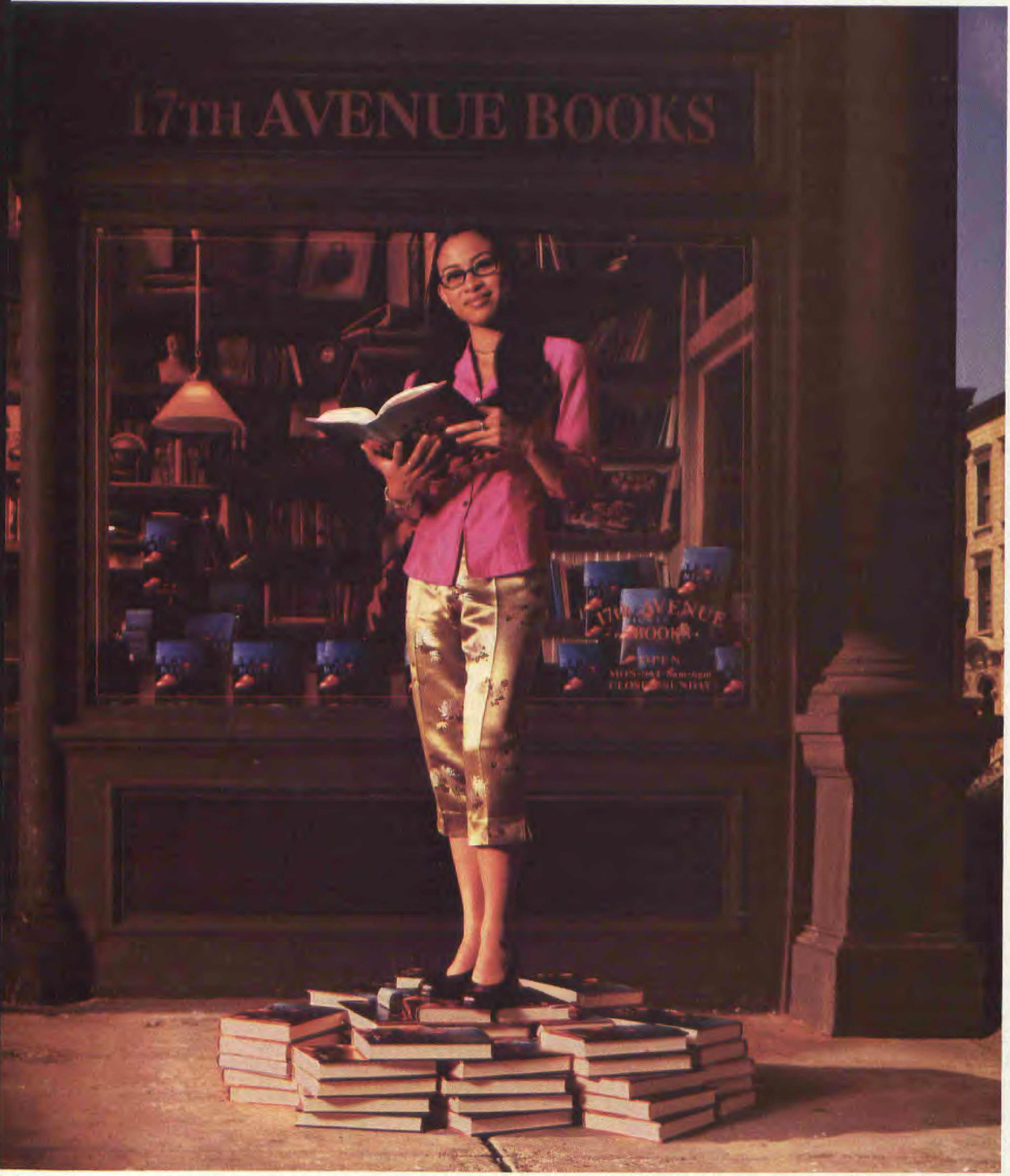
WHAT might be needed to prevent the United States from becoming the England of the twenty-first century? I am convinced that a drastic change in the social mind-set is required—just as leadership in the industrial economy after the railroad required the drastic change from "tradesman" to "technologist" or "engineer."

What we call the Information Revolution is actually a Knowledge Revolution. What has made it possible to routinize processes is not machinery; the computer is only the trigger. Software is the reorganization of traditional work, based on centuries of experience, through the application of knowledge and especially of systematic, logical analysis. The key is not electronics; it is cognitive science. This means that the key to maintaining leadership in the economy and the technology that are about to emerge is likely to be the social position of knowledge professionals and social acceptance of their values. For them to remain traditional "employees" and be treated as such would be tantamount to England's treating its technologists as tradesmen—and likely to have similar consequences.

Today, however, we are trying to straddle the fence—to maintain the traditional mind-set, in which capital is the key resource and the financier is the boss, while bribing knowledge workers to be content to remain employees by giving them bonuses and stock options. But this, if it can work at all, can work only as long as the emerging industries enjoy a stock-market boom, as the Internet companies have been doing. The next major industries are likely to behave far more like traditional industries—that is, to grow slowly, painfully, laboriously.

The early industries of the Industrial Revolution—cotton textiles, iron, the railroads—were boom industries that created millionaires overnight, like Balzac's venture bankers and like Dickens's ironmaster, who in a few years grew from a lowly domestic servant into a "captain of industry." The industries that emerged after 1830 also created millionaires. But they took twenty years to do so, and it was twenty years of hard work, of struggle, of disappointments and failures, of thrift. This is likely to be true of the industries that will emerge from now on. It is already true of biotechnology.

Bribing the knowledge workers on whom these industries depend will therefore simply not work. The key knowledge workers in these businesses will surely continue to expect to share financially in the fruits of their labor. But the financial fruits are likely to take much longer to ripen, if they ripen at all. And then, probably within ten years or so, running a business with (short-term) "shareholder value" as its first—if not its only—goal and justification will have become counterproductive. Increasingly, performance in these new knowledge-based industries will come to depend on running the institution so as to attract, hold, and motivate knowledge workers. When this can no longer be done by satisfying knowledge workers' greed, as we are now trying to do, it will have to be done by satisfying their values, and by giving them social recognition and social power. It will have to be done by turning them from subordinates into fellow executives, and from employees, however well paid, into partners.



Getting published. The next big thing from Elissa Singstock.

The Washington Times

SUNDAY, JANUARY 3, 1999

CLARENCE PAGE

TV's racial divide reflects the real world

The trend toward greater integration of actors and audiences typified by "Good Times" in the 1970s and "The Cosby Show" in the 1980s seems to have reversed, the ratings show.

A highly successful black advertising executive once took me aside to offer a bit of advice. Don't even bother trying to reach across to the "mainstream," he said.

By "mainstream" he meant white people.

With millions of African-Americans spending billions of dollars every year, he said, there was a huge economic pie in black America alone just waiting for savvy people like him and me to grab a piece of it.

He had a point. It was the early 1980s. Some new, big and exciting black media enterprises like BET (Black Entertainment Television) and Spike Lee's Forty Acres and a Mule Productions were just getting started. More were on the way.

I thanked him for his advice but declined to take it. I preferred the advice of my grandmother back in the 1960s. The walls of racial segregation in this country were tumbling down. There is a big world opening up to you, she said; don't deny yourself any of it.

But the ad exec's words came back to me when the latest Nielsen Media Research ratings for network television came out. As a Page One New York Times headline put it, "A Racial Divide Widens on Network TV."

The trend toward greater integration of actors and audiences typified by "Good Times" in the 1970s and "The Cosby Show" in the 1980s seems to have reversed, the ratings show. In recent years, few or none of the top 10 most-popular shows in white households can be found on the top 10 lists among blacks or vice versa, and the gap appears to be widening.

Last year, for example, "Seinfeld," the top-rated show among whites ranked 50th in black homes, while "Between Brothers," the No. 1 comedy among blacks, ranked 112th among whites.

This season, "Friends," the No. 1 comedy and No. 2 show overall in white homes, ranked 91st for blacks while "The Steve Harvey Show," a comedy, ranked No. 1 among blacks and 118th among whites.

The result of this divide may be a hardening of the cultural walls that divide our society into little subcultures after years of programming that, for better or worse, encouraged a common culture.

This is especially true when you include the new choices offered by cable channels. When I was a child in the 1950s and early 1960s, black faces were so rare on television that the appearance of a black contestant on "The $64,000 Question," for example, instantly became a neighborhood event. Nowadays cable offers entire channels of ethnic programming for various races and groups.

As my ad exec friend suggested, there is money to be made in racial "narrowcasting" and not just by minorities. The Fox network built ratings fast in its early days by targeting black viewers with excellent black-oriented comedies like "In Living Color," "Roc" and "Living Single." As Fox's ratings became more competitive with ABC, CBS and NBC, it reduced the black-oriented shows in its lineup.

Now it is the newer networks, WB and UPN, that offer the most black-oriented shows. Three of the top five programs viewed by blacks are comedies on the new WB network, while all of the top five programs — four of which are comedies — most watched by whites are on NBC.

Significantly, the racial viewing gap widens most for comedies. The drama "E.R.," for example, is No. 1 among whites and No. 15 among blacks. Similarly, "Monday Night Football" on ABC is No. 3 among blacks and No. 7 among whites, a gap that is far narrower than one between male and female football viewers.

With that, we see it is not just the races that are dividing from each other in their viewing habits. It is other groups, too. It is not just similar skin colors that attract viewers. It is cultural tastes. Race and ethnicity may be merely a marker for larger cultural divisions with which Americans have become remarkably comfortable.

"Maybe we, as a society, are as integrated as we want to be," a black neighbor of mine, who has a white wife and two biracial sons, remarked at a Brookings Institution panel on the resegregation of American society.

Maybe we are. I have often said we Americans are less of a melting pot than a mulligan stew these days. The cultures in the pot each lend flavor to the whole and absorb some flavor, but they do not completely melt. The big question, then, is not how to turn up the heat, but rather, how to prevent the pot from boiling over.

The best way to turn down the heat is by cooling our cultural anxieties. Instead of pulling back into our cultural enclaves, we should take full advantage of opportunities to learn more about other cultures. For all of its flaws, and they are many, TV does offer us a big world of such opportunities. Like grandma said, the door is open. We should not deny ourselves.

Clarence Page is a nationally syndicated columnist.

RESEARCH

AN IVORY TOWER THAT SPINS PURE GOLD

As the R&D arm of Lucent Technologies, Bell Labs has a big hand in profits

In February, Tony Tyson was perched in the foothills of the Chilean Andes, trying to solve one of the universe's greatest mysteries. The billions of stars we see represent only one-tenth of the mass of the cosmos. The rest is enigmatic "dark" matter, detectable only by the way it pulls galaxies or bends light. Tyson has pioneered a way to use telescopes, high-tech cameras, and sophisticated imaging algorithms to spot the light-bending, thus charting dark matter's place in the heavens. It's a classic quest for new knowledge—and the stuff of Nobel prizes. But the 59-year old cosmologist is no ivied-hall academic. He's one of 1,150 scientists and technicians at Bell Laboratories, the research arm of telephone-equipment maker Lucent Technologies Inc.

Hold on a minute: How can a company that's in the throes of cutthroat competition afford to contemplate the secrets of the universe? The answer lies in the hallowed laboratories of the Murray Hill (N. J.)-headquartered company. Since AT&T's telephone-gear business and much of Bell Labs were split off to become Lucent Technologies in 1996, the scientists at Bell Labs and the business people at Lucent have forged a distinctive symbiotic relationship. That is helping to fuel the revival of Bell Labs and the surging financial performance of Lucent. "Lucent is the best thing that happened to Bell Labs, and Bell Labs is the best thing that happened to Lucent," says Ravi Sethi, vice-president for computing and mathematical sciences research and chief technical officer at Lucent's communications software business.

BUDGET PEG. Credit careful planning with getting the two groups together. At the time of the spin-off, Lucent's then-Chairman Henry B. Schacht underscored the importance of the research effort by putting Lucent's corporate headquarters at the Bell Labs facility. He backed up the gesture with money: He pegged the labs' budget at a fixed 11% of Lucent's revenues. That way, scientists get more research money as the company grows—a strong incentive to help the company's performance. Since Lucent's spin-off, Bell Labs's budget has increased 42%, to $3.7 billion, for the fiscal year ended Sept. 30, 1998. That's when the company posted revenues of $30.1 billion and net income of $970 million.

NETRAVALI: *"Our role is absolutely clear. We are the innovation engine"*

Lucent also established an internal venture-capital operation to fund researchers' ideas that don't fit into existing business units. Scientists get their ideas financed—and they get equity. One new venture, Visual Insights, sells software that can detect billing fraud by analyzing patterns in large amounts of data. Another, Verdicom, does fingerprint authentication.

The result is that today's Bell Labs is a hotbed of innovation—at a time when Lucent needs leading-edge technology in order to compete in the fierce market for communications gear. "They've succeeded in making an organization that does both basic research and development that's of use to the company," says

MARCH BRYAN-BROWN

Eleven researchers have won the Nobel prize in physics for work done at Bell Labs dating back to 1927

Stanford University electrical engineer David A. B. Miller. Venky Narayanamurti, professor and dean of engineering at Harvard University, agrees: "Bell Labs seems to have once again found its bearings."

Lucent is the prime beneficiary. Bell Labs research is responsible for 50 Lucent products that are on the market now or that will come to market in the next few months. For example, Tyson's work in charting the heavens helped lead to a fingerprint-identification system. That's because the technology used to chart galaxies can be adapted to analyze other complex images, such as fingerprints.

Lucent and Bell Labs have had some catching up to do. Tiny Ciena Corp. in Linthicum, Md., blindsided the company in 1996 with an optical networking product that doubled the capacity of long-distance phone lines. And Cisco Systems Inc. has built a considerable lead on Lucent in the market for data-networking equipment. Lucent has reacted with the kind of speed it lacked when it was part of AT&T. After Ciena's success, Bell Labs scientists developed a competing product in 15 months. And in January, Lucent agreed to buy Ascend Communications Inc. in order to get data equipment products to compete with Cisco. "Lucent has identified the problem and taken the right steps to refocus its formidable [research] weaponry," says analyst Paul Sagawa of Sanford C. Bernstein.

NATIONAL TREASURES. The tale of Bell Labs is more than just the success story of one company. It's also the story of the rejuvenation of America's great industrial labs. IBM's T. J. Watson Research Center, RCA's Sarnoff Research Center, and especially Bell Labs, were once viewed as national treasures blazing a research path for the entire country. Bell Labs, for instance, helped create such breakthroughs as the transistor, the underlying technology of the Information Age, and the optical amplifier, key to today's fiber optic networks (table). Eleven researchers have won the Nobel prize in physics for work done at the lab dating from 1927.

But as competition from Japan and Europe intensified in the 1980s, companies could no longer afford these ivory towers of science. After the 1984 breakup of AT&T, Bell Labs began a period of downsizing and decline. "We really had to understand the difference between long-term research valuable to the company and academic research—and we needed to prune the academic part," says then-research chief and Nobel laureate Arno A. Penzias. That brought

Blazing Trails

Bell Labs's technological breakthroughs have opened new frontiers and created new products. Here are some highlights:

1933 Researcher Karl Jansky discovers radio waves from the Milky Way, giving birth to radioastronomy.

1947 William Shockley, John Bardeen, and Walter Brattain create the transistor, foundation of the semiconductor—and the Information Age.

1951 Researchers develop methods for producing the world's purest semiconductor materials and for implanting ions into the material, paving the way for today's high-powered chips.

1962 Bell Labs develops Telstar, the first international communications satellite.

1964 The first touch-tone phone is created.

1965 Arno Penzias and Robert Wilson discover the faint cosmic microwave radiation, left over from the creation of the universe—and win a Nobel Prize for their efforts.

1968 Alfred Y. Cho leads a team that invents molecular-beam epitaxy, a vital tool for making lasers and other semiconductor devices.

1969 Creation of charge-coupled devices, the "eyes" of today's videocameras.

1969 Ken Thompson and Dennis Ritchie devise the UNIX operating system, now the standard for Internet hardware.

1983 Bjarne Sroustrup writes the computer language C++, now used in Microsoft's Windows, Netscape Navigator, and just about every other piece of commercial software.

1984 Narendra Karmarkar invents a linear programming algorithm that enables computers to solve problems having thousands of variables.

1988 Researchers demonstrate a multilayered bipolar transistor that was 12 times as fast as any other transistor at the time.

1996 Software researchers devise a way to deliver high-quality speech and music over the Internet.

1997 Researchers at Bell Labs build the world's smallest metal-oxide semiconductor transistor—a mere 182 atoms across—paving the way for circuits which pack billions of components onto a single silicon chip.

1998 Researchers demonstrate the world's first long-distance terabit-per-second transmission over a single strand of optical fiber, a tenfold increase over existing technology.

1998 Scientists build plastic transistors—devices so cheap and rugged that they could transform the electronics industry.

PHOTOGRAPHS COURTESY BELL LABS

TO PUT ADVANCED MEDICAL IMAGING INTO THE WORLD'S HANDS, NOVASONICS RELIES ON DSPS FROM TEXAS INSTRUMENTS.

The TMS320C64x™ programmable DSPs from TI will power Novasonics' advanced imaging technology, offering superior speed and performance.

TI, the world leader in analog, offers a broad portfolio of data converter and power management products optimized to work seamlessly with TI DSPs.

With more DSP experience, more DSP software developers, and more third-party DSP application developers, no other company supports you like TI.

TI's award-winning eXpressDSP™ Real-Time Software Technology gives you a simplified, streamlined development infrastructure, eliminating barriers to your design.

"Without high-performance TI DSPs, it would be impossible for us to deliver a handheld imaging unit with any real utility."

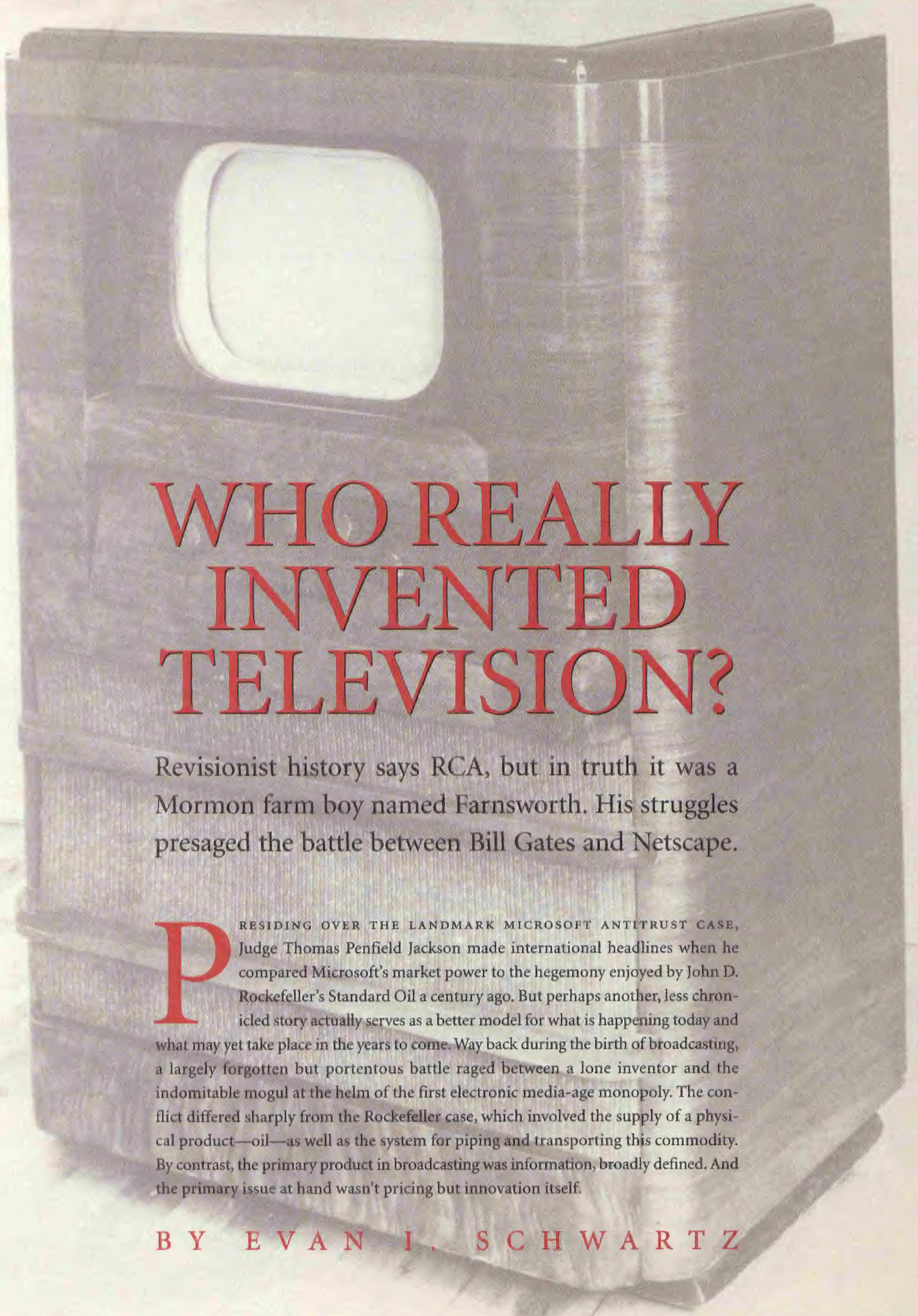
DSP
TEXAS INSTRUMENTS TECHNOLOGY

Coupling a lightweight design with the kind of high-resolution capabilities usually found only in cart-sized units costing hundreds of thousands of dollars, the Novasonics® Pocket Ultrasound system will offer doctors and paramedics high-quality ultrasound imaging they can literally hold in their hands. At only a fraction of the cost of its bulky predecessors and with advanced features such as color-flow Doppler imaging and recomputable zoom, the Novasonics portable ultrasound system will soon compete for a portion of the estimated $1 billion handheld imaging market. • The engine behind Novasonics' futuristic handheld imaging system will be the new TMS320C64x™ generation of programmable digital signal processors from Texas Instruments. Promising to provide exceptional speed, the C64x™ DSPs will deliver the critical computational power needed for processing high-resolution images and data in real time. • With the C6000™ DSP platform's flexible programmable architecture, Novasonics designers are developing with the code-compatible TMS320C62x™ generation today and will move their designs to the more powerful C64x generation in the months ahead, keeping them one step ahead of the rapidly changing medical imaging market. And as Novasonics evolves features such as full-motion 3-D imaging and mapping, TI's next-generation code-compatible DSPs will be there. The world leader in DSP technology, only TI offers the degree of processing power required for future generations of portable medical devices. To put the superior performance of world-class digital signal processing technology into your hands, reach for the power of DSPs from Texas Instruments.

www.ti.com/dsp

DSP AND ANALOG

TEXAS INSTRUMENTS



WHO REALLY INVENTED TELEVISION?

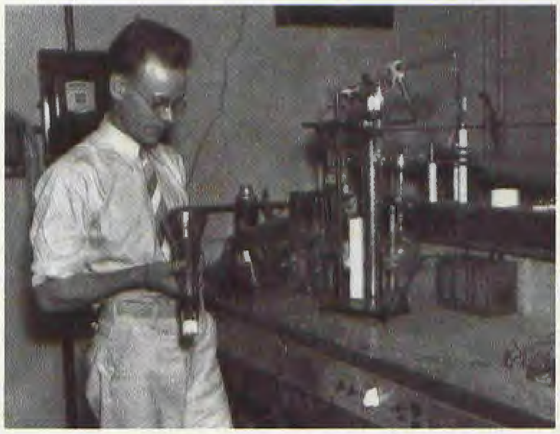
Revisionist history says RCA, but in truth it was a Mormon farm boy named Farnsworth. His struggles presaged the battle between Bill Gates and Netscape.

PRESIDING OVER THE LANDMARK MICROSOFT ANTITRUST CASE, Judge Thomas Penfield Jackson made international headlines when he compared Microsoft's market power to the hegemony enjoyed by John D. Rockefeller's Standard Oil a century ago. But perhaps another, less chronicled story actually serves as a better model for what is happening today and what may yet take place in the years to come. Way back during the birth of broadcasting, a largely forgotten but portentous battle raged between a lone inventor and the indomitable mogul at the helm of the first electronic media-age monopoly. The conflict differed sharply from the Rockefeller case, which involved the supply of a physical product—oil—as well as the system for piping and transporting this commodity. By contrast, the primary product in broadcasting was information, broadly defined. And the primary issue at hand wasn't pricing but innovation itself.

BY EVAN I. SCHWARTZ

Intent inventor: In 1929, eight years after dreaming up electronic TV, Philo T. Farnsworth fiddles with a transmitter.

Lights, camera, action: Pem Farnsworth smiled under extremely harsh lights to star in some of the earliest TV transmissions (above). Philo Farnsworth and his secretary (left) admired the first mobile TV camera in 1934. The next year, the inventor was hard at work in the lab (below).



PHOTOS (OPENING SPREAD; THIS PAGE, LEFT AND TOP): FARNSWORTH FAMILY. THIS PAGE, BOTTOM: CORBIS IMAGES

Innovation in the early days of radio was controlled so tightly by David Sarnoff, the stocky, domineering, Russian-born visionary who led the Radio Corporation of America (RCA), that the federal government was compelled to investigate. What government trustbusters found was something that had been obvious to industry insiders for years: Sarnoff's company had an iron grip on every aspect of radio, from the patents on the device itself to the creation and distribution of programming. "Sarnoff was the Bill Gates of his age," says Thomas Lento, director of communications for the Sarnoff Corp., a Princeton, N.J., research lab spun off from RCA in the late 1980s. "RCA had a stranglehold over an entire sector of the economy." But it was Sarnoff's move to capture the next big thing, television, and his plot to destroy the ambitious young inventor behind the new technology, that sent sparks flying.

Just as Microsoft didn't invent the PC operating system, RCA didn't invent radio. The firm was formed in 1919 when General Electric purchased the U.S. subsidiary of the Italian inventor Guglielmo Marconi's original company. Sarnoff, who had worked at the American Marconi Company since his teens, was among the first to envision the news and entertainment applications of broadcasting.

Appointed RCA's commercial manager at 28, Sarnoff greatly expanded the original Marconi patent portfolio and made sure no one could legally manufacture or sell a radio set without paying RCA a stiff royalty, just as no one could later make or sell a so-called IBM-compatible PC without paying a fee for the use of Microsoft's MS-DOS and Windows. "The patents were all bundled together," Lento says. "If you wanted to make a radio, you had to license all of them."

And just as Microsoft used the infrastructure of Windows to propel its Office software to dominance, Sarnoff leveraged his advantage as radio's standards-setter to organize hundreds of local stations into a national network, founding his National Broadcasting Company (NBC) division in 1926 and making it the primary provider of free electronic news, music and sports.

The rewards of dominance were great. Over a span of 15 years, radio exploded, from the domain of a few thousand hobbyists to a fixture in most Americans' homes. Along the way, the RCA shares that GE issued skyrocketed. Multiplying more than 10,000 percent, RCA became the single hottest security in the great bull market of the Roaring Twenties—going from startup to component of the Dow even faster than Microsoft would accomplish the same feat decades later.

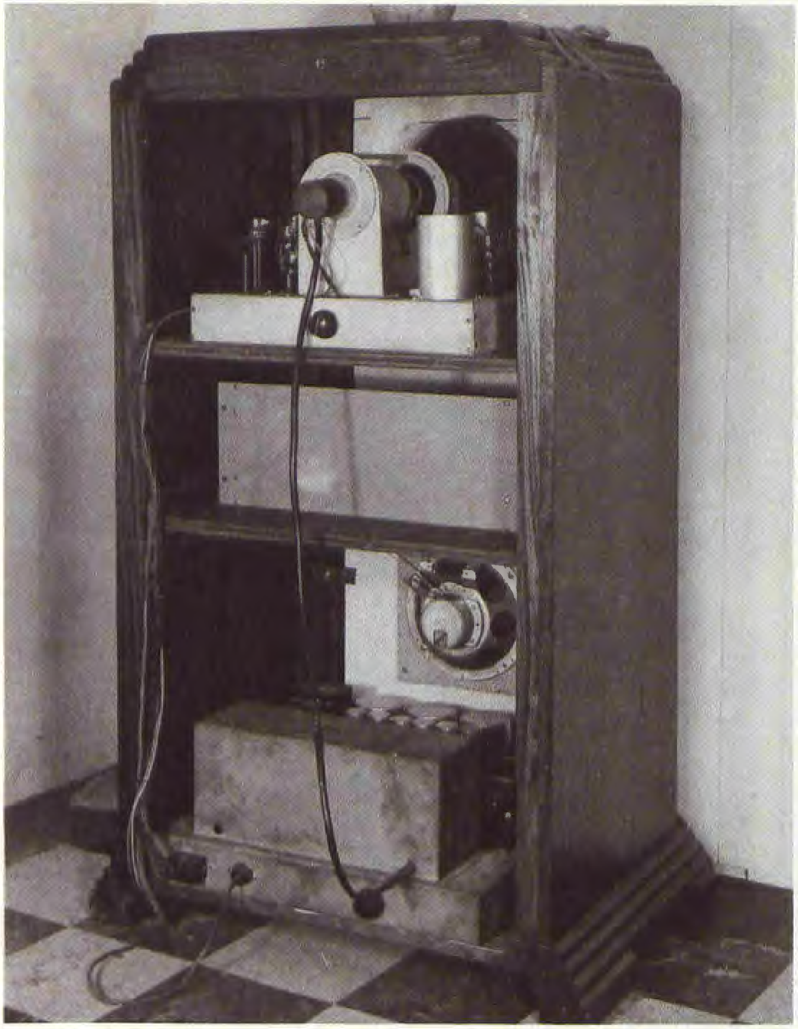
Then, on the evening of May 30, 1930, the Department of Justice served Sarnoff with a summons, interrupting a black-tie dinner at which the newly promoted RCA president was an honored guest. The charges: RCA was using its patent portfolio to restrain competition. Government antitrust action against RCA would drag on for almost three decades, sparking patent disputes, endless hearings and standards battles. There were also critical compromises, including a 1932 consent decree in which GE and

WITH OUR HELP, THE MARS LANDER MIGHT HAVE ACTUALLY LANDED ON MARS.

Make your next project a success by using HelloBrain.com. It's the digital marketplace where you can source solutions to virtually any problem. Just post your project and let the best minds from around the world find you. From programming to protocol, diamond making to DSP algorithms, they can deliver the solution you need to get to market fast. Which could make the difference between flying like a rocket and falling like a rock.

HelloBrain.com™

The World's Intellectual Capital Exchange.℠



FARNSWORTH FAMILY

Westinghouse agreed to sever all ties to RCA—a remedy Sarnoff privately favored. And the case led to new laws, foremost the 1934 act launching the Federal Communications Commission (FCC). But technology catapulted at such a terrific pace that the real battle was never fought in the federal arena, but in the marketplace.

IN THE MARKETPLACE, SARNOFF WAS ALREADY BECOMING less focused on his radio monopoly than on his attempt to extend it to the new frontier of transmitting moving pictures through the air. He only saw one major obstacle in his way: a Mormon farm boy named Philo T. Farnsworth. Born in 1906 in a Utah log cabin without electricity or a telephone, Farnsworth at age 6 declared his intention to become an inventor like his heroes Bell and Edison. The kid taught himself physics, studying Einstein's theories and reading borrowed science books and magazines late into the night. As a teenager, he worked part time repairing radios and thought constantly about the properties of something known as the electron.

RCA used its patent portfolio to quash competition and lay the foundation for a broadcasting monopoly.

From his reading, Farnsworth knew that several inventors had achieved limited success with a mechanical television system, transmitting images along a wire between two spinning disks with spiral rows of holes to pick up patterns of light at one end and project them at the other. But he figured, correctly, that such a setup wouldn't work fast enough to capture and reassemble anything but shadows and flickers.

According to surviving relatives, Farnsworth dreamed up his own idea for electronic—rather than mechanical—television while driving a horse-drawn harrow at the family's new farm in Idaho. As he plowed a potato field in straight, parallel lines, he saw television in the furrows. He envisioned a system that would break an image into horizontal lines and reassemble those lines into a picture at the other end. Only electrons could capture, transmit and reproduce a clear moving figure. This eureka experience happened at the age of 14.

Farnsworth's idea grew into an all-out obsession. In 1926, at age 20, he married a beautiful brunette named Elma "Pem" Gardner. The two boarded a train for California the next morning in order to be near Caltech and other centers for motion-picture sciences. They set up a makeshift television lab in the living room of their Hollywood apartment, moving a year later to an old warehouse at 202 Green St., on San Francisco's Telegraph Hill. Now backed by wildcatting bankers who foreshadowed today's Silicon Valley venture capitalists, Farnsworth was the 20th century's skinny, pale, brilliant proto-nerd.

When he demonstrated a working model of his television in 1928 for a group of reporters, he was only able to show blurry images on a tiny screen. But the system delivered 20 pictures per second, enough to convince the eye it was looking at motion rather than a series of stills. *The San Francisco Chronicle* lauded the achievement under the headline: "S.F. Man's Invention to Revolutionize Television," and the story was picked up by wire services and papers nationwide.

Sarnoff, of course, was tracking these activities from afar. But he needed a closer look. To get one, he hired a fellow Russian immigrant named Vladimir Kosmo Zworykin, head of television research and development at Westinghouse in Pittsburgh. Zworykin had been working on television for years. He filed for a theoretical patent on such a system as early as 1923—still pending seven years later—even though he had no working model. Farnsworth had applied for two key patents of his own; Zworykin had already been in touch with him about visiting the San Francisco laboratory. By then, Farnsworth's financial backers were putting pressure on him to sell the whole company—rather than just a license—to Westinghouse. After all, the stock market had recently crashed and burned.

"The bankers all wanted to cash out," recalls Pem Farnsworth, now 92 years old and living with her son, Kent Farnsworth, and his family in a small house in Fort Wayne, Ind. No stay-at-home wife, Pem had worked along with her brother Cliff on her husband's small lab staff. Despite the fact that these events took place some 70 years ago, her recollections seem sharp, especially

YOU HURT THE ONES YOU LOVE THE MOST

Open-Source Software Revolution
We were there first in January of 1999—six months before any other publications.

The Artificial Heart is Back and Beating
In May of 1999, we covered it. Other publications followed eight months later.

Biotech's Biggest Challenge
Months after we uncovered the story in July of 1998, major dailies followed.

Our audience—more than 750,000 of today's leading movers and shakers—know that when momentous new things happen in emerging technologies, *Technology Review* is there first.
We're *the* authority.
To subscribe call 1.800.877.5230—To advertise call 617.253.8229

MIT'S MAGAZINE OF INNOVATION
TECHNOLOGY REVIEW

www.techreview.com

when it comes to the colossal battles with Sarnoff.

"Dr. Zworykin was there for three days, and he saw everything," Farnsworth's widow says of that visit to the Green Street lab in April of 1930. Her husband even built an "image dissector," essentially the first electronic television camera, right before his guest's eyes. Farnsworth agreed to host the visit because he had hoped Westinghouse might license his patents for a substantial amount of money. Pem Farnsworth maintains that her husband didn't realize the full extent to which Sarnoff and Zworykin were already collaborating.

Sarnoff offered to buy Farnsworth out. The young inventor rejected the deal and ignited a legal firestorm.

Zworykin returned immediately to RCA's Camden, N.J., labs and began trying to reverse-engineer what he had seen at Green Street. Apparently confident he was backing the right guy, Sarnoff gave his new employee a $100,000 budget—many times greater than all the money Farnsworth had been able to raise—and a one-year deadline to develop a working electronic television system. But despite all Zworykin's knowledge and experience, the year came and went without much to show for it.

Frustrated by the lack of progress, Sarnoff decided to fly across the country and pay a surprise visit to the Farnsworth lab himself. It was April of 1931, and the RCA antitrust case had been droning on in Washington for months, making this trip all the more audacious. "At this point, RCA is in chaos," says Alex Magoun, director of the David Sarnoff Collection, an archive of historical documents, in Princeton, N.J. "Radio and phonograph sales were plunging. The Depression led to a price war and the $10 radio. The government forced RCA to slash its licensing fees. And RCA's stock lost more than 90 percent of its value. Sarnoff had this financial desperation. He was probably thinking, 'I'm going to buy this Farnsworth guy.'"

When Sarnoff arrived at 202 Green St., Farnsworth happened to be out of town on business. The door was answered by George Everson, a philanthropist who had several years earlier become the first backer of the Farnsworth Radio & Television Company. Everson proceeded to show Sarnoff around and had the engineers conduct a special demonstration. At the end of the visit, Sarnoff expressed confidence that he could build TVs without infringing on Farnsworth's patents and that there was nothing here that he needed, according to Everson's written account. But shortly thereafter, Sarnoff offered $100,000 to buy the company outright. Under the terms, Sarnoff would own Farnsworth's television patents, now formally granted, and Farnsworth would come to work for RCA. The episode portended a remarkably similar Microsoft visit to Netscape in 1995, in which top executives from Redmond allegedly threatened actions that could put the start-up out of business unless it cooperated.

When Farnsworth received word of the deal by telegram, he rejected it. And despite the fact that bankers were looking for an exit, they agreed that the lowball offer was an insult. "The bankers were pretty dim," remarks Kent Farnsworth. "But even they could see more than a hundred grand in television."

THE REJECTION BROUGHT THE FULL WRATH OF THE mogul down on the inventor. "Sarnoff decided to break him in patent court," says Pem Farnsworth. In other words, Sarnoff would do to Farnsworth what he did to those who had developed key radio inventions but had refused to cooperate fully with RCA. Sarnoff and his team of lawyers would launch a legal assault aimed at overturning the patents on appeal, which would tie up the inventors emotionally and financially for years. "That was RCA's M.O. at the time," says Kent Farnsworth.

The legal challenges to Farnsworth's basic television-system patents lasted for nearly four years. They slowed development of television, delayed its introduction to the public, squandered the company's already thin resources, drove Farnsworth to drink, and contributed to his developing a bleeding ulcer.

Sarnoff's mischief didn't end there. At the time of his visit to Green Street, Farnsworth was trying to make an end run around RCA, meeting with Philco's senior executives on the East Coast. Philco was the largest manufacturer of radio sets in America, selling more units than RCA. But every time there was a flurry of publicity around television, its stock would drop. Investors saw television as the next big thing, and Philco wanted in. So it agreed to take out a license from the Farnsworth Company and produce TV sets—until Sarnoff stepped in.

Sarnoff and Zworykin learned of the collaboration by picking up test transmission signals from Philco headquarters, which sat just across the river from RCA's Camden labs. Sarnoff threatened to rescind RCA's patent licensing arrangement with Philco, according to Pem Farnsworth—just as Microsoft would, decades later, allegedly use the Windows license to keep PC makers exclusively loyal to the company. Without that license,

A TV Timeline

1919
GE forms RCA when it swallows the U.S. assets of the Marconi Company. David Sarnoff, age 28, becomes RCA's first commercial manager.

1921
Philo T. Farnsworth dreams up the idea for electronic television while plowing a potato field in Idaho. He is 14 years old.

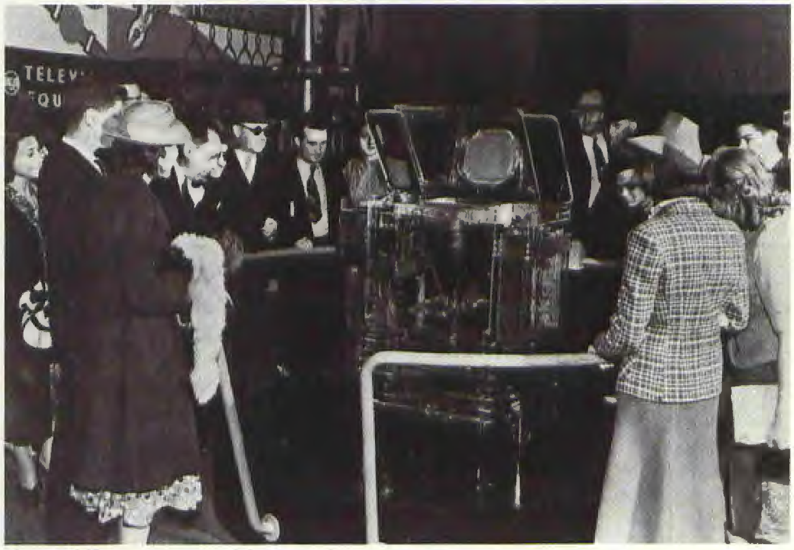
1926
Sarnoff forms NBC as a wireless relay network, thus controlling not just the technology of radio, but also its content and its distribution.

1928
Farnsworth holds a press conference to show off the first two-dimensional electronic television transmission.

1930
Farnsworth's key TV patents are granted. Sarnoff sends Vladimir Zworykin to visit Farnsworth's lab in San Francisco. The U.S. Justice Department charges RCA with anticompetitive behavior.

1931
Sarnoff personally visits Farnsworth's lab. His offer to buy the Farnsworth Radio & Television Company for $100,000 is rejected.

Fair play? RCA touted Vladimir Zworykin (above) as TV's inventor. Sarnoff (top right) used the 1939 World's Fair to introduce the nation to RCA television (bottom right) and to make Franklin D. Roosevelt the first president on TV (below).



PHOTOS (THIS PAGE) DAVID SARNOFF LIBRARY

Philco would no longer be able to produce radios legally, and its core business would be gone. So Philco was forced to break off its dealings with Farnsworth, leaving him without a major U.S. customer. That's the Farnsworths' version of the story, anyway; RCA naturally doesn't admit to such foul play. "There could have been a threat [from Sarnoff to Philco]," says Magoun. "But we don't know that."

By 1934, the patent dispute had reached high drama. RCA had appealed on the grounds that Zworykin's 1923 application should be awarded priority. Dozens of RCA lawyers were at work on the case before the final hearing. The testimony and the evidence were complex, and the court's examiners took an extra 10 months to complete their ruling. Finally, in July 1935, the decision was mailed to all involved parties.

When Farnsworth started reading the 48-page document, his heart must have sunk. "Farnsworth only has oral testimony prior to 1923," the ruling read, "from him and from witness Justin Tolman." Tolman was Farnsworth's high-school science

1935
Sarnoff's attempt to overturn the Farnsworth patents fails, as an appeals court awards Farnsworth "priority of invention."

1939
Sarnoff announces at the World's Fair in April that NBC will begin regular TV broadcasting. Farnsworth agrees to license his TV patents to RCA for $1 million in September.

1947
Farnsworth's television patents begin to expire while TV use and programming explode nationwide.

1949
Farnsworth sells his company's assets to ITT.

1971
Farnsworth dies in obscurity at age 64. "General" David Sarnoff dies at age 80, heralded as a visionary and pioneer.

1982
Zworykin dies a wealthy man, lauded as the father of television.

Color wars: By the mid-1950s, RCA had crushed the competition in color broadcasting (above), and color TV sets were in mass production (left).

PHOTOS (THIS PAGE) DAVID SARNOFF LIBRARY

teacher in Idaho, and Farnsworth had bounced the idea of electronic television off him one day after school. But the patent examiners wanted hard evidence. "The original [diagrams of the TV system] were drawn on a high school blackboard and erased, or if drawn on paper, destroyed."

Still, the ruling also took issue with Zworykin's claims. Mainly, it said that a machine built according to his 1923 design would produce largely meaningless shades of darkness and light. "The Zworykin application, as filed, does not disclose a device for producing an electrical image which is scanned to produce television signals as required," the ruling said. As a result, the Farnsworth patents withstood the challenge. "Priority of invention is awarded to Philo T. Farnsworth," the ruling concluded. At 29, Farnsworth was now the undisputed inventor of television as the world would come to know it.

SARNOFF MAY HAVE LOST THE BATTLE, BUT HE WAS determined to win the war. He knew that timing was everything, and that the public had to be sold on TV. The 1939 World's Fair was soon approaching, an event that was to become one of the biggest and most celebrated expositions in the history of the world. Sarnoff knew that most of the public still had never seen a television, despite the fact that the Farnsworths were touring the country and showing it off publicly.

Sarnoff had been deploying every financial, scientific and legal resource at his disposal to recreate Farnsworth's TV. He had consolidated the top scientists from four companies—RCA, Westinghouse, GE and the Victor Talking Machines Company—at his Camden lab. By 1939, he too had a working model, even though he had never paid Farnsworth a dime in licensing fees.

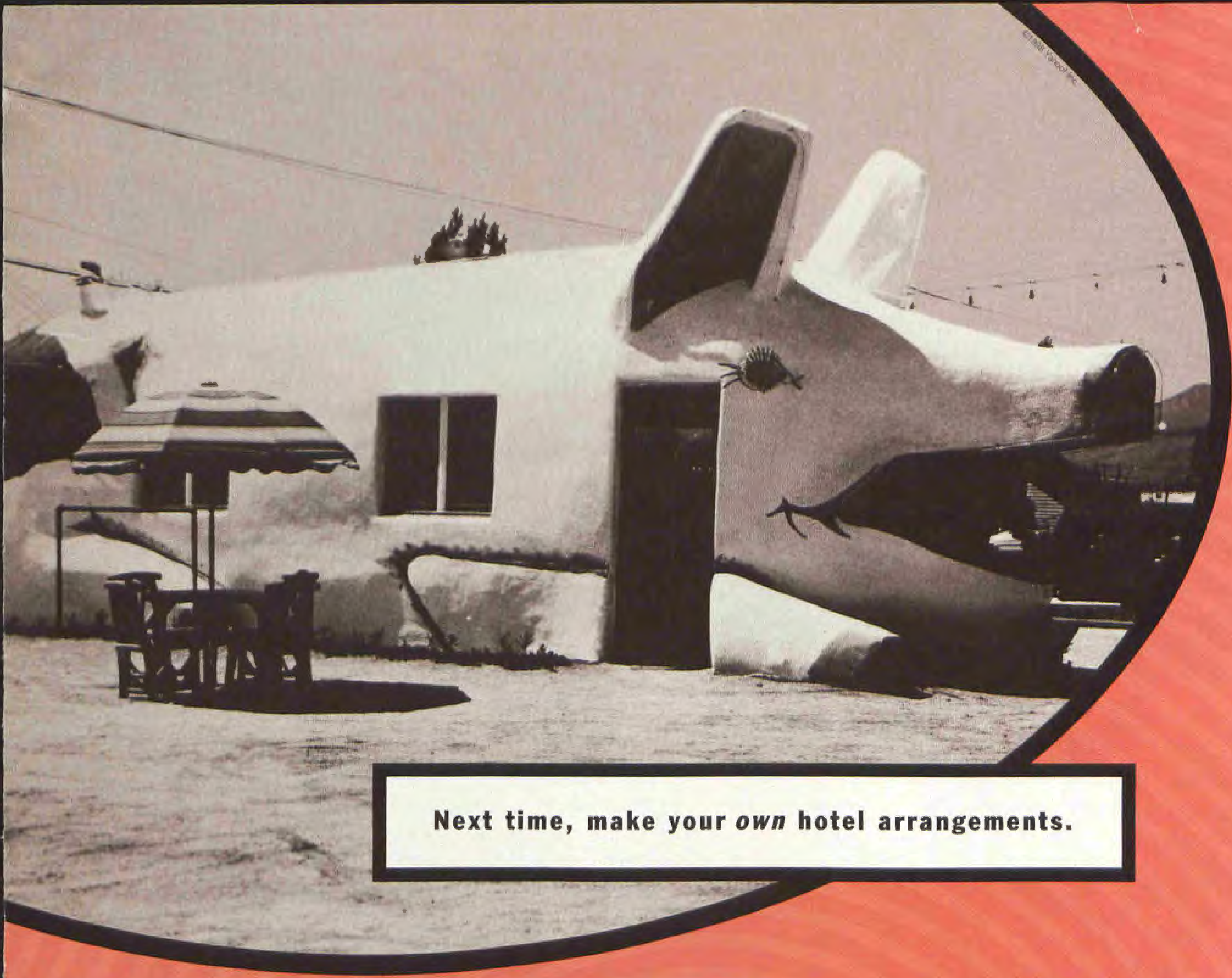
To gain the advantage, Sarnoff orchestrated a public-relations masterstroke. Not only did RCA sponsor the World's Fair Television Pavilion in New York City's Flushing Meadow, but Sarnoff had also secured the rights to host and broadcast the opening ceremony, on radio and on its newfangled successor. He stocked New York department stores with newly minted RCA models.

The publicity leading up to the big event reinforced the stature of RCA. *The New York Times* asked Sarnoff to contribute an authoritative essay about the fair in a special section of the newspaper. *Life* magazine pictured RCA executives huddled around their newest model television, not mentioning that it may have been built illegally. Sarnoff billed the event as the beginning of commercial television broadcasting—a misleading claim, since in 1934 Farnsworth had conducted a 10-day series of broadcasts from Philadelphia's Franklin Institute. Furthermore, in 1936, the Olympic games were broadcast live from Munich using equipment a German company had built under license from Farnsworth. But only a few dozen people in Germany had TV sets at the time and, since satellites had not yet been invented, the signal didn't reach other nations.

At a press conference before the opening of the fair, Sarnoff strutted up to the podium, camera flashes bouncing off of his high forehead. "It is with a feeling of humbleness," Sarnoff began, "that I come to this moment of announcing the birth in this country of a new art so important in its implications that it is bound to affect all society. Now, ladies and gentlemen," he declared, with a grand flourish, "we add sight to sound!" Then he announced that RCA's own NBC broadcast network would begin regular television broadcasts live from Radio City Music Hall. Several days later, at the opening ceremony, Franklin D. Roosevelt became the first president to be televised.

