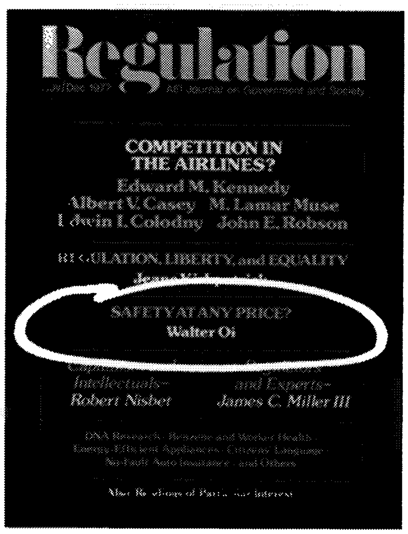
Letters

We welcome letters from readers, particularly commentaries that reflect upon or take issue with material we have published. The writer's name, affiliation, address, and telephone number should be included. Because of space limitations, letters are subject to abridgment.



More on the Price of Safety

TO THE EDITOR:

In his provocative article "Safety at Any Price" (*Regulation*, November/December 1977), Professor Oi advances the hypothesis that people get the risk levels they desire as the result of a largely optimal decision-making process that balances perceived benefits and perceived costs. If this is the case, then, among other things, they would have no need of protection through government regulation. In order to argue that people are acting in their own best interests, one must assume that they have accurate perceptions of the risks they face. If, for example, they underestimate the risks they undertake in their occupations, they may not be getting their money's worth of compensation for those risks.

Several recent studies offer systematic evidence regarding the reasonableness of this assumption:

(1) From 75 to 90 percent of drivers in a variety of countries believe they are safer than the average driver. Clearly, many of them must be underestimating the relative risks to which they are exposed. (O. Svenson, 1977)

(2) Residents of flood and earthquake prone areas typically underestimate the risks to which they are exposed. Their misperceptions are augmented by an exaggerated feeling of being able to predict natural hazards and thus avoid them. (P. Slovic, H. Kunreuther, and G. F. White, 1974)

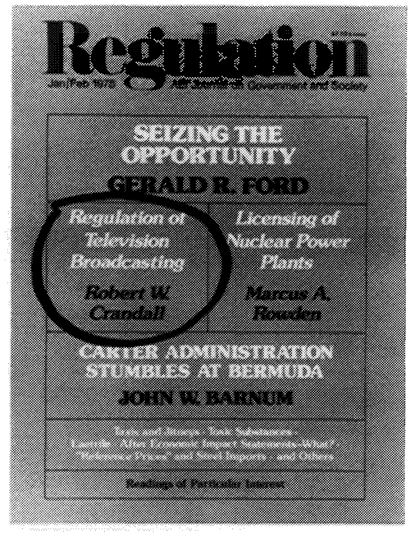
(3) A Department of Labor study conducted at the University of Michigan Survey Research Center showed that trained observers perceived workers to be in greater danger from noise, equipment, and temperature than did the workers themselves. (Workers, however, saw a greater threat from dangerous materials.) One-quarter of the observers but only 2 percent of the workers perceived danger from noise. . . . (C. Commann, R. P. Quinn, J. A. Beehr, and N. Gutpa, 1975)

(4) Even well-informed laypersons underestimate all but the most unlikely risks. Particularly underestimated are quiet killers, like stroke, intestinal cancer, and asthma. These risk perceptions seem to be fairly labile, as media coverage is highly related to the degree of over and underestimation. (S. Lichtenstein, P. Slovic, B. Fischhoff, M. Layman, and B. Combs, 1978)

(5) When considering the riskiness of technological systems, both experts and laypersons tend to underestimate all of the possible problems that they cannot think of at the moment. On the other hand, the mere mention of a possible hazard, no matter how unlikely, may lead to an overestimation of its likelihood if that presentation is done in a vivid manner. Creators of nuclear power or liquid natural-gas horror scenarios show an intuitive feeling for the effectiveness of making disasters readily imaginable. (B. Fischhoff, P. Slovic, and S. Lichtenstein, 1978)

. . . . These results cast doubt on the assumption that workers and others are in a position to negotiate fair remuneration for the risks they assume. They point to the need to help people act in their own best interests, by giving them needed information in a form that they can absorb.