The ballyhoo of the event turned Sarnoff's stunt into an official, historic event. The gathered throngs of media ate it up and reported it far and wide. "Last week, of course, witnessed the official birth of television," reported *The New Yorker.* RCA was responsible for bringing us television. This was the new reality that the public perceived.

"We could have sued his pants off," says Pem Farnsworth. But her husband was hoping to license the rights for producing televisions to RCA at the time. The plan was to maintain closely the patent ownership inside the Farnsworth Company, but to charge RCA and dozens of other companies an ongoing per-



Next time, make your *own* hotel arrangements.

Yahoo! Travel

Do You Yahoo!?™

Poorly planned trips are never much of a vacation. Take control. Book your flight. Rent a car. Make hotel reservations in like, two minutes. Maybe three.

www.yahoo.com

centage on the sets that they would sell. So as not to disrupt any negotiations, Farnsworth decided to avoid any legal action. And he ended up selling RCA a $1 million license later that year.

DURING WORLD WAR II, THE U.S. GOVERNMENT suspended manufacturing of consumer electronics entirely. But Sarnoff, now dubbed "the General" by Dwight D. Eisenhower in recognition of his wartime assistance, was already marshalling his forces for the expected postwar boom. "He drummed up the marketing bandwagon," says Magoun. Right after the war, Sarnoff went on the road to convince his NBC radio affiliates to begin airing NBC television programs. Government regulators were trying to keep up, and the FCC forced RCA to divest half its broadcast holdings, leading to the creation of ABC.

Reeling from years of severe stress, Farnsworth suffered a nervous breakdown and was bedridden for several months before the war. Afterward, he and Pem relocated to Fort Wayne, where his new factory began volume production of television sets. But time ran out. Farnsworth's key patents expired in 1947, just a few months before TV began a sudden, rapid proliferation from just 6,000 sets in use nationwide to tens of millions by the mid-1950s. RCA captured nearly 80 percent of the market, while Farnsworth was forced to sell the assets of his company to International Telephone and Telegraph, an industrial conglomerate that quickly decided to exit the commercial TV business.

Farnsworth's story is tragic, but he wasn't the only casualty of Sarnoff's delay tactics. In the late 1940s, Sarnoff sued to prevent CBS from broadcasting in color—a technology both RCA and CBS were racing to develop—on the grounds that it would disrupt the market for black-and-white television. In 1951, the Supreme Court finally ruled in favor of CBS. By then, RCA had seeded the market with millions of its black-and-white sets. Meanwhile, in RCA's labs, Sarnoff launched a crusade to devise an even better system for color, so as to control the all-important standard for transmission and marginalize the CBS format. A main bragging point was so-called backwards compatibility. Only RCA color broadcasts could be translated for viewing on the RCA black-and-white sets that most people had. If viewers wanted to watch CBS color broadcasts, they had to buy a special adapter for $100. It was similar to the unique position Microsoft would hold many decades later, when it would be the only company that could create a format, Windows, that could execute older MS-DOS programs.

From David Sarnoff to Bill Gates, the technology monopolist has one powerful force on his side: time.

When the FCC and the National Television Standards Committee made RCA's color transmission standard the official one, Sarnoff took out full-page newspaper ads declaring his "great victory." Like the first version of Microsoft Windows, however, RCA color wasn't a big seller initially. But Sarnoff kept at it until the marketplace came around. So by the time RCA entered into a landmark consent decree with the Justice Department in 1958, agreeing to license its color TV technology freely to anyone for a reasonable price, the color war was over and RCA had crushed the competition—again.


KENT M. FARNSWORTH

Out of time: Farnsworth, shown above with his wife Pem near the end of his life, died in 1971. He was broke, depressed and largely forgotten.

AS SARNOFF STEAMROLLED HIS COMPETITORS, HE REWROTE history. RCA took every opportunity to trot out Zworykin as "the father of television." Philo T. Farnsworth became the answer to an obscure trivia question. "The RCA public-relations department did a number on us," says Pem Farnsworth. Both Sarnoff and Farnsworth died in 1971, and the contrast couldn't have been greater. Farnsworth was broke, severely depressed and largely forgotten; Sarnoff was celebrated as a pioneer and visionary—and who could argue?

Like many moguls, Sarnoff believed that his actions were justified. "Sarnoff saw his monopoly power as a force for good," says Magoun. "He took it very seriously. He hired the best engineers and took their word as to what was the best approach. Yes, he made enemies. But even if we say he did trounce people, it wasn't as explicit as some would assert." No doubt, the same could be said about Bill Gates. The subtle undercurrent in both Gates' story and Sarnoff's has to do with the control of innovation. Each man was known to appropriate ideas and technologies developed elsewhere, delaying their dissemination while his company tried to perfect them. But did consumers suffer because of this? While competitors would no doubt disagree, those who defend the moguls argue that it's beneficial to have one company control the pace of innovation. "Why do we assume that the more rapid the innovation is, the better it is for the consumer?" asks Magoun. "Why do we want endless, uncontrolled change in the way we live our lives?"

And that leads us to the overarching parallel between these two eras. The government spent 28 years trying to rein in RCA, and has pursued the Microsoft matter for more than a decade already. In both cases, the defendants used the intervening years to expand greatly the scope of their dominance. Which goes to show that the technology monopolist has one all-powerful force working to his advantage. Not ingenuity or technological superiority. Not legal firepower. Not even money. Unless it is somehow taken away by force, what the monopolist has on his side is time. TR

The Critical "Open Entry Decision"

DETERMINING WINNERS IN THE DOMESTIC SATELLITE RACE

By Robert N. Wold

WHY DID IT TAKE SO LONG FOR A U.S. PRIVATE COMPANY TO BEGIN THE FIRST REVENUE-PRODUCING DOMESTIC COMMUNICATIONS SATELLITE TRAFFIC? THE GESTATION PERIOD LEADING TO THIS STARTUP REQUIRED 10 MORE YEARS THAN THE SEVEN NEEDED FOR THE LAUNCH BY THE UNITED STATES OF ITS INTERNATIONAL SERVICES, WHEN COMSAT, THROUGH INTELSAT, BEGAN COMMERCIAL TRAFFIC IN MID-1965.

The Telstar 1 demonstration began July 10, 1962, and was a huge public relations success, timed to occur during Congressional debates on the structure of the satellite communications bill.

The United States was the third nation to begin *domestic* satellite operations. It trailed behind the 1972 launch by Canada of its Anik series and the 1973 startup by the Soviet Union of its Molniya series.

Above: President Kennedy signs Comsat into existence with the Communications Satellite Act of 1962.

Right: Intelsat is established on August 20, 1964, becoming the global system in which Comsat would own the largest share of any nation.

It was not until mid-1975 that the first U.S. domestic commercial communications satellite operator, Western Union, could begin revenue-producing operations. (This operator's first two launches were in 1974, but earth-to-satellite connection availability was not a reality until mid-1975).

Five different presidents—from Eisenhower to Ford—served the United States during these first 15 years in the commercial satellite industry.

BACKGROUND STORY

It's fundamental that today's remarkable space technologies—which make possible a giant, prosperous satellite industry—had their roots in the now-primitive rocket science of the 1940s and earlier.

The multi-decade Cold War was in part triggered by advanced rocket science that could deliver ballistic missiles between continents. Today, it's not all military. We have many peaceful uses of space that employ rocketry.

In a scientific context, "satellite" refers to the moon orbiting the earth. Manmade spacecraft are deemed "artificial satellites."

In the 1950s, the Central Intelligence Agency (CIA) and the military were in the forefront of developing artificial satellites. Highly confidential surveillance systems—developed with private manufacturers by the CIA and the Air Force—employed *high-flying* "spy" aircraft and *low-flying* "spy" satellites that proved to be of great value to the nation.

Concurrently, the Eisenhower administration pushed for a civilian space-science program to exploit the nation's vast scientific assets, including those in private industry.

The National Aeronautics and Space Administration (NASA) assumed this responsibility in 1958. At the outset, however, NASA and the Department of Defense (DoD) had to agree on territorial rights with respect to numerous common-interest explorations.

1960s

As for communications applications for artificial satellites, the military wanted to control all "active" projects (i.e., where communications would be powered and two-way). The DoD's Advanced Research Projects Agency (ARPA) secretly was investing heavily in its Project Advent "active" system. NASA, the military felt, should confine itself to "passive" scientific projects such as Echo, which bounced signals off a large helium balloon.

This changed in 1960, largely because of an international satellite system proposed by the nation's overwhelmingly dominant provider of telephone services and equipment, American Telephone and Telegraph Co. (AT&T).

Over several years during the 1950s, AT&T's Bell Laboratories had been experimenting with satellites. They had been a power behind NASA's Echo experiments, and now they wanted to demonstrate an "active" mid-altitude satellite system. (***See October 1998 pp. 30-42***).

AT&T REACHES OUT

In AT&T's Telstar proposal on July 11, 1960, the company offered to pay all costs for the demonstration of its satellite system. This would include paying NASA for the nation's only available rocket-launch services from Florida, which NASA sub-contracted from the Air Force.

The Defense Department, which was having huge problems with its Advent project, willingly agreed that NASA should begin "active" satellite experiments.

NASA announced on October 12, 1960, that it would begin launching and evaluating proposed private communications satellite systems.

Meanwhile, the Federal Communications Commission (FCC) was trying to position itself in the future of satellite communications. It rushed through on January 19, 1961, an authorization to AT&T for an experimental satellite link across the Atlantic Ocean.

The authorization occurred the day before the United States was to inaugurate a new president, John F. Kennedy. In the January power shift from Eisenhower Republicans to Kennedy Democrats, many government agencies, including the FCC, were on unsure footing.

FCC TERRITORY

By February 28, 1961, in time for the FCC's seating of its new chairman Newton Minow, the FCC had completed an understanding as to how it would work with NASA. By March 29 the FCC had opened a docket for inquiries and proposals relative to the future administration and regulation of an international communications satellite system.

The FCC (and AT&T, at least openly) was then concerned only with the international market for satellite communications. At that time, neither seemed to envision the potential of the U.S. domestic market. The technology had not yet been proven.

In mid-April, the new Kennedy administration suffered through a disastrous, embarrassing "Bay of Pigs" invasion of Cuba that was designed, but failed, to assassinate Fidel Castro. In addition, the Soviet space program was trumpeting major achievements.

On May 5, however, NASA astronaut and Navy Commander Alan B. Shepard Jr. became the first American in space when his Mercury capsule reached an altitude of 116.5 miles (187 km).

The United States was ready to hear more about space from its new commander-in-chief.

In a May 25 speech to Congress, titled "Urgent National Needs," President Kennedy requested almost $10 billion over six years to support four space programs: a lunar landing within the decade, the Rover nuclear rocket, a global satellite system for weather observation and an "accelerated use of space satellites" for worldwide communications. His last request led to the Communications Satellite Act of 1962.

Hardly any dissent was heard in the 1961 Congress.

SEVEN CONTENDERS

Throughout 1961, with all attention focused on international satellite services to be spawned in 1962 by Congress, seven U.S. companies were keenly interested in selling military and/or civilian services.

Some wanted to build the hardware, some wanted to operate the first system, and some wanted to do both.

Fortune magazine reported in July 1961, "The United States has reached a momentous point of decision in a project that only a few years ago would have seemed improbable: the launching of a worldwide communication system linked by space satellites orbiting thousands of miles above the earth."

The magazine added, "Economic studies show that it could be a billion-dollar-a-year business by the 1970s," and likened the then-current era to that of 1857 to 1866 when massive, eventually successful attempts were made to lay submarine telegraph cable between Newfoundland and Ireland.

Hughes Aircraft's geostationary Syncom satellite system became the model for Intelsat's initial system, beginning with "Early Bird." Hughes was also selected by NASA to construct its experimental Advanced Technology Satellites.

The satellite project, *Fortune* reported, would be "engaged in a similar enterprise…immensely greater in size, scope, and daring than that nineteenth-century feat."

The contenders no doubt recognized the additional downstream potential for domestic services as well. At the top of the list, of course, was AT&T.

AT&T enjoyed a dominant monopoly in telecommunications services both within the United States as well as to and from the United States internationally.

Its self-financed project consisted of international demonstrations by two successive versions of Telstar, a medium-altitude system that in full bloom would require a worldwide constellation of 50 satellites interconnected with highly expensive earth stations.

The Telstar 1 demonstration began July 10, 1962, and was a huge public relations success, timed by AT&T to occur at the height of heated Congressional debates on the structure of the satellite communications bill.

AT&T, however, had two problems that would affect its future role in satellite communications.

First, it had strong support from the FCC, but its power and monopolistic standing in telecommunications was feared in Congress.

Second, AT&T itself was concerned with voice propagation delays in two way-conversations, and insisted on using a mid-altitude system instead of a "24-hour-a-day" high-altitude, geostationary system. (The latter type of system had not yet been demonstrated.)

Meanwhile, the DoD was under way with its Advent project, also called *Notus*—a Latin word meaning south wind.

The government's principal vendors, General Electric (GE) and Bendix, were contracted to design a high-altitude, polar-orbit system. The design proved to be far heavier than available rocket-booster facilities could handle, and it was soon cancelled.

For the non-military project, GE—like AT&T—advocated a medium-altitude system. It would employ 10 attitude-stabilized satellites in controlled equatorial orbits.

GE advocated straddling the space (equipment) and communication (services) industries by establishing a subsidiary to be called Communication Satellites Inc. (This name should not be confused with Communications Satellite Corp., the identity for Comsat.)

Radio Corp. of America (RCA), International Telephone and Telegraph (IT&T), General Telephone and Equipment (GTE), Lockheed Aircraft Co. and Hughes Aircraft Co. all advocated "24-hour-a-day" systems in 22,300-mile high-altitude orbits.

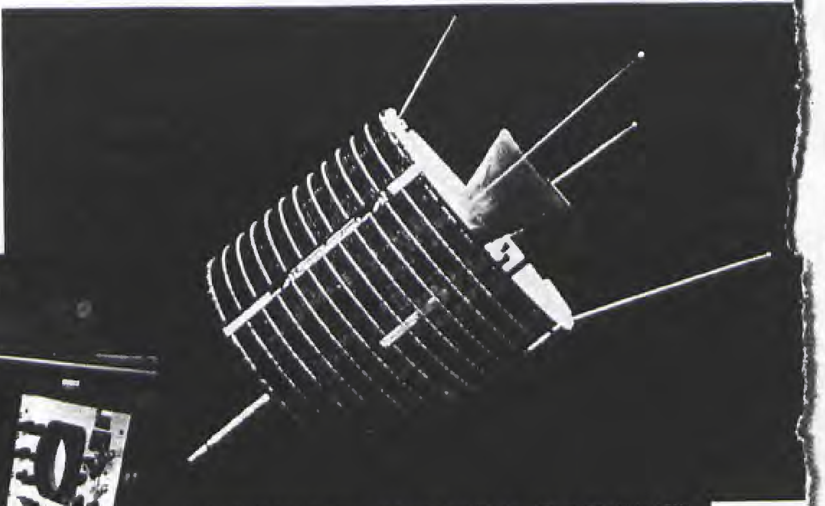
A BIG WINNER

In the determination by Congress as to which company would represent the United States in the establishment and operation of international satellite services, the winner was not one of the seven, but a wholly new company called Communications Satellite Corp. (Comsat).

Comsat was formed with a maximum of 50 percent of its ownership to be sold to U.S. carriers such as AT&T, and the remaining 50 percent to the general public.

Among the contenders, Hughes Aircraft also became a big winner. Its geostationary Syncom satellite design became the model for Intelsat's initial system, beginning with "Early Bird" in 1965. Hughes was also selected to construct NASA's experimental Advanced Technology Satellites (ATS).

Later, the Hughes company would become the world's leading manufacturer of satellites and a highly successful satellite system operator as well.



Intelsat's initial system, beginning with the "Early Bird" in 1965, was modeled after the Syncom satellite, which was designed by Hughes Aircraft Co.

A DOMESTIC COMSAT?

Following the determination by Congress that Comsat would exclusively represent the United States in the international satellite communications marketplace, the question was then who would be permitted to own and operate U.S. domestic satellite systems?

It had been seven years from the launch of the international project in 1958 to the commercial activation of Comsat (and Intelsat) in mid-1965.

Now, another 10 years were to be consumed, 1965 to 1975, from the first application to the FCC until the first domestic communications satellite would become fully operational.

Of all combatants in the ensuing political and regulatory struggle, none would be so adamant about "rights" as Comsat, a corporation less than three years old when the fray began.

Comsat's charter from the Communications Satellite Act of 1962 had defined Comsat's domain as international satellite traffic to and from the United States, but did not preclude domestic service. Comsat, not surprisingly, wanted to extend its role to the domestic arena as well.

ABC: LEADOFF HITTER

On May 13, 1965—five weeks after the launch of the Intelsat 1 satellite (a.k.a. "Early Bird") and six weeks before Early Bird was commercially operational—

WAS THE LONG WAIT NECESSARY?

It was only four and one-half years from the beginning of NASA's experiments with communications satellites until the launch in the spring of 1965 of Early Bird, the world's first non-experimental international satellite and the first revenue-producing communications satellite.

Nine more years would then elapse, however, from the first request to the FCC for a domestic satellite construction permit until the launches of Westars 1 and 2 in 1974. And it took until mid-summer 1975 before Western Union's first earth stations became licensed and available to process commercial television traffic.

Why did the international gestation consume less than five years and the domestic process take almost 10 more years?

The late Bernard (Bernie) Strassburg, who served from 1961 through 1973 as chief of the Common Carrier Bureau of the FCC, said the new satellite regulatory and ownership issues were very complex. "We were also beginning a critical process of deregulation in telecommunications in general, including the advent of specialized carriers," he added. "So we needed to be very thorough and very patient."

Ben C. Fisher, a veteran senior partner in the Washington, DC, communications law firm of Fisher, Wayland, Cooper, Leader and Zaragoza, recalls clearly the domestic policy deliberations. The FCC, he points out, "combined both rule making and authorization processes in one major and sweeping proceeding."

Among the subjects that needed to be scrutinized, he says, were "the proper roles for AT&T, which had expressed little enthusiasm for satellite delivery of message toll traffic, and for Comsat, the U.S. participant in Intelsat, which favored a single system owned by it alone, plus a special system for AT&T which it would operate."

There was, however, "surprisingly little regulatory intervention into the marketplace function. Manufacturers, communications users and terrestrial common carriers were all encouraged to participate."

Fisher adds that the initial grants of 1973 "formed the backbone for our present vigorous, highly competitive, domestic satellite communications industry." He says, "The Commission's foresighted and flexible policies have been fully vindicated by history."

American Broadcasting-Paramount Theaters Inc., the parent company of ABC Television, informally advised the FCC of its desire to be the first major user of a domestic satellite system.

The company's president, Leonard H. Goldenson, said it would be interested in substituting satellite delivery for the landline system it was then leasing from AT&T, to distribute its program services to owned and affiliated ABC broadcasting stations.

As a carrot that later *segued* into a hot political potato, Goldenson proposed furnishing at no cost a "relay channel" (a transponder, in later jargon) for "parallel distribution" of educational TV (ETV) programs.

At the time, the nation's 92 ETV broadcasting stations—most of them licensed to educational institutions—had no interconnection system other than the U.S. Post Office.

ABC-Paramount implied that it would prefer to own a satellite as opposed to leasing capacity from another owner. Because the FCC had not yet established procedures for allocating satellite licenses domestically, they informally referred ABC to a fact-finding discussion with Comsat.

When Paramount-ABC formally applied to the FCC on September 21, 1965, Comsat soon announced its opposition, contending that Comsat alone had been authorized to operate communications satellites in the United States.

Six months later in March 1966, the FCC returned ABC-Paramount's application without prejudice, opened a new docket for domestic satellite matters and issued a notice of inquiry.

On August 18, 1966, Comsat Chairman James McCormack—accompanied by Joseph Charyk, Comsat's president—declared at a Senate Commerce communications subcommittee hearing, "The Federal Communications Commission does not have the power to authorize provision of another satellite operator besides Comsat."

In late 1966, ABC-Paramount filed at the FCC once again. Interestingly, Hughes Aircraft, the designer and manufacturer of Intelsat's initial satellite fleet, had assisted ABC-Paramount in the preparation of its applications.

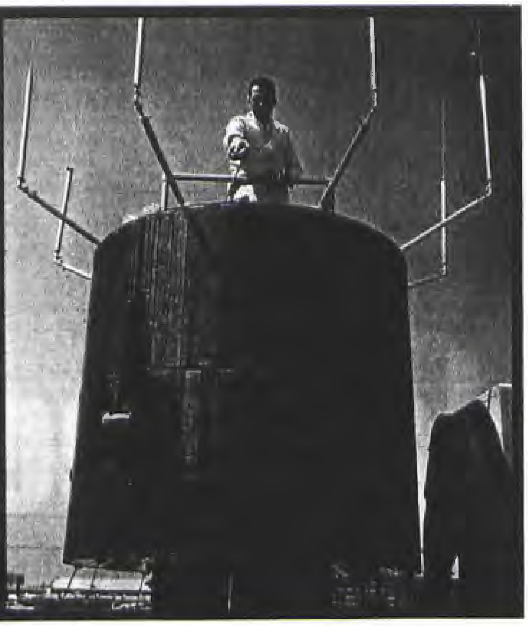
WHO CAN OWN A BIRD?

The first critical issue facing the FCC in 1966 was whether to permit private, non-carrier companies such as commercial television networks to own and operate domestic satellites. Would this be legal and in the public interest?

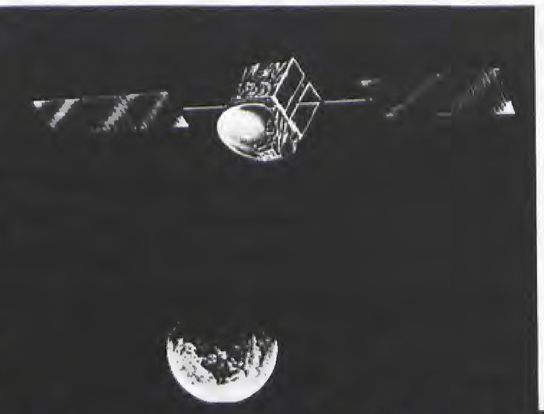
Nineteen parties responded to the FCC's first inquiry. Many—including AT&T, the networks and various educational interests—contended that private ownership would be legal under such guidelines as the Communications Act of 1934.

AT&T argued that a private owner should be or become a regulated common carrier. GTE and Western Union also responded, but Comsat provoked the most interest as it sustained its argument that it alone should be the U.S. domestic satellite operator. The battle line between private and carrier ownership remained until 1970.

The politically powerful Ford Foundation, with spokesmen McGeorge Bundy and the late Fred W. Friendly, proposed in 1966 the establishing of a satellite company called Broadcasters' Nonprofit Service Corp. that would provide distribution for



ATS 1, (Applications Technology Satellite), was the first of five satellites built for NASA by Hughes from 1966 to1969.



Left: Joseph Charyk, the first president of Comsat, is shown presenting Comsat's major move in 1967 to call for a pilot demonstration satellite program.

Above: The RCA satellites were the first solid-state communications spacecraft.

Below: The Westar satellites were built by Hughes for Western Union Telegraph Co. and were launched in the '70s.

the three commercial networks and for ETV program providers.

Their proposal called for the savings that would accrue to the commercial networks from a switch to satellites to be used to pay for ETV distribution.

As the FCC sustained its inquiry throughout the remainder of the 1960s, another approach on behalf of ETV came from the Carnegie Commission, which proposed a model demonstration satellite system in concert with NASA.

These efforts drew support from President Lyndon B. Johnson and led to the establishment by the Congress in 1967 of the Corporation for Public Broadcasting (CPB).

As the decade neared its end, the FCC was becoming very involved in early deregulation projects, such as the establishment of specialized common carriers, beginning with startup Microwave Communications Inc. (MCI). This activity would eventually lead to the historic breakup of the Bell Telephone System in January 1984.

As the 1960s marched on, Comsat continued to maintain its position. Its major move in 1967 proposed a pilot demonstration satellite delivery program in support of President Johnson's advocacy of the Public Broadcasting Act.

In reply comments, CBS, ABC and others opposed Comsat, citing Comsat's apparent motives to enlarge its control of international satellite services in the United States to additional control of all U.S. domestic satellite services.

"OPEN ENTRY"

In 1969 the Nixon administration replaced that of Johnson. Meetings with FCC officials were held to seek solutions to the logjam on the domestic satellite issue.

On January 23, 1970, a White House letter to Dean Burch, the new chairman of the FCC, persuaded the FCC to issue a Report and Order that would welcome both "multipurpose" and "specialized" satellite systems. The landmark Report and Order was issued on March 20, 1970.

Headed by Clay T. (Tom) Whitehead, the White House Office of Telecommunications Policy (OTP) had urged—and the FCC had concurred—the creation of a government policy to "encourage and facilitate the development of systems to the extent that private enterprise finds them economically and operationally feasible."

Thus arrived the "open skies" policy—soon renamed by the FCC as "open entry" to avoid confusion with the government's regulation of air space.

The policy had four key elements: 1) any qualified legal entity could apply for a satellite system and become a satellite carrier; 2) the business would not be limited to established carriers; 3) AT&T would not be permitted to lease or sub-lease private-line channels until July 1979; and 4) all services would need to be offered competitively, under tariffs and subject to technical and

1970s

rate regulations.

Reasonably soon, the FCC had awarded nine construction permits to eight companies (two went to Comsat).

Only three of the eight companies actually proceeded to build and launch domestic satellites. Five construction permits were allowed to expire.

The first two permits were granted in December 1972 to Comsat General, a subsidiary that Comsat Corp. was required to establish. Comsat General was permitted to lease its "Comstar" system capacity (all in C-band) to AT&T, as augmentation to the latter's terrestrial voice facilities.

The second Comsat permit, later named "SBS" for Satellite Business Systems, was for a multipurpose Ku-band system planned in a joint venture with Lockheed Aircraft and MCI Communications.

Six more construction permits were granted in July 1973. Western Union Telegraph Co. ("Westar") and RCA Communications ("Satcom") proceeded with their systems.

Companies that participated down to the wire and obtained construction permits but withdrew for various reasons included American Satellite Corp., Fairchild Industries, General Telephone and National Satellite Service (Hughes Aircraft).

In addition to developing its Syncom success, Hughes had a major financial interest in cable-TV systems and envisioned using its own satellite to distribute motion pictures and other program services to cable system operators. Roughly 10 years later (in 1983), Hughes did just that with Galaxy 1.

THE THREE PIONEERS

The three companies that, in the end, pioneered U.S. domestic communications satellite services were all established carriers. In chronological sequence, the launches were by Western Union, RCA and Comsat.

In the 1970s alone, these three companies built and successfully launched a collective total of eight domestic communications satellites.

Western Union's first two Westar satellites were launched in 1974, but neither became readily accessible for the main freight of the day, television, until the company's handful of earth stations became operational in the summer of 1975.

RCA was second in the "operational" race with two satellites by early 1976.

Another winner was the CPB and its Public Broadcasting System (PBS). The once-unconnected universe of educational TV stations was finally interconnected by a Westar satellite in 1978.

The writer of this history enjoys recalling that his former company—Wold Communications—booked the very first live TV program transmission on a U.S. domestic satellite. It was a baseball game telecast transmitted on Westar 1 on August 9, 1975. ❖

California-based Robert N. Wold is a writer specializing in electronic communications history. He may be reached at 949/363-0993, by fax to 949/363-2093 or by e-mail to robertnwold@home.com

Digital TV Demystified

Answers to the most common questions

by Jim Barry

Are you ready for high-definition *Geraldo*? Well, how about *World's Wildest Police Videos* with digital enhancements? Ready or not, digital television (DTV) broadcasts will finally begin later this year, long after digital technology has found its way into many other products, from compact discs to digital cameras and DVDs. It took a longer time for digital to get to TV because it takes a lot of computing power to convert video signals, especially live-action sports, into computer code — and because the Federal Communications Commission (FCC) took a whole decade to set a standard for digital TV transmission. So those of us who first heard about high-definition television (HDTV) back when it promised sharper, more realistic pictures of *St. Elsewhere* will be splattered with realism at *Chicago Hope* instead. Maybe.

In December 1996 the FCC finally approved a DTV standard that's as fuzzy as a *Seinfeld* plot, leaving a lot of room for interpretation and maneuvering on the part of broadcasters, cable companies, networks, satellite providers, computer companies, and other parties looking to mine gold in the new medium. Since the new standard is so imprecise and the new medium's potential is so great, the DTV landscape is still misty, leaving most of us with even more questions than before. Here are some of those most commonly asked, with the best answers we have today.

I've been hearing for years about the coming of high-definition television. Now I hear about digital television. Is it the same thing?

High-definition TV has indeed been in the works since the Reagan Administration. It was conceived initially to create a new analog television transmission system that would deliver pictures as clear and sharp as in movies on film. Such a system was already far along in Japan and in development in Europe, so there was lots of political pressure for the U.S. to catch up.

The FCC asked for proposals, and many were submitted. In the process, engineers at General Instrument developed a radical proposal using digital technology. Soon all but one of the competitive bidders were converting video signals into bitstreams. When the only analog proponent, Japan's NHK, dropped out, the remaining competitors joined forces in a "Grand Alliance" to develop a single system for digital TV in the U.S. Some folks continued to use the terms DTV and HDTV interchangeably, but recently more precise definitions have emerged.

All right, what's the difference?

The new medium is *digital TV*, in which video programs are transmitted in digital form rather than as the analog waveforms that our conventional NTSC television system has been using for half a century. One of the things that can be done with this powerful digital technology, which transmits 19 megabits per second in a 6-MHz band, is to deliver a picture that's more than twice as good as the best one possible with the current analog system. That will be true *digital HDTV*.

But broadcasters may choose to deliver a less detailed picture and to use some of the available computing power to deliver more channels or other digitized information, whether related to the program or not. You will see this approach described as *standard-definition TV* (SDTV). It will look better than today's broadcasts because it will eliminate the ghosts and "snow" that often plague analog reception, but it will be several notches down from HDTV.

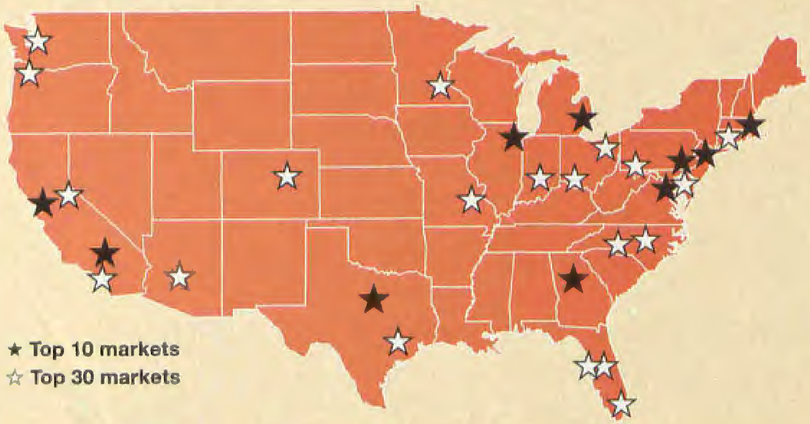
The Consumer Electronics Manufacturers Association (CEMA), the trade group for makers of video, audio, and other electronic products, has estab-

lished a set of standard definitions for the new digital television age. In order to be branded *HDTV*, a set must be capable of reproducing at least 720 *scan* lines (not the same as lines of horizontal resolution), a widescreen image (16:9 aspect ratio), and a Dolby Digital soundtrack as well as being able to receive all of the different formats allowed by the Advanced Television Systems Committee, an industry group.

What kind of supplemental material might be sent along with the main TV program? Measurements of *Baywatch* stars? An explanation of how Fran Drescher got a prime-time series?
Interesting ideas, and certainly possible, but think of what you can already do with WebTV or other set-top Internet boxes, like checking out the *Friends* or ABC News Web site during a commercial. That type of information can be sent right along with pictures and sound that will be better than we're used to now.

When and where will DTV and HDTV broadcasts begin?
The rollout will begin this fall in the Top 10 U.S. markets: New York, Los Angeles, Chicago, San Francisco, Atlanta, Dallas/Fort Worth, Boston, Detroit, Philadelphia, and Washington, DC. The FCC has ordered the CBS, NBC, ABC, and Fox stations and affiliates in those cities to construct digital facilities in time for the rollout, and by November 1999 all stations in the Top 30 markets will be required to have the necessary equipment up and running. The second tier includes Baltimore, Charlotte, Cincinnati, Cleveland, Denver, Hartford/New Haven, Houston, Indianapolis, Miami/Ft. Lauderdale, Minneapolis/St.Paul, Phoenix, Pittsburgh, Raleigh/Durham, San Diego, Seattle/Tacoma, St. Louis, and others (see map). By May 2002, all of the 1,600 or so TV stations in the nation will have to have digital facilities.

DTV Broadcast Rollout Schedule



MAP COURTESY OF CEMA

TOP 10 MARKETS (30% of U.S. households) by May 1999

- Atlanta
- Boston
- Chicago
- Dallas/Fort Worth
- Detroit
- Los Angeles
- New York
- Philadelphia
- San Francisco
- Washington, DC

TOP 30 MARKETS (50% of U.S. households) by November 1999

- Baltimore
- Charlotte
- Cincinnati
- Cleveland
- Denver
- Hartford/New Haven
- Houston
- Indianapolis
- Miami/Ft. Lauderdale
- Minneapolis/St. Paul
- Orlando/Daytona Beach/Melbourne
- Phoenix
- Pittsburgh
- Portland, OR
- Raleigh/Durham
- Sacramento/Stockton/Modesto, CA
- San Diego
- Seattle/Tacoma
- St. Louis
- Tampa/St.Petersburg/Sarasota

What will be broadcast in digital?
All four networks previewed their digital TV plans at the big National Association of Broadcasters (NAB) convention this spring. NBC and CBS said they would transmit the highest-quality HDTV pictures in parts of their prime-time schedules this fall, while ABC and Fox committed to delivering less sharp pictures (that is, SDTV-grade) in prime time. Some PBS stations, like WGBH in Boston, also plan to begin digital broadcasts this fall. You'll probably see a few programs in true high-definition video and 5.1-channel sound in the evening and less at other times of the day, just as broadcasters switched back and forth between black-and-white and color TV programs in the 1960s.

Is the HDTV picture really that good?
Yes! In any of its many formats, it's better than today's TV, and when the technology is used to deliver optimum picture quality, it's spectacular. Our current TV system breaks the image into 525 horizontal scan lines, of which only 480 contain picture information. Digital HDTV is capable of 1,080 scan lines, which is twice the 525-line *vertical* resolution of our current NTSC format, although broadcasters may choose to deliver a lower-quality picture and use the bandwidth they save to send other information. They may also send the video signal using either progressive or interlaced scanning (more about that later).

What else will DTV offer besides a great picture?
We already mentioned some of the Web-like data you'll be able to access, but one of the best elements of the new system is going to be digital surround sound. The HDTV standard includes 5.1-channel Dolby Digital as the standard soundtrack, and when the viewing public gets a listen to movies at home with digital surround sound, they're going to say, "Wow!" And when college and pro football, baseball, auto racing, and the Super Bowl start appearing in homes on wide screens with 5.1-channel sound, sports fans will start clamoring for HDTV the way they've embraced small-dish satellites.

Will my current TV set still work? Will I have to buy a new one? Can I buy a converter box?
Yes, no, and yes.

The current system of analog TV broadcasting will continue until at least 2006, which is the year that the FCC and Congress initially set as the target for a complete changeover from analog to digital broadcasting. That was reconsidered, however, and now stations are expected to be able to continue analog broadcasts until 85 percent of households in their viewing area have purchased digital sets.

Whenever the day arrives that analog broadcasts end, if you *haven't* purchased a new digital TV you'll need an inexpensive converter box to translate the digital signals for your existing analog TV. Most of us will probably purchase a new set in the next ten years anyway, and half a dozen years or so from now, once the prices of digital TVs come down, digital sets will overtake analog ones in sales volume.

But if you've just purchased a new TV, don't worry about analog broadcasts ending sometime in the future — your set will still work for a good long time. In addition to at least eight more years of analog network broadcasts, cable and satellite systems are likely to be sending analog signals for the lifetime of any existing NTSC TV set. And VCRs as well as laserdisc and DVD players will work with the new TV sets for the rest of their useful life.

How 'bout the flip side? Will I be able to get the old analog signals on my new digital TV?

Yes, for a few years anyway. The first generation of digital TVs will include analog tuners, so you can still watch *America's Funniest Home Videos* and other programs being broadcast in the old format without switching TVs.

How much will a DTV set cost? When will the prices come down?

Well, there are those who say HDTV stands for "High Dollar Television," and there's good reason for that impression. The first sets to arrive in stores this fall are expected to carry prices in the $6,000 to $10,000 range. At the Consumer Electronics Show in Las Vegas this past winter, for instance, RCA showed a 60-inch projection model with a $7,000 price tag. But the good news is that the prices will probably come down pretty quickly. Digital products have historically halved in price every eighteen months, and TV prices have continued to drop for decades even as almost everything else has risen with inflation. Combine those two trends, and digital TV prices should be within reach of the majority of us in a few years.

Will I be able to get HDTV on my multimedia computer?

Maybe. It seems certain that you'll be able to receive some level of SDTV on computers. But there's a movement afoot, led by Microsoft and some cable titans, that would limit the picture's vertical resolution to 480 lines using progressive scanning (480p), as opposed to the HDTV potential of 1,080 lines with interlaced scanning (1080i).

Progressive? Interlaced? What's the difference?

Video images are produced by an electron gun scanning a series of horizontal lines onto the inside of the picture tube. Our current NTSC television system uses "interlaced" scanning, in which the gun scans *every other line* on its first pass (1, 3, 5, 7, 9 . . .), then comes back and fills in the even lines to complete the total of 525 lines in a video frame. In "progressive" scanning, until now used primarily in computer monitors, each of the lines is scanned *sequentially* (1, 2, 3, 4, . . .). In an effort to satisfy all of the competing interest groups involved with DTV, the standard approved by the FCC includes fourteen progressive-scan formats and four interlaced-scan formats. So if you buy a TV with the CEMA-approved DTV logo on it, you can be sure that it will handle any of the various formats that broadcasters, cable systems, or satellite systems may use.

I heard that HDTV sets will look different, with a movie-like screen. Why do I need widescreen now that Oprah's lost weight and Roseanne and John Goodman no longer have to fit together on the screen?

The widescreen format will naturally be an advantage for feature films, which will no longer have to be altered to fit into a narrower TV screen. And it will also provide an entire new dimension for sports on television, with more of the field in view.

Will I get HDTV through my cable? Through my satellite dish? Rooftop or set-top antenna?

A definite maybe on the cable question. Whether you get HDTV or even digital SDTV is up to the individual cable operators, which would have to install new cable boxes in their customers' homes. There are hundreds of cable companies nationwide, although a few giants — notably TCI, Time Warner, Cablevision, and Cox — control more than half the market. TCI, along with Microsoft, has been loudly promoting a 480p SDTV format, suggesting that viewers don't need any better picture quality and will want lots of other ancillary data instead. On the other hand, Cablevision and at least one cable programmer, HBO, are on record as supporting true HDTV.

HBO is also delivered on satellite, of course, and DirecTV, one of the two delivery services for DSS, says that it will begin sending HDTV this fall. You'll need a new DirectTV box for it, but if you buy a new widescreen HDTV set, that'll be another route to optimum picture and sound quality.

Perhaps the best news is for those of us who receive television through either a set-top or rooftop antenna. Since the new digital signals will be broadcast on the VHF and UHF Channels 5 to 60, you'll be able to use your existing antenna for DTV, too. We could be in for a new golden age of broadcast TV.

Will my VCR, DVD player, and other video gear work with an HDTV set?

Yes and no. In addition to their digital tuners, the early DTV sets will include NTSC tuners to receive analog broadcasts, which will be compatible with current-generation analog and digital video machines. At some point in the future, however, DTV sets will not be compatible with analog NTSC video without a converter box. As for the digital DVD format, because its data rate is only half that of DTV, the discs cannot store an HDTV video program.

Don't they already have DTV in Japan? Will ours be different?

Yes, it's different. Japan has been broadcasting analog HDTV for a decade using the NHK system, which was an early contender to become the U.S. standard but dropped out when the Grand Alliance formed. Since the Japanese system is analog, it isn't as flexible or as easily upgradable as a digital system.

There is a possibility that the U.S. standard will be embraced globally in the coming years. Korea has already adopted it, and the technology has been demonstrated in China, Australia, and Europe. Nevertheless, a different digital system is being launched in Britain and Europe, and given international politics and the experience of three or more analog TV standards co-existing for the past half century, a true global standard may be a long time coming. It's an evolving scenario, so stay tuned. □

See Bob Rock.

The new Sunfire *True Subwoofer* by Bob Carver has received reviews that are redefining the subwoofer industry.

There has never been a subwoofer like it!

There will never be a subwoofer like it!*

It's a small eleven inch square bass cube, and it shakes the walls and rattles the rafters. It has its own built-in two thousand, seven hundred watt amp!

Trust Bob.
It Rocks!

SUB REVIEWS

"The True Subwoofer is an achievement on par with the space shuttle and the twinkie."
–*Al Griffin*
Home Theater, Feb, 97

◆

"Talk about floor shaking bass...turned up to maximum level, I don't think there was anything in the house that wasn't shaking, including the concrete foundation!"

"*Don't,* I repeat, *don't* even think about purchasing another subwoofer without giving the Astonishing True subwoofer a listen"
–*Joseph M. Cierniak*
The Sensible Sound, Issue # 60

◆

"The lowest, flattest, deepest bass I have *EVER* heard or measured."
–*Julian Hirsh*
Stereo Review, Dec. 96

http://www.sunfirelabs.com

Bob Carver's
Sunfire
from his mind ... and soul

*Strictly speaking: for 20 years or until patent expires.

For additional information on Sunfire, call or write to Sunfire Corporation, PO Box 1589, Snohomish, WA 98290 • (206) 335-4748 • Distributed in Canada by Korban Trading. • Bob Carver is no longer affiliated with Carver Corporation. • Tech Notes: Flat to 18 hertz. Powered by 2700 watts.

The Washington Times
SUNDAY, DECEMBER 13, 1998

What the U.S. film industry can teach the Europeans

MOVIES AND MONEY
By David Puttnam
Knopf, $30, 320 pages
REVIEWED BY ROD DREHER

The high-minded English producer David Puttnam's mid-1980s stint running a Hollywood studio was as rocky as it was brief. Mr. Puttnam, who had his hand in "Chariots of Fire," "The Mission," "Local Hero" and other exemplary films, left after two years at the helm of Columbia Pictures, kvetching about the venality and artlessness of the profit-driven Hollywood system.

Since then, he appears to have undergone a conversion. His book, "Movies and Money," is the testament of a distinguished European filmmaker who recognizes, however ruefully, that Hollywood conquered world cinema because Americans understand better than anyone else the business end of filmmaking. Mr. Puttnam's book is a powerful and clear-eyed brief on behalf of the American approach to filmmaking: You get better movies when you let the market — which is to say, your audience — drive the kinds of films you make.

In the author's view, the unembarrassed pursuit of profit by American studios — something uppity European filmmakers disdained for ideological reasons, or out of pure snobbery — meant that American films, however trashy and artless many were, tended to respond to the cares and tastes of a wide audience. Sometimes, great popular art got made on the way to the bank. European directors and producers, according to Mr. Puttnam, long burdened by a distaste for grubby commerce, political stridency and grandiose artistic pretensions, have repeatedly blown opportunities to build a truly popular cinema in their own countries.

The book is a compulsively readable history of the colorful saga of film and commerce, a tale shaped by the outrageous personalities of the men who invented the movies. Mr. Puttnam is especially good recalling the early days of filmmaking, and the cutthroat dealings among the Americans and Europeans — primarily the French, who invented movies — to build a business out of the new technology.

No matter how familiar you are with their stories, one is amazed even still by the inventiveness, industry and chutzpah of the men —mostly European Jewish immigrants — who built the Hollywood colossus. Adolph Zukor, Carl Laemmle, Louis B. Mayer and the others: These were not sophisticated gents, but astute businessmen who, having come from humble origins, understood and respected the tastes of their customers.

With incisive analysis and telling anecdotes, Mr. Puttnam demonstrates how American studios never lost sight of the cold, hard fact that moviemaking is a business first, while Europeans, with their older, more conservative traditions, have always conceived of the cinema primarily in terms of cultural content.

Nothing in the book illustrates this more clearly than the fate of French filmmaking in the 1960s, which the author discusses in his best chapter. Though the creativity of the Nouvelle Vague directors —Francois Truffaut and Jean-Luc Godard, mostly — breathed new life into world cinema, it destroyed a generation of French filmmaking. France became obsessed with the modish auteur theory, which granted almost godlike status to a film's director.

As it happened, the leading directors became more politically radicalized and alienated from the mass audience for whom they presumed to speak. As Mr. Puttnam shows, the hatred of commercialism they espoused corrupted them artistically, as their films became more obscure and indifferent to the audience. This destructive legacy continues today, encouraged by government subsidy. Three years ago, Olivier Assayas, a top French director and frequent recipient of government largesse, told me he didn't care if his movies were seen only by his friends, as long as he made the film he wanted to make. He pretty much gets the audience he expects, and deserves, I'm afraid.

On a less exalted plane, Mr. Puttnam explains how the American view of moviemaking naturally led to investment in infrastructure, as well as innovations in marketing, distribution and exhibition. While Europeans poured money and energy into making movies, Americans understood that customer service came first. Americans constantly renovated worn-out theaters, for example, while Europeans, especially the British, allowed their movie houses to deteriorate even as admissions nosedived.

As for marketing, Mr. Puttnam marvels at how "in many European countries, the attitude still exists that a good film shouldn't really have to be marketed at all, that the public will somehow instinctively find and appreciate artistic quality without the assistance of a vulgar marketing campaign."

While strong on historical context, the author gives insufficient attention to more recent developments. The rise of American independent cinema, surely the most important development in film this decade, gets short shrift in his account. This is an unfortunate oversight, because it's a fresh and fascinating instance of how the American movie business renews its creativity in response to market pressures — and how the creative element in this country inevitably yields to market forces.

The indie movie scene developed because the Hollywood studio system had become too blandly commercial. Savvy cinephile businessmen, most notably Harvey and Bob Weinstein of Miramax, pioneered a way to distribute and market a fresh, cutting-edge kind of movie, which provided mainstream Hollywood with new ideas and new faces. The Weinsteins, who have in one decade built Miramax into an industry powerhouse, would appear to be quintessential examples of how to build a successful film business without sacrificing artistic quality — but they seem to have escaped Mr. Puttnam's notice.

But the real disappointment here, particularly considering his reputation, is Mr. Puttnam's failure to make a compelling case for the claims of artistry and social responsibility. He makes clear his belief that filmmakers have a duty to make movies of aesthetic quality and moral integrity, particularly in the West, which is undergoing social disintegration even as it increasingly takes its moral instruction from popular culture. But he gives scant clue how that is to be accomplished within a system that rewards the bottom line.

This ought to have been Mr. Puttnam's greatest strength, but it turns out to be the only major flaw in an otherwise invaluable book, one that ought to be on the shelves of any serious student of film, not only overseas, but in this country, where wearing disdain for commercialism as a badge of honor is a potentially crippling temptation for aspiring filmmakers.

Rod Dreher is a film critic in New York.

THE WALL STREET JOURNAL INTERACTIVE EDITION.
▸FRONT ▸MARKETPLACE ▸MONEY ▸TECH ▸SPORTS
PERSONAL JOURNAL
NEWS
■ FAVORITES
■ PORTFOLIO
■ SETUP CENTER

The Wall Street Journal Interactive Edition -- September 29, 1998

U.K.'s ONdigital to Begin Broadcasting in November

By BILL McINTOSH
Dow Jones Newswires

LONDON -- ONdigital, the new U.K. digital terrestrial television network co-owned by Granada Group PLC and Carlton **Communications** PLC, will begin broadcasting Nov. 15.

ONdigital will be the world's first digital television network designed for reception by conventional television aerials. Digital broadcasting will allow sharper pictures and CD-ROM-quality sound. The network will introduce a third form of pay-television competition to the U.K. market. **Satellite** broadcaster British Sky Broadcasting Group PLC will begin digital transmission Thursday, while U.K. cable operators plan to switch to digital distribution in mid-1999.

ONdigital, which is backed by the U.K.'s two biggest commercial-broadcast networks, has targeted the 73% of U.K. households that don't subscribe to BSkyB or cable. Its premise is that a network carrying about 30 channels that doesn't require expensive cable fees or an unsightly **satellite** dish can win over consumers who have remained unmoved by television's multichannel evolution.

ONdigital Chief Executive Stephen Grabiner unveiled a 90-million-pound ($152.7 million) marketing and promotions budget for the company's first year and promised a 20-million-pound production fund for exclusive programing, to be screened as First ONdigital.

In London Monday, shares of Carlton rose 3.1% to 400 pence ($6.79), a gain of 12 pence. However, that put only a small dent in the stock's slide from 585 pence in July because of investors' worries about the project's viability in the face of tough competition from BSkyB. Shares of Granada, meanwhile, rose 3.6% to 785 pence, up 27 pence.

In acknowledgement of BSkyB's pay-television programing muscle, Mr. Grabiner confirmed that the new network has secured distribution rights for all of the **satellite** broadcaster's live Premier League soccer matches. ONdigital also will carry two BSkyB subscription movie channels.

Among 15 other channels it will carry are Eurosport, MTV and the Cartoon Network. ONdigital also will feature Film 4, a new movie channel being developed by U.K. broadcaster Channel Four Television, and new channels under development by a joint venture involving Flextech Group PLC and the British Broadcasting Corp.

Consumers will have to pay 199 pounds for a decoder box and must subscribe to ONdigital for at least 12 months. Channel packages will range from 7.99 pounds for a choice of six basic channels to 9.99 pounds for 15 basic channels. BSkyB programing will cost from 11 pounds for any single channel to 18 pounds for three channels.

ONdigital also has promised customers free digital-television aerials, as well as free installation throughout the U.K. Mr. Grabiner estimated that the promotion would cost ONdigital around 5 million pounds for every million subscribers, assuming that about 10% of households will require upgraded aerials.

Return to top of page | Format for printing

HELP | NEW FEATURES | SPECIAL REPORTS | GLOSSARY | PERSONAL FINANCE CENTER | TOOLS | CONTACT US | YOUR ACCOUNT | ADVERTISERS | SEARCH

New definitions for television

The big battle in television isn't between Letterman and Leno for late-night ratings. It's the behind-the-scenes war over digital TV, and more specifically HDTV (High Definition Television). Like most conflicts, this is largely a religious one, with your TV-viewing pleasure at stake.

Digital TV is shorthand for the retooling of the TV-signal transmission infrastructure that lets TV providers broadcast more channels and deliver data such as the Internet and other computing services. HDTV is technically a subset of digital TV. It's a standard that features a screen resolution of up to 1,080 interlaced lines (more than three times that of today's analog TV), Dolby Digital sound, and the capability to display in the much wider 16:9 aspect ratio (akin to what you see in big-screen movie theaters), among other benefits.

But TV broadcasters still need to strike a deal with the cable TV and computing industries over a series of technical issues. In simplified terms, the broadcast folks want to beam signals in the "1080 interlaced" standard (see "HDTV Made Easy," below). The cable and computing cliques remain adamant about the "720 progressive" format, which delivers a somewhat duller picture at 720-line resolution but leaves more bandwidth for data delivery and additional TV channels. Compared with today's analog TV resolution of 330 lines, either format is a big improvement.

If you want to see what you're missing, wander into your nearby electrolust superstore. A few superhot HDTV sets from big-name vendors such as Mitsubishi and Sony will be available as early as this month. Start saving now—to appreciate HDTV's awesome video and audio talents, you'll need a compatible receiver priced at a whopping $5,000 and up.

MITSUBISHI WS-73903

HDTV MADE EASY

Is all the talk about digital broadcasting creating a fuzzy signal in your brain? Here's a handy HDTV primer to help clear the air.

HDTV, or *High Definition Television*, is a subset of digital TV that promises superior video and audio quality, as well as data-delivery services for future PC/TV devices.

SDTV, or *Standard Definition Television*, is a lower-resolution digital signal of 480 horizontal lines. Digital TV sets should be equipped to receive both HDTV and SDTV signals.

1080i, or *1080 interlaced*, is the HDTV resolution format favored by many mainstream broadcasters and television networks. While its 1,080-line horizontal resolution produces an outstanding picture, its bandwidth-hogging signal leaves less room for additional channels and data services.

720 progressive, with 720-line resolution, is favored by cable TV companies and the PC industry. It doesn't produce as crisp a picture as 1080i, but it leaves more bandwidth.

Data-casting refers to the information services made possible by digital TV. During a sporting event, for instance, broadcasters could transmit (or data-cast) detailed player statistics or scores from other games, which you could view simultaneously.

Dolby Digital is the audio technology responsible for HDTV's crystal-clear sound. You'll need surround-sound speakers and a Dolby Digital–compatible receiver to realize this technology's awesome potential.

The **FCC**, or Federal Communications Commission, has ordered network affiliates in the 10 largest TV markets to begin broadcasting digitally by May 1999. Affiliates in smaller markets will have to go digital by November 1999. All commercial TV stations must convert from analog to digital by 2002.

Digital set-top boxes will allow those of us with analog TV sets to receive digital broadcasts and dumb them down for an existing TV. But the result, while better than analog, won't be up to digital TV standards.

⑤ AWARE DSL-LITE

Aware's DSL-Lite modems, such as the x200 (pictured here), promise to deliver 1.5Mbps data transfers to your PC with no additional wiring or installation costs.

pricing to be announced ▪ available late 1998 ▪ (781) 276-4000 ▪ enter 606 at www.equip.com/infolink

① SONY ICF SCIPC RADIO FREQUENCY SCANNER

One Adam 12. Connect Sony's new radio scanner to your PC and you can surf the 211s in progress from your desktop.

$430 ▪ available now ▪ (800) 222-7669 ▪ enter 601 at www.equip.com/infolink

③ BSG LABORATORIES INTENSOR

Take a seat and hold on—the Intensor chair shakes, *ka-booms*, and blasts you through your gaming world.

$300 to $600 ▪ expected now • (800) 274-5227 ▪ enter 603 at www.equip.com/infolink

❶ SONY ICF-SCIPC RADIO FREQUENCY SCANNER

High-speed chases, tornado warnings, and emergency landings are just a few of the real-life events you can eavesdrop on from your desktop with Sony's new radio scanner. Attach the device to your PC with the included interface cable and you can navigate the airwaves with a click of your mouse. The included CD lists all available FCC frequencies in the United States, including police, fire/emergency, aircraft, weather, marine, TV, and FM bands. The scanner also has a 300-channel memory and a variety of programmable features.

❷ MITSUBISHI AMITY CN MODEL 2

The Amity CN Model 2, the second in Mitsubishi's line of ultraportable CN PCs, weighs in at only 2.6 pounds and measures just 1¼ inches high and 9¼ inches long. But don't let its diminutive frame fool you. For a few ounces more than the original Amity CN, the CN Model 2 adds a host of upgrades without compromising performance.

This 166MHz notebook comes with up to 96MB of memory (almost double the old CN's RAM), 256K of L2 cache, a 2.1GB hard drive, and two PC Card slots. To satisfy your mini-multimedia needs, the CN2 houses internal speakers, a microphone, and all the necessary ports, including an IR port, USB, and two Type II PC Card slots (but no modem yet). The 8.4-inch screen is bigger than the original CN's, but the overall size remains the same—just don't expect much more than two hours from the included lithium ion battery.

❸ BSG LABORATORIES INTENSOR

Like a surround-sound theater, the Intensor video-game chair introduces you to a whole new sensory experience. You'll feel the impact of your games through the unit's subwoofer and the chair's five built-in speakers, which send four sound frequencies through the polypropylene material. This patented sound field vibrates so you'll feel as well as hear every audio experience. If, for example, a World War I bomber explodes behind you, you'll hear the sound echo

THE NEW YORK TIMES, WEDNESDAY, SEPTEMBER 16, 1998

F.C.C. Responds to Its Digital-TV Critics

By JOEL BRINKLEY

WASHINGTON, Sept. 15 — The chairman of the Federal Communications Commission today lashed back at critics in the telecommunications industry who have blamed his agency for the problems plaguing the introduction of digital-television services, scheduled to begin in just six weeks.

Executives from the television programming and manufacturing industries have faulted the commission for not setting clear rules and standards for digital broadcasts and related equipment. In many cases, the commission chose instead to let industry set the standards itself. That has led to interindustry disagreements and crippling incompatibilities in some areas.

For example, the first high-definition sets now on sale cannot receive HDTV programming from cable systems because the standards for the cable that connects the set to the cable box have not been completed — an unresolved interindustry detail for which some set makers blame the F.C.C.

But in a speech to a group of broadcasters today, William E. Kennard, the F.C.C. chairman, called the criticisms self-serving efforts to "goad the Government by playing the blame game."

Most businesses ask his agency for help, Mr. Kennard said, "only if they think Government will give them a regulatory advantage." If not, he added, "They'll try to keep Government out."

The Government should get involved, Mr. Kennard added, only "when arguments are distorted by the prism of self-interest."

Separately, the Sony Corporation plans to announce on Wednesday that unlike other television manufacturers it will sell a high-definition television set that is a conventional-style table-top model with a picture tube, beginning in November. Every other manufacturer plans to sell large rear-projection sets, some as big as a compact automobile.

More than 90 percent of the TV's sold today are conventional models with a picture tube, known as "direct view" sets. That leaves many industry analysts asking how the transition to digital television can succeed, as long as manufacturers offer digital sets in a style that is not popular with most buyers.

An industry faces crippling incompatibility problems.

James Palumbo, a Sony vice president, said his company chose direct-view because such sets offered the highest picture quality, and that he believed Sony would gain a competitive advantage. "We think the market will initially have a bigger audience for direct-view sets," he said.

Other manufacturers are not producing direct-view sets now because they are more complicated to manufacture and still cannot display an HDTV image at its highest level of resolution. The Sony executives acknowledged that without saying what level of resolution their HDTV would offer. "It's misleading to do that," said James Bonan, another Sony vice president.

But in one respect, Sony's strategy is similar to the other companies'. They are all entering the high-definition television market with high-end products loaded with options and added features — and extraordinarily high price tags. With rare exceptions, the first high-definition television sets will sell for at least $8,000. Sony's 34-inch direct-view set will be priced at $9,000.

Mr. Kennard, in his speech to the International Television and Radio Society in New York today, said no one should be concerned with the high initial prices. "If you control for inflation," he said, "the first color sets in 1955 cost about $4,500." (Actually, RCA put the first color television on the market in 1953, and it cost $1,000 — just over $6,000 in today's dollars.)

Mr. Kennard added, "The entire history of the introduction and pricing of consumer-electronics equipment tells us that soon enough, digital-television receivers will be increasingly affordable."

"But let's not kid ourselves," he continued. "The digital-television rollout will be complicated." He urged patience, "for the transition to digital TV is inevitable."

Mr. Palumbo said Sony management held a similar view. "This is just the beginning," he said, "trial and error."

Robert J. Samuelson

Meanwhile, Back on The Hill . . .

This is not about Monica. It's about copyright legislation, "The Digital Millennium Copyright Act of 1998." The point of discussing it is that it's not in the news and may turn out to be profoundly important. In this, it resembles much legislation now before Congress: say, revisions in personal bankruptcy law and proposals to minimize the year-2000 computer problem. Something besides scandal is occurring in Washington, and when the scandal has passed, the humdrum legislation may affect ordinary Americans more than anything that happens to Bill Clinton.

Copyright revision is a case in point. It would set ground rules for traffic in information over the Internet—a business that, someday, could total hundreds of billions of dollars and control how Americans receive much of their news and entertainment. Huge interests and fierce controversy surround the copyright proposals. On one side are movie studios, record companies, the software industry and book publishers: a commercial complex that claims value added of nearly $300 billion. On the other are 40,000 libraries, many colleges and universities, some consumer groups and academic experts.

To its proponents—the studios and their allies—copyright legislation would unleash digital commerce by toughening prohibitions against pirating movies and other data from the Internet. Critics don't object to that but claim that the proposed anti-piracy rules are so tight that they would restrict the free flow of information. They would (say critics) create a "pay-for-use" world in which publishers, studios and others could lock up more and more information in computer memory—which could be used or seen only by dropping coins into a cyber meter.

There is a legitimate debate here. Copyright has long been a balancing of interests: protection for creators, so that they have an economic incentive to create; and reasonable access to information for the public to aid scientific progress, popular enlightenment and pleasure. The Founding Fathers considered the matter sufficiently important to include copyright powers in the Constitution (Article I, Section 8); and a copyright law—the Copyright Act of 1790—was among Congress's earliest actions.

Under today's copyright law, "works for hire"—including movies, software programs and most records—generally have copyright protection for 75 years. Anyone who wants to use them must typically pay a royalty to the copyright owners, though much piracy already occurs by illegal copying (this mostly consists of making illegal duplicates and does not involve the Internet). The Business Software Alliance estimates that the industry lost $11 billion in sales in 1997 to piracy. Book authors have copyright protection for their lives, and their heirs receive another 50 years. Nathaniel Hawthorne's books can be freely reproduced; Norman Mailer's cannot.

But copyright protection is not absolute; it is modified by a doctrine called "fair use." If you want to copy a few pages of a book for a research paper, you don't have to get permission or pay a royalty. Sending the same pages to 5,000 people would be infringement. In 1984 the Supreme Court ruled that copying a TV program on a VCR for personal viewing was "fair use." All this sounds vague because it is. In an 1841 court decision, Justice Joseph Story described copyright distinctions as "very subtle and refined . . . almost evanescent." In practice, courts decide what's "fair use" and what's infringement.

The Internet complicates this balancing. Consider movies. In 1997 Hollywood received almost half its picture revenues of $23.5 billion from home video rentals, reports Paul Kagan and Associates, a research firm. In the future, the video business could move to data networks. Instead of browsing at Blockbuster, viewers could have a film zapped to their home screen.

Piracy threatens such cyber commerce. If people make copies of movies—and trade or sell them over the Internet—then studios face big losses. Similar problems afflict software, music and text sold over the Internet. There are technical ways to deter piracy. Digital transmissions can carry codes or passwords; but these can be broken. To fight piracy, major nations signed a global copyright treaty in 1996 to outlaw distribution of illegal copies over the Internet. And countries committed themselves to protect the security systems used to guard copyrighted material by combating efforts—through software or electronic boxes—to defeat the codes and passwords.

Here is where the balancing gets tough. If data can be protected by code—and it's illegal to break the code—then "fair use" for anything that arrives digitally may vanish. It could become illegal to record a TV program. Libraries fear that as more information goes online (especially reference works and research journals), people will be able to read only for a price. Freely copying a few pages might become much harder. And many databases—even of public information such as economic and social statistics—could receive virtual copyright protection.

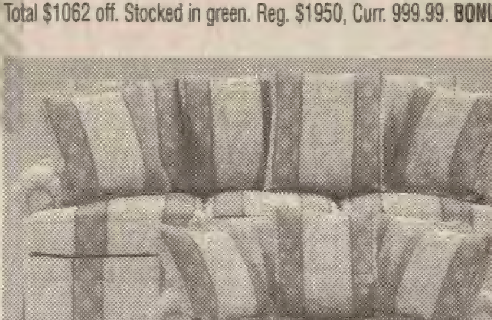
What are we doing to ourselves? It's hard to tell. Almost no one is watching. Congress is considering various proposals that would modify U.S. laws to comply with the world treaty. The treaty does permit countries to modify their anti-piracy strictures to preserve "fair use." The House bill allows the Commerce Department to carve out exceptions to the anti-piracy provisions; the Senate bill does not. Copyright owners want any exceptions to be as narrow as possible and often see "fair use" as a license to steal. What will the final legislation do? Will there be final legislation? If not, the world copyright treaty will probably founder and piracy will flourish.

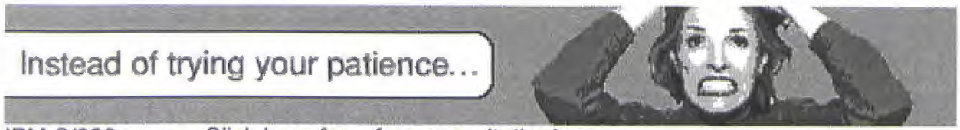
Even in normal times, such unglamorous issues would receive only modest attention. But now they are overwhelmed by the obsession with scandal. Consider this: In 1998 (through Sept. 10), the TV networks' nightly news programs had run 863 stories on the Lewinsky-Clinton case, reports the Center for Media and Public Affairs; the next most frequent story (U.N. weapons inspectors in Iraq) merited 319 stories. After the scandal, we may discover what has been done—good and bad—for us or to us.

Survey: Don't Allow Drugs in Su

Nearly two-thirds of Americans believe th government should not allow controlled drugs t for the purpose of physician-assisted suicid national opinion survey released yesterday by th al Right to Life Committee said.

The poll, which was released on the eve of a s House vote on a bill that would allow th Enforcement Administration to lift a doctor's lic prescribe drugs if the doctor prescribes fatal doses purpose of suicide, was conducted for the commi the Wirthlin Worldwide polling group over last we Among respondents, 64 percent said federal law not allow the use of federally controlled drugs for "a suicide or euthanasia," 35 percent it should and 1 p





UK - ITC Favors Terrestrial Over Satellite Digital TV Services

September 16, 1998

LONDON, ENGLAND, Newsbytes via NewsEdge Corporation : In one of most in-depth looks of the rise and rise of digital TV services, the Independent Television Commission (ITC) in the UK has published its response to the British government's consultation document on "Television: the Digital Future. " That document, published by the government earlier this year, aims to consider when and how analog TV transmissions should cease in the UK.

The ITC, however, says that, if British TV viewers' expectations are to be met and social exclusion is to be avoided, digital TV must maintain both the near- universal availability of analog transmissions -- i.e. to over 99 percent of homes -- and the greatly valued regional services.

According to the ITC, digital terrestrial TV is the only current platform which can satisfy these criteria. This, Newsbytes notes, could be taken as something of a snub against the digital satellite services, which will be launched by BskyB in the UK in two weeks time.

The ITC argues that, if the equipment in viewers' homes is not to be scrapped prematurely, the final switch-off of analog is still many years away. There is no advantage, the Commission says, in setting a target date now when viewers' attitudes to digital are untested, but the criteria for analog switch-off should be set now.

The key conclusions of the IRC report are that:

-- Debate to date has focused on developing new technology, more efficient use of spectrum, and the involvement of investors, set manufacturers and broadcasters. But far and away the greatest proportion of broadcasting assets are in homes throughout the UK, in the shape of TV equipment which viewers have purchased. It is the interests of viewers which should be paramount.

-- Four of the existing analog free-to-air public service broadcasts transmitted terrestrially -- i.e. on BBC 1 and 2, and channels 3 and 4 -- are available in over 99 percent of UK homes, and include provision for a full range of regional services. The switch-off of analog transmissions should not lead either to the withdrawal or the diminution of these services.

More Articles

EUROPEANS GEARING UP FOR DTV LAUNCH THIS YEAR
PAY PER VIEW $3.75

Spyglass and Philips Semiconductors Bring New...
BASIC

Liberty Media Invests in ACTV Inc.
BASIC

HDTV Roadshow to Arrive at THE GOOD GUYS! in...
BASIC

Article Found In

High-Definition Television

European Television

Digital Satellite Television

European Satellite Television

Satellite Television Overview

Quick Search

submit

-- Digital terrestrial TV can satisfy this requirement, provided that, at the point of analog switch-off, some of the frequencies released are retained for broadcasting purposes, but a substantial part of the capacity released will still be available for other uses.

-- Alternative frequency use will not simply emerge. It needs to be carefully planned and structured. This is a lesson from the switch-off in 1985 of the old 405 line VHF (very high frequency) black and white service. The geographical pattern of frequencies released following analog switch-off will be scattered and of only limited value for non-broadcasting purposes, where access to national services is of particular value.

According to the ITC, there will need to be, at the moment of switch-off, a realignment of frequencies in order both to retain some capacity to fill remaining gaps in digital terrestrial TV coverage, and to ensure that frequencies released for other purposes can be as effective as possible.

This, the ITC says, should not cause disturbance to viewers. TV sets and set- top boxes (STBs) will be able to adjust themselves automatically to new frequencies rather like RDS (radio data system) car radios do now.

The ITC notes that the range of options will be increased, however, if there is a campaign to promote the use of wide-band domestic receiving aerials.

According to the ITC, it is difficult to see how the analog switch- off now in prospect could or should be achieved quickly. TV sets in the home, the agency argues, last very much longer than they used to and multi-set homes -- often with two, three, or four sets -- are common.

All of these sets, the report notes, have a value to their owners. Viewers will not take kindly to scrapping them prematurely. The switch-off of the black and white 405 line service in favor of the current 625 line color services, the agency notes, took over 20 years despite the huge and obvious attraction of color television.

Because of these issues, the ITC has concluded that it is not possible at this stage sensibly to give a date by which analog transmissions could be ended. According to the report, much depends on the attractiveness and take up rate of digital TV services which have not yet begun.

Once digital TV services have been assessed, however, the ITC suggests that analog transmissions should cease around five years after digital penetration accounts for 75 percent of TV sets then in use. The five years notice, the commission notes, provides an incentive for the replacement of the remaining analog sets to digital, and a reasonable amount of time in which it could be achieved.

Peter Rogers, the ITC's chief executive, said there are undoubted benefits to be gained if spectrum is released for other purposes, but the principle of universal and regional coverage for free-to-air public service TV should not be conceded.

"Universality and full regional variation can and should be achieved by digital terrestrial TV. It will take time and careful planning, but the ITC stands ready to assist government in bringing it about," he said.

A full copy of ITC's response to the government report on digital TV is on the commission's Web site at http://www.itc.org.uk .

Reported by Newsbytes News Network, http://www.newsbytes.com .

(19980915/Press Contact: ITC Press Office +44-171-255-3000 /WIRES TELECOM/)

<<Newsbytes -- 09-15-98>>

THINGS THEY NEVER TELL YOU WHEN YOU BUY ENTERPRISE SOFTWARE. #1

**Want to make a change?
Go ahead, try to run with it.**

So, you have a new idea. Just see how fast you can implement it with most enterprise software. Your first step is likely to be paying for programmers to wade through a complicated mess of cryptic code. Sound like a speedy proposition to you? Chances are, it'll take months. And the software you bought to move your business ahead actually ends up slowing you down.

With J.D. Edwards, it's different. Our software is actually designed to change. So you can make a simple business move without creating a technology nightmare. Or change your technology without disrupting your business.

How? One version of our software works across key platforms. Windows NT, UNIX, AS/400—even the Internet. So when you need to make a change, you only need to do it once. Which makes you nimble enough to react to any opportunity. Quickly and easily. That's how enterprise software ought to be. To find out more, call 1-800-727-5333 or visit www.jdedwards.com.

JDEdwards®
Enterprise Software
How it ought to be™

Copyright © J.D. Edwards World Source Company, 1998. J.D. Edwards is a registered trademark of J.D. Edwards & Company. The names of all other products and services of J.D. Edwards used herein are trademarks or registered trademarks of J.D. Edwards World Source Company. All other product names used are trademarks or registered trademarks of their respective owners.

THE ENTERTAINMENT GLUT

Entertainment companies spend more
is fragmenting amid the clutter. What

This is how it's supposed to work: The Walt Disney Co. made *The Lion King* for $55 million in 1994. The animated movie took in $313 million in U.S. theaters and $454 million abroad, sold $520 million worth of videos, and was a main attraction on cable's Disney Channel. Fans spent $3 billion on *Lion King* merchandise. The Disney-produced soundtrack sold 11 million copies, and Disney used the film again in September, 1996, to boost the ratings of its struggling ABC network.

And *The Lion King* is still roaring. In November, the Broadway musical debuted in a new Disney-run theater in Times Square. Within days, tickets with a face value of $70 were being scalped for $1,000 each, and Disney is toying with the idea of staging additional productions to meet the overwhelming demand.

Cover Story

Home runs like that have made entertainment an enormously alluring business. The formula for success is straightforward enough: Produce something for a fixed cost and exploit the hell out of it, selling it over and over in different markets, venues, and formats. And if enough people see it, the property becomes a cultural touchstone that can continue to draw in revenue for decades. Just look at old movies such as *Casablanca* and *Star Wars*, TV shows such as *I Love Lucy*, books such as *Gone with the Wind*, or records such as Fleetwood Mac's *Rumours*, which continue to sell well and attract new audiences long after they were created. By now, those sales are almost pure profit.

CROWDS OF GIANTS. But something is happening to alter, and perhaps destroy, this neat paradigm. In recent years, in an effort to capture ever more revenue, entertainment and media giants have bulked up with new divisions—new record labels, new movie studios, new broadcast and cable networks, new theme parks, new online ventures. Sectors of the business once ruled by just a few big players are now crowded with perhaps a dozen or more major entities hustling to create content that will win audiences.

And they're spending huge sums to do so, believing that

ANITA KUNZ

and more on content, but the audience

will it take to win in a climate this tough?

only the glitziest and most star-studded offerings stand a chance of drawing more than fleeting notice in this cacophonous environment. It's a brutal battle, especially as audiences fragment amid the flurry of competing choices. Notes Booz, Allen & Hamilton Inc. media consultant Michael Wolf: "There is such a tremendous glut of product out there, as well as this need to keep spending more and more to exceed the quality standards established by other producers."

This dynamic—spending more on content as audiences splinter—is weakening margins across all segments of an industry never known for particularly fat profits (charts, page 90). Disney, for instance, had operating margins of 25% in 1987, compared with 19% last year. Viacom Inc.'s 1987 operating margin was 13%, but is down to less than half that. It's the same story at both News Corp. and Time Warner Inc. "These companies are in a race between the slower growth of their profits and their ability to restructure their balance sheets" to weather the tougher competitive climate,

says Cowen & Co. media analyst Harold L. Vogel. Consumer spending on entertainment is slowing, he adds, "and the cost of marketing continues to soar, because that's the only way these giant brands can be maintained. It's a very tenuous situation."

Indeed, fragmenting audiences are robbing entertainment companies of the mass scale that made their businesses so attractive in the first place. It's extremely difficult to amortize higher costs over fewer customers. Says Universal Studios Inc. Chairman Frank J. Biondi: "If there's a way to have too many choices, that's what we have. Finding a way to bring [the consumer] to us instead of the other guy is the toughest thing we do."

Here's a hint of the competitive frenzy of just the past few months. PolyGram, the music giant, has launched a major film studio. Fox, Tele-Communications, Cablevision Systems, and NBC pooled resources to create Fox Sports Net, which competes with Disney's ESPN. ESPN is starting a magazine to compete with Time Warner's *Sports Illustrated. Sports Illustrated* teamed with sister Time Warner unit CNN to launch CNN/SI, another challenger to ESPN. New studio DreamWorks SKG is busy making movies, TV shows, music, and elaborate video arcades. NBC and Time Warner are mulling the launch of a new football league. Universal and Disney are both spending billions to build new theme parks to compete with their own existing parks in Orlando. Fox and NBC each launched all-news cable channels to take on CNN. Universal and Disney acquired record labels to buttress their music divisions. Fox, DreamWorks, Warner Bros., and Paramount are spending hundreds of millions of dollars to challenge Disney's long dominion over animated films.

And all the while, a potentially limitless number of Web sites, some developed at great expense by these and other companies, are also claiming eyeballs, further fragmenting audiences. Sighs Biondi: "You come into the office each morning, and you dread looking at the latest figures."

> ❝ You come into the office each morning, and you

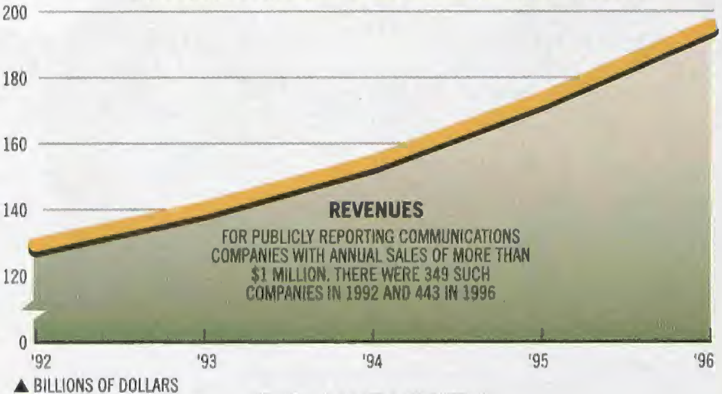
Even broadcast television, so long the lucrative playground of a few elite players, is splintering. There are now six networks, and there soon will be eight, as former Fox chief Barry Diller and infomercial king Bud Paxson each launch new broadcast networks this year. "These are the inevitable problems when a business has achieved a certain level of success and lots more entrants want to get in," says NBC CEO Robert C. Wright.

And if consumers aren't already overwhelmed, just wait a few years: A News Corp. study estimates that the total number of options available to a TV viewer will grow from about 75 now (largely made up of the average number of cable channels) to 1,000 by 2010, when digital compression of TV

THE BIG PICTURE

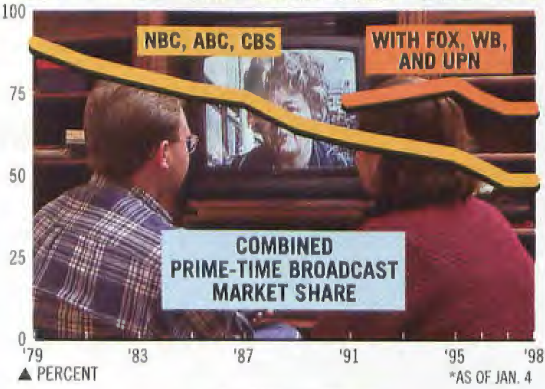
Huge mergers and acquisitions have created entertainment giants with bigger revenues and cash flow, but profits are harder to come by

INDUSTRY REVENUES ARE UP...



DATA: VERONIS, SUHLER & ASSOCIATES INC.

PEOPLE DON'T WATCH TV NETWORKS LIKE THEY USED TO...

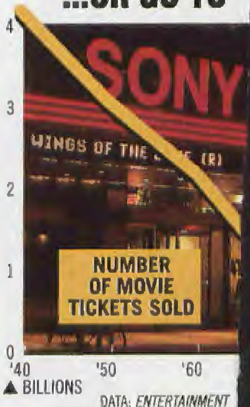


DATA: NIELSEN MEDIA RESEARCH

...OR RENT VIDEOS...

DATA: PAUL KAGAN ASSOCIATES, VIDEO SOFTWARE DEALERS ASSOCIATION ESTIMATE

...OR GO TO



DATA: *ENTERTAINMENT* PICTURE ASSOCIATION OF AMERICA;

signals makes room for hundreds of channels, and the linkage of TVs to the Internet becomes a reality (chart, page 94).

But already, the problem isn't just that fewer people are watching each channel. With more bidders in the game, programming costs are skyrocketing. In January, stung by the loss of *Seinfeld*, NBC agreed to pay nearly $900 million to renew No. 1-rated *ER* for three years. That's a tenfold increase in the show's cost—taking a big chunk out of the network's future profits, which were about $500 million last year. And NBC is run by the most fiscally conservative executives in the industry.

> dread looking at the latest figures ”
>
> — FRANK BIONDI, Chairman, Universal Studios

It's even harder to see how the other networks, all of which are only thinly profitable or losing money, can justify the combined $17.6 billion they recently agreed to pay for eight years of football rights. Although football ratings have fallen in recent years, CBS, Fox, and ABC will now pay a combined $745 million more each year for football (excluding ESPN's cable deal), while the three networks' combined income from network operations last year was just $32 million, estimates Montgomery Securities analyst John Tinker. "This is going to set off wide reverberations in a lot of areas," says Tinker, as the networks look to advertisers, affiliates, and their own employees to make up the difference.

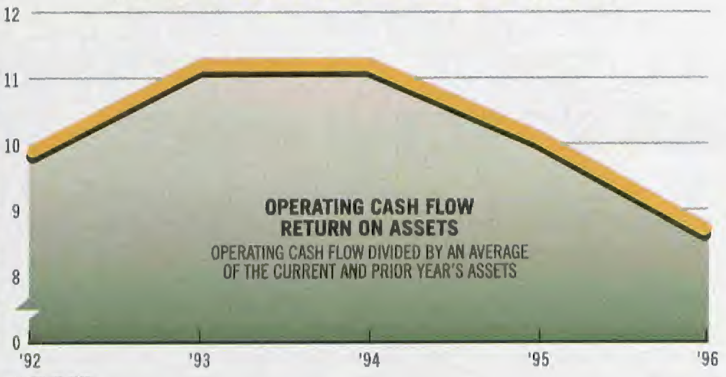
So far, consumers have been willing to pay more for the explosion of choices, but the growth in that spending is tapering off, even in the current flush economy. Tele-Communications Inc., for example, faced with sharp increases in the rates it must pay cable networks such as ESPN, saw an alarming number of customer cancellations when it pushed through a 7.5% rate hike last year. Now, TCI President Leo J. Hindery Jr. is trying to get the entire industry to hold off on sizable increases. But it's hard going. Programming networks are "paying more for movies, for shows, for sports rights, and they all want me to pay more to carry their stations," grouses Hindery. TCI's rate increases just barely cover its higher programming costs, he says. "We're not getting any richer off those increases, I know that."

What will it take to survive, or even flourish, in this new, tougher world? Entertainment executives, long a corporate species apart, are finally adopting some of the basic tactics used by the rest of Corporate America. The savviest are already engaged in more rigorous cost-cutting, layoffs, more sophisticated market research, and the formation of strategic joint ventures to breathe life into weak assets. To avoid risk and boost the appearance of returns, they are taking on partners and using off-balance-sheet financing to make profits look stronger.

Some on Wall Street, weary of bankrolling media executives' excesses, are beginning to evaluate these companies by their ability to generate free cash flow or net profits, rather than just by their earnings before interest, taxes, depreciation, and amortization (EBITDA). Reporting in EBITDA drew attention away from how outright unprofitable many of these companies

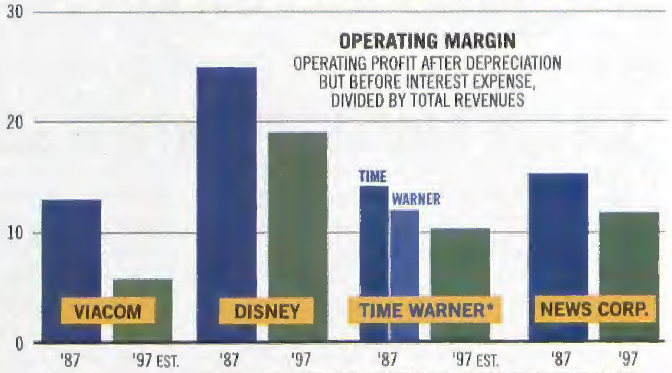
CHARTS BY ALBERTO MENA/BW; PHOTOGRAPHS BY (L TO R) JAMES LEYNSE/SABA(3); RON HAVIV/SABA; MARK PETERSON/SABA

...BUT PROFITABILITY ISN'T...



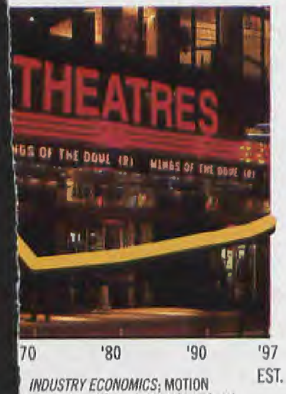
DATA: VERONIS, SUHLER & ASSOCIATES INC.

...ESPECIALLY AMONG THE GIANTS



*TIME INC. AND WARNER COMMUNICATIONS INC. MERGER TOOK EFFECT IN 1990
DATA: COMPUSTAT, MONTGOMERY SECURITIES ESTIMATES

THE MOVIES...



INDUSTRY ECONOMICS; MOTION
VERONIS, SUHLER & ASSOCIATES INC.

...OR BUY BOOKS...

DATA: BOOK INDUSTRY STUDY GROUP INC., CAHNERS PUBLISHING ESTIMATES

...AND MUSIC HAS SLOWED

DATA: VERONIS, SUHLER & ASSOCIATES INC.

have been for years. Time Warner, for example, has posted a net loss for 28 of the past 31 quarters, and Viacom has done so for 13 quarters over the same period. The practice of reporting in EBITDA also perversely encouraged some to disregard what they spent to acquire assets since those costs weren't subtracted from any revenues generated. Running companies on EBITDA, acknowledges one top industry executive, "encouraged people to spend too much money and not take into account how much money it took to invest to get earnings."

Entertainment giants are also trying to cut out the middlemen between their products and customers. And they're spending lavishly on individual properties, such as current blockbuster *Titanic* and bombs such as *The Postman,* that they believe are capable of breaking through the clutter. At the same time, they are trying, with varying levels of success, to stop producing modestly budgeted fare that gets lost in the crush.

TITANIC DREAMS. The endgame for the big companies is to create a product so distinctive or magical that it becomes a cultural icon, a fixture in the public's imagination. They are all trying to find ways to recreate the mass scale their products enjoyed in the more profitable past. To do that, they're creating new distribution channels that give them the opportunity to capture enough viewers or readers, in the aggregate, to pay for what they have made. That's what NBC, Disney, and Fox are doing when they put a large number of their own shows on their networks' schedules, hoping to reap huge windfalls down the road as those shows are sold into syndication or, in some cases, aired on their cable channels in the U. S. and abroad. *Titanic,* a monster hit for Fox and Paramount that has already led to book tie-ins, a No. 1 soundtrack, and a $30 million sale to NBC for TV rights, appears capable of doing that. And that's what Disney has pulled off so expertly with *The Lion King,* exploiting the property again and again in different venues.

But creating a new, more profitable economic framework for entertainment will demand countless adjustments to the way each sector of the industry does business. To reduce risk in ever more costly ventures, for instance, it's increasingly common for big stars and directors to take smaller paychecks up front in exchange for a percentage of the box-office revenue. Big-time author Stephen King recently struck a deal with publisher Simon & Schuster in which the author will take a smaller advance in return for a greater share of any profits. Simon & Schuster may not make as much on a King blockbuster—but it doesn't take on as much financial risk, either.

And though most entertainment companies view their rising talent costs as immutable, some are trying subtle tricks to ease the pain. Big record companies, for example, aren't taking on as many new groups, releasing only a smaller number

> "These are the inevitable problems when a
> a certain level of success and lots

ON THE DIGITAL FRONTIER: A SHOOT-OUT WITH NO WINNERS

In a mock TV studio in lower Manhattan, Sony shows off its latest collection of high-definition TV wares. A $35,000 professional HDTV camera focuses on a model seated on a sofa. Able to shoot in daylight or darkness, it displays her face on a wide-screen TV in subtle variations of shadow and light. The details are perfect—the hair, the skin tone, the patterns on her clothes.

But one crucial thing is missing from this picture: the payoff. Since the early 1970s, Sony Corp. and a dozen other, mostly Japanese companies have spent billions of dollars developing digital high-definition cameras, VCRs, and TVs. But the mass market for such gear could take another five years to develop. And when it does, profit margins won't look nearly as fetching as the model on Sony's sofa.

Entertainment hardware companies like Sony are suffering from much the same problem that is plaguing entertainment content companies: Too many players across a range of industries are investing huge amounts in ever more elaborate products that, for a variety of reasons, don't find their way into an adequate number of family rooms.

For one thing, the hardware clutter confuses shoppers. People are afraid to buy a device that might soon be obsolete. And that wariness has an impact throughout the food chain. Entertainment companies may hesitate to issue lots of movies or records on a fledgling format. Broadcasters also may balk at airing shows in a new medium, such as HDTV, if few homes own the necessary receivers. Retailers get hurt, too. They depend on timely introductions of new, breakthrough products to lure shoppers. Without such products, stores can flounder. Witness Nobody Beats the Wiz, a large New York-based chain that filed for bankruptcy protection in December.

Indeed, new hardware formats have long been the engine driving big entertainment sales increases. Remember the introduction of the VCR? As the machines became commonplace, Hollywood studios reaped billions selling their old movies on tape. But recently, there has been a drought of big new products to drive revenue growth. And if it's hurting the content companies, it's killing their hardware brethren.

The main problem is, there are too many players from different outposts on the digital frontier trying to set tech standards. Already, the lines between computers and digital TVs have blurred, leaving companies like Microsoft, Compaq Computer, and Intel suddenly squared off against Sony, Philips, Thomson, and Zenith in the race to define digital TV and its accoutrements.

PRICE-CUT FRENZY. Warring factions now undercut every effort to standardize revolutionary products. And when standards finally do emerge—for HDTV, say, or digital videodisks (DVD)—price-cutting begins early, before products are even launched. "We used to compete against other consumer giants," complained Carl Yankowski in December, shortly before resigning as President of Sony Electronics. "Now, we're up against PC and software companies, as well."

of records that can be marketed aggressively. "Fewer acts are being signed," says PolyGram music executive Danny Goldberg. Studios, meanwhile, are trying to sign just one expensive big star per picture, instead of the galaxy of big names piled on in the past. Such tactics dramatically reduced the cost of such recent movies as *Jerry Maguire* and *As Good as It Gets*. And book publishers are cutting back on the number of titles they release. Simon & Schuster's trade division published 650 titles in 1996 but will publish only 550 this year.

But the lion's share of cost-cutting is occurring, literally, behind the scenes. Time Warner, for example, is in the midst of a program to trim $700 million in costs by next year. With only a handful of exceptions, gone is the private car service for employees in Manhattan before 8 p.m. Cheaper paper in its annual report is saving the company $200,000 a year.

With everyone else spending so lavishly on content, though, Time Warner isn't taking an ax to its creative costs. Instead, it's pushing hard to find new places to sell its stuff. "You cannot totally control talent costs," says Time Warner Chief Financial Officer Richard Bressler. "It's a reality of the business we operate in. What it drives us to do, on all the product we make, is maximize all revenue streams."

Bressler means that Time Warner may lose money as it makes an individual movie, creates a new cable network, or launches a magazine. But the company's ability to deploy its huge assets (26,000 TV programs, 6,000 movies, a dozen well-known magazines) over dozens of distribution channels gives it many more opportunities to milk assets for a return.

ASIAN FALLOUT. Another critical strategic push is to shorten the path between an entertainment company's products and the consumer. Profit margins are too thin to support middlemen. Disney owns its TV network and theme parks, and has a long-term lease on the Broadway theater showing *The Lion King*, so little of that revenue leaks outside the company. When PolyGram's Goldberg predicts with absolute certainty that record sales will boom again, he's anticipating consumers' ability one day to order over the Internet whatever they want from PolyGram's huge library. That would result in huge savings in distribution costs.

Much of this bullishness depends on the development and deployment of new technologies, from the next generation of cable boxes to digital videodisks (DVD). Yet the clutter plaguing entertainment content is also reflected on the hardware side. The players in consumer electronics now include computer companies such as Microsoft and Compaq. But the group has been unable in recent years to agree on technological standards to launch new products that would create fresh revenue streams (box).

Also troublesome is the slowing of revenue growth from foreign markets. Entertainment executives have been counting on surges in consumer demand in Latin America and Asia to save the day; now, financial turmoil jeopardizes those assumptions. The industry has "lost all its growth and faces potential receivables problems," says Cowen analyst Vogel, if Asian buyers, with their weaker currencies, can't meet their obligations.

But even before the Asian meltdown, establishing beach-

business has achieved
more entrants want to get in ”

— ROBERT WRIGHT, CEO, NBC

HDTV isn't the first casualty, but it may well turn out to be the bloodiest. Giants like Sony, Philips, and Thomson spent nearly 10 years hashing out digital-TV standards in a "grand alliance" with America's own digital pioneers, including AT&T, Zenith, and NextLevel Systems, formerly called General Instruments. The Federal Communications Commission tried to force a consensus but failed. So last spring, it set guidelines that are broad and vague.

Now, networks are poised to start digital broadcasting. But none has decided how much high-quality HDTV to include. Consumers don't know which TV sets to buy, and manufacturers don't know what to build. PC companies such as Microsoft Corp. also want in. "The stakes are so high on this technology," says Mary Bourdon, principal industry analyst at Dataquest Inc. in San Jose. "The titans of the universe are at war."

LIMP WIZ: *New-product chaos has hurt hardware sales*

EVAN AGOSTINI/GAMMA-LIAISON

The nascent DVD industry is no less fractious. Developed at great cost by Toshiba, Time Warner, Sony, Philips, and others, DVD-style disks store whole movies. But sales of players are slow. And come summer, interested consumers will have to choose between standard DVD and a rival, incompatible format called Divx (page 118). Worse, in two years, there may be three different versions of recordable DVD players.

The cable-TV sector also is trapped in standards and pricing hell. In late December, Tele-Communications, Time Warner, Comcast, and five other cable operators placed a $4.5 billion order with NextLevel for 15 million digital set-top boxes. Stuffed with chips from Intel and others, the boxes will let cable operators compete with broadcasters to provide digital entertainment, fast Internet access, and snazzy new services like Net-based videoconferencing. But NextLevel will have to hold prices at about $300 per box—even though each will pack the processing power of a Pentium PC. Next, expect a battle over the software in the box.

One thing is certain: The winner won't take much home in the way of profits. Witness digital satellite broadcasting. Since 1994, some 8 million shoppers have snapped up satellite systems. But price wars have trashed profits for dishmakers such as Sony and Thomson. As in the entertainment content field, too many players are trying to carve up each pie. In the end, none ever gets more than a sliver.

By Neil Gross in New York

heads abroad had proved far more difficult than many anticipated. From Asia to Latin America to Europe, consumers are demanding expensive-to-produce localized content that U.S. entertainment giants can hardly claim an edge in providing. That's what made Rupert Murdoch alter plans for his Star satellite service in Asia. It was originally a pan-Asian, English-language service, and it would have been cheap to produce and extraordinarily profitable—if only people had wanted to watch it. Years later, Murdoch is launching separate satellite services with costly local programming for India, the Philippines, Indonesia, China, and Japan.

With new technologies and foreign revenue so elusive, some executives are clearly nervous about how they'll cover rising costs in coming quarters. "There was always something you could count on" for fresh revenue, says former Fox Studio chief Strauss Zelnick, now the president of Bertelsmann's U.S. operations. "In the '80s, there was video, cable, and the foreign markets. Today, there's nothing."

PLATEAU? Nor can companies look to U.S. consumers for drastic increases in the time and money they spend on entertainment. As the supply of entertainment and media offerings balloons, consumers' appetites may have hit a plateau. Investment banking and research firm Veronis, Suhler & Associates Inc. reports that per capita consumer spending on media and entertainment in 1997 will be about $546. That's up a healthy 49% from 1990, but expenditures will increase by only 19% over the next three years, despite the booming economy. That's not even close to the pace at which costs have been rising.

The time crunch is even more severe. Americans already spend an average of 9½ hours each day watching television, going to movies, renting videos, reading magazines, listening to music, or surfing the Web, according to Veronis Suhler. "There are just so many hours in the day, and it looks like we've reached the saturation point," says President John S. Suhler. "Now, for every winner, there has to be a loser."

Already, the explosion in the number of entertainment choices has caused unit sales in several key sectors of the industry to shrink, or for the growth rate to slow markedly (charts, page 90). And the scary thing, at least for the moguls in their corner offices, is that this is happening during a period of roaring prosperity in the U.S. Consumers are confident, and a lot of them have plenty of extra cash to spend on nonessentials such as tickets to *Titanic*, subscriptions to HBO, and funny hats at Disneyland.

> “There are just so many hours in the day, and it looks like we’ve reached the saturation
>
> — JOHN SUHLER, President, Veronis,

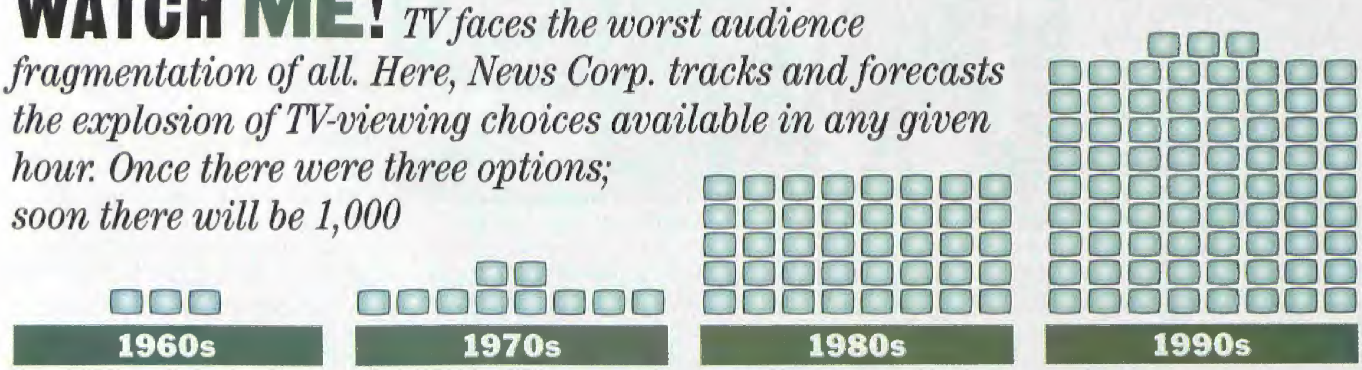
Along with healthy consumer spending has come a booming ad market, alleviating the pain in many entertainment sectors. Ads are so strong that companies have been able to increase ad revenue even as their audiences shrink. But in ad-revenue gains, too, the networks, at least, may be hitting a limit. The cost of ad time isn't going up; "the networks are just jamming more spots into each half-hour and hoping the TV audience won't notice," says Jon Mandel, the top media buyer at Grey Advertising Inc. In 1986, ABC aired an average of 6½ minutes of ads per hour of prime time. Now, ABC treats viewers to an average of 9½ minutes of ads.

Ironically, ad buyers are still clamoring to buy time on the networks' biggest shows. Their rationale: It's the best gambit amid the clutter. "A broadcast network is still the only place you can get 30% of the audience in one shot," Mandel adds. "But you have to wonder how much longer it's going to be like that."

For several years, Wall Street has had doubts, too. The stocks of many big entertainment companies have badly underperformed the otherwise booming market in the past few years, though the shares of several have rallied recently. But the big institutional investors are hanging tight, convinced that the giant entertainment companies will amass the scale to eventually prevail in the years ahead. The payoff may well be

GRAPHICS BY ALBERTO MENA/BW; PHOTOGRAPHS BY (L TO R) ARCHIVE PHOTOS; (HBO) NONE; H. ARMSTRONG ROBERTS; WILLIAM WHITEHURST/STOCK MARKET; KAREN KASMAUSKI/MATRIX; WEBB CHAPPELL

WATCH ME! *TV faces the worst audience fragmentation of all. Here, News Corp. tracks and forecasts the explosion of TV-viewing choices available in any given hour. Once there were three options; soon there will be 1,000*



Most Americans watch the Big Three networks every night.