Baruch Fischhoff and Paul Slovic,
Eugene, Oregon



Regulating Television

TO THE EDITOR:

Robert Crandall's article, "Regulation of Television Broadcasting: How Costly Is the Public Interest?" (*Regulation*, January/February 1978) was, I believe, too simplistic. He seems to be suggesting that the principal, and perhaps the only, reason broadcasters put on news, documentary, and public affairs programming is to satisfy "the FCC's desire to make sure that viewers are offered a big dollop of edification with each swallow of entertainment no matter how edifying the edification or how entertaining the entertainment." There is no FCC requirement to present "big dollops" of news programming. In fact, many local broadcasters get by on the bare minimum, and their licenses continue to be renewed.

Clearly, the real situation is much more complicated than Crandall suggests.

First, broadcasters and perhaps especially the networks, which are not regulated by the FCC, realized at an early stage that viewers and listeners liked diversification—that they wanted some entertainment, some sports, and some news programming. In particular, the public is much more interested in news programming than Crandall is prepared to admit. During times of crisis — for example, Watergate, Vietnam, the assassinations of John Kennedy, Robert Kennedy, and Martin Luther King—viewers and listeners tuned into radio and TV stations in vast numbers, not to be entertained but to be informed . . . . Also, although Crandall refers to the Watergate hearings, he suggests that this type of programming is the exception rather than the rule. The networks, however, consistently devote a great deal of time to major news events that are often presented without, or with minimal, commercial sponsorship. Examples of this—in addition to the lengthy Watergate hearings—are the funerals of Eisenhower and Johnson, moonshots, election coverage, and presidential inaugurations. These programs are assumed to aid viewer loyalty to a particular network. Therefore, there is a *business* rationale.

Second, it is doubtful that any business—and perhaps especially the broadcasting business—behaves in the way Crandall suggests it should, maximizing profits in every branch of its operations or, in the case of broadcasting, in every segment of its programming day. News programming, the Olympic games, NFL telecasts, and the like are necessary elements in the current structure of television networking, profitable or not. The ability of a network to maintain its share of the market and of consequent advertising revenues is contingent upon its ability to provide high quality, attractive programming in a variety of areas.

Third, it should not be assumed that the networks lose money on news. Some news programs are highly profitable—for example, "Today" on NBC and the evening news shows on CBS and NBC. In fact, the data I am currently working on will show, I expect, that both CBS and NBC earned relatively good profits on news and public affairs programming in 1977. Moreover, both of these networks broke even in this department in 1976—an expensive year because of the election coverage and bicentennial celebrations. Only "ABC News" lost money that year.

Finally, I believe that Crandall should have pointed out that some industries have to be more sensitive than others to public needs. Broadcasting is one of these because of its presumed impact on the daily lives of the public, not just because it is regulated. Theoretically, by engaging in socially responsible activities, that is, by presenting either loss-leading or marginally profitable network "merit programming" broadcasters improve their *overall* profit and preserve their corporate autonomy as well.

In summary, although there are probably far fewer TV stations than the current advertising economy could support, and although competitive threats to the broadcasting industry have been hampered by FCC regulations, it is too simplistic to suggest that broadcasters are given protection in return for the time they devote to news coverage, or "merit programming" as Crandall prefers to call it. In fact, Crandall accurately pointed out some of the historical reasons for the generous share of the spectrum allocated to broadcasters. Like all agencies, the FCC makes mistakes, but it should not have to take all of the blame, nor be given all of the credit for the amount of "merit programming" broadcast each day.