HBO UHF stations bring more choices, and the fledgling cable industry introduces a few new channels like HBO and Turner's TBS Superstation.

The VCR becomes commonplace, letting consumers watch recorded shows and movies whenever they want. Cable explodes, with new networks like CNN and MTV.

Direct-broadcast satellites are introduced, offering hundreds of channels. Cable systems are slowly upgraded, with more channels.

DATA: NEWS CORP.'S NEWS DIGITAL SYSTEMS UNIT; BUSINESS WEEK years away. "These companies decided five or six years ago that it was important for them [in the decades ahead] to have much larger distribution and production capabilities to become big global players," notes Gordon Crawford, an influential media investor. "So they larded up their balance sheets. [But] most of these decisions make sense long term, and 20 years down the road, they're going to be all right."

There will probably be some winnowing before then, as profits continue to be squeezed. Already, a few companies have jettisoned or are considering selling off major divisions, as Disney did with newspapers and Viacom may do with its Blockbuster video-rental chain and part of its Simon & Schuster publishing unit. "Eventually, someone loses enough shareholder money so that management gets thrown out," predicts media investor Larry Haverty at State Street Research & Management Co. "My guess is that we're six to eight years from that happening."

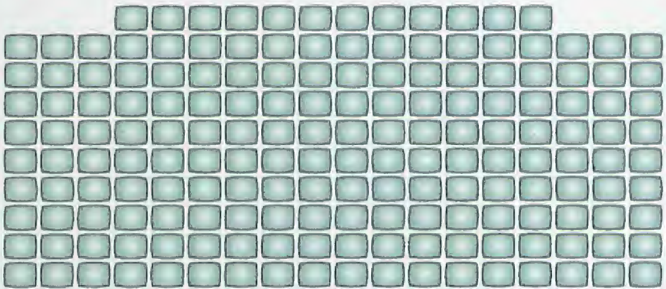
point ,,

Suhler & Associates

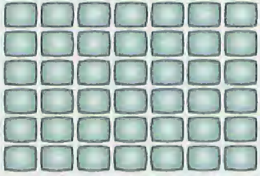
In the meantime, entertainment moguls are begging investors less philosophical than Crawford to be patient. Even Rupert Murdoch, still very much in expansionist mode, is carefully trimming expectations for News Corp. At his mid-1996 annual meeting, Murdoch promised his shareholders 20% annual earnings growth. He ended up delivering a 30% decline after taking a big publishing-related charge. By the time he addressed shareholders again, in mid-1997, a less exuberant Murdoch promised only "satisfactory" financial performance in the year ahead.

"Satisfactory" is hardly what the entertainment industry has grown used to in recent years. For more than a decade, the world hasn't seemed large enough to contain the industry's potential. Anyone familiar with the success of Disney's *Lion King* knows that entertainment can be one of the sweetest businesses going. The problem is that too many players are at the table, and it's ruining everyone's hand.

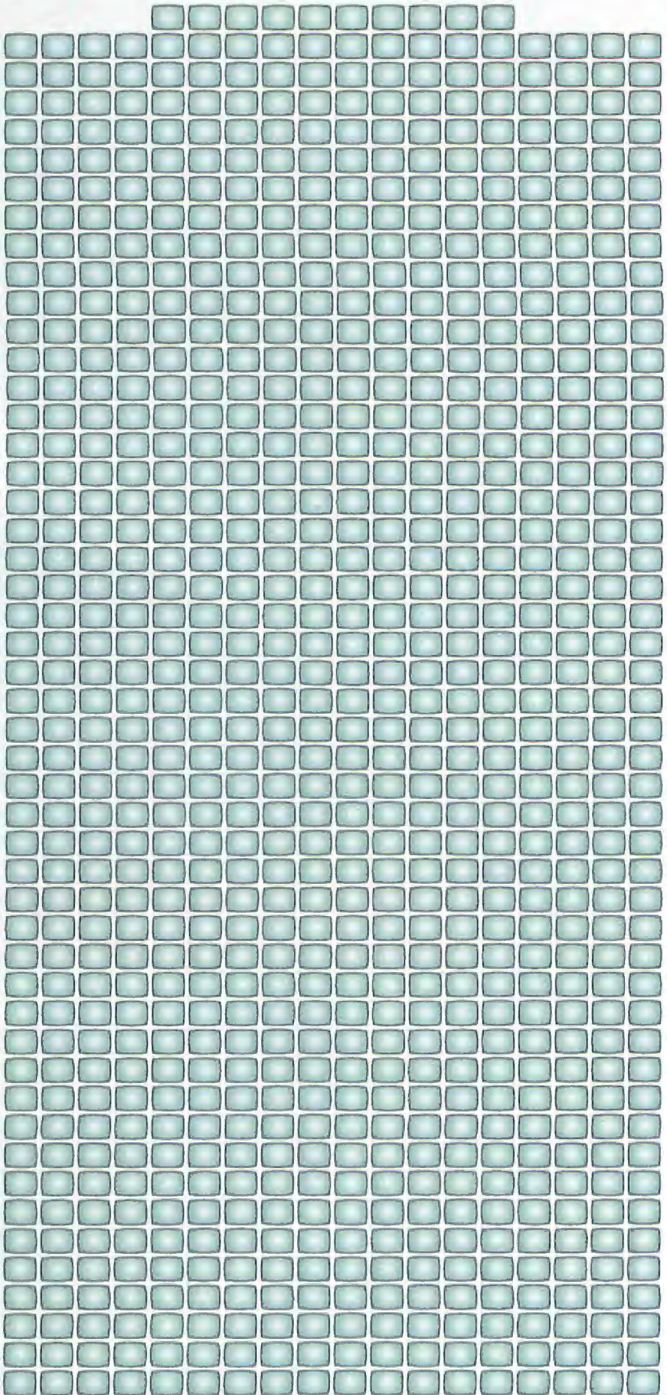
By Elizabeth Lesly Stevens in New York and Ronald Grover in Los Angeles



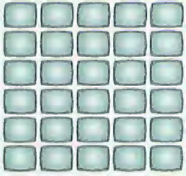
2000s



Digital compression and two-way networks allow cable companies to offer even more channels and services. DBS services grow more entrenched. As TVs are linked to the Internet, new programming delivered via the Internet takes hold. Result: 300 choices at any moment.



2010s



Broadcasters may use high-definition TV spectrum to launch more channels. Internet chat evolves into networked virtual reality games, interactive movies, and other activities being hatched by MIT's media lab (photo) and others. News Corp. forecasts 1,000 channels, now called "content windows."


control everything

THE CASE FOR A WHITE HOUSE OFFICE OF TELECOMMUNICATIONS POLICY

By Henry Goldberg

Editors note: As the Clinton transition team begins to focus on communications issues during the holidays, one issue that is cropping up is whether there is a need for strengthened White House oversight of communications policy in the new Administration. Many have argued that communications policymaking in Washington has been adrift in Washington ever since the mid-1970s, with no central focus that coordinates policy shops at the Commerce, State and Defense Depts., as well as at the independent Federal Communications Commission. One of the most articulate supporters of this position is Henry Goldberg, one of the principals in the Washington law firm of Goldberg, Godles, Wiener & Wright. Henry served as the general counsel of the last White House Office of Telecommunications, during the Nixon Ford White House from 1972 to 1975.

The following is an exclusive article making the case for a new White House Office of Telecommunications Policy. Comments and replies are welcome and may be reprinted. To respond, please call John Grano or Joe Burey at Washington Telecom Week, (703) 892-8509, or write to Washinton Telecom Week, 1225 Jefferson Davis Highway, Suite 1400, Arlington, VA 22729.

Telecommunications is one of the top policy priorities of the Clinton Administration. Whether it is a fiber optic superhighway among homes and businesses or a blend of computers and communications to revitalize education, the new President considers telecommunications an essential element of the national infrastructure. But he risks failure on this issue if he does not take swift steps to ensure that the White House is in control of U.S. telecommunications policy.

Even if the in-coming Administration did not have its own broad goals for telecommunications, it soon will be confronted with issues of telephone industry structure, spectrum allocations for wireless communications, and a variety of other domestic and international issues, which will require a comprehensive policy response. But the telecommunication policymaking process in the Executive Branch right now is fragmented and leaderless.

The FCC, as an independent regulatory agency is not able, or even suited, to provide policy leadership for the Administration. As only a constituent part of the multi-part Department of Commerce, NTIA does not have the clout necessary to lead the policy process, particularly in an Administration that will be well endowed with expertise on technology issues. The State Department must be involved in international telecommunications issues, but does not have the breadth of interest needed to take the lead. Given the importance of telecommunications to the Clinton Administration's goals, it is not sufficient simply to make it a sub-specialty of a more general technology office led by the Vice-President, as some have suggested.

What is needed is a telecommunications policy office in the Executive Office of the President, much like the Nixon Administration's Office of Telecommunications Policy. The Nixon taint led to OTP's banishment from the White House in the Carter Administration. It has not returned since then and, as a result, telecommunications policy-making has suffered without a White House focal point for resolution of increasingly complex telecommunications issues.

This deficiency was particularly apparent when international satellite competitive policy was up for review by the Bush White House. For want of telecommunications expertise in the Executive Office, the National Security Council took charge of the issue. NSC ended up rejecting a fully competitive policy in order to advance its own national security priority -- the ease of monitoring international phone calls.

The Clinton Administration will get similarly haphazard and askewed policy results unless there is a "policy receptor" in the White House when telecommunications issues arrive for decision. All that is needed is a small office with sufficient expertise and authority to coordinate the positions of the Executive Branch agencies and other White House offices and to advise the President on the telecommunications policy that best serves his broad economic, trade, and infrastructure goals. Without such an office, President Clinton will have a hard time choosing new telecommunications policies and making them stick.

DINGELL CONVINCES WHITE HOUSE TO REMOVE 'BABYSITTERS' FROM FCC

After receiving direct pressure from Rep. John Dingell (D-MI), chairman of the House Energy & Commerce Committee, the White House aborted its plan to have two staffers "babysit" the Federal Communications Commission while the FCC operates without Clinton appointees, according to informed sources in and outside the commission. These sources predict that an announcement that James Quello will be interim chairman is imminent, though many are wondering why the announcement has taken so long.

Some speculate that the reason is continued animosity between Quello and the Clinton White House personnel operation. They assert that Dingell's influence in removing the White House staffs from an oversight role at the commission likely was the result of Quello's prompting, noting that Quello is a benefactor of Dingell because ties in Dingell's home state of Michigan.

Sources speculate that the animosity is over the extent to which the commission is allowed to make policy during the interim period before Clinton appointees take hold. The White House reportedly would like as little policy made as possible, while Quello is arguing that there are many issues that the commission can move on at the bureau level and a few that statutory or court mandates require the commission to move on at the commissioner level. Not the least of these is the controversial financial syndication rule. Quello is a known opponent of the FCC's current policy on financial syndication. There is speculation that the Clinton White House, partly because of substantial campaign contributions by the motion picture industry, opposes Quello's position on financial syndication.

The commission is also required to move on a massive amount of cable regulation by April 15, which could be a stumbling block given the fact that the Clinton team still appears to be far away from nominating a commission chairman. Some speculate that the tensions with Quello will accelerate the decision process at the White House. Others contend that the flap with Quello is temporary and that an amicable working relationship is still possible. If so, the pressure on nominating an FCC chairman is reduced, they say.

Letter to the Editor

Why We Don't Need to Recreate a White House Office of Telecommunications Policy

Harry M. Shooshan III
Strategic Policy Research Inc.

(Note: The author served as Chief Counsel to what is now the House Telecommunications Subcommittee from 1974 to 1980. He taught communications law at Georgetown University Law Center for [illegible] years.)

With all due respect to my good friend Henry Goldberg, the last thing we need to do is recreate a White House Office of Telecommunications Policy. Perhaps a little history about how the old OTP was established and why it was eliminated might be instructive. OTP evolved during the Nixon and Ford administrations from a small staff which coordinated certain technical and emergency communications programs into a policymaking body, tucked away in the White House bureaucracy with little or no accountability. While many of OTP's initiatives on cable and common carrier issues [illegible] the office became [illegible] result of attem[illegible] public and commercial [illegible] especially [illegible] networks which were [illegible] anti-administration bias. In the Nixon [illegible] served as little more than a staging area for [illegible] Spiro Agnew's assaults on the mass media. [illegible] to redirect the office's focus under President [illegible] OTP never recovered. In 1977, President Carter wisely transferred its functions to the Commerce Department, a move widely supported by those of us working in the Congress during that period.

Now does this necessarily mean that past is prologue? Of course not. The right people could resist the politicization of a new OTP. But that's just the point. In the end, getting telecommunications policy direction from the administration is much more a function of having the right people than it is of the organization of the Executive Branch itself. If the President cares about telecommunications, the existing structure can work just fine. Failing that, however, we now have a Vice President who, along with key members of his staff, is keenly interested in telecommunications policy and recognizes its importance for the economic future of this country. While there is no indication that the new Commerce Secretary shares this interest as, for example, the late Malcolm Baldridge did, there is still an opportunity for strong appointments to the FCC and to NTIA. If this Clinton/Gore team can work with the Congress and share responsibility for developing telecommunications policy (something the last Democrat administration failed to do), there is hope we can make progress.

And, by the way, if we are going to consider structural changes, why limit the discussion to variations of the failed OTP model? How about replacing the five FCC commissioners with a single administrator directly accountable to the President and the Congress? Since telecommunications is vital to our future, how about a cabinet-level department, perhaps combined with transportation, to focus on infrastructure?

OBSERVATIONS

The survival of the left

BY THOMAS SOWELL

Dr. Thomas Sowell is an economist and a senior fellow at the Hoover Institution in Stanford, Calif.

BIOLOGISTS EXPLAIN how organisms adapt to their physical environment, but ideologues also adapt to their social environment. The most fundamental fact about the ideas of the political left is that they do not work. Therefore we should not be surprised to find the left concentrated in institutions where ideas do not have to work in order to survive.

The academic world is the natural habitat of half-baked ideas, except for those fields in which there are decisive tests, such as science, mathematics, engineering, medicine—and athletics. In all these fields, in their differing ways, there comes a time when you must either put up or shut up. It should not be surprising that all of these fields are notable exceptions to the complete domination by the left on campuses across the country.

In the humanities, for example, the test of deconstructionism is not whether it can produce any tangible results but whether it remains in vogue. So long as it does, professors skilled in its verbal sleight-of-hand can expect to continue to receive six-figure salaries.

You might think that the collapse of communism throughout Eastern Europe would be considered a decisive failure for Marxism, but academic Marxists in America are utterly undaunted. Their paychecks and their tenure are unaffected. Their theories continue to flourish in the classrooms and their journals continue to litter the library shelves.

Socialism in general has a record of failure so blatant that only an intellectual could ignore or evade it. Even countries that were once more prosperous than their neighbors have found themselves much poorer than their neighbors after just one generation of socialistic policies. Whether these neighboring countries were Ghana and the Ivory Coast or Burma and Thailand, it has been the same story around the world.

Nor is economic failure the worst of it. The millions slaughtered by Stalin, Mao and Pol Pot for political reasons are an even grimmer reality.

People who live and work in a world where there is a business bottom line, an athletic scoreboard, a military battlefield or life-and-death surgery may find it hard to fully appreciate the difference between that kind of world and one in which the only decisive test is whether your colleagues like what you are saying.

Academia is only one of the places where wholly subjective criteria rule—and where leftists predominate. Endowed institutions such as foundations and museums likewise often face no test other than what like-minded people find "exciting" and what enables those who run these institutions to get the heady feeling that they are "making a difference." The same is true of cultural institutions supported involuntarily by the taxpayers, such as the Smithsonian or the National Endowments for the Arts and the Humanities.

Taxpayer-supported "public" radio and television are similarly insulated from reality and similarly dominated by the left, not only in the United States but in other countries as well. All the nostrums of the left that have brought hunger to millions in countries which used to have surplus food to export, all the pretty words and ugly realities that have caused millions more to flee the lands of their birth, these nostrums live on in public television—much like old classic movies with familiar lines that the audience of aficionados can recite along with the characters on the screen.

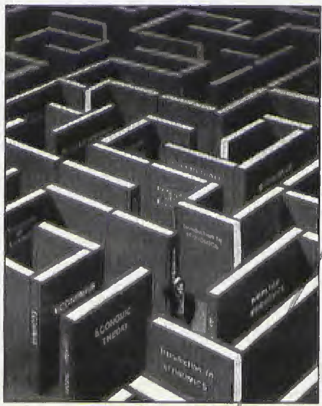
Discredited elsewhere, the nostrums of the left live on in public television.

These endowed and insulated institutions, often full of contempt for the values of American society and Western civilization, are not the only bastions of the left counter-culture. So are Hollywood and Broadway. Although show biz faces the financial need to get an audience, the truth of what they portray is hardly crucial. If they can make it punchy and sexy, then those who complain about historical inaccuracies and ideological bias can be dismissed as irrelevant pedants. Why are leftists able to crowd out other kinds of people from these places? Because those who are willing to subject themselves to the test of reality, whether as a businessman in the marketplace or as a surgeon in an operating room, have many other places in which to work and live. They do not need special sheltered niches in which to hide and to cherish their precious notions.

Darwinian adaptation to environment applies not only to nature but also to society. Just as you don't find eagles living in the ocean or fish living on mountain tops, so you don't find leftists concentrated where their ideas have to stand the test of performance. ■

The Economist
AUGUST 23RD 1997

The puzzling failure of economics



IF THE world were run by economists, would it be a better place? You might expect economists, not to mention a newspaper called *The Economist*, to think so. After all, many of the policies that people fight over have economics at their core—jobs, wages, investment, growth. Economists, professional and otherwise, are forever criticising those who do run the world for making such a mess of it, and are keen to change the way people think so that things will be run more to their liking. As one Nobel laureate put it, "I don't care who writes a nation's laws . . . if I can write its economics textbooks."

Paul Samuelson, the author of that remark, has seen his wish fulfilled. His "Economics", first published in 1948, has sold millions of copies and is still, with its 16th edition in preparation, doing well. Down the editions, the book's views on policy have changed, as have those of the profession at large (see page 58). These shifting ideas have in turn influenced policy, and to a degree that would make other social scientists drool. Lately the results have been good. During the past decade, some of the worst economic incompetence has ended: central planning has given way to "transition economics" in Eastern Europe and the former Soviet Union; many developing countries have opened their economies to the outside world; every week another state-run company is put up for sale. Textbook wisdom seems to prevail.

The message and the messenger

But don't praise the dismal scientists too much. Who designed those earlier policies, which failed so disastrously? Economists. Where were those theories of planning, of demand management, of industrial dirigisme and public ownership that did such harm in the third world so persuasively set out? In economics textbooks.

These days, it is true, the advice is better—but it often gets dangerously garbled in transmission. Trade is the best example. By pitting exporters against importers, successive rounds of trade negotiations have encouraged politicians in many countries to lower trade barriers. Yet this effort is based on a false premise: that freeing trade is good for you only if other countries do the same. This basic misunderstanding, left unattended, may one day lead governments to turn back the clock on liberal trade.

Other good policies have likewise been founded on bad economics. Privatisation, for instance, has more often been seen as a way to raise revenue than as a way to promote competition; and deregulation is often portrayed by governments as something that global markets have forced upon them, rather than as a way of raising living standards. As for bad policies based on bad economics, these remain too numerous to mention, despite Mr Samuelson's prodigious efforts.

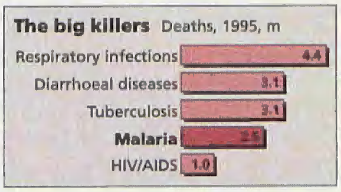
Why has economics not done better? Economists tend to blame others for being too lazy or too stupid to understand their textbooks. There is doubtless something in this. Economics is hard to teach well. To the uninitiated, its basic principles often seem surprising or odd. And whereas most people will admit their ignorance of physics or biology, the armchair economist is convinced that he knows exactly what he is talking about.

But the economics profession itself also deserves much of the blame. Crucial ideas about the role of prices and markets, the basic principles of microeconomics, are uncontroversial among economists. These are the first ideas that politicians and the public need to grasp if they are to think intelligently about public policy, and the fact is that they are not widely understood. Yet because economists take these essential ideas for granted, they spend their time arguing about much more contentious notions, developed in one disputed way or another from those common underlying principles. The public and their politicians are treated to perpetual squabbles about the exact effects of raising interest rates or of cutting the capital-gains tax or whatever—and conclude that economists disagree about everything and understand nothing. As long as economists choose to talk loudest about the things they understand least well and to remain silent about the underlying ideas that unite them, this is unlikely to change.

And economists must shoulder a further portion of the blame for quite another reason. The biggest economic-policy mistake of the past 50 years, in rich and poor countries alike, has been and still is to expect too much of government. Statism has always found all the support it needs among mainstream economists. They are unfailingly quick to point out various species of market failure; they are usually much slower to ask whether the supposed remedy of government intervention might not, in practice, be worse.

This is not a failure of economics, in fact, but of modern (one might say Samuelsonian) economics. The classical economists viewed the market economy with a kind of awe. Amazing, it truly is, that all these workers, firms and households, acting without visible co-ordination and guided mainly by self-interest, manage to produce such extraordinarily beneficial results. Smith's "Wealth of Nations" conveyed this sense that the market, for all its "failures", is a marvel. Today precious few textbooks even try to guide their readers to any such inspiration. Implicitly, at least, their message is too often quite the opposite: that markets aren't perfect and governments (advised by economists) can be. Dismal is the word. ■

The mosquito at your door



Mankind is losing the war on malaria

HOLLYWOOD stars wear no ribbons to show their concern about it. Princess Diana makes no dramatic dashes to comfort its victims. Campaigning charities do not even, for the most part, mention it in their heart-rending appeals. Yet malaria kills far more people each year than AIDS or landmines or scores of other diseases, terrible as all these afflictions are. Worse, most of those carried off by malaria are children: more than 1.8m a year. And, worse still, the numbers are increasing as the disease spreads and grows more resistant to drugs. Something plainly should be done. But what?

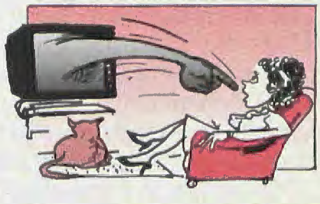
Several hundred scientists and public-health officials gathered in Hyderabad this week to offer some answers. They were there because it was in this Indian city 100 years ago that Ronald Ross revealed the development of the malarial parasite in the mosquito, and thus established that the disease was transmitted to human beings by insects. That put an end to the old idea that malarial fevers were caused by bad air rising from foul marshes, and seemed to herald the biggest breakthrough in the war on malaria since the 17th-century discovery of quinine as a treatment. For 70 years after Ross's triumph, the war was indeed waged quite successfully, but in the past 30 the disease has been winning.

The statistics tell the story. By the 1960s, malaria had been eradicated or dramatically reduced in 37 countries. In India, for instance, the number of deaths had dropped from some 800,000 a year to virtually none. But India has had four major epidemics since 1994; last year alone 2.85m Indians got the disease and thousands died. Malaria is returning to other countries that thought they had seen the back of it: Azerbaijan, Brazil, Turkey. It is spreading from the countryside to the cities and, borne by migrant workers and other travellers, is increasingly cropping up in the rich world. Cases now occur in the United States as far north as New York, New Jersey and Michigan. Climate change may help to bring it back to Western Europe. It is in Africa, though, that malaria is commonest and deadliest. Most of the 2.5m or so people killed each year by malaria are Africans, and most of them are children.

The best chance of once more sending the disease into retreat would be the discovery of a vaccine, but hopes for that fall as often as they rise. No wonder: research into malaria receives only some $60m a year, compared with $140m for asthma, $300m for Alzheimer's disease, $950m for AIDS. Certainly, no vaccine seems to be in sight—malaria parasites are structurally more complex than viruses and bacteria—and even if one were found, it would probably offer immunity to only one of the disease's several forms. So attention must turn to the relatively humdrum: more research into drugs to replace those that have become ineffective, more programmes to kill mosquitoes, more efforts to protect those most at risk, especially children.

Here, the most sensible action may be to provide children with bednets soaked in insecticide. Trials in the Gambia and Kenya have shown that the use of such nets can produce dramatic decreases in childhood mortality. The fall in the death rate may not continue indefinitely; some people will merely die older rather than younger. But the World Health Organisation believes that the lives of 500,000 African children could be saved each year. Smelly bednets are hardly glamorous things to campaign for. They could prevent more suffering than many more fashionable—and expensive—cures. ■

Television's new boss



As the audience gets smaller, it will also get more powerful

APART, perhaps, from tablets of stone dictated by the Almighty on a mountain top, no better way has yet been found to convey a simple message to a vast multitude than broadcast television. On an average evening most people are relaxing on the sofa, willing to learn the delights of Pampers or Coca-Cola. Now, to the consternation of politicians, viewers and especially advertisers, this magnificent medium is fragmenting. In the United States, the three national networks, once watched by almost every sentient being in the land, now split fewer than half the audience between them each night. The others watch various new networks (including Fox) and cable and satellite channels, or surf the Internet. In Britain, there were howls from politicians this week about the prospect of the BBC losing test-match cricket to a satellite sports channel that people would have to pay to watch.

In fact, two revolutions are under way. First, television is acquiring almost infinite channel capacity. As the technology of digital compression develops, the concept of the channel will become meaningless. Viewers will pick a programme just as they pick a magazine on a bookstall, rather than being fed what a channel controller somewhere thinks should come next. Inevitably many will prefer to pay more to buy programmes without advertisments. But a second revolution is occurring in the amount that advertisers can learn about the customer. Vast databases of information will increasingly allow—in theory, at least—advertisers to pinpoint customers, rather than carpet-bombing them with commercials that may be irrelevant (see page 47).

The advertisers' panicky reaction to the first change has been expensive: to pay more to get a message to the dwindling crowd. Although the "Seinfeld" comedy show is losing viewers, a 30-second slot now costs $500,000. They have also gritted their teeth and bought slots on the many small television channels that carve up tiny audiences, often into such narrow slivers that ratings cannot track them. But a wiser strategy would be to ask how television and the database can be combined to produce new sorts of advertising in future.

One certainty is that the balance of power between consumer and advertiser will change. Once, the only escape from an advertisement was to go and make a cup of coffee. Increasingly, viewers will "choose" their advertising. In some cases, this will just mean making more transparent the implicit contract that advertisers already offer viewers: I will pay for your programme if you watch my message. This is already happening, and not just on television: Sweden's Gratistelefon offers free telephone calls to users willing to be interrupted by brief commercial breaks; other companies offer free electronic mail for users willing to accept advertisements.

As television becomes more interactive, advertisers will discover more about viewers. Each time that people pay to watch something, an opportunity will arise to extract details about their tastes, and use them for striking bargains: let us tell you about our product, advertisers will say, and you can watch the game for nothing. It will be easier to spot those who cheat: click here, they will insist, if you can remember what we just told you, or you will not be allowed to see the second half.

This is where databases come in. Up to now, television has been a blunt instrument: advertisers have had to assume that everybody watching a certain programme was interested in similar products. Yet the correlation is crude, and in future will be irrelevant. Already, viewers who watch baseball games in the United States sometimes see projected on to the screens around the field advertisements that miraculously name the shop around their own corner—even if the teams are playing many miles away. One day, the advertisements that a viewer sees will be tailored to reflect what data marketeers believe are the household's tastes and habits. Niche advertising will thus be combined with mass television.

Talk to my agent

For advertisers, this brave new world will be hard work; but it will also offer chances to target advertising more effectively. For viewers, it promises more power and choice. Yet politicians may be tempted to intervene on their behalf on two grounds: that the new televisual order excludes the have-nots whom nobody wants to reach and who cannot afford to pay for their cricket; and that it interferes with people's privacy. The first fear ignores the fact that plenty of products—toothpaste, Coca-Cola—need to be marketed to everyone. And there is no particular reason why a sports event, any more than a magazine or a Renoir, should be free to look at.

As for the concerns about privacy, the market should produce its own solution. As people realise that their personal data is valuable, they will want to sell it, not give it away. Data-collectors may even offer a new sort of royalty: each time we sell your personal data to another company, they will say, we will split the takings with you. Even better than seeing your own advertising pitch digitally emblazoned on the hoardings around the field at the big match will be the thought that those data miners are paying you to let them dig. ■

A choice of devils

The Bosnian Serbs are splitting. How should the West respond?

NEARLY two years after Bosnia's long war was brought to a halt in Dayton, Ohio, NATO troops continue to keep the peace. But the political task of implementing the Dayton plan for reuniting Muslims, Serbs and Croats in a single state remains largely unachieved (see page 39). The Bosnian Serbs, keen to maintain their independence, have been especially obstructive—but are now on the verge of their own civil war.

Biljana Plavsic, their president, is a visceral Serb nationalist. But her political base is in Banja Luka, a city in the part of the Bosnian Serb republic that is surrounded by Croat and Muslim lands. So Mrs Plavsic, like many Serbs in that region, sees the value of co-operating with Muslims and Croats, and is prepared to swallow much of the Dayton agreement. Not so Radovan Karadzic, the former president indicted for war crimes, and Momcilo Krajisnik, the Serb member of Bosnia's collective presidency. The split is widened by Mrs Plavsic's attacks on the two men for their alleged corruption—and by the considerable popular support these attacks have brought her. But from their base in Pale, in the eastern part of the Serb republic, Mr Karadzic and Mr Krajisnik control the Bosnian Serb media, the parliament and the supreme court. That court is thwarting her efforts to dissolve the parliament and hold a general election. NATO forces have had to intervene to prevent fighting between rival police factions in Banja Luka.

This split presents the western powers and Carlos Westendorp, their representative in Bosnia, with a dilemma. They want Mrs Plavsic to defeat the Pale clique, so that their efforts to knit Bosnia together have some chance of success. But too much overt support could harm Mrs Plavsic by making her look like a western stooge. She knows this: she made plain her disapproval of the killing of a Karadzic ally indicted for war crimes during a recent NATO snatch operation. If Bosnian Serbs believe themselves to be the victims of biased western interference, their hostility to Dayton will grow.

In any event, the West would be foolish to get too involved with Mrs Plavsic: once secure, she might well become an embarrassment. There is, moreover, no guarantee that she will emerge on top, even with western help. That, however, would probably be no worse than the *status quo ante*: the West having to deal with a hostile Bosnian Serb government.

So, for all the dangers, judicious support for Mrs Plavsic, deftly handled, could do the cause of peace some good. Foreign donors have already said they will restrict aid to places that accept Dayton's principles. They should ensure that a fair whack goes to the Banja Luka region. Meanwhile, NATO should do its best to ensure the safety of Mrs Plavsic and her allies, many of whom have been beaten and intimidated. An arms cache, perhaps created in preparation for a coup against Mrs Plavsic, has been found by NATO troops in Banja Luka.

Neutralise the spoiler

As for the disputed election, the West should do what it can to see that it is held. True, even a free vote might merely perpetuate the rule of the current nationalists, rather than bringing to power the new party promised by Mrs Plavsic or a government of other, more moderate Serbs. Yet no new assembly could be more anti-Dayton than the one now sitting in Pale, and a new general election might shake up Bosnian Serb politics for the better. However, two conditions need to be satisfied before any new round of voting is held. First, the general election must be genuinely general; little would be achieved if people in just one part of the republic voted. Second, the media must be free to report all points of view. Mr Westendorp should brandish the power he has to persuade newspapers and, more important, television stations to let opposition voices be heard.

Meanwhile, western governments should not stint in their pressure to have Mr Karadzic hauled before the war-crimes tribunal in The Hague. A snatch operation risks being horribly bloody. So pressure should be put on Slobodan Milosevic, the president of Yugoslavia, to use his undoubted influence over the Bosnian Serbs to get them to yield up Mr Karadzic. If that fails, however, NATO should, despite the risks, steel itself to arrest Mr Karadzic—and, to show fairness, grab any others wanted for war crimes, be they Croats or indeed Muslims, if any have been secretly indicted. As long as Mr Karadzic remains at large, he will do his utmost to undermine Mrs Plavsic or anyone else prepared to make Dayton work. That is why the West cannot be indifferent to his continued ability to exercise so much influence in Bosnia. ■

The new convert

It is good news that America is to take part in the Ottawa effort to ban anti-personnel landmines—so long, that is, as its real intent is not sabotage

"LIKE all weak men he laid an exaggerated stress on not changing one's mind," wrote Somerset Maugham in "Of Human Bondage". Happily, Bill Clinton seems to have gathered the strength to change his mind on anti-personnel landmines, the indiscriminate little weapons that lie buried, long after a war is ended, killing or maiming some 25,000 passers-by a year. A statement from Martha's Vineyard, where the president is on holiday, said that America would, after all, take part in the Canadian-led effort to get as many countries as possible to sign a formal treaty in Ottawa at the end of the year, pledging them to a total ban on the use, production, sale and stockpiling of these vile devices.

As long ago as May 1996, Mr Clinton declared himself committed to a global agreement banning anti-personnel landmines. But, until now, he has confined America's pursuit of such an agreement to the UN's sluggish Conference on Disarmament, which is supposed to be working towards some sort of ban but has barely got round even to talking about it. Last October, the Canadians decided to cut procrastination short by asking like-minded countries to sign a complete ban on their own. From a small start, Canada's initiative has ballooned. It is now supported by no fewer than 106 countries, with the United States, which as recently as May was dismissing it as high-minded but unrealistic, among them.

American public and media opinion, awakened to the misery these mines are causing, has swung towards a ban. This political shift may well have helped to persuade Mr Clinton and Vice-President Al Gore that it was time to show willing, despite the Pentagon's reservations. Retired American commanders are among the most vocal in condemning the mines as inhumane and militarily dubious. A report, based on American army archives, which was published last month by Human Rights Watch and Vietnam Veterans of America, may have had a part in turning opinion Ottawa's way. It said, among much else, that Americans in the Korean war were more likely to have been killed by their own mines than the enemy's. The Pentagon, however, maintains that landmines still serve a purpose in safeguarding lives in combat.

Plainly, the Ottawa treaty will have greater impact if the United States is among its signatories. Yet America's presence at Oslo, where the final draft is to be debated from September 1st to 19th, is awaited with trepidation. Will the American converts, having demonstrated good intent, proceed to weaken the treaty by insisting on conditions and exceptions?

Some bits of the draft could do with America's critical eye. The verification clauses could be toughened, even though no power on earth can comprehensively detect the manufacture of the cheap little horrors. But America's wish to make the treaty more global—in particular, to include Russia, China and India—cannot be satisfied. These countries are unlikely to sign, though all have modified their export policies: China, once the world's biggest exporter of anti-personnel mines, said in June 1997 that it had exported no mines since 1995.

Don't undermine it

The conditions that will cause the most trouble relate to America's own practice. It wants to preserve the cluster system under which anti-tank mines and anti-personnel mines are laid in a single package. It also wants to continue using anti-personnel mines on the "demilitarised" border between South and North Korea until there is no threat or until the Pentagon has devised some alternative defensive system. A compromise on timing is possible: though the aim was to implement the treaty by 2000, this could be delayed a couple of years without much harm. But the cluster system, or continued mine-laying in Korea without a fixed timetable for ending it, would blast great holes in the treaty.

The strength of the Ottawa approach lies in stigmatising anti-personnel mines as abominable, not to be used ever, on any account, by anybody. No exceptions. The great news is that this target no longer looks as fantastical as it once did. ■

The Washington Post

SUNDAY, SEPTEMBER 14, 1997

Escape From Nerdistan

Artistic Types Run With the Geeks in the New Centers of Multimedia

By Joel Kotkin

Over the past two decades, the bespectacled nerd, with his plastic shirt-pocket pencil holder and white socks, emerged as the new American superhero. The computer geeks, epitomized by Microsoft's Bill Gates and mockingly immortalized in the 1984 comedy film "Revenge of the Nerds," have been the ones who are ending up with the fabulous house, the good-looking mate and the big bank account.

Well, move over, Mr. Gates. Listen up, Silicon Valley. A new day is dawning over the computer industry. If they made a sequel to that movie now, it might well be titled "Revenge on the Nerds: The Bohemians Strike Back."

As the largely nerd-created computer industry has matured into a communications industry, it has become increasingly dependent on the very kind of creative content not normally associated with the nerd culture—storytelling, graphic arts and music. Many high-tech companies, from Microsoft to America Online, are scouring the ranks of artists, musicians and writers for people who were once regarded as little more than road kill on the information highway. "Computers are no longer just for geeks," says non-geek Scott Zakarin, director of programming for Entertainment Asylum, the California-based entertainment arm of Northern Virginia's AOL.

But this transformation is more than just a job bonanza for starving artists. Disdaining the bucolic suburban settings that have become home to Microsoft and the Silicon Valley companies, most of the multimedia companies have chosen to locate in decidely urban places such as L.A.'s westside, San Francisco's south of Market district and a slice of lower Manhattan that has been cleverly dubbed "Silicon Alley." At a time when techno-enthusiasts such as George Gilder are castigating cities as the "leftover baggage of the industrial era," Los Angeles, San Francisco and New York have become the creative hotbeds of the burgeoning multimedia industry, bringing new life to once declining neighborhoods. These three areas account for roughly 250,000 multimedia jobs, according to a recent McKinsey and Co. study, far outdistancing all other regions.

Nowhere is the symbiosis between city and creative talent more evident than in southern California, which (along with San Francisco) harbors the nation's largest collection of new media firms. CD-ROMs developed for leading producers such as Davidson and Associates, Knowledge Adventure and Activision rely heavily on freelance writers, musicians and graphic artists who split their time between multimedia work and the more traditional entertainment industries such as television and film. In Los Angeles, there are more than 4,400 motion picture-related service establishments and nearly 100,000 freelance workers.

Ariella Lehrer, president and CEO of Legacy Software, makes extensive use of Hollywood actors to play out the many scenarios in hot CD-ROM games such as "DA" or "Emergency Room." Los Angeles, she says, provides the ideal mix of talent for companies like Legacy. "As the technology gets more sophisticated, you find you go to places like L.A. for the quality product," says Lehrer, 44. "You start getting five-hundred-page scripts with actors and soundstages re-enacting a crime or an operation. Try doing that first-class in a suburb of Atlanta."

In their sometimes rundown, often eclectic ways, urban districts offer a kind of visual stimulus—in the form of attractive single people, outrageous outfits, ethnic diversity and eclectic architecture—that has attracted artists and writers for hundreds of years. "City air," goes an old German saying, "makes one free."

As historian Lewis Mumford once observed, cities have enjoyed a veritable "monopoly" on the development of creative industry and the arts since they first formed in ancient Mesopotamia. Artists, storytellers, scribes and sculptors from various ethnic backgrounds would gather in Sumer and Ur to create the rudiments of the world's first sophisticated culture. The ancient city, Mumford wrote, served as a "storehouse, a conservator, an accumulator," a place where "the kinetic energies of the community were channeled into symbolic forms."

Over the ensuing centuries, theater, literature and classical art often originated within city walls, whether located in Asia, North Africa, the Mediterranean or the Middle East. In the ancient world, this process reached its apotheosis in Alexandria, which classical historian Michael Grant has called "the first and greatest universal city." The Mediterranean port city, home to numerous artisans and traders, produced a brilliant cultural life that blended the influence of Egyptians, Jews, Greeks as well as other groups, while also housing the ancient world's most extensive library.

During the Renaissance, cities such as Venice, Bruges and Florence (and later, Antwerp and Amsterdam) not only revived the high culture of classical civilization but also created the forms, the attitudes and patterns of interaction that have shaped great cities to this day. Building on classical models, the great Renaissance centers of culture produced what historian Martin Thom has called "the age of cities."

Joel Kotkin is the John M. Olin fellow at the Pepperdine Institute for Public Policy and a senior fellow in urban studies at the Pacific Research Institute.

In the modern era, the great cities of Europe—Amsterdam, London, Berlin, Vienna and, most especially, Paris—attracted some of the world's greatest artists, musicians and writers. In the United States, the infant American culture was nurtured by European immigrants who brought with them the great traditions of art, music and the theater. By 1925, New York had already accumulated more than 20,000 artists—not just from Europe but from the villages and farming communities of the vast North American hinterland as well. Ultimately, the mass migration of artists, scientists and writers during the rise of European fascism completed what Laura Fermi has called "Europeanizing of American culture," with New York replacing Paris and London as the world's creative center.

Similarly, historian Kevin Starr has noted, the migration of German filmmakers, actors and craftspeople—such as Ernst Lubitsch, Billy Wilder, Peter Lorre, Max Reinhardt and Marlene Dietrich—helped fix southern California as the epicenter of the global film industry. So pervasive was the Berliner influence that famed film director Otto Preminger, one of the German emigres, was shocked at one Hollywood party to find some of the guests chattering away in Hungarian. "Don't you guys know we're in Hollywood?" the director asked. "Speak German."

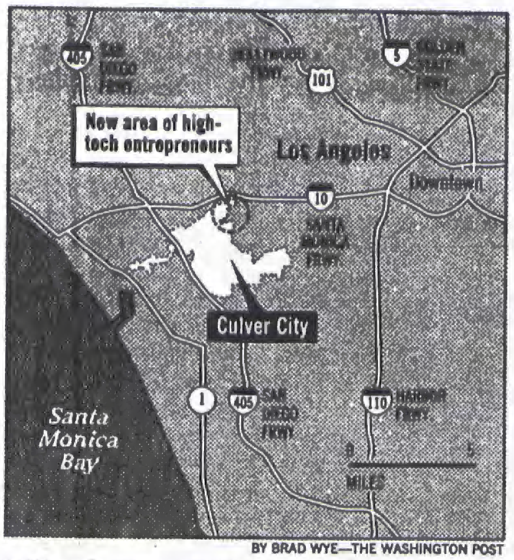
Even after decades of relative decline in urban economies, these same cities remain the nation's dominant cultural centers, with New York and Los Angeles together accounting for roughly 14 percent of the nation's working artists. Similarly, actors—increasingly important not only in film or television but in the emerging interactive media—continue to cluster heavily in Los Angeles, which now accounts for roughly 60 percent of Screen Actor's Guild members, and in New York, the epicenter of the live theater.

In the computer industry's early days, such artistic skills were of little importance. But the growth of "new media"—which provides content for the Internet and computer games—has changed all that. A recent UCLA study of California multimedia companies found that employees with technical backgrounds were outnumbered 2 to 1 by those with training in illustration, writing, editing, cinematography and musical composition. A study of New York new media firms found that roughly half of their employees had no technical expertise.

This demand for artistic and storytelling skills has led the industry to recruit from places far away from the suburban, campus and small-town environments where high-tech companies have traditionally located. Many young creatives, suggests Tom Lipscomb, president of the Manhattan-based multimedia firm Infosafe, are attracted to the art museums, ethnic restaurants, concert halls and club life that thrive in urban locales. A 1992 Louis Harris survey of migration into New York, for example, found that newcomers ranked cultural amenities as one of the city's primary attractions.

"It's really easy to get people to come [to L.A.]," says Nick Rothenberg, the 31-year-old president of W3-Design, a highly successful Web site developer that is one of many multimedia companies now operating in Culver City, a city of 40,000 abutting Los Angeles. "Part of the attraction is to be around the [entertainment] industry and all the different cultural aspects of living in Los Angeles. It's not like being stuck like a nerd working for the Fortune 1000 firm out in the sticks with a bunch of nondescript people."

Like many new media firms, few of Rothenberg's 30 employees would be classified as geeks; only one is a computer scientist. Eight are trained as anthropologists (including Rothenberg), three are musicians and one is an astrophysicist. They work in a booming new media community known as the Hayden Tract, a former red-brick industrial zone that is now crowded with movie production companies, digital-effects firms and other Internet-related businesses. Down the street are the offices of Sony Pictures. Farther west are the digital-effects hubs of Venice and Marina del Rey, each of which offers unique brands of southern California beachside bohemia.



BY BRAD WYE—THE WASHINGTON POST

WHERE THE ACTION IS

Just a few years ago, the Hayden Tract in Culver City, Calif., was a virtual advertisement for industrial obsolescence–a kind of Silicon Valley in reverse. Spread over 57 acres of coastal plain, vacancies in the district–dotted with industrial buildings constructed largely during the aerospace boom of the 1940s and '50s–ranged upwards of 50 percent. Its work force, once close to 4,500-strong, was down to roughly 500.

Today, the tract has come back to life, with more than 30 Internet, graphic arts, small movie-production and digital-effects firms, dropping vacancy into the single digits. More than 2,000 people are employed full-time in the old industrial district. Some of the leading firms there include:

- Armageddon VFX/Touchstone Pictures
- Columbia Tristar Interactive (Sony division)
- Computer Film Company (special-effects house)
- Cyber Studios ("studio" production house for Internet content providers)
- Entertainment Asylum Inc. (Internet entertainment programming division of AOL)
- Digital Planet (entertainment-related Web sites)
- Digital Soup (interactive media graphic design)
- Jim Heimann Design (CD-ROMs and books)
- Kodak Digital Imaging (digital film services division of Kodak Inc.)
- Mechanical Men (commercial TV and commercial/digital imaging)
- Media X (multimedia developer)
- Pittard Sullivan (digital imaging)
- Smashbox (digital photography studio)
- Sussman/Prezja (environmental design, interactive installations)
- W3-Design (interactive Web site agency)

THE WASHINGTON POST

But perhaps more than anything, cities bring to the creators of new media an opportunity to reinvent themselves, even those with strong computer skills. Josh Greer is the 28-year-old CEO of Digital Planet, a Web site developer with 40 full-time workers and 25 others on contract. Greer, a native of Toronto, says he learned how to program PCs while he was still in high school. But, he says, "By the time I was eighteen, I was burned out on computers. . . . So I joined the theater. Some geeks would rather really be artists."

Of course, none of this suggests that the era of nerdish ascendancy has ended. The computer industry still needs its technoids. Today's most rapidly expanding economic regions remain those that reflect the values and cultural preferences of the nerdish culture—as epitomized by the technology-dominated, culturally undernourished environs of Silicon Valley. In the coming decade, we are likely to see the continued migration of traditional high-tech firms to new nerdistans in places like Orange County, Calif., north Dallas, Northern Virginia, Raleigh-Durham and around Redmond, Wash., home base for Microsoft.

David Russo, director of human resources at SAS Institute, a privately held software firm with revenues of more than $500 million in the "Research Triangle" of Raleigh-Durham, observes that such areas are far more appealing to most technically-oriented employees than larger cities with their usual high cost of living, higher crime rates and struggling schools. "It's all in the mindset of the engineers. They might grouse about not being in a big league town, but the trade-off is there's not much traffic and all the high-speed environment," Russo said from SAS's campus-like headquarters. "Engineers and software people are folks whose whole lives are based on logic and order, so this sort of place appeals to them."

Yet the rise of the urban new media means the nerds won't have the computer screen to themselves. In recent years, industry giants such as Microsoft have begun developing alliances with L.A. multimedia producers such as Cobalt Moon and Liz & S Productions, as well as inking major deals with film studios, including Paramount, Disney and Dreamworks SKG. This summer, in the ultimate Hollywood move, Microsoft co-founder Paul Allen (now off on his own) even purchased a $20-million, 120-acre estate in Beverly Hills.

These developments suggest that, although the nerds clearly still dominate the computer industry, they will increasingly look toward the creatives—and the urban culture that nurtures them—to supply the content for their brilliant machines. "Ultimately, this is not about locking yourself in a room with a computer and writing code," suggests Digital Planet's Greer. "People don't give a damn how much money you have or how big your CPU is. It's all about communicating, telling stories, creating images. That's our strength and that's why we'll survive."

Who Receives the Big Bucks From Big Bird and Barney?

By John Berlau

The beloved children's programs, though financed by tax dollars, are leaving taxpayers holding the bag.

Many parents paid big bucks last December to get their children the popular holiday toy Tickle Me Elmo, a red, furry *Sesame Street* character that lets out a high-pitched laugh when his stomach is poked. These parents probably would not be tickled to know that, in addition to cleaning out their Christmas money, Elmo is giggling all the way to the bank because of the sweet deal he gets from their tax dollars.

Elmo, Big Bird and many other creatures loved by children, including Barney the purple dinosaur, are televised into American playrooms from the nonprofit Public Broadcasting Service, or PBS, which receives more than 12.3 percent, or $27.5 million, of its support from the federal government. The rest of it is tax free from member stations, educational institutions that use the network's services and corporations. When House Speaker Newt Gingrich and other leaders of the House Republican majority tried to phase out tax support for the network in 1995, PBS advocates used the children's characters as powerful weapons in their successful campaign to preserve federal funding. Rep. Nita Lowey, a New York Democrat, extolled the virtues of PBS by putting Bert and Ernie puppets on her hands, and bumper stickers exhorted concerned parents to "Save Barney from Newt."

Truth be told, it's the multimillionaire Barney who could have saved Newt by loaning him $300,000 to pay his ethics-committee bill. As Gingrich's benefactor Bob Dole put it in a 1993 Senate floor speech, "Barney is not just a dinosaur, he is a cash cow.... [S]ales of Barney merchandise could reach one-half billion dollars per year and the licensing fees merchandisers pay for the privilege of making more than 200 Barney products could be as high as $50 million per year." Dole said he was not troubled by *Barney & Friends* making money, but what he did "have a problem with is the fact that despite putting up $2.25 million between them — much of it tax dollars — to launch *Barney & Friends* last year, the taxpayer-supported Corporation for Public Broadcasting and Public Broadcasting Service have not seen one dime from *Barney* merchandise."

The *Sesame Street* characters also have learned to count eight- and nine-digit merchandising numbers. In his 1996 book, *PBS: Behind the Screen*, Laurence Jarvik called the children's program "an infomercial for the 5,000-plus licensed *Sesame Street* products that gross over $800 million in retail sales around the world each year." *Sesame Street*'s production company, the Children's Television Workshop, or CTW, took in an average of slightly less than $20 million a year in licensing fees from merchandise and total revenues of $112 million in 1996, according to CTW public-affairs manager Janice Hearty.

LEE VAN GRACK/INSIGHT

Elmo: *Sweet deal for CTW.*

Yet, the federal government still provided $4.6 million this year for *Sesame Street* production costs, according to Stu Kantor, PBS' director of corporate communications. Tim Graham, an associate editor at the Alexandria, Va.-based Media Research Center, has bought merchandise from the PBS children's shows for his young son but is outraged that his tax money also is funding these same programs. "This is the sort of thing that makes you want to beat Big Bird with a stick," Graham tells **Insight**.

Conservative critics of PBS such as Jarvik and Graham say that PBS could survive without federal support if the network could offset some costs by getting its fair share of merchandising money from shows such as *Barney & Friends* and *Sesame Street*. Boardwalk Entertainment President Alan Wagner, who calls himself a fan of PBS and is a consultant for a Markle Foundation project to increase private funding of the network, agrees that PBS could reduce its dependence on federal support if it could get some of the merchandising revenues of its shows. "Nobody in any part of broadcasting now gives away merchandising rights to the producer," says Wagner, who has served as a vice president for CBS and original chief executive officer of the Disney Channel cable network. "Everybody — every distributor, every network — tries to get a piece of the merchandising and marketing." He says that PBS, which was set up as a nonprofit public-service system, should be run more like a commercial network.

Officials with PBS and the federal government's Corporation for Public Broadcasting received $260 million from Congress this year. CPB has allotted 75 percent of the budget to television programming and 25 percent to radio. Both CPB and PBS say they are taking steps to get some of the merchandising money. CPB recently instituted a policy to recoup one-half of its investment if a program makes large profits on merchandise. But Jarvik tells **Insight** that "CPB should be treated like an investor" with a larger share in profits. He says the policy even contains loopholes to allow producers to hide profits by running up high costs.

And CPB still won't get anything from *Barney & Friends* and *Sesame Street*, since the policy only applies to new programs. PBS' Kantor says it has renegotiated to receive a percentage — the amount of which he refuses to specify — of royalties from *Barney & Friends*. He explains that *Sesame Street*, however, still does not give anything to CPB or PBS because CTW is nonprofit and reinvests revenues in the program. CTW's Hearty says the company spends $3 million more than it makes.

Jarvik, however, questions where the money is reinvested, noting that five of its executives make six-figure salaries higher than the U.S. president's. He concludes that although PBS proponents "claim that public television belongs to the public," it is, in reality, "a private fiefdom for a select few." ●

Family-Friendly Movement Sees Patience as a Virtue

By David Wagner

Pro-family groups are considered a reliable bulwark of conservative politics. But even in the wake of recent victories on the home front, many wonder if the movement's concerns are being taken seriously.

If conservative politicians inside the Beltway take the pro-family movement for granted as a source of kudos, political workers and votes, they may have a learning curve ahead as steep as a world-class roller coaster. On the other hand, the pro-family element may be the only wing of the GOP eagle that is getting any airtime. More than halfway between the Republican "revolution" of 1994 and the 1998 congressional elections, there are signs of discontent among the conservative troops. Fiscal conservatives are grumbling the loudest and foreign-policy conservatives are exasperated. However, a few congressmen are working hard on family-friendly initiatives and some new spokespeople for socially conservative causes are emerging on Capitol Hill.

A senior official at Focus on the Family, or Focus, the Christian radio and publishing ministry headed by psychologist James Dobson, evaluates the Republicans for **Insight**. "We give them mixed reviews at best," he says. Focus gets about 14,000 contacts a day — post, phone and E-mail — and among the messages that deal with public-policy issues, this official says, is "a strong sense of impatience and disappointment with what's going on in Washington."

"We surveyed our constituents to see if they supported the increasingly vocal role that Dr. Dobson is taking on issues," he adds, "and about 95 percent said they did."

Dobson met with Senate Majority Leader Trent Lott and House Speaker Newt Gingrich when he was in Washington for the National Prayer Breakfast in February. "The meeting went fine at the personal level, but we're waiting to see," says the source.

On a more recent trip to Washington, Dobson and Gary Bauer, president of the Family Research Council, or FRC, taped a Focus broadcast about the "partial-birth" abortion bill. Four senators, all Republicans, made time on their schedules to be heard on that program: Indiana's Dan Coats, North Carolina's Lauch Faircloth, Pennsylvania's Rick Santorum and Kansas freshman Sam Brownback.

At Focus and FRC, there is a sense that at least these four senators "get it" and are part of the family revolution — though there is widespread dismay at Coats' decision not to seek another term in 1998. Santorum and his wife, Karen, joined Dobson for a second broadcast on May 12 discussing their loss of a newborn to a fatal birth defect — an experience that befell them in the middle of last year's debate on the partial-birth abortion bill. Dobson believed the Santorums deserved to be heard on an extra program because of a *Philadelphia Inquirer* story that falsely implied that they had "considered" abortion at one point in their ordeal.

Further over on the right wing at Phyllis Schlafly's Eagle Forum, the mood is one of frustration — and not just about family issues. "The cave-in on the Chemical Weapons Convention was disgraceful," says a Schlafly activist. "I know that's not a family issue, strictly speaking, but Eagle Forum has always done defense issues too. Not only was it a cave-in by Senator Lott, he was unnecessarily insulting to conservatives by saying, 'If they're so strong, why can't they get us 34 votes on this?'"

Lott spokeswoman Susan Irby acknowledges the gist of that remark but suggests a context. "It was during the argument over bringing the treaty up for a vote, well before Trent decided to vote for it. You had a treaty that had been extensively negotiated; the administration had met the vast majority of the objections raised; and it got to the point that even [Senate Foreign Relations Committee Chairman Jesse] Helms agreed it should come to a vote. Remember, it takes 100 senators to bring something up."

The level of social-conservative satisfaction with the Republicans seems to increase only as one nears Washington or talks with

KOZAK FOR INSIGHT

Refocusing: *FRC's Amy Myers spreads the family word.*

SCHOOLS BRIEF

A world view

Culture is local. So why are the news media and the entertainment industry increasingly global? The seventh in our series on globalisation asks whether it matters if we all watch the same shows and listen to the same songs

IN MOST corners of the world, the name of Mickey Mouse will elicit at least a glimmer of recognition. Walt Disney's most famous creation was one of the first stars with a global name. Now, Mickey has become a symbol—of the influence the United States has on global media, and particularly on television. Flick a remote control almost anywhere on earth, and you will see American products: Hollywood films, the CNN news channel, television shows such as "Friends" or "The x-Files".

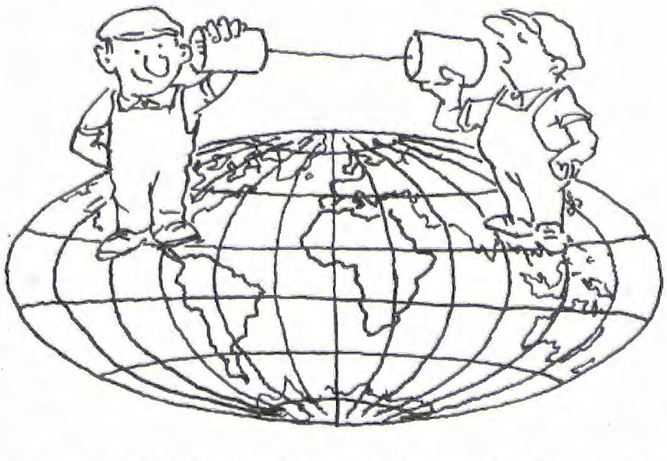
Until recently, globalisation and Americanisation have gone hand in hand. But now the media business, and especially television, are becoming increasingly multinational. That trend is inextricably linked with another: an activity that was once mainly state-owned and monopolistic is becoming privatised and competitive. Both developments are driven partly by technological change, which has both increased the production and distribution capacity of media companies, and reduced some of their costs.

For the moment, the scale of America's role in global media, both as exporter and investor, is unique. Other countries are big producers of entertainment: India, for instance, makes more films each year than America (see chart 1), and the Mexican Televisa network is helping to launch digital television in South America. But the giants of American media, such as Time Warner, Walt Disney and Viacom, dominate entertainment export markets and lead joint ventures which are creating new television businesses around the world. Although some of the world's largest book and newspaper publishers are based elsewhere, America is home to most of the world's largest audio-visual companies.

Governments have not fostered the globalisation of media. Instead, even more than in other industries, they resist foreign investment. Most countries restrict foreign ownership of television channels. In continental Europe in particular, some politicians want to go further, and ration imports of foreign television. But do such measures make sense? Is the globalisation of media really a threat to local cultures? And what forces are driving it?

Tuning in

The globalisation of television is essentially a consequence of the transition of broadcasting from a medium in scarce supply to one of plentiful capacity. For most of this century, the limitations of spectrum have restricted the number of television and radio channels. That is why, in most countries, the state has owned and run broadcasting—sometimes at arm's length, as in Britain and Japan, sometimes directly. Even where, as in the United States, broadcasting has been a commercial and competitive business from the start, it has been heavily regulated.



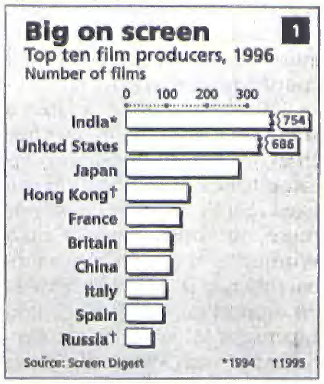
The transition to plenty began in the United States. The sheer size of the country, and the absence of public subsidies for transmission facilities, has meant that the quality of over-the-air television signals has been worse than in other rich countries. So most American homes have long had the option of television delivered by cable. As even quite rudimentary cable can carry many more channels of television than can be broadcast over the air, America has long had far more television channels than other countries.

In the 1980s multichannel television began to spread around the world. The main driver was the falling cost of launching communications satellites: the technology that had once allowed the Soviet Union and America to spy on each other became an inexpensive way to transmit television signals. Initially, only cable companies could afford the huge antennas required to capture those signals, which they would then retransmit to fee-paying subscribers. In the late 1980s, miniaturisation made it possible for individuals to pick up those signals directly with dishes small enough to be mounted on the roof of a home.

The result was a big increase in the capacity of broadcasting systems. What could fill that capacity? National television industries tended to be geared to filling the limited number of slots on domestic channels—and their output was often unadventurous or just plain dull.

American media groups, though, had off-the-peg channels such as CNN, Nickelodeon and MTV to offer. They were also used to producing for a competitive market; they had the world's most successful film industry; and they had huge libraries of cartoons, elderly soap operas, classic films and other programmes ripe for reuse.

This material has been the basis of the expansion of global media, an expansion that is now accelerating with the arrival of digital television. Digital compression typically allows between eight and 12 channels to occupy the same capacity required by a single analogue channel. Starting with satellite, but moving on to cable and over-the-air broadcasting, the ability to transmit television programmes will thus become eight to 12 times greater—and the number is rising.



Big on screen 1

Top ten film producers, 1996

Number of films

Source: Screen Digest *1994 †1995

Two other factors have helped to create a market for American exports. One is language and culture; the other, the curious economics of the business.

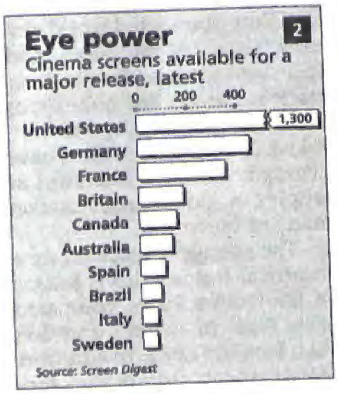
Well before the birth of multi-channel television, American films dominated world cinema. True, in the 1950s and 1960s, they competed with those made in Europe. But by the 1970s European film-making was moribund. And American films have always been more successful at tapping a global mass market than any others.

The average investment for a theatrical feature film is $12.3m in the United States, compared with $6m in Britain and less than $5m in France. In addition, the American culture that they package seems to have a universal appeal that may have something to do with America's melting pot or simply with Hollywood's commercial cunning. And English has become, thanks to the combination of British colonialism and American commercialism, a global tongue. All these factors give the American entertainment industry advantages that Japan, say, or Germany cannot easily emulate.

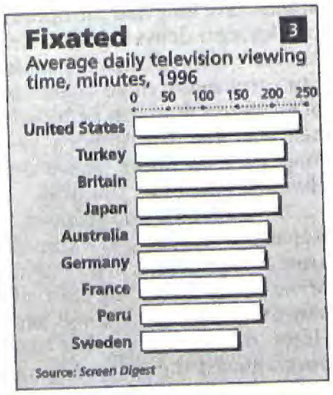
Add to this set of cultural strengths a second factor: the huge advantages brought by the size of the American domestic market for entertainment. According to *Screen Digest*, a British trade magazine, a major film release in the United States is typically shown on 1,300 screens, compared with 450 in Germany and even fewer in other rich countries (see chart 2).

Television shows enjoy a similarly vast home market (see chart 3). This is important, because television production is a fixed-cost business. It costs little more to bring the "Oprah Winfrey" show to its first audience than to its millions of viewers around the world. The main expense is Ms Winfrey. The producers of such shows can cover their costs at home, and then sell around the globe at prices that local programmers find hard to match. Most European broadcasters find that the programming they make costs between two and five times as much as programming bought from outside (see chart 4). Imports are thus the cheapest way to fill the airwaves.

Side by side with the increasing import of foreign programming, there has been a growth of foreign—again, mainly American—investment in media. Once more, television has been the chief focus. Usually, investment takes the form of joint ventures, often of labyrinthine complexity. This is because restrictions on foreign ownership make it hard for foreigners to buy local stations and networks, and because cultural differences make it useful to have a local guide.


Eye power 2
Cinema screens available for a major release, latest
Source: *Screen Digest*

The switch to digital is creating new opportunities for foreign participation. Partly, this reflects the falling cost of distribution, as digitisation has cut annual operating costs. In addition, governments that would never allow foreigners to buy an over-the-air analogue channel seem willing to let them experiment with digital channels. The same applies to the mobile-telephone business, where governments have been more willing to allow competition with digital than with analogue telephones.


Fixated 3
Average daily television viewing time, minutes, 1996
Source: *Screen Digest*

Go home, Mickey Mouse

But television is not telephony. When foreign companies buy into local media groups, or foreign shows appear on television screens, people often feel much more concerned than they do about other sorts of foreign investment and imports.

That is understandable. Media and entertainment play special roles in society. The fact that, say, Rockefeller Centre in New York is bought by a Japanese company may be galling but has few political repercussions. In Britain, where one-third of newspaper circulation is controlled by a single foreign company (Rupert Murdoch's News Corp, based in Australia), many people resent what they see as foreign influence on national politics. Some worry that this foreign invasion will destroy local cultures. Others fear the homogenisation of distinctive national and regional tastes.

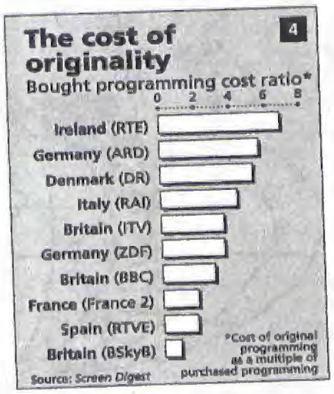
Finally, some countries fret about the economics of globalised media. European broadcasters in particular have become huge markets for imported television programming. According to *Screen Digest*, Germany, France and Britain each spends more on such imports than Australia, Canada and Japan combined.

More than half their spending goes on American imports, with the result that the continent runs a large and growing deficit on this account. All told, Europe buys about $2 billion a year of American television programmes; Britain, the only European country with sizeable programme exports, sells a meagre $85m-worth to the entire North American market.

Some European governments therefore advocate quotas on the proportion of foreign programming that national channels can show. After a long debate, the European Union agreed earlier this year to a directive called "Television without Frontiers". Its aim was to keep frontiers in place, by insisting that half the programming shown on European television be made within the EU. In the face of intense opposition, led by Britain, the words "where practicable" were added, rendering the provision ineffectual.

Do attempts to restrict foreign influence in the media make sense? Take, first, controls on foreign ownership of broadcasting. When spectrum was extremely scarce, it was defensible for governments to allocate it. Once many homes have access to hundreds of digitally compressed channels, the logic diminishes.

It is, of course, undesirable for one company, foreign or local, unduly to dominate a market; but big is not necessarily bad. A single television group producing several channels with different viewpoints is surely preferable to several groups with almost identical channels. In a world with many channels, television may well become a more differentiated product, more akin to the multiplicity of magazines than the narrow market for national newspapers.


The cost of originality 4
Bought programming cost ratio*
*Cost of original programming as a multiple of purchased programming
Source: *Screen Digest*

Indeed, foreign ownership may sometimes be a way to ensure diversity. In countries where excessive domination by one group is a problem (such as Italy, where virtually all commercial networks are owned by a company controlled by Silvio Berlusconi, a former prime minister under investigation for various transgressions), the problem is more likely to be too little foreign investment than too much.

Foreign ownership does not necessarily reinforce the tendency to buy foreign programming. In television, as everywhere else, companies usually seek to provide the goods their customers seem to want. In Asia, Rupert Murdoch's plan for a pan-regional satellite channel has been a failure: instead, he has been forced to develop channels to suit local tastes. Almost everywhere, the programmes audiences like to watch the most are their own country's.

Look at the top-rated shows in almost any country, and most or all will be local products. Audiences watch imports only as a second choice—and American television channels increasingly repackage their shows when they take them abroad to give them a local presenter and a local feel. In China, for example, Shanghai TV is making a Chinese version of "Sesame Street", backed by America's General Electric, to show its 100m viewers.

In fact, the technological change that makes it less expensive to distribute American programming around the world will sometimes help to reinforce local culture. True, global competition threatens the survival of the high-cost programming that many state-owned broadcasters in Europe produce. But technology will cut the cost of producing cheap-and-cheerful local programming. It will also be less expensive to distribute minority programming to scattered audiences around the world.

This year, for example, a group of Taiwanese investors launched Space TV Systems, a group of eight digital direct-to-home channels, in Chinese, Vietnamese, Japanese and Korean, for Asians in North America and Australia. In this way, the globalisation of media may underwrite a globalisation not merely of Mickey Mouse, but of the many cultures valued by people who are separated by distance from their geographic or ethnic origins. ■

Reason magazine

It Didn't Begin with *Sesame Street*

By Jesse Walker

Public Radio and Television in America: A Political History, by Ralph Engelman, Thousand Oaks, Calif.: Sage, $55.00/$24.95 paper.

Among Beltway power brokers, public broadcasting means PBS: multicultural muppets, a soporific newshour, and a perpetual Three Tenors concert. (Why *three* tenors? Is that supposed to make the show three times as good? A friend suggests that PBS has embraced the Universal Studios Principle: If Dracula, Frankenstein, and the Wolf Man were scary in their own movies, they'll be *really* scary together.) Sometimes someone will remember National Public Radio, domain of *Some Things Considered* and Terry Gross, the rich man's Arsenio. But that's pretty much it. As far as policy makers are concerned, PBS and NPR represent the sum total of noncommercial broadcasting in the United States.

That's one reason to appreciate Ralph Engelman's *Public Radio and Television in America: A Political History*. Engelman served on the national board of Pacifica, America's oldest noncommercial radio network, from 1973 to 1979. Perhaps because of that background, he is more attuned than most writers to public broadcasters who do not fit the standard NPR/PBS mode, such as independently licensed community radio stations or public-access channels on cable TV.

For Engelman, "public" refers not just to state subsidies but to citizen participation--not just to city hall but to town square. "A fundamental distinction," he writes, "emerges between *federal* and *community* forms of public radio and television, with the former rooted in the Public Broadcasting Act of 1967, the latter in more decentralized and participatory processes." His book aspires to be the story of both brands of broadcasting--not a pathbreaking history rich with primary research but a synthesis of the many books and articles that preceded his.

His book is also, one gathers, an attempt to defend these stations against the alleged Threat From The Right, i.e., Republican politicians' now-dormant efforts to defund the Corporation for Public Broadcasting. This seems odd, as his account actually suggests that government money has been as likely to curb good noncommercial broadcasting as to nurture it. Again and again, federal funds have transformed genuinely grassroots stations into ratings-driven, "professional" outlets. But Engelman repeatedly lapses back into conflating the public sector and the public sphere. For Engelman, however flawed PBS and NPR may be, they are "public" institutions worth preserving. Profit-seeking businesses, he implies, could never create anything comparable.

That is nonsense. Talk radio, at its best, is the local, participatory platform for exchanging ideas that NPR no longer even aspires to be. Anyone who doubts this need only scan through the AM band on a Sunday afternoon.

The last time I did, I heard citizens debating the proper direction of their school district, relying on personal experience rather than ideological cant. I heard state legislators fielding calls about pending bills, forced by the format to answer in more than soundbites. I even heard a rabbi debating some Randites over the existence of God. The best talk radio has a vitality that most NPR programming lacks.

Still, Engelman is happy to describe public broadcasting that takes place outside the state, even if he draws the line at embracing the business sector. He notes, accurately, that broadcasting was invented not by businessmen but by hobbyists: the grassroots network of amateurs who were jockeying discs and covering sports back when both government and corporations assumed radio would be used only for point-to-point communication. Unfortunately, Engelman doesn't describe the amateur ether in detail. Instead, he passes along a few quotes from Susan Douglas's Inventing American Broadcasting (arguably the best history of the medium ever written) and other sources, then hurries on.

This is a loss. The ham subculture of the 1910s bore a striking resemblance to Bertolt Brecht's later demand for a radio system that "knew how to receive as well as transmit, how to let the listener speak as well as hear, how to bring him into a relationship instead of isolating him," one that would "step out of the supply business and organize its listeners as suppliers." The difference is that the socialist Brecht believed that "only the State can organize this." The early amateurs, by contrast, were a spontaneous, self-regulating subculture that emerged without the state's support or affection.

What does this have to do with the Three Tenors? Not much. Engelman's "fundamental distinction" between federal and community broadcasting seems more like a giant canyon.

Community radio--the independently licensed, listener-sponsored, volunteer-run stations not married to any narrow programming format--was born in 1946, when Lewis Hill founded the Pacifica Foundation. Hill, a pacifist, had come to reject the state as an innately violent institution; he had dreamed up his radio project during World War II, while interned in a labor camp for conscientious objectors. Imbued with this anarchism, the first Pacifica station--KPFA-Berkeley, launched in 1949--received no support from any level of government. In an unconscious echo of the hams' do-it-yourself ethic, KPFA relied on its listeners for money and on community volunteers for labor.

In the 48 years since, Pacifica has become known for broadcasting diverse and interesting music, serious radio drama, and, especially, political dissent. Engelman relates this history in considerable detail, though he treads lightly when discussing the original Pacificans' politics. Suspicious of both communists and liberals, the young station was far friendlier to the likes of anarchist poet Kenneth Rexroth than to, say, one-time Progressive presidential hopeful Henry Wallace. It's moved in several different directions since 1949, some more worthy than others; these days it's little more than a leftier version of NPR. (It also takes in over $1 million a year from the federal government, a far cry from its early independence.)

Engelman's brief biography of the network is useful as far as it goes, though he prefers to ignore his subject's recent problems, proclaiming instead that it "remains unique in its commitment to sustain an independent, critical, and oppositional public sphere on the broadcast spectrum." (Yes, he really writes like that. A professor of journalism, Engelman at his worst combines the clear prose style of the academy with the intellectual precision for which we reporters are renowned.)

Fortunately, the idea of noncommercial radio survived Pacifica's decline. In 1962, a stray KPFA volunteer named Lorenzo Milam founded a new station, KRAB, at the high end of Seattle's FM band. His inspiration and expertise--and money--helped launch more outlets, the so-called "KRAB Nebula," around the country. Federal grants came only later, along with funding guidelines that often undermined the stations' volunteer-based, community-oriented character.

Engelman's history of community radio strikes me as the weakest section of his book--a bad sign, since it's also the topic that I know the most about. He lavishes almost all of his attention on Pacifica, devoting less than two pages to the KRAB Nebula and scarcely more to the National Federation of Community Broadcasters. He barely touches the recent, Corporation for Public Broadcasting-sponsored efforts to "professionalize" community stations by increasing paid staff, reducing volunteers' power, and adopting more mainstream programming. The micro radio movement--illegal low-watt stations often formed in explicit rebellion against these new controls--is not mentioned at all. (See "Don't Touch That Dial," October 1995.) And sometimes Engelman's facts are out of date. Citing a 1990 source, he describes WORT in Madison, Wisconsin as "at the commercial end of community radio." That was true then but is no longer so today.

Still, Engelman tells enough for readers to see the basic differences between community radio and public TV. The former is a pluralistic movement built by many different people in many different places, from the ground up. The latter was invented by a handful of would-be social engineers at the Ford Foundation in the 1950s. Educational television, they declared, could be a force for social uplift, "an instrument for the development of community leaders," even "a form of psychotherapy." Their money and lobbying skills created a small network of public TV stations over the next decade, building an infrastructure that would begin receiving a few federal dollars in the early '60s and a lot more after 1967.

That's the year Congress created the Corporation for Public Broadcasting. The CPB was launched at the recommendation of the Carnegie Commission on Educational Television, a nominally independent panel that was in fact largely directed from the Johnson White House. CPB and PBS were supposed to be independent institutions shielded from government influence. In actual practice, they're federal bureaucracies run by political appointees, as susceptible to political pressure as any other part of official Washington.

At PBS, even demands for decentralization often come from above. Richard Nixon distrusted the network, believing--rightly--that it was biased toward the Eastern establishment. So in 1971, Clay Whitehead, head of the White House Office of Telecommunications Policy, tried to weaken the national network by calling for a "return to localism." It was an odd choice of words: How could public TV "return" to an arrangement it had never enjoyed? The ultimate result was not to decentralize or defund, but to neuter. PBS's commitment to controversial programming, already weak, softened even further after the Nixon attack. (Despite its radical reputation, PBS seems less committed to socialism than to the British class system.)

If community radio is noncommercial broadcasting at its most decentralist and anti-bureaucratic, and if PBS represents the other extreme, NPR falls somewhere in-between. Like community radio, educational radio emerged without federal direction: Some schools were sponsoring stations even before World War I, and dozens were born in the 1920s. Unlike community radio, these stations were, to judge from historical accounts, spectacularly dull--"pap for the intellectual masses," in Lorenzo Milam's words. You won't get this impression from Engelman's book, which prefers stressing the stations' allegedly populist roots over describing the enervating lectures that made up their usual programming.

At any rate, the foundations that created PBS weren't interested in radio, and the Public Broadcasting Act of 1967 would have ignored the medium altogether were it not for some last-minute lobbying by the National Association of Educational Broadcasters. The result was NPR, founded with CPB cash in 1970. It was William Siemering, the innovative manager of SUNY-Buffalo's WBFO-FM, who conceived the new network and its flagship program. The original *All Things Considered* plan called for news reports from public stations around the country, with the Washington offices serving more as a clearinghouse than as a command center. Instead, NPR became yet another centralized institution run by political appointees, especially after Siemering was fired as program director in 1972. By 1993, things had gotten to the point where the head of the CPB could seriously call for merging NPR with the Voice of America.

Competition from a rival network--American Public Radio, recently renamed Public Radio International--hasn't reversed the trend toward centralization. In 1987, Engelman notes, 60 percent of public radio programs were locally produced. Today, the ratio tips the other way. Meanwhile, most NPR and PRI programs are upscale and middlebrow, broadcasting hour after hour of candy-coated brie. It's hard to see how one can call this arrangement "public," unless one's only criterion is a heavy influx of public dollars.

Earlier this year, KPRK (Pacifica's Los Angeles outlet) canceled a program called *Music of the Americas*. The show, whose music ranged from Dixieland to film scores to contemporary experimental compositions, was "too arcane and challenging," station manager Mark Schubb told the *Los Angeles Times*. Thirty years ago, it would have been unheard-of for a Pacifica station to drop a show for such a reason. Today, it's par for the course.

Schubb also killed the *Opera Show*, a Sunday-morning fixture for 26 years. Like *Music of the Americas*, the *Opera Show* didn't limit itself to spinning records. Host Fred Hyatt interviewed guests, offered informed commentary, and sometimes went beyond the traditional boundaries of opera--all the way out to *The Pajama Game*. The problem wasn't the show's quality, Schubb explained; it was the ratings. "All that matters is coming up with matching funds," Hyatt complained to the *Times*. "And now, they're really punching the so-called multicultural thing. It's all very cynical."

Supposedly, government money was going to protect noncommercial stations against the Vengeful God Arbitron. It hasn't worked out that way. Engelman's book would be much better if he spent a little more time wondering why that might be so.

Jesse Walker is media editor of The Seattle Scroll. *He is writing a history of the micro radio movement and its historical predecessors.*

(RADIO, BOONDOGGLES)

How to subscribe

Return to the Reason Magazine home page

__Novell Inc.__, the network software developer, said fourth-quarter net income rose 0.1 percent from a year ago to $59.03 million, or 17 cents a share, while revenue fell 20.2 percent to $383.67 million. For the full fiscal year, net income fell 62.8 percent to $125.99 million, or 35 cents a share, on a 32.6 percent sales drop to $1.38 billion. The company has discounted several product lines and is looking for a permanent chief executive officer.

__Delbert W. Yocam__, former chief operating officer at __Apple Computer Inc.__ and CEO of printer manufacturer __Tektronix Inc.__, has been named chairman and CEO of loss-ridden __Borland International Inc.__

__Digital City Inc.__, a joint venture of __America Online Inc.__ and the __Tribune Co.__, announced a strategic agreement with __Electric Classifieds Inc.__ and the acquisition of several products from Classi-Facts. The moves are an effort to offer a "total solution" for newspapers seeking to expand their Web classifieds.

__Firefly Network Inc.__, __Internet Profiles Corp.__ and __NetGravity Inc.__ on Tuesday expect to announce an alliance aimed at providing software allowing Web sites to target advertisements based on consumer preferences. The effort would also enable sites to provide customized ad performance reports to their advertisers.

__IBM Corp.__ has boosted its share buyback efforts, adding a new $3.5 billion share repurchase to a program that has already resulted in the purchase of nearly $10 billion in shares since early 1995. IBM's stock price has more than doubled in that time to a nine-year high of $158.

__Softbank Corp.__ said it will raise $482 million in Japan's stock and bond markets to fund investments in J-SkyB, a digital satellite broadcasting service. Softbank launched the joint venture last summer with international media tycoon Rupert Murdoch's __News Corp__.

UP FRONT

News, Noise and Perspective

White House: Hands Off Internet

By Will Rodger

A White House blueprint for the governance of personal and business transactions over the Internet may mark a watershed in the Clinton administration's handling of cyberspace policy, signaling its intent to oppose tariffs on digital goods sold across computer networks as well as censorship of material found on the Internet.

The document, a product of an 18-agency working group headed by presidential Senior Adviser Ira Magaziner, also calls for the creation of a body of international law governing digital commerce. It continues support for the idea that companies doing business on computer networks should set aside keys that would unlock encrypted messages for national security reasons.

The framework is due to be released to government and industry later this week.

Among its principal goals: boosting U.S. exports via the Internet, specifically products and services ranging from software to recordings, motion pictures, consulting and business services.

"We believe there's a tremendous potential to increase trade in information systems, databases and so on across the Internet," Magaziner told *Inter@ctive Week* in his first interview on the plan. "If we could create a more predictable legal environment, that would accelerate the growth of that trade dramatically."

The main points cover the waterfront of digital commerce:

▶ The administration opposes all efforts to place tariffs on goods sold directly through cyberspace, such as recordings, motion pictures, software and other digital goods.

▶ The Clinton administration for the first time actively opposes censorship on the Internet. Though the administration didn't block the Communications Decency Act this year, the document comes down solidly on the side of giving parents the right to block indecency with filtering software and "V-chip" devices.

▶ Encryption gets recognition as a technology vital to doing business on the Internet, but the White House continues to support government-supervised methods of securing payments in cyberspace.

▶ Government agencies, including the Federal Communications Commission, will press to open telecom markets abroad with a special focus on assuring reasonable access fees for online service companies, such as America Online Inc. Tariffs abroad are typically far higher than the cost for such services.

▶ The Clinton administration will increase lobbying efforts for domestic and international rules of commerce, including adding rules for electronic commerce to the domestic Uniform Commercial Code. The paper pledges support for efforts under way before two domestic groups as well as the U.N. Commission on International Trade Law.

▶ Intellectual property, already a contentious issue among online service providers, would get increased attention. The draft pledges continued support for the so-called "fair use" doctrine, which allows consumers to use portions of copyrighted works without paying royalties to publishers. Many online activists fear that proposed legislation and international treaties threaten those rights.

▶ Privacy is due for close examination under the draft, as well. Echoing principles pushed by privacy advocates earlier this year in Congress, the administration seems ready to adopt free-market principles of privacy. Under administration guidelines, data-gatherers would let consumers know what information they are collecting and how they will use it; they would also give consumers a "meaningful way to limit use and reuse of personal information."

Industry representatives said the document gave them hope that usually strained relations between the White House and cyberspace companies would improve.

FACT FILE

The White House Electronic Commerce Framework

- ▶ Opposes tariffs on digital goods.
- ▶ Opposes censorship on the Net.
- ▶ Supports escrow of encryption keys.
- ▶ Supports reasonable phone access charges.
- ▶ Supports privacy of data on consumers.
- ▶ Aims to add cyberspace rules to Uniform Commercial Code.

"I have to praise the administration and Ira for reaching out to the private sector for comments," Computers and Communication Industry Association President Ed Black said. "There's a great emphasis on the needs of business here."

Even so, privacy activists remained disappointed with many of the document's features.

"This isn't anything new," said David Banisar, counsel to the Electronic Privacy and Information Center. "The privacy stuff is terrible. They say it's market-driven, but markets don't work with privacy. It's like what happened with P-Trak."

P-Trak, a database service run by Lexis-Nexis, was recently criticized for making available personal information to businesses without the consent or knowledge of the consumers. The Federal Trade Commission is investigating its activities.

Esther Dyson, board member of the Electronic Frontier Foundation, said she remained disappointed with the administration's continued love affair with escrowed encryption technologies. Even so, she praised the administration for recognizing the importance of electronic commerce.

"This will not benefit just the U.S.; it will benefit trade worldwide," Dyson said. "Governments love tariffs because they generate revenue. But the bad part is they harm local citizens." ▲

NOISE

Tele-Communications Inc. may not be finished dumping its stakes in companies outside the cable TV business. As chronicled in this week's Cover Story, TCI has pulled out of its $125 million investment in **The Microsoft Network** and sold 1 million shares of **Netscape Communications Corp.** stock. Next on the chopping block may be game software maker **Acclaim Entertainment Inc.** TCI has already trimmed its 35 percent stake to 10 percent. Analysts said they expect to see TCI completely sever ties.

▼ ▼ ▼

Could computer chip Goliath **Intel Corp.** be suffering from processor envy? Industry sources said Intel is none too happy about sharing data-crunching duties with media processor chips from companies such as **Chromatic Research** and **Nvidia Corp.** Intel officials reportedly just don't believe there's enough room inside PCs for a multifunction chip that accelerates graphics, video and audio and also functions as a modem — especially when Intel is set to release Pentium chips fortified with multimedia muscle through its own MMX technology. To reverse the momentum some of these chips are building, Intel is using its considerable influence to convince PC makers to back away from the all-in-one chips, sources said.

▼ ▼ ▼

Pacific Bell Internet Services appears to be ►

Microsoft Entices Small Businesses

By Farhan Memon
Special To Inter@ctive Week

While Netscape Communications Corp. directs its efforts toward Intranet systems being built by Fortune 500 companies, its rival, Microsoft Corp., is going after the small businesses that form the backbone of the American economy.

In the past two weeks the software giant based in Redmond, Wash., has announced initiatives to encourage use of its Internet Explorer browser and other products among mom-and-pop enterprises by offering discounted Internet access through The Microsoft Network, or MSN, and by allocating server space to small business associations that act as umbrella organizations for many small companies.

A main component of Microsoft's strategy is to create a 14-member board composed of small business leaders and representatives from other software companies

Microsoft is also enticing small businesses to use Internet Explorer with the promise of driving traffic to selected Web sites by listing them on the small business-oriented pages of microsoft.com.

A main component of Microsoft's strategy is to create a 14-member board composed of small business leaders and representatives of other software companies.

Dubbed the Microsoft Small Business Technology Partnership Board, the body will help shape and guide the software giant's strategy through the technology needs of small businesses.

Microsoft is spending $5 million to set up a Web site directed at small business that will act as an information clearinghouse about online issues facing companies. The site will also be the focal point of a new online service directed toward small businesses and will feature small business-oriented articles from content providers, such as Faulkner & Grey, an accounting consulting firm, among others.

"Our ability to provide the best technology for our small business customers is a direct result of listening to their particular needs and understanding what they need to remain competitive," said Steve Ballmer, executive vice president of Microsoft in a statement. "The Small Business Technology Partnership increases our ability to develop empowering technologies that will launch small businesses into the 21st century."

Representatives on the board include Barry Melancon, president of the American Institute of Certified Public Accountants; Jose Nino, president of the U.S. Hispanic Chamber of Commerce; and John F. Robinson, president of the National Minority Business Council.

For its part, Netscape has no special programs for small business users, but a spokeswoman said the company is well-positioned in that market.

"Netscape is the most popular browser among small business users," said Donna Sokolsky. "And our Fastrack server, which has a price point of $295, is a perfect, easy-to-use publishing solution for enterprises that don't want to hire the services of a Webmaster."

Microsoft is trying to attract small businesses by holding out the possibility that links to their sites might be listed on a heavily trafficked page within the Microsoft site. This initiative is being spearheaded by the company's 15 regional sales offices.

"One of our advantages in promoting the use of Explorer, Back Office and other products is that we have a national presence," said Meredith Church, a marketing specialist in Microsoft's Pacific Northwest office.

Ross Rubin, an analyst for New York-based Jupiter Communications Inc., said: "Netscape servers run on Unix boxes, and most small businesses don't have the resources to set up and run such configurations. On the other hand, NT is relatively easier to handle and consequently well-suited to the IT [information technology] capabilities of small enterprises." ▲

FACT FILE

Three Components Of Microsoft's Strategy

1. Establish the Microsoft Small Business Technology Partnership Board, a 14-member body that will help shape and guide the software giant's strategy through the technology needs of small businesses.
2. Form a new online service directed at small businesses featuring syndicated small business-oriented articles from content providers such as Faulkner & Grey, and other providers.
3. Put links to selected sites that use Internet Explorer on certain Microsoft pages and drive traffic toward those sites.

New Software Circumvents Encryption Export Ban

By Will Rodger

In a move aimed at nullifying the effects of U.S. export controls on strong data scrambling technology, two small software companies said they have developed a software patch to let foreign users of Web browsers like Netscape Communications Corp.'s Navigator, protect credit card transactions from theft with military-grade encryption.

The powerful encryption technology, though long available abroad, cannot be exported from the U.S. under current law. Thus, Netscape users outside the U.S. and Canada have had to make do with programs that use scrambling keys that are 40 bits or shorter in length — trillions of times weaker than the 128-bit technology available domestically.

C2Net Inc. of San Francisco and UK Web of London funded development of the Safepassage browser add-on. No U.S. programmers or technology was involved in the effort.

"We don't believe in using codes so weak that foreign governments, criminals or bored college students can break them," C2Net President Sameer Parekh said. "We also oppose plans to put all your cryptography keys in a few places, where they can be sold to the highest bidder by traitors like Aldrich Ames or the most recent suspect Harold J. Nicholson."

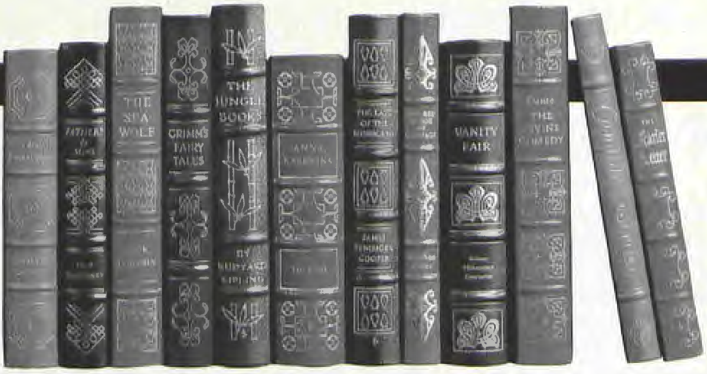
'We don't believe in using codes so weak that foreign governments, criminals or bored college students can break them'

C2Net's Safepassage is available for downloading in a preliminary, or beta, version on the Web. A final release is expected in the first half of 1997, Parekh said.

The program uses three popular encryption algorithms known as DES, triple DES and the 128-bit version of RC4. Internet sites must have a server version of the program available on their computers in order to offer the encryption services to users. UK Web has already developed a server-side version known as Stronghold. ▲

• THE SCARLET LETTER • THE SEA WOLF •

> *"It is heartening to see that after all these years a quality edition of* Moby Dick *has finally been produced that does the genius of Melville justice. Thank you for a fine edition – the best edition!"*
> Bruce Buchanan, Durham, NC



Own The 100 Greatest Books Ever Written.

• DAVID COPPERFIELD • THE JUNGLE BOOKS • GREAT EXPECTATIONS •

DISCOVER THE ENDURING QUALITY OF LEATHER-BOUND BOOKS

Benton to add emotion and power to the fiction, plays, essays and poems in our books. You'll find beautiful illustrations in every edition.

IMAGINE OWNING THE 100 GREATEST BOOKS EVER WRITTEN.

These are the *all-time* favorites, each in a lavishly illustrated leather-bound edition. *Of Mice and Men. The Adventures of Sherlock Holmes. The Canterbury Tales. The Red Badge of Courage. Treasure Island. The Three Musketeers.* (To name just a few!) Shakespeare. Shaw. Ibsen. Tolstoy. You can select just what you like – there's never any obligation to buy more.

Captain Ahab comes to life in full color illustration!

ACT NOW TO OWN A LEATHER-BOUND EDITION OF MELVILLE'S MOBY DICK FOR A SPECIAL PRIVATE PREVIEW PRICE OF JUST $4.95!

Why do we make this incredible offer? We've found that bookbinding this extraordinary needs to be seen to be appreciated. That's why we want you to evaluate *Moby Dick* in your home in a Private Preview of The 100 Greatest Books Ever Written.

What if you don't agree that our books are an exceptional value? It's no problem. Simply keep *Moby Dick* for $4.95 and cancel your subscription. Or return it, for a refund.

But thousands of quality-conscious connoisseurs in 130 countries have ordered more. And we think you will, too. Especially when you consider that the everyday price for our books is just $39.50, plus shipping and handling – not a lot more than the price of an ordinary bookstore book.

Don't let this outstanding opportunity escape you. Right now you can order a book of exceptional quality for only $4.95. And there's no further obligation of any kind. Why wait? Ordering direct through The Easton Press is the only way you can purchase leather-bound books made to these demanding standards. Use the coupon below, or call us today at: **1-800 367-4534.** Or fax us at: **203 866-6943**

©MBI

S TALES OF MYSTERY AND IMAGINATION • AESOP'S FABLES

The Easton Press

47 Richards Avenue • Norwalk, CT 06857

RESERVATION APPLICATION THE 100 GREATEST BOOKS EVER WRITTEN

Call Today: 1-800 367-4534, X1-7765-A

☐ YES...send my leather-bound edition of *Moby Dick* for me to keep forever at just $4.95*...and reserve my subscription to The 100 Greatest Books Ever Written. If I like this book, send me further editions at the rate of one per month at $39.50* each – with this price ($39.50) held firm for the next two full years!

I understand you will send me a list of all the titles in the collection. I can tell you which, if any, I do not want, and I am free to tell you then to send me no further books at all if that is my decision. I may return any book within 30 days for a full refund, and either party may cancel this subscription agreement at any time.

Here is how I want to pay for my $4.95 *Moby Dick* and future volumes (unless I tell you to cancel):

☐ VISA ☐ MasterCard ☐ American Express ☐ Discover

Credit Card No. Expiration Date

I have enclosed a check for $8.70 ($4.95 plus shipping and handling) payable to Easton Press.

Name

Address

City/State/Zip

Signature

All orders subject to acceptance.*Plus $3.75 shipping and handling and any applicable sales tax. Payable in U. S. funds only.

THE EASTON PRESS
47 RICHARDS AVENUE • NORWALK, CT 06857

Pushmepullyou

For all the Web's multimedia riches, surfing is still a lot more trouble than simply turning on the TV. Something between the two is in prospect

ASK a geek to explain the difference between the World Wide Web and the rest of the Internet, and the chances are he will mumble something about the Web being the whizzy multimedia part, with pictures and sound. True, as far as it goes. But there is another, more important, distinction, one that even the digerati are just now starting to appreciate. The Internet really encompasses two very different media: things like e-mail that simply show up on your desk every day unbidden, and the Web, which you must consciously make an effort to view.

From the perspective of the media industry, these two look as different as the cinema and television. The first requires lots of advertising and promotion, including "trailers", to draw viewers; the second can count on channel surfers to tune in to sample its programmes. The distinction can be thought of as one between "push" and "pull" media. Broadcasters "push" television at viewers, so it shows up on their screen without any effort on their part; film studios must "pull" viewers into cinemas.

The Web is "pull" taken to the extreme. It is as if there were thousands of films on show at the same time. Or, to use another analogy, it is the world's biggest magazine stall, with each Web site an individual title, jostling for the attention of browsers in rivalry with at least half-a-million others. Viewers face a bewildering amount of competition for their attention, and most of what is on offer can be sampled at no cost. Even a site that attracts potentially loyal viewers risks having them seduced away to other sites by hyperlinks. Cursed by the short attention span of the stereotypical Net surfer, some viewers simply forget where they have been before. No wonder few Web sites are making money.

This excess of choice is tough on the viewer, too. He finds it hard to work out exactly what he likes reading, and ever harder to keep up with all that is available. As the surfer's "bookmark" list of favourite sites gets longer and longer, the chore of fetching content that changes by the day gets oppressive.

The answer to this problem suggests itself: if the surfer won't go to the Web site, send the Web site to the surfer. Make the Web more like e-mail, "pushing" a site on to readers' screens without any effort on their part. In the real world of newspapers and magazines, this is a routine operation: it is exactly what a subscription does. Doing it with state-of-the-art Web sites, with glitzy graphics, sounds and creative animations, is a harder task.

Some Web sites started off with little pushes. The first ones, like the hipper-than-hip HotWired, sent out regular messages by e-mail to readers. These drew attention to new articles on HotWired and, perhaps more significantly, continued to remind fickle surfers that the site actually still existed.

But plain-looking e-mail is unlikely to satisfy the millions of Web surfers who have a penchant for noises and garish colours. These more demanding folk can now use "off-line Web browsers" to retrieve their favourite Web pages automatically—often without having to be physically present and put up with the delays that are the hallmark of the Web. Unfortunately, these off-line browsers are fiendishly complicated to use. And while they add an element of pushiness to the Web, this is really only a façade. Since Web sites are designed to be viewed on-line, browsing them off-line can have unpredictable consequences, with links that go nowhere and missing material.

What really excited the geeks this summer was Pointcast, described as a cross between television and the Web. It is just a program, running quietly in the background of your PC as you work. Every hour or so, Pointcast slurps news, sports and even lottery results from the Internet and stores them. On command—or once the computer has been out of action for a few minutes—it starts displaying the gathered stories, replete with CNN-like graphics and advertising. Readers can choose the sort of information they want to receive and how often they would like to have it updated. Once they have done so, everything else is automatic: it is as if your PC simply always knows the latest news and real-time share prices, and can display them at the click of a mouse.

Marimba, a Californian start-up company, has developed a similar type of technology called Castanet (not a reference to the musical instrument but a dreadful Internet pun). Castanet takes the Internet vocabulary back to the days of radio: servers become transmitters, browsers become receivers. A Castanet receiver works the same way a radio receiver works: it tunes into a transmitter and picks up whichever station you are tuned to. Unlike e-mail distribution, Castanet will allow a publisher to send out multimedia content.

But Marimba's push model has snags: users may not want to receive everything they are sent and (which is perhaps more irksome) it will be cumbersome for the many Internet users who dial into the Net. These users, in contrast to those at universities and big companies, are connected to the Internet infrequently—and most are handicapped by possessing modem connections that are simply not capacious enough for multimedia information.

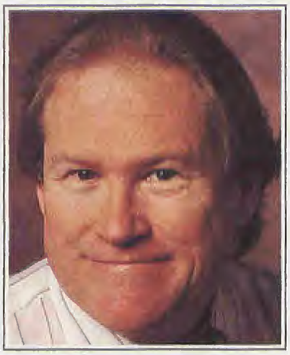
Pointcast suffers similar defects. For a big company with a fast, open connection to the Net, Pointcast can turn acres of the computer screen into colourful snapshots of information. But for the Internet's millions of dial-up surfers, Pointcast offers precious little.