Alan Pearce,
Office of Telecommunications Policy, Office of the President

TO THE EDITOR:

Dr. Crandall's provocative article is a reminder to those of us who deal with the FCC of former Commissioner Glenn O. Robinson's wisdom in seeking such a first-rate economist as an advisor.

Whether he is right about the FCC's motives for restricting competition—and some of the proposals he cites were rejected for reasons other than protecting local stations—it should be noted that the primary constraints on the entry of additional stations are now a combination of economic and technical factors. In only seven of the hundred largest television markets, for example, are all stations authorized by the FCC now on the air. Most of the unused allocations are UHF, a fact that calls attention to the need for eliminating UHF's technical problems if competition in local markets is to be increased. Crandall's list of proposals to increase competition omits those made by the Council on UHF Broadcasting to bring UHF closer to VHF in technical quality. If the commission were to accept those suggestions, the most important remaining barriers to entry of new stations would then be economic, not regulatory.

Crandall's casual suggestion that competition might be increased by reallocating existing channels from smaller to larger markets is at variance with the commitment to localism that is one tenet of broadcast regulation in this country. While there has been debate about the vitality of localism, it has been demonstrated that large numbers of people watch local programming, like it, and become better informed because of it.

Crandall's theoretical discussion of the cost of merit programming is sound, but depends heavily on the size of the total television audience not being reduced by merit programming. This is important because, in his subsequent discussion of network data, he ignores the fact that merit programming may reduce that audience. Some 56 percent of the nation's television households are in markets with at least one independent station; and in these markets at least some of the audience lost by a network's merit programming will go to the independent stations, not to the other networks. If merit programming reduces the total network audience, then Crandall's comparative data on the cost per viewer for merit and for entertainment programming are not inconsistent with the notion that regulation forces networks away from strict profit-maximizing behavior. While his cost data suggest that networks do not lose money overall on news and public affairs, it is probably true that such programming would not be offered if networks were seeking to maximize profits. Because of fixed costs, a profit-maximizing firm would look not only at the variable costs per viewer of various program types, but also at the absolute audience levels that the programs attract. As long as the revenue-per-rating point exceeds the cost-per-rating point, it is clearly possible, for example, that a program costing $10,000 per rating point will be preferred to one costing $9,000 per rating point, if the former attracts more audience than the latter.

From a policy standpoint, Crandall's discussion of local station data is the most interesting part of his article. The absence of detailed information about his two regression analyses makes it difficult to comment on his conclusions, but it is worth noting that the regression based on the larger sample confirms that local programming is related to station revenue. His estimates of the return on capital in television demonstrate Crandall's admirable ability to make plausible estimates from small amounts of data. They depend quite heavily, however, on the accuracy of his estimate that one-fifth of station capital is intangible, and his data base for this estimate is both small and not available for review. Perhaps more important, his calculations tell little about the median return on capital among all stations, since the use of aggregate industry figures obviously gives greater weight to the results from larger stations.

Finally, some attention should be paid to the value, in a heterogeneous society like ours, of a mass medium. It can be argued that television is the only remaining mass medium—in the sense that millions of people in many different walks of life share the experience of watching the same program at approximately the same time—and if so, this may be the most important benefit of television. The difficulty of quantifying such a benefit does not, of course, reduce the usefulness of the framework Crandall has developed to measure the cost of the public interest.

John A. Dimling, Jr.,
National Association of Broadcasters

ROBERT CRANDALL responds:

John Dimling's response to my article is representative of a broadcaster's general position. Scratch him deeply with a competitive barb, and he will explain to you the "commitment to localism" inherent in our broadcast policy. Even if "people watch local programming, like it, and become better informed because of it," one cannot assume that they like it better than more sophisticated nationally distributed programming. Nor can it be asserted that people could not inform themselves of local affairs by any other medium. A larger number of viewing options might be more than a sufficient trade-off for less local programming. Why not have the National Association of Broadcasters and the National Cable Television Association jointly sponsor a pay-cable experiment in which people would be offered various quantities of local and national programming? We might then have a measure of the value viewers place upon localism.

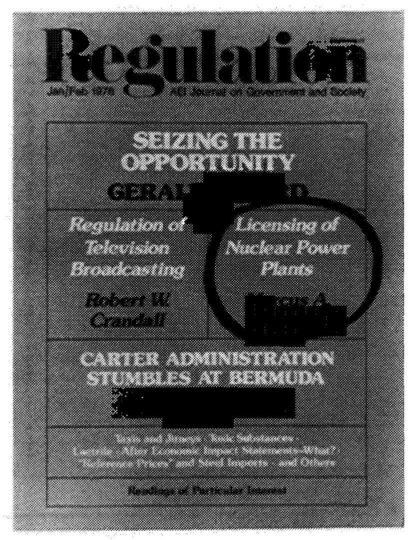
Dimling is correct in asserting that the network loss of viewers to independents during periods in which they offer news and public affairs was not deducted from my estimate of the number of viewers watching network programming. This loss, however, is not likely to be large enough to make much of a difference in the results. But his deduction concerning the attractiveness of low-audience, high-margin programs is not correct. It is true that competitive instincts might lead a network to offer a program costing $10,000 per rating point rather than one costing $9,000 per point because the former is expected to amass more points. For the three-network collective, however, the $9,000 choice may be the right one if the loss of viewers to the other networks is to programs costing no more than $9,000 per rating point.

I must object to Dimling's suggestion that my estimates of profitability depend very much upon the accuracy of my estimate of the tangible assets/total capital ratio. Broadcasters could easily supply a precise estimate of this ratio. But even if my estimate were wrong, I doubt that the error would be large enough to reduce the estimated rate of return to within 10 percentage points of the cost of capital in 1973. By 1976, the average rate of return on assets had risen to 97 percent before taxes. Could this be attributable to station owners' acquisitions of intangibles?

Dimling's last paragraph is perhaps the most frightening. It marks the first time that I have heard anyone argue for our current broadcast policy on the grounds that it regiments us. I presume that this paragraph will be NAB's opening statement in future legal briefs arguing against the legality of the BETAMAX.

Pearce's defense of the subsidization of programs he likes (and I also enjoy) is a little puzzling. Clearly, he is not disagreeing with me when he says that the networks offer news in part because people watch it in sufficient numbers to make it profitable. It was this issue which I was examining in my article, and the data convinced me that network news and public affairs is not unprofitable.

The assertion that networks offer news, public affairs, the Olympics, and other exotic events in order to build viewer loyalty is not based upon any evidence of which I am aware. As a rival network, I would be pleased to see my brethren trying to build good will by giving away audience! I do not doubt that network executives often make programming decisions based upon their sense of social responsibility or their desire to convince viewers of this responsibility. But it appears that they do not sacrifice much in their pursuit of this responsibility. Local station managers, frightened by the potential of a challenge to their license renewal, clearly do engage in some unprofitable local programming. Their reward is a mere 97 percent return on assets before taxes.



Reforming Nuclear Licensing

TO THE EDITOR:

Marcus A. Rowden's recent article, "Licensing of Nuclear Power Plants" (*Regulation,* January/February 1978) effectively calls attention to at least three areas in nuclear licensing that require change. No one who has ever tried to license a nuclear plant could quibble with his observation that "the [current] process is inconsistent, unpredictable, and characterized by a zeal for procedure that too often overwhelms substance." It is disappointing, however, to find Mr. Rowden arguing as though flaws in the underlying regulatory statute were the primary—if not the sole—cause of the problems he identifies. Given his experience as a ranking staff member and chairman of the Nuclear Regulatory Commission, one would have hoped he would outline reforms not requiring radical legislative overhaul.

Although a bold directive from Congress might turn the situation

(Continues on page 55)