Perhaps the biggest argument against turning a Net surfer into a couch potato is that it implies a return to a less desirable part of television: in producing mass-market junk in an effort to attract as many viewers as possible, it ends up pleasing almost nobody. Much of this is a result of the lowest-common-denominator nature of a broadcast medium; the chances are slim that whatever is on at a particular moment is exactly what you feel like watching. In contrast, Web surfing is a laser-focused process of picking exactly what you want, when you want it. The viewer is in control. Even the best of the Web's push schemes can offer only the crudest customisation; their viewers can pick channels of interest, not specific shows. Today's Web surfers may still scoff, but tomorrow's, reared on a remote control, will feel right at home.

JOHN C. DVORAK

The Digital-TV Disaster

The U.S. Government is on the verge of selling the public down the river to Japanese TV manufacturers—starting with Sony—regarding digital television standards. The situation has gotten so bad, a consortium of computer companies has been trying to stop the approval of a ludicrous standard that would bring to the market a stupid technology—fallout from the expensive high-definition TV (HDTV) debacle of a few years back. If all goes according to plan, the American consumer will pay the bill for the mistakes made by overseas TV makers. Your tax dollars at work.



TUNED OUT

This craziness occurs because the computer industry does not represent itself well in Washington.

Because there is no serious effort to keep tabs on government idiocy, the computer industry found out about this digital-TV fiasco at the last minute. Apple, Compaq, Microsoft, and seven other companies formed the Computer Industry Coalition for Advanced Television Service (CICATS). They were soon joined by the American Society of Cinematographers and the Directors Guild of America. This coalition is countering the moronic proposals drafted by the Advisory Committee for Advanced Digital Television Service (ACATS).

For years, the lone voice of Apple has been trying to bend the FCC's ear regarding digital TV. But it seems the FCC is more sympathetic to Sony and other foreign TV makers—they must be better lunch partners. And oh yes, the Luddite American TV broadcasters who hate digital are going along with this nevertheless, for other reasons. The new digital TV standard was about to be approved when Bill Gates and Steven Spielberg went to Washington to get the process stopped long enough for CICATS to file some papers outlining everything wrong with it.

Here's the crux of what ACATS is proposing: First of all, the standard would consist of 18 different formats—all odd standards, resolutions, and frame rates. The reason for this many formats is so each money-wasting HDTV expense can somehow be recouped by incorporating every bad idea at once. Of all the different formats, not one feature would be computer-compatible, and the highest resolution (out of four possible resolutions) is interlaced *only*. In fact, the whole standard seems oriented toward archaic interlace technology. There are two screen ratios: 4:3 and the wacky 16:9, which doesn't really match anything Hollywood is doing. But the overseas TV makers have already invested millions in 16:9 and they expect the FCC to kowtow to them. The rates for this standard can be 24, 30, or 60 frames per second, with some variation—but none match the typical 72-Hz computer monitor rates. Also, the idea of standard pixel ratios, such as 640-by-480 or 1,024-by-768 or even any fixed ratio, is not part of the ACATS standard. Instead, the analog concept of vertical-resolution lines is maintained, which makes no sense at all. The idea of pixel addressing is lost on these folks. (Microsoft Graphics Fellow Alvy Ray Smith has a Web page that links to most of the documents regarding this, at *www.research.microsoft.com/research/graphics/alvy.*)

So here we have the world's most vibrant computer industry and instead of using it—if for no other reason than because it simply has better technology—the U.S. government is set to adopt bonehead Japanese standards of which even the Japanese are not particularly fond.

This kind of craziness is allowed to occur because the computer industry does not represent itself well in Washington. An FCC commissioner told me it was laughable that a company like Microsoft would brag about its lone registered lobbyist. An RBOC the size of Microsoft might have 100 to 200 people in Washington schmoozing, chatting, making friends. This is just the way it works. Grow up, folks.

What's particularly weird is how Microsoft never even thought to use its hundreds of PR people to get the word out. This issue has had zero coverage except for a single article in *Barron's,* by Jim McTaque, one of the last writers to still do his own research. Gates has been to Washington and executives such as Craig Mundie have been before Senate committees discussing digital TV. Still, little ink. Recently, the *PC Magazine* editorial staff spent a day at Microsoft, but this important issue was never mentioned. What kind of thinking is that?

Just like when the Communications Decency Act was passed, look for a lot of whining after this turkey of a standard gets approved. Maybe someday our industry will learn how to play like the big boys. In the meantime, the public suffers.

New ATX Products! New Price Reductions!

Bullet-Proof Upgrades.

POWER SUPPLIES

"The premier power-supply maker"
John Dvorak, *PC Magazine*, March 30, 1993
"The only company to go to for a power supply"
Jerry Pournelle, *Byte*, April 1993

ECONOMICAL

Save on quality UL/CSA approved power supplies!

STANDARD 230 SLIM	**$59**
STANDARD 230 DESK or TOWER	**$79**
STANDARD 250 ATX NEW!	**$89**

ULTRA-QUIET

Toss the earmuffs! The best way to get relief from a noisy computer is with a **Silencer®** power supply. Its high-efficiency fan reduces noise up to 90%! A *multimedia* must.

SILENCER 230 SLIM	**$69**
SILENCER 270 SLIM	**$129**
SILENCER 270 DESK or TOWER	**$139**

HIGH-PERFORMANCE

For power that won't skip a beat during hard drive access or line voltage sags, upgrade your PC with a premium **Turbo-Cool®** power supply. You'll get 50%-100% more power, built-in line conditioning, super-tight regulation, ultra-clean output, enhanced cooling, UL/CSA/TUV, and **3-5 year warranty!** Why run a high-end system with anything less?

TURBO-COOL 200 SLIM	**$79**
TURBO-COOL 300 SLIM	**$129**
TURBO-COOL 300 DESK or TOWER	**$139**
TURBO-COOL 400 SLIM or TOWER	**$199**
TURBO-COOL 400 ATX NEW!	**$229**
TURBO-COOL 450 TOWER	**$319**
TURBO-COOL 450 GOLIATH NEW!	**$419**

ENCLOSURES

ECONOMICAL

For a clean, easy-to-build system, get the **Personal Mini-Tower** enclosure. Features: (3) 5-1/4" bays, (4) 3-1/2" bays (2 int.), and a slide in/out motherboard cage.

PERSONAL MINI-TOWER	**$69**
PERSONAL MINI-TOWER ATX NEW!	**$89**

PROFESSIONAL SERIES

For a great-looking, heavy-duty, **American-made** enclosure, choose from our **Solid-Steel** family!

	Mini	Tower	Monster
Total Bays (Exposed Bays):	6(4)	10(8)	18(13)
MB and P.S. Capacity:	1	1	2

SOLID-STEEL MINI	**$179**
SOLID-STEEL TOWER	**$279**
SOLID-STEEL TOWER ATX NEW!	**$299**
SOLID-STEEL MONSTER	**$789**

REDUNDANT POWER

Get redundant 250W power, *in 1 slim unit*, with our economical **Two-in-One 500.**

For high-end applications (5,000,000 hr. MTBF!), choose from our *hot-swappable* **TwinPower™** series.

TWO-IN-ONE 500 NEW!	**$249**
TWIN-POWER 600	**$649**
TWIN-POWER 900	**$969**

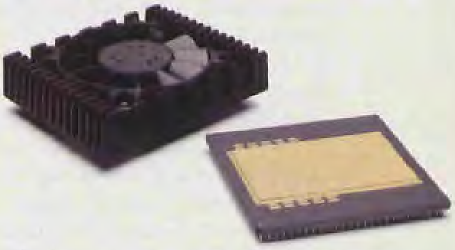
CPU COOLERS

PENTIUM & 486

486s & Pentiums run hot, often exceeding 210°F! Cool'em by 90°-120°F with genuine, low-profile **CPU-Cool™** coolers. Each consists of a long-life, ball-bearing, mini-fan *integrated* into a patented die-cast heat sink that easily mounts on the CPU. Last 10X longer and are 40% thinner than cheap, bulky imitations! Made in USA. 5-year warranty.

CPU-COOL 1.9T (486, 75-133 P5)	**$22**
CPU-COOL 1.9W (150-166 P5)	**$22**
CPU-COOL 2.3W (200 P5) NEW!	**$25**

PENTIUM® PRO



Check the specs for the best P6 thermal solution!

	Sink/Aux. Fan	Std. Cooler	CPU-Cool 3.2
Thermal Resist:	1.5°C/W	1°C/W	0.8°C/W
3-Yr. Failure Rate:	1:100	1:10	1:1,000
Height:	1.2"	1"	0.74"

CPU-COOL 3.2 (P6) NEW!	**$29**

OVER-TEMP ALARM

Don't let a bad fan or a clogged filter cost you your system! Detect overheating, *before* damage occurs, with a **110 Alert™** 110°F heat alarm. Low-cost protection for any PC.

110 ALERT	**$22**

CIRCLE 080 ON READER SERVICE CARD OR GO TO HTTP://WWW.PCMAG.COM/BuyerLink

11th Year **PC POWER & COOLING, INC.** 1985-1996

5995 Avenida Encinas, Carlsbad, CA 92008 • (619) 931-5700 • (800) 722-6555 • Fax (619) 931-6988

Web: http://www.pcpowercooling.com Hours: 7 a.m.-7 p.m. (PT) Mon.-Fri. Terms: Visa, MC, COD, or PO. Warranty: 5-yrs. for CPU-Cool, and Turbo-Cool 450; 3-yrs. for Turbo-Cool (except 450); 2-yrs. for all others.

REVIEW & OUTLOOK

Off the Dole

Last year Newt Gingrich said that no one in Congress wants to "take on the broadcasters" over giving them a multibillion-dollar handout in the form of free digital spectrum. Now someone has come forward to challenge this powerful lobby, and it turns out to be that consummate insider, Bob Dole, who's leading the charge against this prime example of corporate pork.

The Senate Majority Leader has a less than sterling record on getting corporations "off the dole"—ADM's ethanol subsidies come to mind. But most politicians, especially House Republicans, aren't in the habit of annoying the folks who control broadcast news, so Mr. Dole's recent speech on the Senate floor may be called that rare thing: It was courageous.

Senator Dole declared that the giant telecom bill awaiting final action in both chambers "is not worth the television broadcasters' asking price." That price is free digital spectrum, a handout that may be worth up to $70 billion. As Senator Dole put it: "At a time when we are asking all Americans to sacrifice and we are all trying to balance the budget . . . it does not make any sense to give away billions of dollars to corporate interests and succumb to their intense media lobbying effort."

Bob Dole

The broadcasters argue that they're entitled to the digital spectrum because they'll eventually hand back their analog channels and all broadcasting will become digital. But as Senator Dole pointed out, the broadcasters have refused to say when the giveback will occur; the Administration proposed setting a date certain in the year 2002, but the broadcasters torpedoed this idea. Senator Dole also punctured the broadcasters' argument that this digital giveaway is somehow in the public's interest.

The government originally decided to give away the spectrum to broadcasters when Uncle Sam's industrial policy theorists thought that high definition TV would be the wave of the future. But now it's been discovered that the digital spectrum can be split into at least half a dozen different channels; some could broadcast higher quality TV signals (though not "high definition") while others could be used to transmit computer information, paging signals and lots of other non-TV related services. The broadcasters still want the digital spectrum free, but they also want the freedom down the road to make big profits from providing these other services too.

We don't mind if broadcasters branch out, but it seems a little ludicrous to allow them to get all this lucrative spectrum for free when potential competitors—like the nascent "personal communications services" companies—had to pay billions at auction for *their* airwaves. Maybe if the broadcast moguls spent less money lobbying on Capitol Hill—we note they're planning a costly new blitz on the digital spectrum issue—they would have more resources available to compete at a spectrum auction.

When really pressed, broadcast executives make a final desperate plea for their digital entitlement: They deserve it because they perform a "public service." Yet the broadcasters quite rightly oppose attempts by the FCC to tell them how many hours of children's programming they must show. The TV industry seems to want all the benefits of the "public service" designation, with none of the obligations.

Some broadcast executives suggest that Senator Dole has found religion on this matter only because he wants to retaliate against the networks' anti-Republican news divisions. We're shocked! In fact, whatever his partisan motivations, Bob Dole is taking the principled, free market position here. Indeed, the Senator's supporters just might find there's a greater comfort level than they imagine between conservative principles and their candidate's interests.

What's striking is that while Senator Dole is displaying leadership on this issue, House Republicans are showing unseemly reticence. Rep. Jack Fields, who chairs a key House telecom subcommittee, has been one of the biggest recipients of broadcasters' largess, so it's no surprise he's championing their cause. But where's Newt Gingrich, Dick Armey and Tom DeLay? The House leadership has been MIA so far.

Senator Dole's speech indicates that the digital giveaway, which everyone in Washington had assumed to be a done deal, isn't set in concrete after all. If House leaders also screw up their courage and join the fight, Republicans would go a long way to demonstrating that their war on federal pork is credible.

The FCC Dinosaur

By Peter Huber

The president of Cox Enterprises places the first phone call carried by radio and a cable television network. Bell Atlantic prepares to deliver television over its existing telephone lines. Motorola and Apple join forces to develop wireless, hand-held "personal communicators." Major manufacturers of faxes and telephones line up to support Microsoft's new communications standards for personal computers.

Not long ago, many of these initiatives would have run afoul of some regulatory line or antitrust decree. Some still do. Thousands of bureaucrats in 53 separate state and federal commissions are still scrambling to prop up the old regulatory order. But the market isn't listening anymore. In the 1990s, many regulators must go the way of Erich Honecker, and for similar reasons.

Consider telecom policy under the iron fist of Hyatt or Marriott. Many hotels still gouge you shamelessly on long-distance calls. They won't for much longer. The cellular phone in your briefcase already offers a competitive alternative, and air charges are going to plummet in this decade. The hotels are losing control of their own real estate.

So are Canada, France and Germany. For years, many countries have inflated the price of long-distance calls to subsidize other services. But it gets easier every day to ship traffic across the border, where you can do your long-distance calling under friendlier management. A call from Montreal travels first by wire to New Hampshire, before being placed to San Francisco.

Ordering Pizza by TV

Much the same is now possible, or soon will be, within our own borders. My own home is already served by five independent channels of communication—a wireline phone, a cellular phone, cable television, a home satellite dish and Radiomail, a two-way wireless data service for my laptop computer. Within a year or two another service will add wireless, two-way capabilities to my television, so that I'll be able to order a pizza without picking up the phone.

By the end of the 1990s, half a dozen additional radio channels will support a new generation of wireless phone services known as "personal communications services," or PCS. "Direct broadcast satellite" will have arrived, too, offering "wireless cable" of a kind already available to subscribers in Europe.

Little of this was anticipated in 1984, when the Bell system was dismantled and Congress enacted the first Cable Act. Bell was carved up on the assumption that long-distance carriers would compete against each other using microwave radio (like the "M" in MCI). Local carriers were expected to remain landline monopolies. The 1984 Cable Act, enacted only a few months after the breakup, assumed that telephone and cable required physically different networks, and directed that these industries be kept apart.

But even as the ink was drying on the divestiture decree, long-distance companies were dynamiting their microwave towers to the ground, replacing them with fiber-optic glass. Soon after, radio telephony began to invade local markets. Cable companies are now poised to offer wireless telephone service. And with new compression technology, telephone companies can provide television directly over their own networks.

Meanwhile, the cellular telephone industry has signed up 11 million customers in less than a decade and continues to grow at double-digit rates. In the next few years the industry will convert to digital radio, which will increase capacities from three- to 10-fold. New, wireless PCS services will become available, at prices competitive with landline phone service.

According to estimates cited recently by the Federal Communications Commission, there could be 60 million wireless phones in use by the end of the decade.

> *What began in the 1970s as a stream moving toward freedom of the wires and airwaves has become a flood. Telecom regulators have lost control of their borders.*

GTE has announced plans to replace landlines entirely, with all-digital radio service, in Quitaque, Texas. But the new radio services can be offered by anyone, not just phone companies. They are easily grafted onto private institutional networks, cable networks or the competing fiber-optic networks already deployed in many cities by "competitive access providers."

Until recently, regulators attempted to maintain high walls between potentially competitive markets. They set in place a labyrinth of "cross-ownership" restrictions, aimed at separating television from radio, television from newspapers, telephone from cable, and so on.

It's still possible to separate physical facilities—e.g., cable and telephone networks. But with today's technology it makes no sense to separate anything more than that. Television stations already broadcast electronic newspapers within the "vertical blanking interval" of their spectrum licenses. Radio stations provide paging services over the "subcarrier" portions of their assigned frequencies. Cable companies offer "cable radio" and electronic publishing services over the same wire, alongside both television and a new generation of wireless telephone service. When they win regulatory relief, phone companies will immediately offer video over their networks.

The new abundance also makes nonsense of regulatory attempts to ration scarcity. The old "fairness doctrine," for example, required over-the-air broadcasters to air opposing views on the theory that otherwise they might not be heard. Other regulations divided up cable channels among cablecasters, over-the-air broadcasters, educators and local government institutions. But cable operators are now upgrading to support 500 channels; and with video-on-demand by telephone, the number of channels will be limitless. The regulatory ration books are headed for the shredder.

So are most of the old accounting and depreciation schedules. State utility commissions still run large tax-and-spend programs. They overcharge businesses, undercharge residences and force the urban poor to subsidize the vacation homes of the suburban rich. The FCC levies a viper's nest of "access" charges on providers and consumers of interstate services. One, for example, applies to "leaky" private switches that receive long-distance telephone traffic over private lines and then feed it into the local public network without paying the usual tolls. But tax-and-spend regulators can't hope to keep track of "leaking" switches, and they have no effective power to erect tollbooths at all the multiplying gateways into the telecom cyberspace.

As competitive radio alternatives proliferate and cable companies charge into the market, the complete deregulation of telephone prices is inevitable. The same holds for television. True enough, the FCC has just been ordered (by the 1992 Cable Act) to re-regulate the rates charge for "basic" cable service. But phone companies are eager to offer video-on-demand, and will do so the moment a federal judge or Congress says that they may.

There are other substitutes for cable, including "wireless cable" by satellite or cellular terrestrial networks. By the time the FCC finally gets its new price regulations hammered out, and finishes defending the inevitable challenges in court, competition will have made the whole undertaking obsolete.

Forward to Competition

There's hardly a regulatory problem today that doesn't have a market solution close at hand. Some state regulators, for example, want to ban "caller I.D." service on the ground that it invades more privacy than it protects. But anyone who really wants caller I.D. can still arrange to get it, by routing calls across state lines. It's equally easy to obliterate caller I.D.—by routing calls through an untraceable postal address by signing on with a private mailbox service. Before long, international telephone rates are going to be low enough for providers of on-line services to locate offshore. Domestic companies will either be allowed to compete unhindered, or they'll relocate to Bermuda.

What began in the 1970s as a tiny stream moving toward freedom of the wires and the airwaves has become a flood. Telecom regulators have lost control of their borders; thousands of their subjects are simply walking away. We need an orderly transition, of course; we can't just load our FCC commissioners on the next plane to Paraguay. But at both state and federal levels we can appoint regulators who are looking forward to competition in the 1990s, not backward to monopoly in the 1950s.

Mr. Huber is a fellow of the Manhattan Institute.

The Land Grant of the Airwaves

By Newton N. Minow
And Craig L. LaMay

If only Bob Dole could have met Justin Morrill. A fiscally conservative Republican congressman (and later senator) from Vermont, Morrill persuaded Congress in 1862 to give every state 30,000 acres of federal land for each of its congressmen. The states could then sell that land and use the money to build agricultural and mechanical colleges.

They did, and in doing so they transformed the nation's education system by extending its reach to working Americans and their children. The schools established through the Morrill Act include the Massachusetts Institute of Technology, Cornell University, Ohio State University, the University of Illinois, the University of Wisconsin, and about 65 others. These universities are today the greatest source of advanced research in the world, a vital link in our national economy and a key to our global competitiveness. No other nation has anything like them.

Sen. Dole has the same opportunity. Recently he threatened to block the proposed telecommunications bill because, he said, it is far too generous in giving advanced television spectrum to broadcasters for free. Echoing the criticisms of both free-market conservatives and liberal public-interest groups, Sen. Dole called the deal a "giveaway" of public property.

History shows the senator is right about insisting on either an auction or a commitment to public service. The Federal Communications Commission has predicted that as broadcasters move to the digital spectrum, the spectrum they leave behind will raise from $11 billion to $132 billion at auction. The broadcasters' new digital spectrum, according to the FCC, is thought to be worth about $36 billion (Sen. Dole himself estimates its worth at $70 billion).

If Congress did auction this spectrum, where would the money go? Previous spectrum auctions, in 1994, generated revenues of about $9 billion; that money went straight to the U.S. Treasury, where it was spent in about 40 hours.

Why not make that money last a lifetime—several million of them—and invest a small portion in the education and training of our citizens. Borrowing a page from our forebears, Congress should use the auction proceeds from radio spectrum to build electronic "land grant" schools—on television, on radio, and on the information superhighway.

There are at least three ways to do this. One is to take some of the auction revenues and invest them in creating educational television for children and young adults. Recognizing a market failure in this area, Congress passed the Children's Television Act in 1990 and at the same time created the Endowment for Children's Television. The endowment is supposed to have funding of $24 million; it received only $2.5 million from Congress last year, and $1 million in 1994. Of the approximately $9 billion the federal government has earned from spectrum auctions thus far, a mere 3%—$270 million—could have created the best children's television system in the world.

A second thing Congress could do is fund the school of the air that already exists: the "Ready to Learn" satellite and programming service. Congress created Ready to Learn in a bipartisan bill in 1993 but gave the service only $7 million after authorizing $30 million. And rather than simply pump money into a new federal program, charge the nation's public broadcasters—our first and best provider of distance learning services—with the job of making Ready to Learn a true national resource.

The third thing Congress could do with the spectrum revenues is use them to help pay the cost of connecting primary and secondary schools and libraries to the information superhighway. Currently most schools have phone lines and cable connections, but most are antiquated and few are good enough to access the superhighway. A matching grant program to upgrade those connections, in which the federal government, the states and the cable and telephone companies each paid a third of the cost, would be the fastest, most equitable and most child-friendly way to bring schools and libraries into the digital age. Many states, such as South Dakota, Georgia, Iowa and North Carolina, are already far ahead of the federal government in building their own information highways and using them for education. They know best who their students are and what they need.

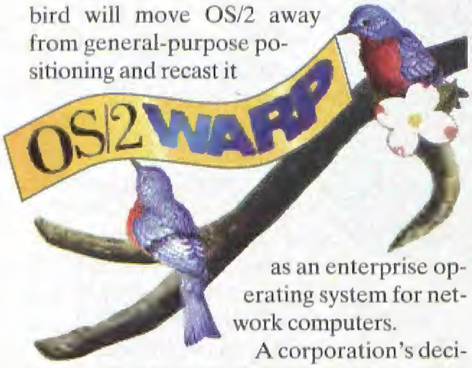
Any of these three things would benefit future generations without creating huge new federal programs. But most of all, the 104th Congress could ensure, as the 37th did, that the revenues from public property benefit all Americans who work hard but are struggling to find a foothold in the rapidly changing economy.

Mr. Minow is a Chicago attorney and a former chairman of the FCC and PBS. Mr. LaMay is a senior research associate at Northwestern University. They are authors of "Abandoned in the Wasteland: Children, Television and the First Amendment."

A Bluer OS/2

IBM repositions its operating system to run network computers.

You don't hear much about OS/2 anymore, but IBM wants to change that. The company is completely repositioning the operating system with a new version of OS/2 server and client software, dubbed "Bluebird," due at the end of this year. Bluebird will move OS/2 away from general-purpose positioning and recast it as an enterprise operating system for network computers.



A corporation's decision to go with thin-client network computers brings a series of choices, says Anthony Brown, the business line manager for network computing technology at IBM's Personal Software Products Division. Brown says that network managers looking to install network computers want to run DOS applications, 3270 mainframe applications, Java applets, 16-bit Windows applications, and more on the same network where the server—not the client—handles nearly all the work. Bluebird won't support 32-bit Windows applications directly, but emulation software will be available. Nor will Bluebird support Universal Serial Bus (USB), Advanced Graphics Port (AGP), and FireWire standards.

Bluebird will ship in either the late third quarter or fourth quarter. The server component will include management functions, tools, and utilities. The client component will be a thin, browser-based variation on existing client OS software. The client desktop will be malleable, so one user might have a Netscape desktop while another might have an OS/2 desktop. Bluebird will manage the desktops centrally so that users can pull up their desktops from any network computer connected to the server.

Microsoft is pursuing a similar goal with both its Zero Administration Windows initiative and its upcoming Hydra version of Windows NT. The Hydra operating system, in particular, is designed to make client software installations little more than browser-based shells that run on new, possibly diskless Windows-based terminals while the server software handles all the real work. *—Sebastian Rupley*

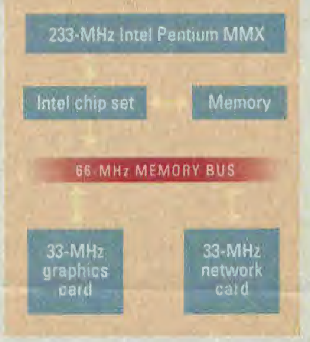
ILLUSTRATION BY LORA MORGENSTERN

INSIDE PC LABS

Does Your PC Run Out of Spec?

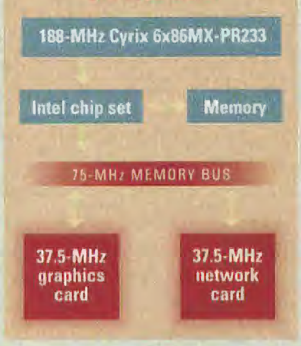
THOUGH COMPETITION IN THE CPU MARKETplace is healthy, it can certainly make your PC buying decision difficult. The latest complication: Some early adopters of the Cyrix 6x86MX chip are now mixing Intel and non-Intel chip sets, which raises reliability issues that PC Magazine Labs has tried to address.

Intel's chip set is designed to run the memory bus no faster than 66 MHz...



In our First Looks section of September 23, 1997 ("Affordable Desktop Power"), we reviewed five machines based on the new 6x86MX-PR233 chip from Cyrix, one of the first mainstream PC processors to use a 75-MHz memory bus. Since the debut of the 60-MHz Pentium four years ago, all new Intel chips have used either a 60- or 66-MHz bus—even though CPU clock speeds have increased more than four fold. Cyrix has widened this obvious bottleneck slightly by using a 75-MHz bus with the 6x86MX-PR233, but there are several issues that buyers should be aware of before purchasing certain systems that use the chip.

...but the Cyrix 6x86MX-PR233 forces the chip set to run the bus at 75 MHz.



A PC's memory bus is a bridge from the CPU to main memory and various local buses. Most hardware peripherals run off a PCI local bus, which is designed to operate at half the speed of the memory bus. With the traditional Pentium architecture, the memory bus operates at 60- or 66-MHz and the PCI local bus runs at 30- or 33-MHz.

Cyrix is using a faster—albeit only slightly faster—memory bus. Third-party vendors such as VIA and SiS have designed new chip sets (the core technology that connects the CPU to memory and manages I/O access) for the 6x86MX that provide memory-bus speeds of 75-MHz. (The speed of the local PCI bus remains at 33 MHz, as prescribed by the PCI spec).

Some 6x86MX motherboard manufacturers—such as FIC and Asus—are forgoing the VIA and SiS offerings and opting for Intel chip sets, which are typically more advanced despite their slower speeds. These Intel designs, however, are not meant to run the memory bus faster than 66 MHz. When third parties ratchet bus speeds up to 75 MHz, not only is the Intel chip set operating against spec, but so is each of the system's PCI peripherals. The local PCI bus runs at 37.5 MHz—half the bus speed—not the standard 33 MHz.

According to Intel, running its chip sets out of spec could cause them to fail, and it could also create problems with your PCI peripherals because most PCI cards can operate at 37.5 MHz but are qualified to run only at 33 MHz. Intel's position on this issue may be a means of discouraging the use of a competitor's chip, but the company does know its own chip sets better than anyone else.

In testing at PC Labs, an Intel 430TX-based system from Sys Technology—whose peripherals ran out of spec at 37.5 MHz—was the leading 6x86MX performer. It had an unfair advantage, however: a 10,000-rpm SCSI drive. Machines from Polywell and CyberMax—each of which used the SiS 5571 chip set and ran peripherals at an appropriate 33 MHz—produced results that were almost as high despite their 5,400-rpm IDE drives.

Asus, Cyrix, and FIC—having done their own testing—do not foresee any problems running the memory bus at 75 MHz on an Intel chip set, but purchasing a 6x86MX machine whose chip set is designed to run the CPU is the safer option.*—Cade Metz*

Trends

The Road to Riches

Computer pros get top-notch salaries.

Forget Plastics. *The Graduate*'s Benjamin Braddock should have opted for a career in information technology. Unusually strong demand for skilled IT professionals has created a severe shortage of workers across a wide range of industries, according to researchers at the Stanford Computer Industry Project (SCIP). And the fact that top colleges and universities in the U.S. aren't producing enough qualified graduates is making the problem worse, say industry observers.

Since its inception some two decades ago, IT has seen unparalleled growth, according to a report from the Information Technology Association of America (ITAA). The industry currently employs 2 million people in the United States in a wide variety of positions such as software developer, operating system consultant, network manager, and customer support technician. And with new technologies sprouting daily—particularly those related to the Web—that number is expected to increase.

The industry faces a formidable challenge in filling these positions. At Stanford University, one of the top science and engineering schools, the number of graduates who have computer science degrees dropped by about 40 percent from 1986 to 1994. That trend has changed in the last couple of years: In 1995, the number of computer science graduates increased 5 percent from the previous year, and in 1996 it rose about 40 percent. Yet according to SCIP, even at that rate, in the year 2000 Stanford will still graduate the same number of students with computer science degrees that it did in 1986.

The need to employ skilled labor, along with the shortage, has created stiff competition among companies and a subsequent gold rush for employees. The nation's big high-tech companies, including Microsoft and Intel, are spending millions to recruit qualified candidates and are offering handsome salaries. Currently, a Stanford University graduate with a bachelor's degree in computer science can expect to earn a starting salary of $45,000; a graduate with a masters can expect $60,000. A masters or a doctorate in electrical engineering can command $57,200 and $75,000, respectively. And with about 96,000 IT positions currently vacant, says ITAA, salaries are likely to skyrocket even further.—*Angela Hickman*

JAKE KIRCHNER

When It Comes to the Web, the ACLU is Clueless

The recent American Civil Liberties Union paper on free speech on the Internet is a must-read for anyone interested in the Web. It's a perfect example of how wrong-headed some people are—and how the knee-jerk anti-censorship crowd is making it harder to limit children's access to harmful information online. Limiting such access, they fear, will hinder the development of the Internet and pave the way for overzealous government regulators.

Although I rarely find myself in disagreement with the stances that the ACLU takes, I have to say right off that I find every part of its position on this matter illogical, confused, and technologically illiterate. But judge for yourselves; you can find the document at *www.aclu.org*.

First off, I hate the incendiary tone of this paper, entitled "Fahrenheit 451.2: Is Cyberspace Burning?", which immediately equates any effort to restrict access to the Web (or filter out any Web-based information) to book burning. Parents trying to keep from their children some of the degrading, biased, and inaccurate information that exists on the Web are not Nazis, and casting them in that light is counter to reasoned argument on an important topic.

The ACLU maintains that voluntary Web-site rating methods or automated filtering programs are harmful because they make getting "valuable speech" online more difficult. Rot! Since when have all forms of information had equal public access? Why must that hitherto unnecessary standard be preserved on the Internet?

I don't mind that there are sections in bookstores and libraries and on television channels that are devoted to safe sex and gay and lesbian matters—to use the "valuable speech" examples the ACLU raises. And I don't really mind that there are pornography stores in some areas of town.

But we put limits every day on the kind of information we access and the kind of information we let our children access. We choose which section of the library and bookstore to take books from. We decline to subscribe to sexually explicit cable channels. We rely on local zoning codes to keep porn shops away from our grade schools. And just about every parent relies on voluntary movie ratings for help in deciding which movies to let kids see.

These are reasonable compromises between free speech and good parenting. Similar compromises that don't infringe on the rights of people to produce and access information and yet don't make it impossible for parents to protect their children should be available on the Web.

The ACLU, however, views any such accommodation as dangerous. It says that self-rating proposals are "no less offensive to the First Amendment than a proposal...that everyone engaged in a street-corner conversation rate his or her comments." The analogy, typical of the intellectually lackadaisical arguments in this document, is ludicrous if for no other reason than that it fails to note the very real distinction between public commerce and private conversation.

The ACLU fears that blocking programs and rating schemes will make finding what it calls "controversial" material difficult. So what? Yes, you may have to work a wee bit harder to find that material, but no harder than you would now to find it in other media. And in fact, getting that material on the Web will increasingly become easier than driving crosstown to find it.

If that makes the Web a blander medium than it would be otherwise—a primary fear of the ACLU—so be it. At least then it will be a safe medium to have in our homes.

ILLUSTRATION BY AMIT TRYNAN, PHOTOGRAPH BY SHONNA VALESKA

YAHOO! NEWS — REUTERS

[Yahoo | Write Us | Search | Info]

[Index | News | World | Biz | Tech | Politic | Sport | Scoreboard | Entertain | Health]

Previous Story: **UN Puts Off Immediate Action on Zaire**
Next Story: **U.S. Angered Over TWA 'Friendly Fire' Charge**

Saturday November 9 6:45 AM EST

FCC Seeks Voluntary TV Ban on Liquor Ads

WASHINGTON (Reuter) - The nation's top communications regulator Friday appealed to nearly 1,200 television stations nationwide to adhere to a voluntary ban and refrain from airing liquor advertisements.

Federal Communications Commission Chairman Reed Hundt, speaking a day after a liquor industry group said it would end its own voluntary ban on radio and TV promotions, also said he had no immediate plans to issue rules to block such ads.

"That is a long, long and hard road to travel," Hundt said of the rulemaking process.

For now, the FCC chairman plans instead to use his position as a bully pulpit to convince TV stations not owned by the four major networks to abstain from showing ads for gin, whiskey and other spirits.

Seagram Co. Ltd. in June began airing TV ads for its Royal Crown whiskey in selected local markets.

The National Association of Broadcasters (NAB), while "disappointed" with the lifting of the decades-old ban by the nation's distillers, declined to embrace Hundt's call for a voluntary ban.

Hundt applauded the decision by the big networks -- ABC, CBS, NBC and Fox -- to leave unchanged their own policies against accepting liquor ads. Together, the four own about 50 stations in major markets.

That leaves just under 1,200 commercial stations scattered across the nation not owned by the major networks.

"The government has many, many options available to it. It's not necessary for these options to be explored if the broadcasters will stand up the way the four major networks have done," Hundt told a news conference.

NAB President Edward Frits, however, noted that "over the years, individual stations have adopted their own standard regarding the acceptability of hard liquor advertising.

"We believe this process has served American consumers well, since individual stations make and will continue to make judgments every day on what is most appropriate for their local audiences," he said in a statement.

On Thursday, the Distilled Spirits Council of the United States, or Discus, said it formally ended its decades-old voluntary ban on radio and TV liquor ads. The ban had been in place since 1936 for radio and 1948 for TV.

The group said distillers should enjoy the same right to promote their products as beer and wine producers, whose ads are carried on TV. Over the past 14 years, liquor consumption in the United States has tumbled 28 percent, to 325 million gallons last year from 449 million in 1981.

The Seagram ad campaign already has unleashed criticism from lawmakers, regulators, consumer advocates and President Clinton. The FCC has opened its own probe of ads shown in Texas and New Hampshire.

Meanwhile, other liquor makers have said they are planning their own ad campaigns or are considering their options.

Earlier Related Stories

- Regulator Eyes Voluntary TV Ban on Alcohol Ads - Fri Nov 8 2:33 pm

---

Search News Help

Previous Story: **UN Puts Off Immediate Action on Zaire**
Next Story: **U.S. Angered Over TWA 'Friendly Fire' Charge**

[Index | News | World | Biz | Tech | Politic | Sport | Scoreboard | Entertain | Health]

Questions or Comments

TELECOM AM
A daily news bulletin from Telecom Publishing Group
Vol. 2, No. 77
April 24, 1996

==

In Today's Issue:

* SPECTRUM BILL MAY DEMAND B'CAST CHANNEL AUCTIONS
* AT&T INKS DEALS WITH CAPS TO BYPASS RBOC NETWORKS
* RIM PLANS TO OFFER FREE MIDDLEWARE ON WEB SITE

==

SPECTRUM BILL MAY DEMAND B'CAST CHANNEL AUCTIONS

Sen. Larry Pressler, R-S.D., said last week his coming "grand spectrum bill" will not take bandwidth away from private-sector licensees, but may aim to auction spectrum broadcast licensees give up.

Witnesses at the Senate Commerce Committee hearing where he spoke, said the bill should go further and move broadcasters from the airwaves to cable TV.

Theorist George Gilder told the hearing broadcasters use spectrum inefficiently and "must be confronted ....Broadcasters are the problem." Fellow witness Nicholas Negroponte, director of MIT's Media Lab, said broadcasters should be moved to cable -- he did not say who should pay for the shift -- and the freed-up airwaves should be used only for mobile applications.

Gilder, a senior fellow at the Discovery Institute and the author of several books on conservative economics, agreed. "There's no reason to have them broadcasting through the air," he claimed. "It's a mistake." He also endorsed moving broadcasters to cable TV, but said the resulting bandwidth should be given to private sector operators for free. Auctions, he claimed, are "a federal spectrum tax" because "the value of frequencies is entirely created" by licensees.

The third witness on the panel of economic thinkers, attorney Peter Huber, also took aim at broadcasters, but said their failure to adopt digital technology -- which would make them more spectrum efficient -- was the fault of the FCC's not letting broadcasters use their spectrum as they wish.

=== From FCC Report
=== Print edition dated April 24, 1996

AT&T INKS DEALS WITH CAPS TO BYPASS RBOC NETWORKS

AT&T recently signed a series of deals that will allow it to bypass the regional Bell operating companies' (RBOCs) networks and get service to business customers in 70 U.S. cities.

The agreements were signed with competitive access providers (CAPs) Time Warner Communications and IntelCom Group in Denver; American Communications Services Inc. in Annapolis, Md; Brooks Fiber Properties in St. Louis and Hyperion Telecommunications in Coudersport, Pa.

An AT&T spokesman said this strategy is important because it gives the long-distance carriers a little more leverage in negotiating resale rates.

"We're sending a signal to the local phone companies that we're serious about using alternative access [to the local market]," spokesman Russ Glover told The Report On AT&T last week.

Glover also said deals such as the one AT&T just signed let other local access providers know the telecom company is ready to cut a deal.

=== From The Report On AT&T
=== Print edition dated April 22, 1996

RIM PLANS TO OFFER FREE MIDDLEWARE ON WEB SITE

TELECOM AM
A daily news bulletin from Telecom Publishing Group
Vol. 2, No. 64
April 5, 1996

==

In Today's Issue:

* STATES, INDUSTRY CONCERNED OVER FCC MICROMANAGEMENT
* EON, WIN JOIN HANDS ON ROAD TO NAT'L IVDS NETWORK
* MATSUSHITA JOINS HUGHES FOR JAPANESE SATELLITE SYSTEM

==

STATES, INDUSTRY CONCERNED OVER FCC MICROMANAGEMENT

State regulators and industry interests agree that the Federal Communications Commission's (FCC) approach to meeting Congress' mandate for laying down the ground rules for interconnection and local exchange competition will determine whether the road to competition is smooth or bumpy.

But the interest groups are split on the core question of whether the FCC should adopt a flexible approach that gives contending interests an opportunity to work things out among themselves, or take firm control of the process and prescribe in great detail everyone's rights, obligations and responsibilities.

State regulators are cautioning that excessive FCC micromanagement of the transition to competition under the Telecommunication Act of 1996 could undercut state efforts to promote competition and disrupt existing state-arranged local pricing agreements well before they are due to lapse.

Incumbent telcos are urging the FCC to take a flexible, minimalist approach in setting national competition rules.

But their local competitors want to see a tightly structured regulatory approach that will prescribe in great detail the processes controlling local competition.

The states' concerns were raised before Congress in recent testimony before the U.S. Senate Commerce, Science and Transportation Committee, by Cheryl Parrino, president of the National Association of Regulatory Utility Commissioners and chairwoman of the Wisconsin Public Service Commission.

While commending the FCC for recognizing the states' pioneering role in opening the local exchange to competition, Parrino urged the Senate panel to "assure the FCC does not take an unnecessarily prescriptive approach to its regulation, which could undercut continuing state efforts to promote competitive entry into local markets."

=== From State Telephone Regulation Report
=== Print edition dated April 4, 1996

EON, WIN JOIN HANDS ON ROAD TO NAT'L IVDS NETWORK

In an effort to speed the national deployment of interactive video data services (IVDS), Eon Corp. and World Interactive Network -- two forerunners in the fledgling industry -- have signed a commercial cooperative agreement that eventually may evolve into a merger.

Under terms of the new agreement, Chantilly, Va.-based Eon and

Los Angeles-based World Interactive Network (WIN) are offering reciprocal reuse of their mutual spectrum and access to each other's licensed territories, which combined cover one-third of the major markets in the United States.

The agreement also grants WIN access to technology developed by Eon, which during the past nine years has invested close to $200 million researching IVDS.

The companies had been in talks for close to a year but moved into high gear when Robert "Hal" Turner joined Eon as president in January.

"As we focused our management team and thought about what it takes to put together a national business, it was clear we had to come to terms with WIN," Turner tells ITVS. "So we turned up the speed."

The Eon-WIN matchup appears to make perfect sense for both partners. Eon's strengths are in the areas of mobile communications, two-way messaging and remote vending machine monitoring. WIN's business plan includes utility-based services such as automated meter reading, peak demand control and load management, home security, billing services and additional cable and DBS television transactional services.

"Our interests are very much aligned," Turner tells ITVS, noting the companies are looking at putting together an operating company investor. "As we continue along, there might come a time when we ask, `Why would WIN need a separate business entity?' If WIN is successful , Eon is successful."

=== From Interactive TV Strategies
=== Print edition dated April 1, 1996
=== Copyright 1996 Telecom Publishing Group

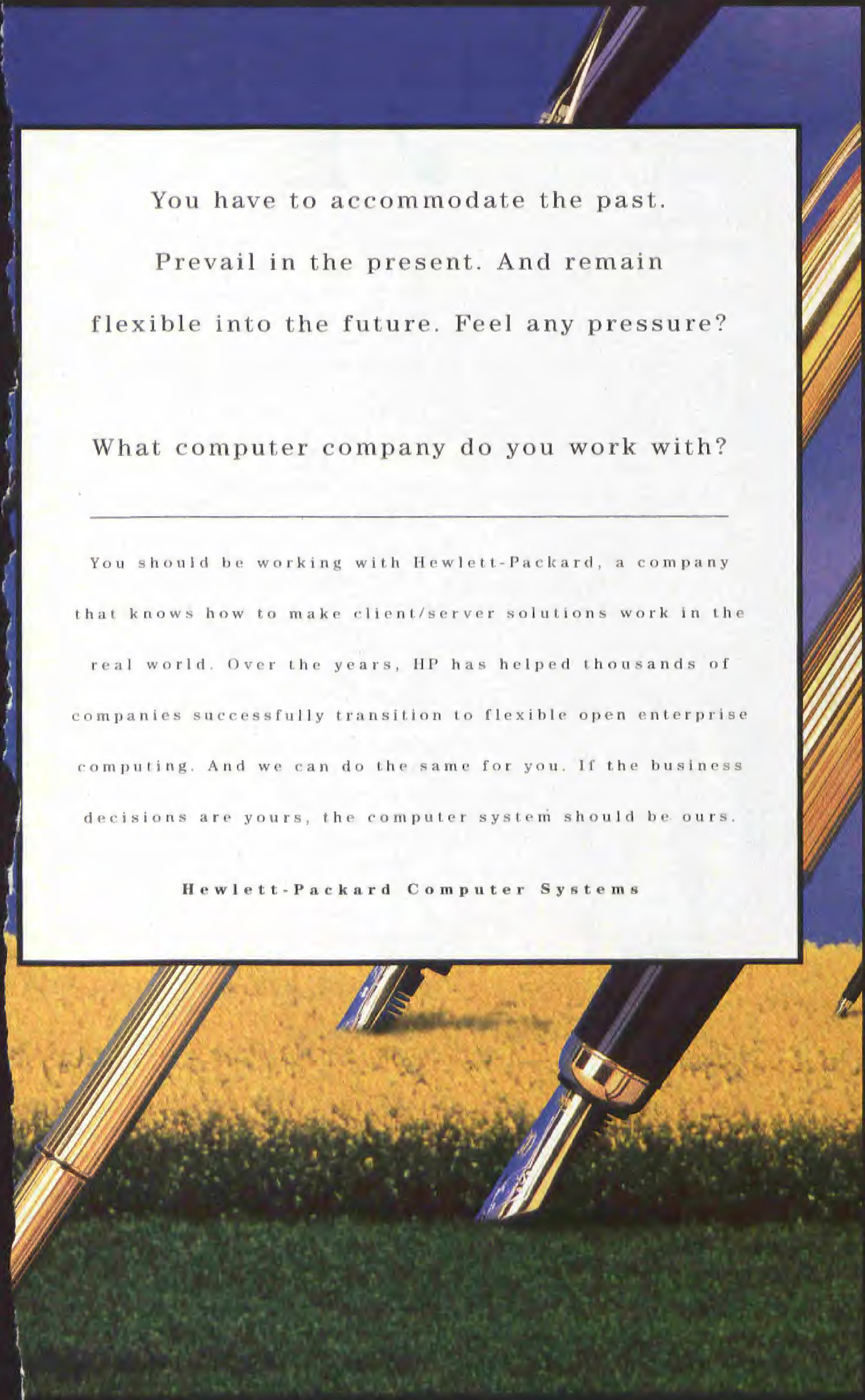
MATSUSHITA JOINS HUGHES FOR JAPANESE SATELLITE SYSTEM

Matsushita, Japan's largest consumer electronics company, plans to move into broadcasting by taking a 10 percent stake in DirecTV Japan (DTVJ), the digital satellite broadcast company.

DTVJ hopes to benefit from Matsushita's technology and its retail network, while Matsushita says the move is a way of entering the broadcast business.

DTVJ plans to introduce digital satellite broadcasts in the country next summer. The company is 42.5-percent owned by Hughes Communications, a division of Hughes Electronics, and 42.5 percent by Japanese video rental company Culture Convenience Club. The rest is owned by other Japanese companies.

=== From New Media Markets
=== Print edition dated March 28, 1996
=== Copyright 1996 Pearson Professional Ltd.



Media hype

PATRICK McDONNELL

By Lisa Gubernick
with Natasha Bacigalupo

IT'S LIKE THAT OLD SONG: When you're a media company, the whole world smiles with you. Or at least they're willing to spend outrageous amounts to invest in you. Disney recently had a market capitalization of $44 billion. Its market capitalization was $3 billion more than General Motors' cap and exceeded that of such other blue chips as Boeing and Chevron. Time Warner, which has been floundering and losing money for four years, is capitalized at $16 billion—$34 billion if you include its debt.

The quintessential growth industry. Billions of foreigners lust for U.S.-produced entertainment. New technologies promise new revenue sources for film libraries. Giant media conglomerates—embracing books, magazines, TV stations, cable systems and telephone services—will spin out endless synergies. Merchandise tie-ins create opportunities to sell cheap plastic toys and T shirts at obscene markups. The hype has become irresistible.

Maybe some of this will happen. A lot of it won't.

The prices being paid for media properties discount a great deal of future growth. That growth is by no means in the bag.

The prices also assume that "content"—the stuff they display on the tube and on screens—is going to be scarce. Maybe it won't be.

Getting down to earth amidst the hype, let's talk with Joseph Petruzzo, a 25-year-old manager at a suburban New York Honda dealership. Joe used to spend a couple of hours every night

Consumers have a bewildering array of entertainment choices. Investors love the huge media conglomerates. Will these unwieldy outfits disappoint? We suspect so.

in front of the tube viewing prime-time TV fare. But since he signed on to two on-line computer services, his tube is dark most nights. He now divvies up his time between CompuServe and the Microsoft Network, researching motorcycles and planning his next vacation.

Chelsea Pompadur is 6 years old and lives with her parents in the posh New York City suburb of Greenwich, Conn. Chelsea tells us her TV time is down, from 2½ hours, to 1 hour a day. She now spends much of that non-TV time at her Macintosh, playing Solitaire and Where in the World is Carmen Sandiego?, a game that allows players to tour the world. "With the computer it's always new," Chelsea bubbles.

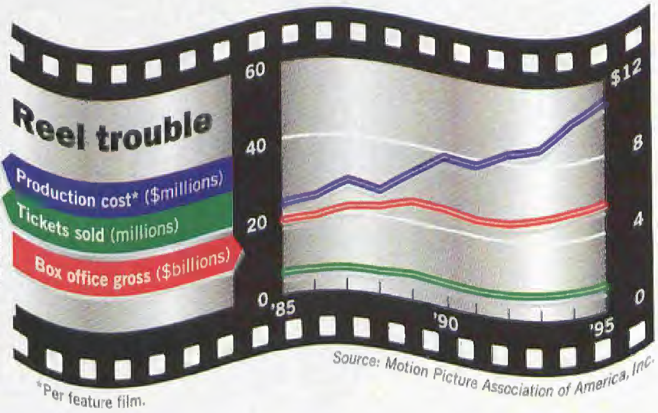
In the U.S., at least, entertainment and leisure-time activities have become a zero-sum game. There are only so many hours in the day and so much money in the till for entertainment. If you watch more TV, you may read less. If you spend more time wandering in cyberspace, you watch less TV.

For now, the TV screen remains the focus of most entertainment. On average last year, networks commanded 52% of the broadcast audience, down from 60% four years ago, with cable getting 6%. Video captured slightly more viewers than cable. Each of these media creates cash flows for the media conglomerates: free TV in the form of ad revenues; cable in fees and ad revenues; videos in rentals and sales. But as the Internet begins to cut into televiewing time, these revenue streams will run shallower, for no one has yet figured how to extract meaningful revenues from the Net.

TV is not the only potential casualty. Movie box office revenues have risen at a rate of about 5% for the last several years, but only because ticket prices have kept rising. Last year revenues were virtually flat while revenues per film dropped from $37.6 million to $32 million as movie production costs rose.

The average big studio picture cost $36 million to make in 1995, up 21% in the last two years, thanks mostly to stars' inflated salaries. Add on $18 million for prints and advertising to release a picture nationwide, and you get a per-film cost of $54 million. No surprise that last year only 31 of Hollywood's big studio films made money, according to *Entertainment Weekly*.

ILLUSTRATIONS BY STEVEN RAMOS/FORBES



Source: Motion Picture Association of America, Inc.

*Per feature film.

Box office take increased about 5% in the last few years—because ticket prices have kept rising. The cost of a big picture has quadrupled, so margins are worse than those in a savings account.

It only makes matters worse that Hollywood's revenue tail is getting longer. Time was when a movie generated most of its revenues in less than a year and at the end of two years was completely written off. No more. Because they are heavily dependent on delayed foreign showings, video and TV, the revenues limp in for many, many years. The longer it takes to garner the income, the lower the return on investment.

"It is a perpetual cycle of postponing when the studio gets its money," says entertainment attorney Peter Dekom. "Now it's worse than a passbook savings account return—worse because there are major risks attached."

Dekom estimates that this lengthening of the revenue tail adds between $50 million and $100 million to each studio's interest cost.

Dekom's view may be excessively pessimistic, but he's got a strong point: With costs rising and revenues flat, profits have got to be squeezed.

The music business, too, is feeling the pinch on dollars and time. "Kids today are not as musical, not as loyal as they used to be," says Phil Quartararo, who heads Virgin Records America. "They aren't locked into just music; they have a lot more places to spend their disposable income."

It shows in the numbers. After a decade of nonstop growth, music sales in absolute dollars in the U.S. grew by just 2% last year. Once you figure in the $85 million charge for restructuring, earnings at Time Warner's music division dropped to $690 million, from $720 million in 1994. Ditto for MCA Records, where pro forma earnings dropped from $192 million in 1994 to $123 million in 1995.

It's not that the entertainment business doesn't have a good future. It's simply that expectations have reached the point where it will be hard to generate returns commensurate with prices currently being paid. Investors and dealmakers have paid insufficient attention to the negatives.

Disney paid $19 billion to take over ABC, and Time Warner plans to ante up $7.5 billion for the Turner net-

First, we generated the idea. In a unique international marketing

Now, CNG provides customers new options for buying, selling, and

*Cost of producing first album by a new artist.
Sources: Recording Industry Association of America; Forbes estimates.

The cost of record production has gone nowhere but up. Meanwhile, as recordbuyers finish replacing their old vinyl discs with CDs, music sales, in both dollars and volume of units, have flattened. Unless a hot new recorded-music format emerges, music growth could stay stalled.

work and other assets. While these two giants were paying through the nose, the agile Rupert Murdoch started his own U.S. TV network, spending just $1 billion or so. He bought extensive distribution channels, mostly via satellite, in Europe and Asia for a fraction of what the Disneys and U S Wests were paying for distribution in the U.S.

There are supposed to be great synergies in the new integrated media conglomerates that bring everything under one roof: entertainment factories, pipelines to distribute the production in the form of TV stations, networks and satellite dishes—and even retail stores to sell the stuffed animals and T shirts. But this integration has potential drawbacks: Owning the stores—the TV stations, cable systems, sales organizations—the entertainment giants must make sure they are fully stocked.

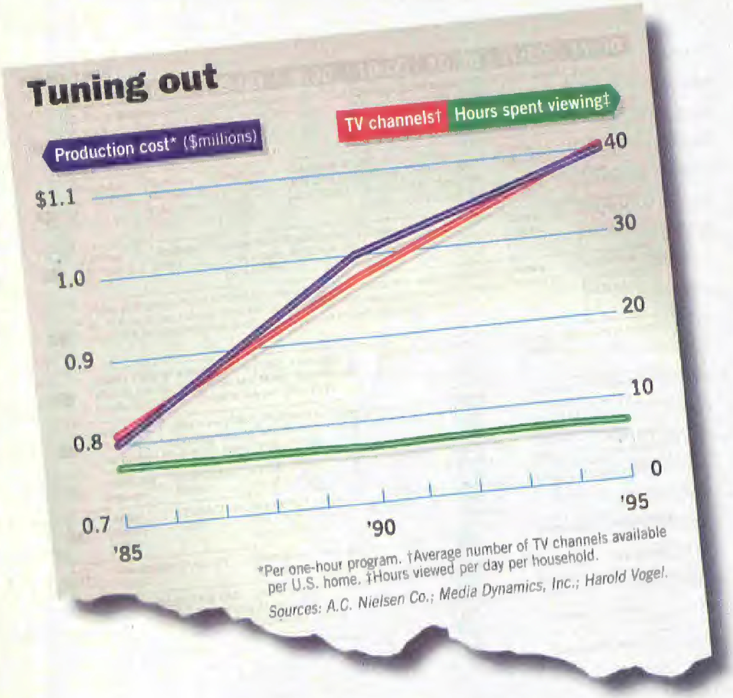
The prices being paid for media properties discount a great deal of future growth. That growth is by no means in the bag.

This means being fully stocked even if there isn't enough promising merchandise around. To attract viewers to the new TV network it launched with Chris-Craft Industries, UPN, Viacom's Paramount spent millions on moneylosing shows like *Legend,* a western action-adventure series. If the Time Warner/Turner Broadcasting merger goes through, the combined company will be producing over 70 films a year—35% of the total released in the U.S. Turner alone could end up putting out around 40 of them, just to satisfy the appetite of its cable networks: Turner Classic Movies, Turner Network Television, and its TBS superstation. "It's not as if there are 70 great stories out there," says Harold Vogel, an entertainment analyst at Cowen & Co.

"The scarcest commodity in the entertainment business is good content," agrees Sandy Climan, executive vice president at MCA. "And those that have it will always find shelf space for it."

Climan is right: Certain performers, certain stories, certain events have an appeal that transcends borders. What makes these special stars and special stories no one really knows. Whatever they are made of, they will always do well because all the available distribution channels will clamor for them. The point is that if you have these special attractions, you don't need to own the screens and the networks and TV stations.

MCA, which has no network television or retail video distribution sys-



*Per one-hour program. †Average number of TV channels available per U.S. home. ‡Hours viewed per day per household.
Sources: A.C. Nielsen Co.; Media Dynamics, Inc.; Harold Vogel.

The number of television channels has quadrupled in the last ten years. But even with all those new programs, no one's spending any more time watching the tube than they did a few years ago. New entertainment options like CD-ROMs and the Internet are likely to decrease viewership even more.

tem, has reaped big money from its two new top-rated syndicated action shows, *Hercules* and *Xena.* Would *The Lion King* have been more of a success had Disney already owned the ABC network?

What of all those Chinese, Indians, Indonesians and Latin Americans? Aren't these folks eager to spend some of their loose coins on the kind of entertainment only Hollywood can offer them? Probably, but not to the extent a lot of people think. Ten years ago European television stations imported 80% of their programming, virtually all of it from the U.S. Now less than 50% of the programs are from the U.S. "As the [domestic] networks mature, they increase their own production and use less and less foreign product," says Daniele Lorenzano, who acquires programming for Mediaset, Silvio Berlusconi's entertainment company. "It's the local programming that gets the best ratings."

On Italy's Channel Five last November, only one of the top ten programs was a U.S. import. *Cliffhanger,* the film starring Sylvester Stallone, was the only U.S.-produced fare, and it was outranked by *La Voce del Cuore,* an Italian miniseries, as well as by *Scherzi a Parte,* a locally produced variety program.

In Asia, too, the trend is toward local stuff, even as new outlets like Star TV go on the air. "They're leaning more toward local programming," says Turner International's Senior Vice President Mike Byrd. "It's relatively inexpensive to produce, and ratings are higher than imported programming." In India, for example, a locally produced television show, *Marmadesam,* can be made for as little as $16,000 an episode. It rates in the top ten in southern India, while U.S. shows rarely make the top 30.

"Kids today are not as musical, not as loyal as they used to be," says the head of Virgin Records America. "They have a lot more places to spend their disposable income."

As a consequence, run-of-the-mill made-in-the-U.S. programming is no longer in high demand overseas. A decade ago Berlusconi's outfit paid about $100,000 an episode for *Dynasty.* These days top-rated programs like *NYPD Blue* and *The X Files* are going for roughly $35,000 an episode in the Italian market. That's for the top-drawing stuff. B-product—TV shows and movies that aren't in the top 25% at the box office—are tough to sell overseas today.

So the savviest players are establishing local production deals. Rupert Murdoch is one of the savviest. He owns 50% of Bombay-based Zee TV, which broadcasts in Hindi and is India's top-rated cable and satellite station. Murdoch's companies have beefed up the number of programs they produce in India. Murdoch's News Corp. is doing the same thing in Taiwan.

BSkyB, the Murdoch-owned direct satellite broadcasting system in Britain, has started to produce locally such shows as *Ghoul-lashed* and *Boiled Egg & Soldiers* for the British kids' market. This kind of deal may be good for Murdoch's News Corp., but it doesn't do a lot for Hollywood.

Even where the basic American concept plays well abroad, the programs often require a good deal of adapting or reshooting. Anthony J. Scotti, chief executive of Los Angeles-based All American Communications, is doing well by localizing U.S.-made entertainment (FORBES, *Feb. 26*). All American has five versions of *The Price is Right,* using only the basic concept but reshooting with local participants and local hosts. "This success has nothing to do with appetite for American product," says Scotti. "When French people come to the U.S. and see *The Price is Right,* they think we've stolen their show, *Le Juste Prix.*"

Scotti licensed the scripts of *The Honeymooners* from CBS and had them translated into Portuguese, Swedish and Spanish. He cast local actors in the roles of Ralph, Norton and Alice, and sold the shows to local networks. The remade *Honeymooners* shows are pulling in top ten ratings in their respective markets.

In music, too, local outfits are making inroads into markets hitherto dominated by U.S. conglomerates—for example, Taiwan's Rock Records. In 16 years Rock Records has built itself into Taiwan's largest independent record company, with over 40 Chinese-language performers under contract.

Viacom has done well producing indigenous programming for its eight versions of MTV, but local knockoffs threaten its lead. In Asia, Murdoch kicked MTV off his satellite and replaced it with his own music video station, *Channel [V],* which now has

The 1996 Chevy Lumina.

There's no better way to show your employees that you care about their comfort than by choosing a 1996 Chevy Lumina for your fleet. A roomy interior that seats six comfortably, allows them to relax, stretch out and enjoy the ride. Safety features like dual air bags and available ABS provide important peace of mind. A V6 fuel-injected engine offers the added security of having power when it's needed. But your employees won't be the only ones comfortable with Lumina. For those of you with a budget to consider, you'll find the Lumina base price quite comforting indeed. Call 1-800-FLEET-OPerations for more information.

Genuine Chevrolet®
The Cars More Americans Trust.

far wider distribution in China than MTV does.

FORBES would be the last to doubt that entertainment is a growth industry all over the world. It's a question of degree. Discounting the future is one thing; discounting the impossible is something else again. In this connection it's worth listening to Michael Solomon, who as head of Telepictures made his first fortune selling U.S. TV programs abroad but has now switched to producing abroad. He films in such places as Malaysia, India and Indonesia *(see box)*.

"As TV stations matured outside the U.S., they became better at producing their own shows," he says. "In the past they could only play American product because they weren't equipped to produce."

If Solomon is right—and he makes a persuasive case—American domination of the world's entertainment market will not go unchallenged. Combine that growing challenge with the zero-sum game at home, and you have an industry that is in for some serious shocks in the years ahead. ■

Know your market

MICHAEL SOLOMON, 58, got his start in the entertainment business selling American movies in Latin America for United Artists—often personally carting reels of film to remote mountain villages. In 1978 he teamed up with a former Time Inc. executive named Michael Garin to create a company they called Telepictures. It sold U.S. made-for-TV movies, miniseries and cartoons to TV stations overseas.

By the mid-1980s the company was making over $150 million a year selling that programming abroad.

They sold out—the business is now part of Time Warner—with Solomon pocketing over $10 million and taking a job as president of TV at Warner Bros. International. He took products into the foreign market that had never been sold there before—the old Looney Tunes cartoons, for example.

But Solomon remained an entrepreneur at heart. "I never intended to stay," he says. "I wanted the freedom to create."

Warburg Pincus provided $30 million in financing, Solomon kicked in another $3 million, and Solomon International Enterprises was born to produce TV programming abroad.

Today the company is producing seven series in India, and has completed *Marmadesam*, one of the highest-rated programs on India's first Tamil-language network. In Spain it has two programs—one in Spanish, the other in Basque. There is a soap opera done in Jakarta and another done in Kuala Lumpur.

Solomon's strengths are his knowledge of the local markets and his ability to create programming at a fraction of what the big media conglomerates would spend. While U.S. television producers are used to spending $1.1 million for an hour of action programming, Solomon spends no more than $40,000 for his Indian soap operas.

Says Murali Manohar, managing director of a Madras-based television production company: "Michael has made deals with all the leading producers in India. He knows how to produce inexpensively, and he knows how to do it quickly."

–L.G. with N.B. ■

AMY ETRA

International television producer Michael Solomon **Producing abroad on the cheap.**

THE WALL STREET JOURNAL FRIDAY, MARCH 29, 1996

The FCC Is Besieged As It Rewrites Rules In Telecommunications

---

Executives, Lobbyists Cram The Agency's Schedule And Offer Lots of Advice

---

Porridge With Mr. Murdoch

By BRYAN GRULEY
Staff Reporter of THE WALL STREET JOURNAL

Beneath crystal chandeliers in the ballroom of the Century Plaza Hotel in Los Angeles, Sharon Stone is signing autographs, Bonnie Raitt and her band are warming up and Joe Pesci is chuckling with Martin Scorsese, honoree of the black-tie soiree this February night. But Sharon Lawrence, one of the stars of television's "NYPD Blue," is fixated on Reed E. Hundt, chairman of the Federal Communications Commission.

"Whoa," she says. "Aren't you the guy in charge of all this legislation, digitalization, telecommunications thing that's going to change the world?"

"That's me," he says.

"Wow," Ms. Lawrence says. "That's big."

It's even bigger than she thinks. The Telecommunications Act of 1996 was supposed to get government out of the telecommunications business. Instead, for now, it has accomplished the opposite. While Congress set broad rules allowing local telephone, long-distance and cable companies to invade each other's turf, it left the details to the FCC. Those details will mean hundreds of millions of dollars to the bottom lines of the companies involved.

In the coming months, the regulatory agency must write more than 80 rules mandated by the new law, determining how deregulation will happen and who will pay. The regional Bell operating companies, or Baby Bells, can now enter the $70 billion long-distance business, but the FCC has a say in when, where and at what price. Long-distance carriers can offer local service, but the FCC will determine how. Cable rates are unshackled, but the FCC will say whether they are deregulated sooner or later.

With the stakes so high, companies are leaving nothing to chance. In the two months since the bill was enacted, chief executives and their legions of lobbyists have besieged the little agency. An agency that had fallen out of the spotlight during recent years of deregulation has gone prime time.

Signs of the change can be seen on the sidewalk outside the agency's Washington headquarters, where on a cold February night, three young men and a woman huddle together, playing cards. They have been hired to secure seats for lobbyists at an FCC briefing the next morning.

"Don't you know most firms can get this on closed-circuit television?" asks FCC General Counsel William Kennard, stumbling upon the campers after another late night at the office. Yes, they reply, but the lobbyists want seats so they can ask questions.

Inside the nondescript building, the assistant to Regina Keeney, the agency's chief telephone regulator, has switched her computer to its tiniest printing font in order to fit all of Ms. Keeney's appointments on her schedule. Donald Gips, deputy chief of the International Bureau, leaves his office for an hour and a half, only to find 120 new electronic-mail messages waiting when he returns. Mr. Gips says he recently turned down an offer from a consulting firm doubling his $100,000 annual salary. "I'm having too much fun," he says. "This is the place to be."

At the center of all the action is Mr. Hundt, a former antitrust lawyer with little experience in telecommunications. He likes to joke that he got the job because he sat next to Al Gore at St. Albans, the elite Washington preparatory school that he and the vice president attended. Now, Mr. Hundt is being courted by captains of industry who look to him to tilt regulations in their favor and protect them from competitors.

On Monday, Feb. 26, News Corp.'s Rupert Murdoch gets an audience with Mr. Hundt in Washington. Over bowls of porridge at the posh Four Seasons hotel, the publishing-and-broadcasting magnate attempts to curry favor with the FCC chairman by boasting of his offer to provide free air time to presidential candidates. Mr. Hundt heartily endorses the proposal but suggests Mr. Murdoch may still have a "difficult" time with the FCC's interpretation of how broadcast ownership should be defined. That could make it tougher to buy more TV stations, as the new law allows. Mr. Murdoch, who tangled with the agency on similar matters last year, says nothing.

Support for Education

Two days later, John L. Clendenin, chairman and chief executive of BellSouth Corp., seeks Mr. Hundt's favor. Knowing the FCC chairman frequently speaks about the role of technology in improving schools, Mr. Clendenin brings a 17-page summary of the Atlanta company's support for educational programs in the South. He then makes an argument for the FCC to rely more heavily on regulators in the states – where BellSouth and the other Baby Bells wield even greater political clout than in Washington.

Then on Friday, Jim Robbins, president and chief executive of Cox Communications Inc., ascends to Mr. Hundt's eighth-floor office. Cox plans to launch wireless-phone service this year in California. Mr. Robbins argues the new law requires the FCC to eliminate the three-cent-a-minute charge the Atlanta company currently would pay to route calls through the local Bell network in California. The change would shift millions of dollars from Pacific Telesis Group, the San Francisco-based regional Bell, to Cox, which Mr. Robbins says could pass the savings along to consumers. Mr. Hundt's advisers tell him the law is ambiguous on whether the charge should be eliminated. Sometime this summer, the FCC will have to decide.

The following Tuesday evening, Mr. Hundt dines with Craig O. McCaw, lead investor in Nextel Communications Inc., at Nora's, a Washington restaurant favored by President Clinton. The two men muse about the future of telecommunications but avoid direct discussion of the new law. "We can't end up arguing with all of them," Mr. Hundt says.

It isn't just the high and mighty who wish to plead their case to Mr. Hundt. At the Feb. 16 black-tie affair for Mr. Scorsese in Los Angeles, Mr. Hundt is accosted by Steven Poster, cinematographer for the movies "Rocky V" and "Life Stinks," who wants to argue about advanced TV sets. A certain shape of the screen is essential to the "aesthetics" of the picture, he says. "Come see me," Mr. Hundt replies.

Other members of the five-member commission are also under siege. With the imminent departure of Andrew Barrett, Commissioner Rachelle Chong is about to become the panel's only Republican. That makes her a conduit for GOP lawmakers as well as executives who fear they aren't getting what they want from Mr. Hundt.

'Competition Is Wonderful'

On Feb. 15, a week after President Clinton signed the new law, Ms. Chong is dining with Richard C. Notebaert, chairman and chief executive of Ameritech Corp. at the exclusive Metropolitan Club in Chicago. He presses for Ms. Chong and her fellow commissioners to let Baby Bells like Ameritech into the long-distance business quickly. "Competition is wonderful," he says, and calls on the FCC to "do [the rules] right and do it fast."

But "not so fast" is the message Ms. Chong gets a week later from a group of lobbyists for long-distance carriers AT&T Corp. and WorldCom Inc. of Jackson, Miss., and the Competitive Telecommunications Association, a Washington-based group of smaller long-distance carriers. They bring charts that they say show how the Bell network must be opened to new competitors before the Baby Bells are allowed into long distance. Otherwise, the Bells will use their lucrative local monopolies to subsidize their long-distance rates, the companies fear.

The same day, Suzanne Toller, an aide to Ms. Chong, meets with three cable-industry lobbyists when something whacks her office window, breaking it and spraying shards of glass into the room. "Oh my God," shouts lobbyist Deborah Costlow of the Chicago law firm of Winston & Strawn. "Something came through the window!" They all drop to the floor and crawl out into the receiving area, and call the police . . . then resume lobbying. The projectile that broke the window is never found.

Daytime demands for meetings with lobbyists keep FCC staffers working well into the night. The manic work habits force Ms. Keeney of the phone bureau to e-mail staffers at 11:51 p.m. one Friday to warn that the agency's computers can't be used on Mondays between 2:10 a.m. and 2:30 a.m. She suggests staffers log off at 2:10 and then either "log back in" at 2:30 or "go to sleep."

Lobbyists in the Hallway

Things are just as hectic on Wednesday, March 13. In the morning, Mr. Hundt meets with Bell Atlantic Corp. Vice Chairman James Cullen, who complains that long-distance companies are trying to delay the move to full competition. He asks whether the Philadelphia company and other Baby Bells are free to immediately offer cellular long-distance service. Mr. Hundt says yes. But Mr. Cullen protests that long-distance companies are "telling all the analysts on Wall Street it's a debatable proposition."

The meeting with Mr. Cullen runs until 10:20 a.m., stranding six FCC bureau chiefs who are waiting for their 10 o'clock meeting. Peering in from the hallway are a gaggle of lobbyists for such companies as Viacom Inc. and Turner Broadcasting System Inc., who want a moment with Mr. Hundt to discuss a cable matter. Chief of Staff Blair Levin shoos them away, promising to consider their concerns.

Meanwhile, Washington lobbyist Gerard Waldron escorts two executives of a major bank around the building. They are interested in what the FCC is doing because it will influence where they invest their money in the new telecom world.

Later, Mr. Hundt and a dozen staffers sit down to a brown-bag lunch with Philip Howard, author of the bestselling book "The Death of Common Sense," which criticizes regulators. "We hope this will keep us out of your next book," Mr. Levin says only half-jokingly. Mr. Howard advises writing rules that are "shorter than the statute itself"—which is 111 pages long. The sandwich-munching group chuckles; already, just one rule proposed by the Bells eats up 21 pages.

'Permanent Chairman'

As Mr. Howard departs, lobbyists for the Cellular Telecommunications Industry Association, including three former-FCC-officials-turned-lobbyists, wait to see Mr. Hundt. Former FCC officials are a hot commodity in Washington these days. In a coup, Pacific Telesis just hired Richard E. Wiley, a former FCC chairman who plays tennis with Commissioner James Quello and carries the nickname "permanent chairman." Nynex Corp. of New York has hired the law firm of Albert Halprin, a former FCC telephone bureau chief.

Mr. Hundt delays the cellular lobbyists for 15 minutes to take an unexpected call from Andrew Grove, chief executive of Intel Corp., the Santa Clara, Calif., semiconductor maker. Mr. Grove asks Mr. Hundt to read the manuscript of his forthcoming book, "Only the Paranoid Survive." He then launches into a tirade against recent suggestions that companies pay fees to send long-distance calls over the Internet. Trying to regulate computer bits carrying voices but not those carrying data "isn't right," he fumes.

Mr. Hundt, teasing the executive, who supported the new telecommunications law, says: "Isn't this the kind of clash you wanted to see unleashed?"

After 90 minutes with the cellular lobbyists, Mr. Hundt looks exhausted. Still, at 5 p.m., he bounds out to greet a new group of guests. "Hey, you're here for Round Two," he says to Thomas Tauke (pronounced *talky*), a former Republican congressman from Iowa who heads Nynex's Washington office. Nynex has arranged the second of two three-hour seminars for FCC staffers on how the new law ought to work. The staffers straggle in for an evening of Chinese-takeout food and debate about "interconnection" and other telephonic esoterica. Mr. Hundt's workday finally comes to an end at 9 p.m.

Two days later, more than 120 lawyers and lobbyists jam an FCC hearing room to tell Mr. Kennard, the agency's top lawyer, how the new law should be interpreted. In two overflow rooms, more lobbyists scribble notes while watching on TV. Addressing the somber-looking group, FCC staffer Rudy Baca jokes: "So, who are the Crips and who are the Bloods?"

No one laughs. "Sorry," Mr. Baca says as he walks out. "Different issue."

U.S. Distribution by

ALL AMERICAN
TELEVISION, INC.

A Subsidiary Of
ALL AMERICAN COMMUNICATIONS, INC.

European Distribution by

ALL AMERICAN
FREMANTLE
INTERNATIONAL
INC.

(except Scandinavia)

NEW LAW

Continued from page 8

exerted too much influence during the last several months as the House and the Senate reconciled their versions of the bill.

Fields also promised to use his seat in Congress to push the FCC toward the most deregulatory approach to implementation of the bill. Once President Clinton signs the bill, the action moves to the FCC, which has more than 80 separate rulemakings to resolve.

Although support for the bill was widespread, it was not unanimous. Among those who objected to the legislation were civil liberties groups that claim provisions limiting indecent speech on the Internet are unconstitutional.

"The censorship provisions in the telecommunications bill are clearly unconstitutional and will not stand up to court challenge," said Tom Andrews, president, People for the American Way, a Washington-based civil liberties group. Like the V-chip, the Internet indecency provision is headed for expedited judicial review. ■

Industry gives thumbs-up to bill

Telecommunications executives poised to enter new markets, increase portfolios

By Rich Brown and Donna Petrozzello

Broadcasters, cable operators and telephone companies have finally found something they all can agree on—the sweeping telcom bill passed by Congress last week by and large will be good for business.

"It's the best overall blueprint for opening up the markets that one could expect the political process to produce," says Joe Waz, vice president, external affairs, Comcast Corp., the nation's third largest cable multiple system operator. "It's likely to cut loose a lot of business plans that have been frozen because we haven't had the certainty."

Executives at Comcast and several other top cable companies say they are particularly eager to expand into the local telephone market. Preparations are well under way at companies such as Cox Communications, which already has a pioneer preference license granting the MSO permission to offer digital personal communications services to 20 million people in Southern California.

Cox welcomes the new opportunities that come with the legislation, but is concerned about the power being given to the regional Bell operating companies, according to Alex Netchvolodoff,

Spectrum auction still looms

Dole gets assurance the FCC will not award digital TV channels before congressional review.

While the rest of the industries affected by the Telecommunications Act of 1996 celebrated its passage last week, broadcasters' enthusiasm was checked by vows from the Republican majority to revisit Congress's decision to set aside spectrum for the transition to digital TV.

Everything is on the table, from auctions to decreasing the amount of spectrum the government plans to give each station for the digital conversion, said House Telecommunications Subcommittee Chairman Jack Fields (R-Tex.) last week.

Senate Majority Leader Bob Dole (R-Kan.) was livid that Republican leaders decided to move forward with the bill without making the changes he wanted regarding provisions covering digital spectrum, sources say. Dole was out of town when that decision was made.

But rather than block the legislation, Dole allowed it to move forward after demanding and receiving a letter signed by all five FCC commissioners promising not to award any digital TV licenses until Congress resolves its questions over the plan for broadcasters to make the jump to digital service.

Senate Commerce Committee Chairman Larry Pressler (R-Tex.) and Fields say they plan to tackle the spectrum issue shortly after Congress returns from recess in March. Pressler says he will introduce a "grand spectrum bill" this spring.

Fields supports a plan that would give broadcasters a second channel, but would require the industry to make an accelerated transition to digital transmission. Under Fields's plan, the current analog spectrum would be sold beginning in 2001 so that auction revenue could be used in Congress's effort to balance the budget in seven years. After the auction, broadcasters could use the spectrum for up to three more years.

Broadcasters oppose the Fields plan, saying there is no way to know if the industry or its audience will adapt to the new digital technology within 10 years.

"These broadcasters who stick their head[s] in the sand and say, 'We don't need a date certain,' are making a dramatic mistake that could lead to real problems," said Fields. In addition to auctions, Fields said, some in Congress are considering a reduction in the 6 mhz now allocated for the digital transition channel.

Dole is not alone in his opposition to the current spectrum policy. "I am completely dismayed about the giveaway aspect of this legislation," said Senator John McCain (R-Ariz.) last week, adding, "One thing I want to make perfectly clear to the American public is that Congress, at the behest of special interest groups, has turned its back on $30 billion of potential revenue [that] could have been used to fund important programs." —CSS

"Short term, we don't have to divest as much as we might have had to, and longer term it gives just about everything we wanted."
—Michael Jordan, chairman, Westinghouse Electric

vice president for public policy.

"The regional Bell operating companies, which are still the largest monopolies in the world and which are still in control of bottleneck facilities, have been given an enormous amount of economic freedom in this legislation," says Netchvolodoff. "They have the freedom to raise and lower prices, and they have the economic power to do that in predatory and anticompetitive ways.

"With anything that's as large as this bill, there are things in it that everybody likes and everybody wishes [weren't] there, but I think that the bill, on balance, creates opportunities for virtually every part of the media and communications sector," says Netchvolodoff.

One opportunity for cable—the deregulation of cable rates—will not necessarily prove to be a windfall for cable system operators, says analyst Melissa Cook of Prudential Securities.

"The market will hold down rates even if the bill doesn't," says Cook. She says consumers will turn to direct broadcast satellite and other alternative video delivery systems if cable operators try to hike rates.

For the broadcasting business, TV station ownership is expected to consolidate under new rules that allow an owner to expand its reach from 25% to 35% of all TV households. Anticipating the legislation, Westinghouse and CBS already have gotten the ball rolling by creating a merged station group covering 33% of the country.

TV station sales activity is expected to be active in midsize markets (30-75), says broker Elliot B. Evers of Media Venture Partners. Many of those markets already have been busy in anticipation of the bill's passage.

"The bill doesn't do as much for TV as I would like," says Evers. Particularly disappointing, he says, is its failure to address TV-newspaper crossownership and duopoly rules. The duopoly rules—which restrict multiple ownership in a market—are under review by the FCC.

"We're happy that it has been passed and look forward to the FCC's consideration of some of the provisions that were originally in the bill," says Dennis FitzSimons, executive vice president, Tribune Broadcasting.

Radio industry leaders overwhelmingly have heralded the telcom bill and its more liberal radio ownership rules for some time. In anticipation of its passage, companies including Evergreen Media and SFX Broadcasting began buying stations (and exceeding existing ownership rules) last year.

Most group owners say national and local ownership caps have stifled radio's growth and its ability to claim the same share of ad revenue as TV and print. Many see ownership deregulation as key to consolidating ownership and fortifying the industry.

"For SFX, the passage of the telcom bill, which we anticipated and planned for, will be immensely positive," says executive chairman Robert F.X. Sillerman. "It means there will no longer be artificial and unrealistic barriers to our growth." With its November acquisition of Liberty Broadcasting, SFX pushed past the 20 FM stations national limit, according to Sillerman.

"For SFX [the bill is] immensely positive. It means there will no longer be artificial and unrealistic barriers to our growth."
—Robert F.X. Sillerman

Likewise, Evergreen's acquisition of Broadcasting Partners Inc. and Pyramid Communications last year gave it 24 FMs and forced group CEO Scott Ginsburg to apply for multiple waivers. With the bill's passage, Ginsburg says, those waivers "will be of no consequence."

Ginsburg says Evergreen will push on with its strategy of acquiring stations in the nation's top 10 markets with greater freedom as a result of the bill. Industry leaders say passage will usher in a frenzy of station buying and increasing consolidation.

"This industry has reached an important crossroads," says American Radio Systems co-COO David Pearlman. "All companies will have to make the decision whether to get big or get out."

Meanwhile, radio executives opposed to the telcom bill argue that it will make it almost impossible for one-station owners to survive among burgeoning groups.

"We're happy that it has been passed and look forward to the FCC's consideration of some of the provisions that were originally in the bill."
—Dennis FitzSimons

"There used to be a time when anybody who walked into a radio station could realistically have hoped to own the station," says Tom Milewski, COO of Greater Media and vice president of its radio division. "That hope has been greatly diminished by this bill."

Sillerman's only "disappointment" with the bill is the revised local market ownership rules, he says. Although much less strict, those rules still limit the number of stations a group may own, based on the number of signals in a particular market. In the largest markets, groups will be limited to eight stations with a maximum of five FMs, instead of the two-FM maximum under existing rules.

"I have a certain level of disappointment that the bill didn't do what it originally intended, because there are still restrictions to local market ownership rules," Sillerman says, adding that limits in local market radio ownership could be adequately regulated based on federal antitrust laws without additional limits being added to the telcom bill. ■

Elizabeth Rathbun also contributed to this story.

Metromedia buys Goldwyn for $115 million

Tribune to take over sales of 'Flipper,' 'Gladiators 2000'

By Cynthia Littleton

The Samuel Goldwyn Co. handed distribution rights to two of its TV series to Tribune Entertainment last week as the financially strapped Goldwyn accepted a $115 million buyout bid from John Kluge's Metromedia International Group.

The stock-swap merger agreement gives Goldwyn shareholders $5 worth of Metromedia stock for each Goldwyn share, although the terms may vary, depending on the price of Metromedia stock when the transaction closes. Metromedia will assume nearly $73 million in Goldwyn debt as part of the deal.

Goldwyn has a library of 850 films and 700 episodes of such TV classics as *Flipper* and *Gentle Ben*. In addition to its production and distribution operations, Goldwyn owns the 143-screen Landmark Theatres chain.

Late last year, Goldwyn said it would sell its movie and TV library to PolyGram Filmed Entertainment for $62 million, but that deal was scuttled by Metromedia's last-minute bid for the entire company. Goldwyn, which has posted heavy losses over the past 18 months, also held buyout talks last summer with Turner Broadcasting System.

Metromedia was formed last year by the merger of Orion Pictures with several other entertainment and telecommunications companies. Goldwyn's TV operations may be consolidated into one new Metromedia TV division, although Goldwyn and Metromedia officials said no decision has been made.

In the meantime, Tribune has taken over distribution of Goldwyn's weekly first-run hour *Flipper* and its FCC-friendly children's show, *Gladiators 2000*, which runs on many of the Tribune stations.

The deal between Goldwyn and Tribune, which just last month turned over distribution of its long-running talker *Geraldo* to King World Productions, was spearheaded by Dick Askin, who in January left his post as head of Goldwyn's TV division to become president of Tribune Entertainment.

'Flipper' is one of Goldwyn's properties.

Separately, Askin said last week that Tribune will mount a national rollout of its new dating game show, *Bzzz!*, in the fall. The strip garnered a 7.3 household rating and 11 share, according to Nielsen's metered-market overnights, in its debut last week at 7 p.m. on Tribune's KTLA(TV) Los Angeles. ■

Networks consider Nielsen alternative

By Steve McClellan

If the four major broadcast networks have their way, Nielsen Media Research soon may have competition in the television ratings business.

The would-be competitor is Statistical Research Inc., a Westfield, N.J.-based TV research company that has been testing an alternative ratings service in Philadelphia for more than a year.

If SRI does launch its so-called SMART (Systems for Measuring and Reporting Television) service, it will be the first time Nielsen has had competition in the national TV ratings game in a decade.

Nielsen long has been accustomed to complaints from clients. But lately the intensity of those complaints—and their public airing—have increased dramatically. At its recent affiliate meeting in Las Vegas, Fox Television Chairman Chase Carey threatened legal action against Nielsen if the ratings agency doesn't get its act together.

ABC, CBS and NBC say they each independently have asked SRI to show them business plans for expanding SMART from a ratings laboratory to a full-fledged ratings service.

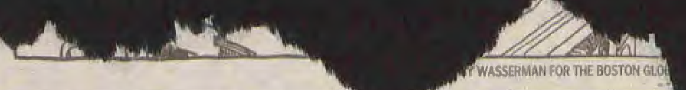
SRI President Gale Metzger confirms that the Big Three networks have talked to him, adding that NBC has been the most aggressive in seeking a detailed business plan.

NBC Television Network President Neil Braun says he asked SRI to draft a business plan because its Philadelphia prototype has yielded positive results and because of a "ubiquitous" sense of dissatisfaction in the industry toward Nielsen. Sources at the other networks say they also think that a Nielsen competitor would force the ratings company to be more responsive to complaints and to improve service.

Fox has not asked SRI for a business plan because the network doesn't think the research company is at a point to move quickly and aggressively into the market, says network senior vice president Giles Lundberg. "But if they are, we'd love to hear about it," he says.

Nielsen executives say they welcome competition. Although they acknowledge that they haven't always been as responsive to complaints as they could have been, they have addressed some major complaints; for example, by increasing cooperation rates for the "peoplemeter" sample from around 50% to 70%. These improved cooperation rates also have seen a parallel decline in network ratings in some dayparts.

In a letter to clients, Nielsen Media Research President John Dimling says that in smaller markets with smaller samples, the chances for ratings anomalies are higher. But he also says broadcasters reject solutions such as larger samples or meters because of the cost. ■



Y WASSERMAN FOR THE BOSTON GLO

BY TOLES FOR THE BUFFALO NEWS

Nat Hentoff

An Attack on Broadcasters' Rights

SWEET LAND OF LIBERTY

During my 10 years in Boston radio, the looming Federal Communications Commission regulated much of the controversy we aired—until my boss, in self-defense, cut out anything controversial. I envied the reporters at the Boston Globe, who didn't have a government agent editing their copy under the Fairness Doctrine, which compelled broadcasters to give time to opposing views on controversial issues.

The FCC eventually abolished that doctrine in 1987 because it violated the First Amendment rights of broadcasters and dampened rather than encouraged controversy.

Now, however, Bill Kennard, chairman of the FCC has declared—with the enthusiastic support of the president—a compelling need to force commercial broadcasters to provide free time to political candidates. He insists that his rule is "minimally intrusive and doesn't trample anyone's First Amendment rights."

Broadcasters, of course, are licensed, and that gives the state the power to make sure stations don't bump into each other's frequencies. Other technical problems also lie within the government's reasonable need to regulate.

Increasingly, however, the government has made demands of broadcasters that clearly take control of content. And by and large, broadcasters have failed to fight strongly and persistently enough for their First Amendment rights.

The current governmental push for free TV political time extends state involvement with broadcast content to the point at which television begins to appear to be an arm of the state—as it is in some other countries.

Cameron DeVore, an attorney specializing in First Amendment media cases, points out that the free air time concept "relies on a naked governmental directive to America's broadcast media to air political speech not of their choosing, but instead selected by candidates and defined by government fiat."

This doctrine for reforming campaign financing actually would involve the government's giving people *in government* the power to take television time, no matter what broadcasters might decide. After all, running for office will be incumbent members of Congress and members of state legislatures who aspire to higher office. The state would then be the publisher of these political broadcasts, not the broadcaster.

This is in the public interest?

As DeVore notes, "government preference for . . . political speech or indeed any other category of speech based on its content is particularly repugnant to the First Amendment."

Ah, but doesn't the government—acting on behalf of the people—own the broadcast spectrum? Lillian R. BeVier, a law professor at the University of Virginia, emphasizes that this unlimited ownership argument means that the state "can license the spectrum on any terms it chooses, regardless of whether the licensees would be signing away constitutional rights by agreeing to the government's terms."

This growing involvement by the state in television content increasingly makes that medium a creature of the state.

Justice William O. Douglas foresaw the evolution of government control of television. Of the Fairness Doctrine Douglas said back then, "It puts the head of the camel inside the tent and enables administration after administration to toy with TV or radio in order to serve its sordid or its benevolent ends." Much more of the camel has since gotten into the tent.

At the moment, there is a jurisdictional battle over free television time for political candidates that avoids constitutional problems. The conflict is whether the FCC can act on its own to impose free time if Congress does not. But Congress is insisting that only it can compel broadcasters to program what it decrees in terms of free political time.

If, however, this further weakening of television editorial independence does become law, this could be the last stand by broadcasters to keep at least some of their core First Amendment rights.

NBC has had the courage to reject the "voluntary" rating system furiously advocated by some members of Congress, but the other networks caved in to show how accommodating they can be. Now look where they are.

ST $60
R MONTH

PC. SET

nd loveseat in a
$1750, Curr. 999.99
with 2-pc. set.

SALE $808 **JUST $55 PER MONTH**

COMPUTER WORKSTATION ARMOIRE

Save a total of $552. **Lowest price of the season.** Flat top workstation with 4 doors; top doors wrap around. In a nutmeg or Brighton wash finish. Reg. $1360, Curr. 899.99

SALE $178

WHITE WICKER 4-PC. SET

Save a total of $122. **Lowest price of the season.** 4-pc. set includes settee, 2 arm chairs and cocktail table. Reg. $300, Curr. 199.99

SALE $448 **JUST $20 PER MONTH**

MASSAGE RECLINER

Save a total of $452. **Lowest price of the season.** Massage recliner available in 3 colors: burgundy, green or blue. By Stratolounger. Reg. $900, Curr. 499.99

HECHT'S®

ugh Sunday. Mattresses and Furniture at most stores. **Delivery, bed frame and disposal are free on Posturepedic (except Fairview), Perfect Sleeper, Beautyrest or Back Supporter sets over $440, extra on other styles. Mattresses and Furniture cannot be picked up. Ask about delivery fees. King sold in 3-pc. sets, queen sold in 2-pc. sets
through 4/4/98. ††If a local competitor advertises comparable bedding by the same manufacturer within 10 days of your purchase, bring in the ad with your sales receipt for the difference. Regular and Original prices are offering prices only and may or may not have resulted in sales. Advertised merchandise may be available at sale prices
vents. *Deferred billing available on your Hecht's charge with no finance charge during deferred period on purchases of $200 or more made within Furniture, Home & Electronics. See sales associate for details. Certain items excluded. Offer may end at any time. APR 18%-21.6%. 50¢ minimum.

COMMUNICATIONS

WIRELESS' WILD, WILD NORTH

Suddenly, there's a rush for the spectrum's upper reaches

Leo I. George learned a lot about the ways of Washington as a top outside lawyer for MCI Communications Corp. in the early 1970s. MCI drove a wedge into the century-old Bell System with a handful of intercity microwave links it got for free from the Federal Communications Commission. Three years ago, George quietly began to acquire his own microwave licenses from the FCC—in a dizzying upper region of the radio spectrum, considered useless to anyone but military pilots and radio astronomers. Few others had shown any interest in this "nosebleed" section of the spectrum. Like MCI, George got his licenses for 28 of the nation's biggest metropolitan areas for nothing.

William G. McGowan, the late MCI chairman, must be smiling down on his old friend George from Deal Heaven. Thanks to advances in technology and to overcrowding in the lower frequencies, the nosebleed section suddenly has the best seats in the house. Wising up, the FCC has stopped issuing licenses. It hopes to make money auctioning off those it hasn't already given to people like George, who sold his licenses for $10 million. The company that bought the licenses, Winstar Communications Co., based in Tysons Corner, Va., is a Wall Street favorite. It lost $7 million on $25 million in revenues last year, but its stock has risen from $2 when it went public in 1991 to about $18 now, giving it a market capitalization of $680 million.

Winstar saw an opportunity to use the high-frequency airwaves for quick, cheap connections between antennas in the next generation of cellular-phone networks, so-called personal communications services (PCS). The laborious alternative is to link the PCS antennas with wires strung on utility poles or snaked through trenches. Winstar's opportunity was George's easy money—simply because George got there first. But he makes no apologies. "It was unused real estate," he says. By finding a use for it, "we took a government asset and made it more valuable for everyone." Other companies are looking at using the high frequencies for satellite phone systems, office computer networks, and crash-avoidance radar for cars (table).

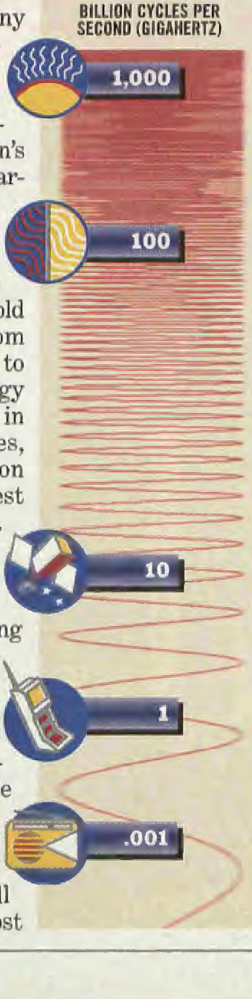
BITTER SQUABBLES. The opening of the spectrum's upper frontier couldn't come at a better time. Congestion in the lower bands has produced bitter squabbles over rights to the airwaves. In contrast, the upper spectrum is Big Sky country, a land of wide-open spaces. Winstar has licenses scattered between 37 and 40 gigahertz—that is, 37 to 40 billion cycles per second. "You might call this the Wild North instead of the Wild West," says Winstar Vice-Chairman Steven J. Chrust.

In December, the FCC opened three new bands even higher. Two, at 47 and 76 gigahertz, are for car crash-avoidance radar. The third, located between 59 and 64 Ghz, is being explored by Hewlett-Packard, Apple Computer, and Sun Microsystems for wireless local-area networks. Wireless LANs haven't caught on in lower bands, partly because they don't have enough capacity. But the amount of information that transmissions can carry climbs with increasing frequencies. The band between 59 and 64 Ghz can carry as much information as fiber-optic cable.

One apparent drawback to those frequencies is now proving to be a boon. Oxygen absorbs signals in that band, stopping transmissions dead after a few hundred feet. For computer makers, that's an advantage: The same frequencies can be used in neigh-

Staking Claims

Like 19th century American pioneers heading West, companies in search of cheap elbow room are using the latest technology to exploit higher and higher portions of the radio spectrum.



EXAMPLES OF SERVICES

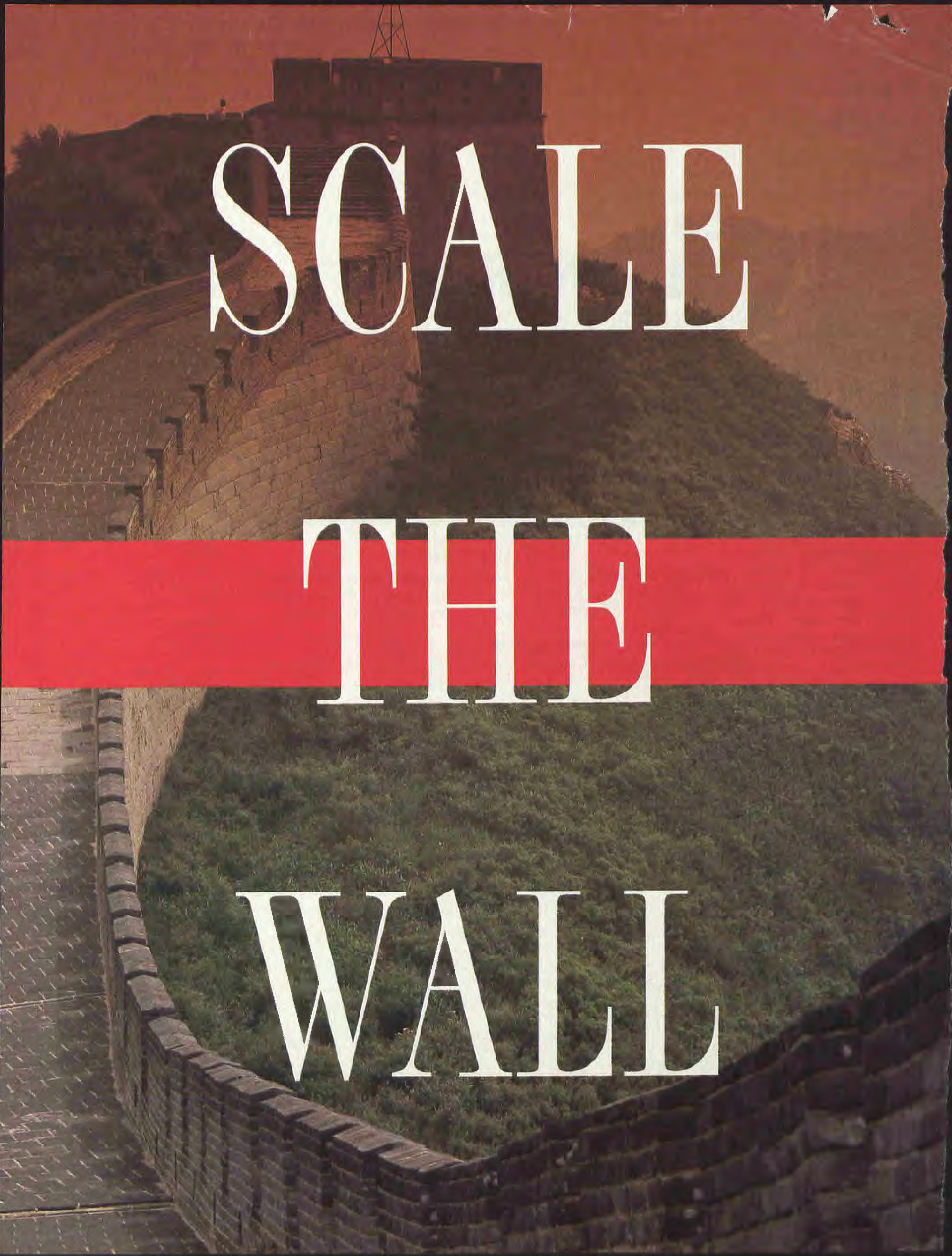
- ◀ Infrared can be used to send data over short lines of sight *(1,000 Ghz)*
- ◀ Boundary between radio waves and infrared radiation *(300 Ghz)*
- ◀ Highest frequencies used for radio astronomy *(230 Ghz)*
- ◀ Car crash-avoidance radar *(47 and 76 Ghz)**
- ◀ Frequencies especially susceptible to interference by air. Could be used for computer local-area networks *(59 to 64 Ghz)**
- ◀ MILSTAR military satellites *(40 to 45 Ghz)*
- ◀ Connections between personal communications services (PCS) antennas by Winstar Communications and others *(37 to 40 Ghz)**
- ◀ Network connections for iridium satellite phones *(28 Ghz)**
- ◀ Experimental "wireless cable" TV *(28 Ghz)**
- ◀ Police radar *(24 Ghz)*
- ◀ Direct-broadcast satellite TV *(10 and 12 Ghz)*
- ◀ "Wireless cable" TV *(2 Ghz)*
- ◀ AT&T microwave, backyard satellite dishes *(4 and 6 Ghz)*
- ◀ PCS *(1.85 to 2.2 Ghz)*
- ◀ Cellular phones *(824 to 896 Mhz)*
- ◀ Television *(54 to 806 Mhz)*
- ◀ FM radio *(88 to 108 Mhz)*
- ◀ AM radio *(0.5 to 1.6 Mhz)*

*Planned or proposed services

DATA: FEDERAL COMMUNICATIONS COMMISSION, *BUSINESS WEEK*

LISA KNOUSE BRAIMAN/BW

SCALE THE WALL



Making headway in the Chinese marketplace is a complicated maneuver, even for today's most sophisticated companies. Now *Business Week* can give you the boost you need by bringing you face-to-face with China's key economic decision-makers. Don't miss this important gathering of top officials from China's central government, leaders of Chinese enterprise, and senior executives of major corporations around the world.

Presented in partnership with:
The Development Research Center of the State Council of the People's Republic of China, and Aviation Week Group and Sweet's Group/Architectural Record, divisions of The McGraw-Hill Companies

Featured Speakers

Sun Shangqing
President, Development Research Center of the State Council of the People's Republic of China

Dr. Henry Kissinger
U.S. Secretary of State 1973-77, National Security Advisor 1969-75

In association with:
American International Group, Inc.
Bank of America
The Boeing Company
Hewlett-Packard Company
J.D. Edwards and Company

With the support of:
McMahan + Dr. Wu, Ltd., China Consultants

Be a part of The China Congress

"Addressing the Challenges to Realize the Promise"

APRIL 17-19, 1996. THE CHINA WORLD HOTEL, BEIJING.

To register for The China Congress, call +1(212) 512-2184, fax your response to +1(212) 512-6281, or mail this registration form to:

Ann McKenna Business Week Executive Programs
1221 Avenue of the Americas, 36th floor
New York, NY 10020-1095 U.S.A.

FEE: US $1,500
Spouse or guest, no additional charge.
☐ **Bill me**
☐ **Check enclosed**
Make check payable to Business Week Executive Programs.

Bill my: ☐ **American Express**
☐ **MasterCard**
☐ **Visa**

ACCOUNT NUMBER EXPIRATION DATE

SIGNATURE

NAME (please underline surname) TITLE

COMPANY

ADDRESS

CITY STATE/COUNTRY ZIP/POSTAL CODE

TELEPHONE FAX

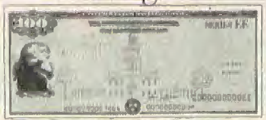
PRIMARY BUSINESS ANNUAL REVENUE (US$)

BusinessWeek

EXECUTIVE PROGRAMS

Beyond news. Intelligence.

Business Week
A Division of The McGraw-Hill Companies



boring office buildings without fear of interference.

When George grabbed his licenses, he seemed to be battling the immutable laws of physics. That's why there were few other takers. Signals in lower bands, with their long wavelengths, can travel hundreds of miles and slice through buildings like butter. But at the higher bands, signals travel only a mile or two and can't cut through much besides fog and smoke. They also require more sophisticated—and costly—electronics. But they have huge information-carrying capacity. And costs have plummeted in recent years, as gallium arsenide chips that generate and detect high-frequency signals have fallen in price.

RADIO 101

LOW-FREQUENCY transmissions, including radio and TV, travel long distances, bend around objects, and easily penetrate walls, rain, and snow. Their disadvantage is limited data capacity.

HIGH-FREQUENCY transmissions, such as proposed wireless computer networks, don't easily bend around or penetrate walls and are degraded by rain, snow, and fog. The electronics cost more. But their data capacity is enormous.

For that, thank the Pentagon. It helped tame high frequencies in the 1970s by ordering "millimeter wave" devices from the likes of TRW Inc. and Martin Marietta. Because the signals died out after traveling short distances, fighter pilots could talk by radio to one another without being overheard. And higher frequencies could use tiny one-inch antennas, small enough to fit in the noses of smart bombs to guide them toward their targets.

MONOPOLY BREAKER. For the Pentagon, the catch was that the high-frequency chips had to be made from gallium arsenide, which is faster than silicon but more difficult to process. In 1987, the Pentagon set out to lower the chips' cost by developing manufacturing and design capabilities like those used for silicon. The Defense Dept. launched a program called Microwave & Millimeter Wave Monolithic Integrated Circuits (MMIC, pronounced "mimic"). A year later, the program was transferred to the Defense Dept.'s Advanced Research Projects Agency. Among the 30 participating companies were Raytheon, Texas Instruments, TRW, Hughes Aircraft, Martin Marietta, and ITT. The program ended last year after laying out $570 million in federal funds.

Industry experts consider MMIC a big success. The cost of a typical gallium arsenide circuit fell from several hundred dollars to less than $10. "You were going from a situation where you were making chips by hand to one where you were mass-producing the circuits using highly automated techniques," says Eliot D. Cohen, MMIC's former executive director.

That technology now serves the private sector. Carmakers, for example, have long dreamed of radar to warn drivers who get too close to the car ahead. But the systems were too bulky to fit behind the front grille, and they sprayed signals so widely that they couldn't distinguish the car ahead from one approaching in the opposite lane. At higher frequencies, though, radars can be shrunk to the size of a brick. They can also generate focused beams that "see" only straight ahead. Detroit now hopes to offer collision-avoidance radar as an option in luxury cars for under $1,000 in two to four years. "I have a gut feeling that this will be as important as air bags were," says Robert W. Schumacher, director of the advanced technology center at Delco Electronics Corp. in Kokomo, Ind., a unit of GM Hughes Electronics.

Nosebleed transmissions may help break up local telephone monopolies by serving as the backbone for new PCS networks that grab business from the old wired networks. The FCC helped advance that revolution with its hands-off approach to licensing the band at 37 to 40 Ghz. Traditionally, the FCC requires applicants to file an engineering plan for each microwave link between two points—say, between two office buildings—proving the connection won't interfere with existing licensees. That's time-consuming and expensive.

In the new band, the FCC granted exclusive licenses for territories of over a thousand square miles. It's up to the licensees to set up point-to-point links for their customers and make sure the links don't interfere with each other. MCI and Teleport Communications Group Inc., who are also Winstar's customers, will use wireless links to supplement fiber-optic networks that are siphoning traffic from local phone companies.

The heyday of the Wild West came to an end when the westward expansion collided with the Pacific Ocean. But real estate in the gigahertz range is nearly infinite. Leo George's followers should march on for years.

By Mark Lewyn in Washington

Hot Funds

Rx for Profits: Hefty Dose of Healthcare

LOOKING TO GIVE your portfolio a shot in the arm? An injection of healthcare funds may be just what the doctor ordered.

MUTUAL FUNDS' Healthcare Funds Index soared 50% in 1995, second only to the financial services sector, and even beating technology. Healthcare absolutely sizzled in the last half of the year, gaining 30%. Analysts expect the sector to remain in the pink in 1996. Fueling the run:

◆ Good earnings prospects for pharmaceutical companies and an improving outlook for managed-care firms (HMOs). Admissions to HMOs are accelerating while costs remain under control. As a result, forecasts call for HMO earnings growth of up to 30% in 1996. Industrywide, analysts expect earnings to grow in the neighborhood of 15%.

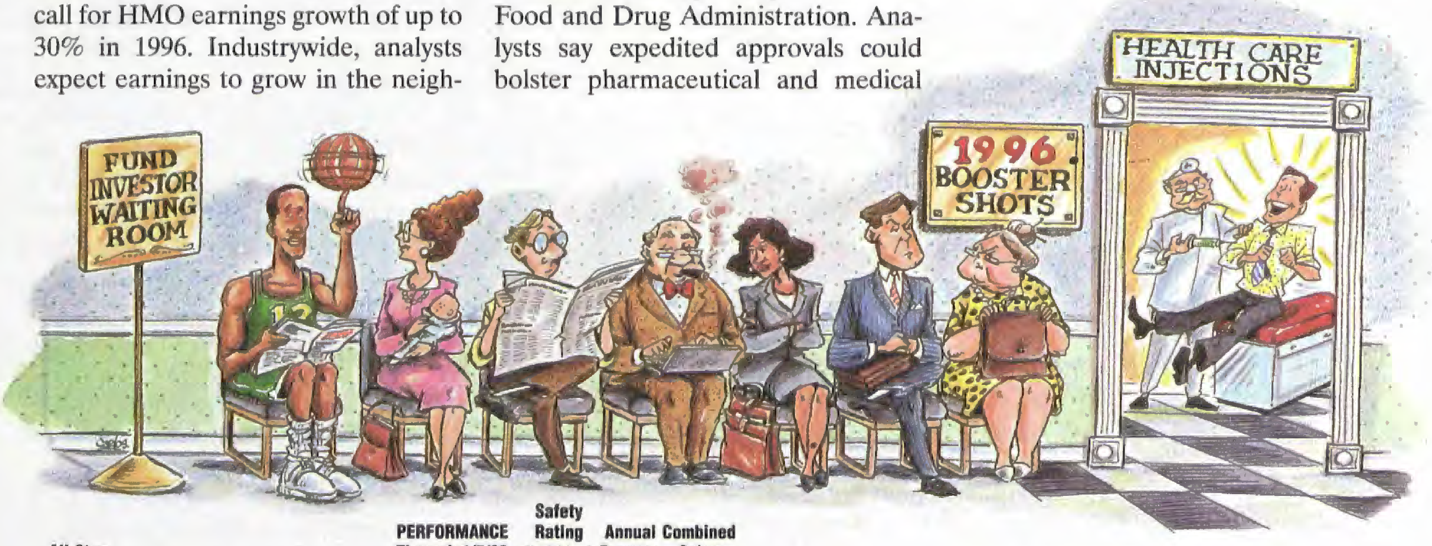
◆ Innovative new products and drugs. "There really are some blockbuster new pharmaceutical products in the pipeline at a good number of companies," says Charles Duboc, portfolio co-manager at **Twentieth Century Select Investors** (800-345-2021), a diversified fund that, like many others, upped its healthcare commitment in 1995. The fund's stake in the sector now stands at 13%. "The companies we're in have some very interesting product profiles, both near term and long term," he adds.

◆ A strong lobbying effort by the industry to speed up the drug and medical device approval process at the Food and Drug Administration. Analysts say expedited approvals could bolster pharmaceutical and medical device firms in particular, and healthcare stocks in general.

◆ Favorable demographic trends. America's steadily aging population (the first of 78 million baby-boomers turns 50 this year) will require more and more medical products and services.

"Fundamentally, the healthcare group is very well positioned," reports John Schroer, portfolio co-manager of small-cap specialist **Invesco Strategic Health Sciences**, which jumped 59% last year.

Kurt von Emster, portfolio manager of **Franklin Global Health Care**, which focuses on small-cap stocks, concurs



Carlos Castellanos

All-Star Rating	Healthcare Fund	PERFORMANCE Through 1/5/96 1 Year	5 years	Safety Rating 0=riskiest 10=safest	Annual Expense Ratio	Combined Sales Load	Telephone	Portfolio Description
★★★★	**Capstone Medical Research**	+63%	+188%	7.2	2.50%		800-262-6631	Heavy into biotech; also buying Japanese pharmaceuticals.
★★★	**Dean Witter Health Sciences**	+61%		5.8	2.30%	5.3%	800-869-3863	Targets small-cap stocks with strong earnings momentum.
★★★	**Fidelity Select Biotechnology**	+49%	+124%	5.2	1.73%	3.9%	800-544-8888	Third of assets in biotech; also owns pharmaceuticals.
★★★★	**Fidelity Select Health Care**	+44%	+185%	6.4	1.46%	3.9%	800-544-8888	Large-cap growth fund targets firms with proven products.
★★★	**Fidelity Select Medical Delivery**	+34%	+174%	5.7	1.45%	3.9%	800-544-8888	Well diversified within sector; now favoring HMOs and hospitals.
	Franklin Global Health Care	+58%		6.7	1.37%	4.7%	800-342-5236	Seeks growth stocks at value prices; buying HMOs.
★★★	**H & Q Healthcare Investors**	+67%	+123%	3.3	1.76%		Closed-End NYSE	Small-cap growth fund has big stake in private placements.
★★	**H & Q Life Sciences Investors**	+73%		3.1	1.83%		Closed-End NYSE	Small-cap aggressive growth fund with biotech bent.
★★★	**Invesco Health Sciences**	+58%	+153%	5.9	1.33%		800-525-8085	Diversified player up 23% a year over the past decade.
★★★	**Putnam "A" Health Sciences**	+46%	+131%	6.9	1.12%	6.1%	800-225-1581	Large-cap growth fund has largest load in group.
★★★★	**Vanguard SP Health Care**	+44%	+162%	7.7	0.40%	1.0%	800-523-1154	Only Four-Star fund in group; lowest expense ratio.

Hot Funds

Continued from Page 79

with Schroer's diagnosis. "If you can find earnings growth of about 15% in a stock trading at about a market multiple, obviously over the longer term it is going to do better than the market," von Emster says. "At this point in time, it makes a whole lot of sense to be investing in healthcare."

But Morningstar healthcare funds analyst Pat Regnier sounds a note of caution. "Don't buy healthcare funds because you expect another spectacular 50% gain this year. That's asking a little too much. But buy it because you expect it to have a healthy rate of return. There's lots of fundamentals in place that could allow healthcare to outperform the market again this year."

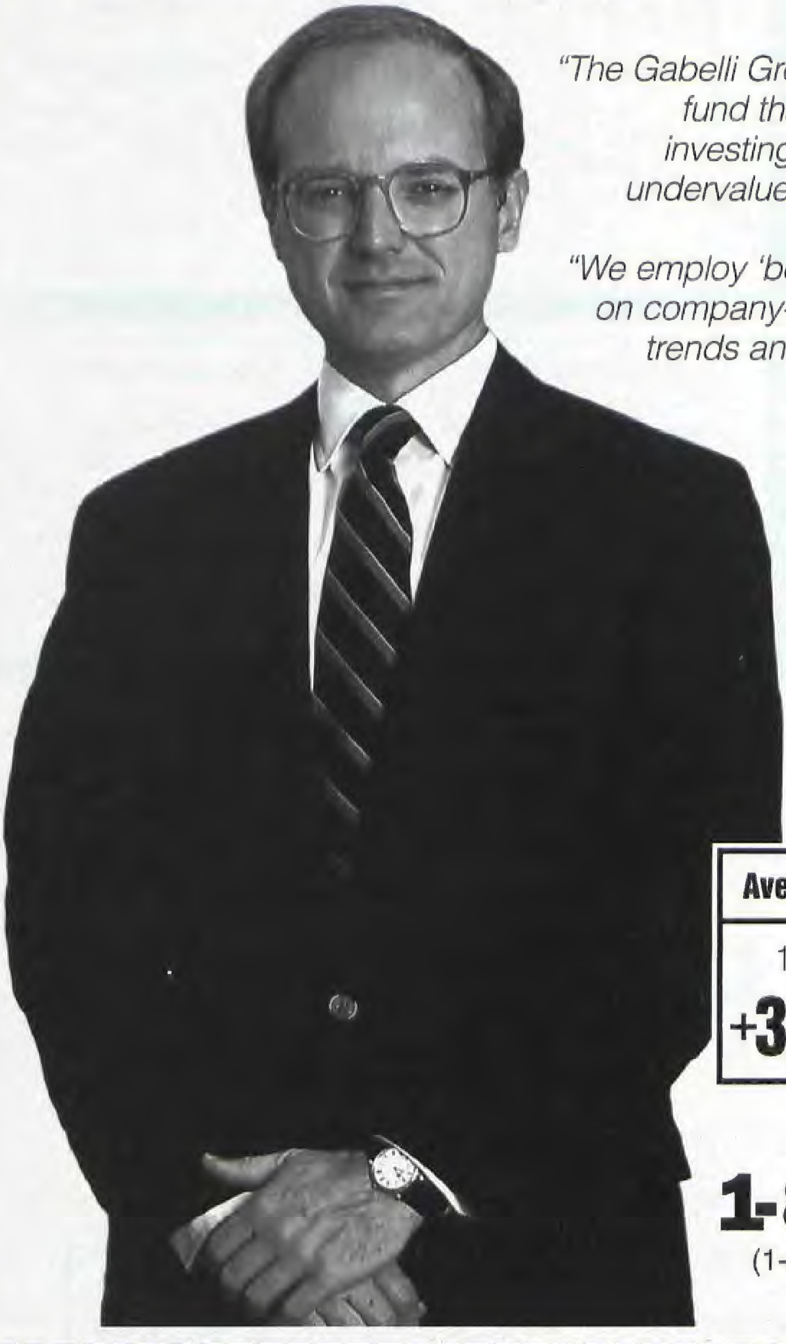
While most healthcare fund managers are cheerfully optimistic on the outlook for 1996, they're also ready to admit prospects might change in a hurry, since this is an election year. One wild card that could quickly upset the apple cart, says Regnier, is the re-election of President Clinton and the return to Congress of a Democratic majority.

"That could result in a serious healthcare reform proposal, and reform is what tanked the sector the last few times it went down," Regnier says, referring to the Clinton Administration's ill-fated attempt at reform in 1993. That year, several healthcare portfolios posted losses.

On the other hand, von Emster predicts, "If the economy goes into a nice, slow growth pattern, if we don't go into an inflationary environment, and if interest rates remain low, a lot more portfolio managers are going to move back into healthcare technology stocks in this cycle."

Of course, healthcare funds, like virtually all stocks funds, will suffer if the market dives in the months ahead. But because the demand for healthcare products and services tends to hold steady in the face of pullbacks in the economy, many fund managers see it as a good place for equity capi-

GABELLI GROWTH FUND



"The Gabelli Growth Fund is a no-load, diversified fund that pursues capital appreciation by investing in stocks that have favorable, yet undervalued, prospects for earnings growth."

"We employ 'bottom-up' research, concentrating on company-specific criteria such as earnings trends and market capitalization ratios as a basis for stock selection."

"The Fund invests predominantly in companies believed to have above-average or expanding market shares and profit margins."

Howard F. Ward, CFA
Portfolio Manager

Average Annual Returns as of 12/31/95		
1 Year	5 Year	Life of Fund*
+32.7%	+14.9%	+15.9%

For a prospectus call:

1-800-GABELLI

(1-800-422-3554) • FAX: (914) 921-5118

http://www.gabelli.com

The returns shown above are historical and reflect changes in share price, reinvested dividends, and are net of expenses. Investment returns and the principal value of an investment will fluctuate. Past performance does not guarantee future results. When shares are redeemed, they may be worth more or less than their original cost. The prospectus contains more complete information, including fees and expenses. Please read it carefully before you invest or send money.

*From Inception on April 10, 1987

Complete and mail this page to:
Gabelli & Company, Inc., One Corporate Center,
Rye, New York 10580 or Fax : 1 (914) 921-5118

Gabelli Growth Fund
One Corporate Center • Rye, New York 10580

Please send more information and prospectus to:

NAME ______________________________

ADDRESS ______________________________

CITY ____________________ STATE ______ ZIP ______

MF-396

Hot Funds

Continued from Page 80

tal in a market downturn. "At least, that's the theory," says Regnier.

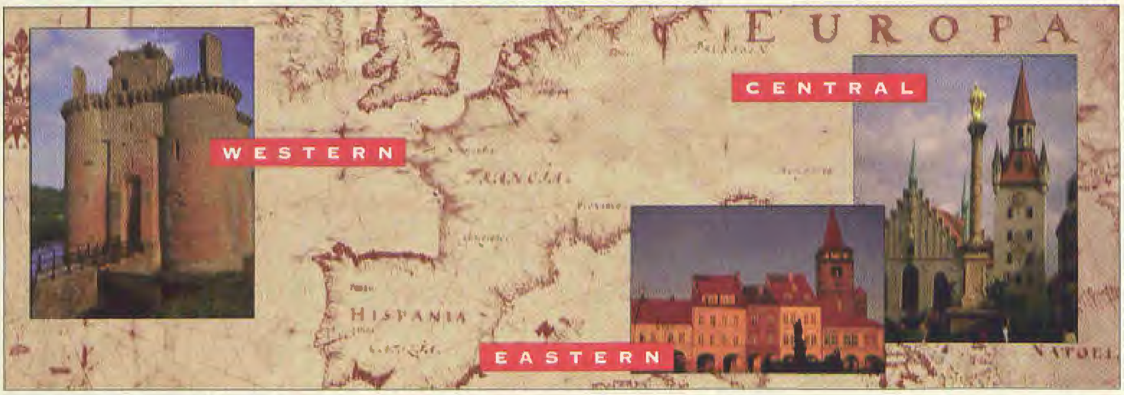
Concludes von Emster, "Most general diversified funds were underweighted in healthcare stocks going into 1995. Some of the industry's market advance was due to more large funds moving back to market-weighted positions in healthcare. Healthcare's growth prospects exceed the S&P 500's going into 1996-1997, so we could see continued buying in this sector as more of the general funds sell out of technology, and move into defensive positions like healthcare."

Note that all healthcare funds are not created equal. Some specialize in particular sub-sectors, such as biotechnology. The table on page 79 highlights some of the differences among these funds. MF

– Dan Ruck

What's Hot . . . And Not

Templeton Greater European Fund



Explore The Investment Potential Of Europe.

Europe's strong and expanding unified economy already represents 24% of the world's stock market capitalization.† With the promise offered by emerging markets in Central and Eastern Europe, this region may be poised for remarkable growth into the next century. The Templeton Greater European Fund gives you access to new opportunities throughout Western, Central and Eastern Europe.

Templeton's managers focus on long-term capital growth. By investing in established and newly privatized companies – from Germany to the new, Czech Republic – the fund can offer you quality opportunities to begin or add to your global portfolio. It's important to keep in mind that foreign investments can pose greater rewards as well as risks when compared to U.S. investments and developing markets can be especially volatile. The fund's share price will fluctuate depending upon currency rates and political climates.

The fund's managers place a strong emphasis on:

- **Long-term capital growth potential**
- **Quality opportunities in established and emerging markets**
- **Diversification across countries, industries and companies**

Call your investment representative or Templeton today.

†Source: Morgan Stanley Capital International Perspective and International Finance Corporation Monthly Update, 1995.

Principal Underwriter: Franklin Templeton Distributors, Inc.

AVAILABLE FOR YOUR IRA

Call 1-800-342-FUND Ext. T669

TEMPLETON WORLDWIDE
700 Central Avenue
St. Petersburg, FL 33701-3628

Yes! I would like a free prospectus containing more complete information on the Templeton Greater European Fund, including sales charges and expenses. I will read it carefully before I invest or send money.

☐ *I am currently a Templeton shareholder.*

Name ________________

Address ________________

City ________________

State ________________

Zip Code ________________

MUT3/96
T669

Templeton
WORLDWIDE

A Member of the $132 Billion Franklin Templeton Group

Best Diversified Int'l

Like homemade bread, no financial success smells so sweet as the type you cook up yourself. That's why the smiles are so broad these days at **GAM International** (800-426-4685), where portfolio manager John Horseman jockeyed his $534-million fund to a peer-leading 30% gain in 1995.

While Mutual Funds' index of international funds managed only a 10% return for the year, GAM International galloped to its third-best showing in a decade, largely on the strength of judicious positions in German bonds and Japanese electrical stocks.

Horseman bases his portfolio moves on a macroeconomic analysis, plus a half-dozen investment themes.

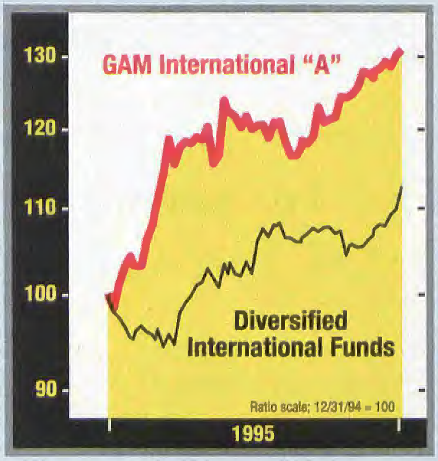
The portfolio manager played the theme of falling interest rates into a symphony in 1995. The best way to capitalize on the trend, Horseman decided, was to buy bonds rather than equities, and German bonds in particular, because he believed that currency trends clearly favored the deutschemark. He was right.

Horseman also likes the privatization story in Europe. He has been accumulating a number of former state-run companies.

GAM International's helmsman bought Japanese electricals on the advice of GAM's London-based analyst team that covers the Japanese market. "John doesn't really believe in the Japanese market to any great extent, but he does feel that he can find some Japanese stocks that will perform," says David Anderson, managing director in charge of Global Asset Management's mutual fund product line in the U.S.

The portfolio manager has great latitude in his investment options. GAM International has held as much as 25% of its assets in cash, and in 1995, bonds accounted for as much as 60% of assets.

The flexibility helps GAM International earn a solid 7.3 Safety Rating and a sterling "A" Down Market Ranking. The fund's three-year and ten-year returns of 110% and 471%, respectively, are among the top 10% of all mutual funds. The fund's "A" shares carry a 5.3% load.



Best Single Country

Shareholders' eyes are smiling on **Irish Investment**, the top-performing single-country international fund in 1995. The $69-million closed-end fund notched its best calendar year ever with a 39% gain, trouncing the runner-up in this category, **France Growth** (+29%).

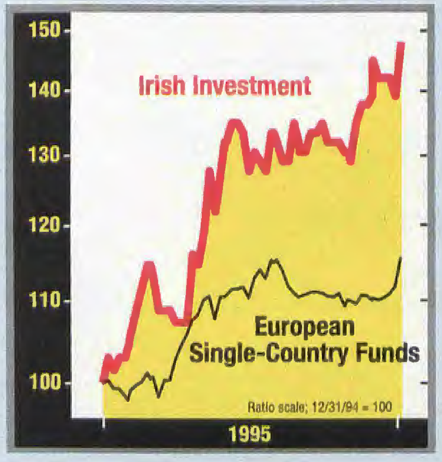
It's easy to see why Irish Investment is kicking up its heels, says co-manager John Forde. The fund invests totally in Irish companies or companies directly affected by developments within the island nation, and the Irish economy is on a two-year hot streak that shows few signs of cooling.

"The Irish economy has performed very strongly in comparison to recent history," Forde says. Coming off a period (1991-1993) of very low growth, high interest rates, low consumer confidence, and a European currency crisis during which the Irish pound and other European currencies were devalued, Irish firms have enjoyed two full years of low interest rates, low inflation, enthusiastic consumers, and higher rates of employment. Another plus: peace and relative calm in adjoining Northern Ireland.

Demographics are also fueling the run-up, with a large percentage of the population now entering the work force. Result: Irish stock prices are soaring and Irish Investment is riding the updraft. The portfolio rose 37% last year, and the market shaved the share-price discount slightly to 15%. Result: Clover.

On a more somber note, Forde reports, Irish Investment's share-price spiral has been slowed by the fund's big stake (13% of assets) in Jefferson Smurfit Group, an international paperboard and packaging conglomerate. Smurfit's stock trades more in line with global issues than with the faster-rising Irish bourse, Forde explains.

Trouble arising from the Smurfit holding, or an even broader global recession, would stop the upward march in Irish Investment share values this year, Forde cautions. "Interest rates are the key risk to the market," he says. But with Ireland's inflation rate in the 2% area, he doesn't anticipate a rate increase anytime soon. "More likely, the Irish economy will continue to do very well over the coming year." Sounds like the Irish are smart, not just lucky.



January 7, 1998

Judicial Activism May Lower Your Phone Bill

By ROBERT W. CRANDALL

A federal judge in Wichita Falls, Texas, ushered in the new year with a ruling that jolted the Justice Department and the telecommunications establishment. Judge Joe Kendall declared unconstitutional those provisions of the 1996 Telecommunications Act that bar local Bell companies' entry into long-distance service until the Bells pass a tortuous set of regulatory hurdles. The judge accepted a novel argument that these conditions, imposed only on the Bell companies, amount to an unconstitutional bill of attainder. Unless he is reversed, several Bell companies will soon begin to compete with long distance titans AT&T, MCI, Sprint and WorldCom.

Regulators, antitrust officials and the Bells' potential competitors have all criticized Judge Kendall's ruling. But there probably would be no competition in telecommunications today but for activist federal judges.

In the 1970s, a group of Chicago school economists began to push for loosening and even eliminating government regulation of industry. Congress was persuaded that deregulation would cause many industries' prices to decline, thereby easing some of the dreadful inflation of the time. And so the walls around the Civil Aeronautics Board and the Interstate Commerce Commission soon came down--and airline, trucking and railroad rates quickly followed.

The Federal Communications Commission, however, did not propose to abolish itself through deregulation. Rather, when the FCC allowed MCI into the interstate telephone market, it did so only for purposes of collecting cost data that would help in perfecting its regulation of AT&T, which it saw as a "natural" monopoly. Some economists at the FCC may have seen this entry as a Trojan horse for competition with AT&T, but its commissioners and Congress surely did not.

MCI decided to challenge the FCC's restrictions, much as the Bells are now doing, through the courts. Under the leadership of its intrepid CEO Bill McGowan, MCI simply used an existing AT&T service to connect ordinary long-distance calls dialed by its customers at prices that were 50% below AT&T rates. AT&T immediately complained to the FCC, and the FCC responded by petitioning the D.C. Circuit U.S. Court of Appeals to block McGowan. At every turn, the court rejected the FCC's demand that MCI be enjoined from offering this unauthorized, competitive

In this Section:
World-Wide
Asia
Europe
The Americas
Economy
Earnings Focus
Politics & Policy
Weather

Editorial Page
Leisure & Arts
Voices

Table of Contents

Related Sites:
Barron's Online
SmartMoney Interactive
Careers.wsj.com
Business Directory
Publications Library

Search/Archives:
Search
Briefing Books
Quotes
Past Editions
Journal Links
Special Reports

Resources:
Help
New Features
Your Account
Contact Us
Glossary

Advertising:
Advertisers
E-Mart

long-distance service. After nearly three years of litigation, the FCC admitted defeat, unable to show that MCI's entry would not be in the public interest.

A less activist court might have deferred to the "expertise" of the FCC. MCI would have been remanded to its intended role as a collector of cost information for the FCC, and AT&T would have had no reason to behave anticompetitively toward it.

After MCI prevailed in court, however, AT&T became very aggressive in denying MCI connections to its local customers, which MCI needed to offer any service at all. AT&T's reaction resulted in the landmark 1974 antitrust suit that ultimately dismembered AT&T. Had the FCC been able to persuade the appeals court to keep MCI out of the long-distance business, there probably would have been no antitrust suit. Perhaps there would still be no long-distance competition.

This is not to say that the FCC is incompetent. The politics of regulation make it very difficult for any agency to release its wards to the mercies of the market. There is always some constituent interest to be served--below-cost service to the poor or to rural customers, or "free time" on regulated television stations. Competitive markets do not permit, say, your local pizza delivery service to offer below-cost delivery to poor areas. Regulated monopoly markets do provide such opportunities, as long as the regulator keeps troublesome entrants from disrupting his plans.

It is only when nettlesome judges disrupt these schemes or when academic economists, intent on returning to academe, take over the regulatory agencies that competition has a chance. Last year, for instance, the Eighth Circuit U.S. Court of Appeals overturned the FCC's most important rules for implementing local competition under the 1996 Act. The "interconnection" requirements were so complex that they slowed the move toward competition--until judges removed that roadblock.

In the present instance, the FCC and the Justice Department will argue that the time is not yet ripe for allowing the Bell companies into long distance--that they should be given time to make sure that entrants into the Bells' local markets may also succeed. Justice may even be forced to make this argument if it decides to block the WorldCom-MCI merger on the (highly ironic) grounds that the long-distance market is still too concentrated to permit two large rivals to merge. And perhaps the Bells will have a first-mover advantage in offering local and long-distance services together while MCI and AT&T figure out how to gain access to the Bells' local customers.

But does anyone seriously believe that regulation will carefully guide us to the competitive market ideal in this or any other industry? Regulators are generally hostage to political forces that make it difficult to open markets. A prod from the courts can surely help. Even conservatives, fearful of judicial activism, might consider an exception for Judge Kendall's brand of activism toward stifling government regulation.

Mr. Crandall, a senior fellow at the Brookings Institution, has served as a consultant to several regional Bell operating companies.

Return to top of page

The Wall Street Journal

November 12, 2007

T-Mobile Wagers Deal With Google Is Worth the Risk

By AMOL SHARMA

November 12, 2007; Page B1

The smallest of the leading U.S. cellphone operators, T-Mobile, appears to be the one making the biggest bets.

Perhaps its most daring is its most recent. The **Deutsche Telekom** AG unit said it will release a phone next year based on **Google** Inc.'s advanced new software, wagering that it has more to gain than to fear from a partnership with the Web giant.

Most other U.S. carriers such as **AT&T** Inc. and Verizon Wireless have so far stayed on the sidelines, leery of Google's push to expand its presence on mobile phones. Those companies fear it could snatch away future revenue from mobile advertising and loosen their ability to control what phone features customers can access. But T-Mobile USA Inc. has aggressively pursued the Google relationship, seeing it as a way to improve the basic operating software on its phones and offer popular Google-branded applications like its Internet search engine and Google Maps.

[photo]
HTC's Shadow phone

"Certainly Google is a name consumers trust," said Cole Brodman, T-Mobile's chief development officer. "There are some things they do that are best-in-class."

It is likely that T-Mobile will be the first U.S. carrier to bring a Google-powered cellphone to market. The two sides have been working together for several months to develop the specifications for a new device, which would be powered by the Google-backed Android open operating platform. The companies have declined to name the manufacturer of the phone, but most people in the industry suspect it is Taiwan's HTC Corp. The effort puts T-Mobile ahead of **Sprint Nextel** Corp., the only other U.S. carrier among the 33 partners Google announced last week in its push for open operating platforms for cellphones.

Cellphone carriers are always trying to update their handset lineups with snazzy new devices meant to lure customers away from the competition. But T-Mobile, of Bellevue, Wash., is fundamentally rethinking how it builds phones -- with an eye toward making high-end Web and multimedia features available on cheaper phones -- and the business models it uses to make money off them.

Beyond the Google project, the carrier has been willing to break with industry orthodoxy. It even has tinkered with the way customers are billed, something long sacred in the wireless industry. This

Fits in post script re:
how commun cos
instinctively try to
maintain monopolies,
control what
consumers can/can't
do - hold onto
monopoly position

OTP saw that giving
more choices
provided more
incentive to innovate.
Competitive pressure
for Google to innovate
+ do more things
than phone cos have
thought of

summer, T-Mobile became the first major U.S. carrier to offer phones capable of rolling calls from a cellular network to Wi-Fi networks. Because callers don't use up "minutes" while they are on Wi-Fi networks, they can sign up for cheaper monthly plans. An added benefit is that Wi-Fi networks give customers better cellphone coverage indoors, which means people can feel comfortable ditching their home phone. The catch: The Wi-Fi service costs $20 a month.

Standing out from the pack is critical for T-Mobile. The carrier was left behind in the frenzy of mergers that created the two telecom industry behemoths, AT&T and **Verizon Communications** Inc. Those two companies are now offering customers a bundle of telecom services, including mobile phones, Internet access and TV. T-Mobile's fortunes, meanwhile, rest purely on wireless. The company is growing quickly and has nearly 28 million customers, but it is still less than half the size of AT&T and Verizon Wireless, and adding new customers is only going to get tougher as the market matures. Some 80% of Americans already own a cellphone.

T-Mobile's initial talks with Google began about two years ago when the Internet company acquired a Silicon Valley start-up called Android Inc. and took on its co-founder, Andy Rubin. Mr. Rubin had a history with T-Mobile, having helped to develop the carrier's popular Sidekick mobile device through a separate venture.

[chart]

As the discussions ramp up, the wireless carrier faces some challenges. It must ensure that the openness of the Android platform doesn't compromise customers' privacy or make their phones more susceptible to hacking and viruses. Android will make it possible for independent developers to create a range of new applications using information they normally don't have access to, including a user's geographic location and communications history. T-Mobile says it will screen third-party applications to protect customers' security and privacy.

T-Mobile also has to negotiate with Google a fair share of ad revenues from new mobile applications and protect its established relationships. For example, T-Mobile selected start-up **Medio Systems** to power a service on T-Mobile's network that lets customers find ringtones and other mobile content and look up local businesses partly because the deal lets T-Mobile keep a large share of the revenue. Mr. Brodman said Medio will continue to have a role at T-Mobile, regardless of any partnership with Google. Medio Chief Executive Brian Lent says he hopes T-Mobile will use its search service as a base and add on the Web-searching functions of Google or another major provider. "We are giving them the core infrastructure to integrate Web search results with all the other results we already provide," he said.

The Google initiative is part of a new strategy at T-Mobile to be involved in the creation of phones from the ground up. Usually carriers pick from a slate of prototypes created by handset makers and

AT+T argued that competition wouldn't work in US b/c rest of world was monopolistic. Argued that American competition would benefit foreign telecom not U.S. consumers

- Also: OTP was pushing for very different model than rest of the world when it sought competition. Other countries had gov't controlled ~~monopolies~~ phone + often TV

U.S. was alone in having private co. run phone.

The competitive model OTP introduced + was seemingly isolated in US has become nearly world wide. Satellite TV is nearly everywhere so OTP won

OTP introduced a vocab in the communications industry

Bill McGowan, founder of MCI joked that he + Tom had very diff personalities but were the only 2 in D.C. who used the communications + competition in same sentence customize devices to fit their needs. In the case of the iPhone, Apple Inc. designed the phone with minimal input from AT&T. T-Mobile, by contrast, wants to insert itself in the process early, much as Japanese carriers like **NTT DoCoMo** Inc. "I've always been jealous of how they can come to market with such a tightly integrated product," Robert Dotson, T-Mobile USA's chief executive officer, said in an interview several weeks ago.

Late last month, T-Mobile unveiled the "Shadow," an HTC device with a slide-out keypad that runs Google rival **Microsoft** Corp.'s Windows Mobile operating system. T-Mobile was in on the Shadow's development from scratch. The carrier asked Microsoft to make a series of changes to the Windows platform to make it easier to use for consumers -- including playing down lots of business-oriented applications, such as spreadsheets, and making it easier to access email services provided by Microsoft competitors like AOL and Yahoo. The phone was launched on Halloween for $149 with a two-year contract and rebate.

Mr. Dotson says the carrier hopes that by getting involved in phone development at the start it can avoid building smartphones that stuff in lots of features that are too confusing for ordinary consumers.

"At some level, we're always making significant trade-offs in what the consumer experience would be in the marketplace," he said. "For the first time, I don't believe we're making those trade-offs."

Write to Amol Sharma at amol.sharma@wsj.com[1]

URL for this article:
http://online.wsj.com/article/SB119482551027089534.html

Hyperlinks in this Article:
(1) mailto:amol.sharma@wsj.com

RELATED ARTICLES AND BLOGS

Related Articles from the Online Journal

- Google Phone Plan Draws Interest
- What Will Google Mean to Phones?
- Personal Technology
- Google, Bidding For Phone Ads, Lures Partners

Blog Posts About This Topic

- T-Mobile and Sprint Have no Android Plans...Yet. themobiblog.com
- Hate Your Cell Phone No More - Mobile - Carrier - Telecommunications fastcompany.com

More related content *Powered by Sphere*

The Wall Street Journal

November 12, 2007

EU Telecom Plan Draws Fire

Effort Could Lead To Lower Costs; Industry Resists

By ANNE JOLIS
November 12, 2007; Page A9

BRUSSELS -- The European Commission is preparing to unveil a plan this week to inject more competition into the European telecommunications industry and reduce costs for consumers.

Many of the continent's dominant companies and the governments that often control them are fighting the plans, and they could succeed in watering down important aspects.

[Viviane Reding]

European Telecom Commissioner Viviane Reding is expected to unveil a plan tomorrow that would allow national regulators to force dominant operators such as France Télécom SA to break up their operations, making it easier for other companies to offer competing services over the dominant operators' networks.

Ms. Reding is also expected to propose giving a Brussels-based authority oversight of the 27 national regulators, in essence creating an agency like the U.S. Federal Communications Commission. The national regulators would act as a board of directors to that authority. Her plans have been widely leaked and discussed in the media.

In recent speeches, Ms. Reding has said her ideas for spurring competition are based on the model of the United Kingdom's BT Group PLC, which spun off Openreach, its network-access unit, in January 2006.

That plan involved what is known as functional separation, in which an operator's network-infrastructure division and services division are split into separate units. After the January 2006 BT split, the average monthly telecoms costs for British residential customers fell to 20% below their 2004 levels, according to the U.K. telecom regulator.

Critics say the Openreach experience can't be replicated in every country. Some companies are coming forward with plans aimed at forestalling the need for a similar approach.

France Télécom, for example, last month offered to give its competitors access to its underground ducts, allowing rivals to lay cables in them. The ducts house France Télécom's fiber-optic cables, which provide high-speed services. France Télécom says there would be room for several operators to lay cables to their customers.

"This is the way to create real competition, not to disintegrate a company and take away incentives to invest," said Jacques Champeaux, France Télécom's executive vice president for regulatory affairs.

It isn't clear that such a move would satisfy the commission. Ms. Reding's spokesman, Martin Selmayr, said providing open access to ducts is an important step but would, "in most cases, not be the appropriate tool," in less-populated rural areas, where laying fiber-optic cable is risky and costly.

Write to Anne Jolis at anne.jolis@dowjones.com[1]

URL for this article:
http://online.wsj.com/article/SB119481856371989366.html

Hyperlinks in this Article:
(1) mailto:anne.jolis@dowjones.com

RELATED ARTICLES AND BLOGS

Related Articles from the Online Journal

- FBI Raids Wellcare
- AT&T to Cut Plan-Exit Fees
- State Accuses Ameriprise of Forgery
- AT&T Seeks License For Wireless Service in India

Blog Posts About This Topic

- EU Regulators to Tackle Large Telecoms mobilecrunch.com
- Patni Aims To Double Revenues From Europe thinkingstreet.com

More related content *Powered by Sphere*

This Writers' Strike Feels Like a Rerun From 1988

New Technology Is Still Big Issue, and Viewers Could Be Lost Forever

By SAM SCHECHNER
November 12, 2007; Page B1

Nineteen years ago, when the Writers Guild of America last called a strike, television was still in its Pleistocene Era. DVDs, the Internet, time-shifting and ad-zapping didn't exist. Cable and home video were still relatively new. "The Cosby Show" was No. 1. And much of the cast of "Gossip Girl" was barely out of diapers.

But the underlying issues in the strike were pretty much the same as they are this time. New technologies and markets were out there, but no one was sure what form they would take. And by the end, television had been set on a different course, accelerating a shift in viewers to cable and an increase in unscripted programming.

[photo]
Katherine Heigl of 'Grey's Anatomy' joins picketing.

TV writers are once again fighting for a greater share of an unknown future -- this time digital rights. But shifts in the entertainment landscape over the last two decades -- from the explosion of original cable programming to the popularity of YouTube -- may make the industry even more susceptible to drastic changes in viewing habits and programming styles this time around.

"The balance of power has changed so dramatically in that 19-year period," says Tim Brooks, a TV historian, who worked at NBC during the 1988 strike. "There's an enormous danger for the networks in the protracted absence of their high-profile programming."

A week into the new strike, tensions remain high. Many writer-producers who have stopped overseeing their shows have received threatening letters from their studios. No negotiations are scheduled, and some on both sides suggest a tipping point could be on the horizon if talks don't resume soon. "Right now, I think saving face is as important to both sides as the economic questions," says John Bowman, head of the WGA's negotiating committee. Bob Daly, who was the chief executive of Warner Bros. during the last strike, recalls similar reticence in 1988. "People don't want to blink first. What I'm afraid of is it could happen here," he says.

Among the key WGA demands is an increase in payments for writers' recycled or original work distributed on new media to an across-the-board rate of 2.5% of revenue, from varying rates depending on the use. Before negotiations broke down more than a week ago, another key issue had been DVD residuals, a category where writers believe they were shortchanged in previous contracts. But the producers refused to budge on that, and the writers took DVDs off the table, at least for now.

In the earlier strike, the sabers began to rattle in late 1987, with the producers demanding that writers accept a sliding scale on residuals -- or payments when a writer's work is recycled -- from domestic syndicated reruns of one-hour shows, citing a decline in syndication prices, according to people involved. Meanwhile, writers were agitating for a greater piece of another big revenue engine of the

Writers strike –

Fits in with OTP getting involved in TV issues, some b/c OTP wanted to, some b/c Nixon wanted them to.

illustrates that issue keeps resurfacing day, foreign sales. They also wanted more creative control over their scripts, these people say. Neither side moved much on those central issues over the following months. At 12:01 a.m. Pacific time on March 1, the contract expired, and the strike began a week later.

The timing is significant: Unlike the earlier strike, which stretched through spring, when TV production was winding down, and summer, when reruns were ubiquitous, the current one is coming at the height of TV production. In 1988, the networks managed to pad out their spring schedules with reruns and movies to make it through the end of the 1987-88 season relatively unscathed. At a time when the notion of September premieres was much more important than it is today, the schedule was delayed by about six weeks, and some hour-long dramas didn't start trickling back onto the schedule until December. But the timing "softened the impact," recalls one network executive.

Nonetheless, prime-time ratings for the three major broadcast networks fell 4.6% that fall from a year earlier, while they rose 25.5% at ad-supported cable channels, according to Nielsen Media Research. The cable channels weren't hurt by the writers' strike because there was little original scripted programming on cable in those days.

[photo]

The issues underlying this year's writers' strike are similar to those in the 1988 walkout.

"A lot of people saw that cable was a good alternative, went there and didn't come back," says Warren Littlefield, who was executive vice president of prime-time programming at NBC Entertainment at the time. Though the networks now have a reserve of reality shows they can rush into production, the danger is amplified for them this time because cable offers much more original programming now and its scripted shows are completed further in advance -- to say nothing of the proliferation of online video alternatives.

In part, the networks' post-strike schedules in 1988 were hampered by a hodgepodge of remakes, prime-time news magazines and other reality programming. Ted Harbert, a former ABC executive who was responsible for strike planning, decided to take old scripts from "Mission: Impossible" and reshoot them in Australia. NBC converted its "Unsolved Mysteries" specials into a regular series. CBS added "High Risk," about people with dangerous jobs. And ABC showed such specials as "Super Model Search" and "The Special Olympics Christmas Party," hosted by Maria Shriver and Arnold Schwarzenegger.

"The main job was to come up with as many specials and as many movies to fill the schedule as possible," says Mr. Harbert, now president and chief executive of Comcast Entertainment Group.

The networks' strike programming ended up having a long-term impact: the proliferation of what later came to be widely known as "reality" shows. Fox's "Cops" made its debut later that season, and unscripted series became increasingly popular in the 1990s.

Over the summer of 1988, some independent producers found a way around the strike by signing interim deals with the Writers Guild -- something that could conceivably happen again. Carsey-Werner Co., for example, signed an agreement that, among other things, allowed it to return to work on a new show about an overweight "domestic goddess." The show -- "Roseanne" -- went back into production over the summer, and that season it upended "A Different World" as the No. 2 show on TV.

As time wore on, dissent grew among the writers. They rejected a settlement offer that included greater creative rights from the Alliance of Motion Picture and Television Producers. "There was a lot of contention among guild members," recalls Steven Bochco, who produced such shows as "Hill Street Blues." "I used to go to meetings and listen to people shriek."

A conciliator eventually entered the picture: entertainment lawyer Ken Ziffren, a familiar behind-the-scenes Hollywood fixer. Toward the end of July, Mr. Ziffren conducted what people involved describe as "shuttle diplomacy," meeting with guild representatives and the chief executives of various studios, as well as Nick Counter, then as now the producers' negotiator. In early August, after each side had agreed to soften some positions, according to people involved, Mr. Ziffren met with them at the AMPTP headquarters in Sherman Oaks, Calif.

After about 16 hours, both sides finally compromised and struck a deal, according to people present. Producers revised the foreign formula and writers agreed to a sliding scale on domestic syndication residuals for one-hour series. Says Tom Wertheimer, an executive vice president of MCA at the time: "Everybody was happy to have it over."

--Peter Sanders contributed to this article.

Write to Sam Schechner at sam.schechner@wsj.com[1]

URL for this article:
http://online.wsj.com/article/SB119482950368089597.html

Hyperlinks in this Article:
(1) mailto:sam.schechner@wsj.com

RELATED ARTICLES AND BLOGS

Related Articles from the Online Journal

- Late-Night Talkers May See First Casualties From Strike
- For Studios, Weeks of Cushion
- Studios, Networks Brace For Looming Writers Strike

Blog Posts About This Topic

- TV, movie writers go on strike calliebear-32.livejournal.com
- ... Tree Alert: Strike Watch Edition! Also, Show Running on Empty time-blog.com

More related content *Powered by Sphere*