

Bring Competition to Cable TV in Florida

By John Hallman – December 2006

The best form of consumer protection is robust competition in a free and open marketplace. Conversely, the worst deal for consumers is its polar opposite: the stifling of competition by monopolies created and protected by the government.

Nothing better illustrates this point than cable TV. It's a mature industry now, but it's still operating under a system designed to nurture it during its infancy. Under that system, most consumers have no choice of cable provider but instead must deal with a monopoly that's free to raise prices virtually at will while also providing spotty service.

Reform is overdue. Technology is quickly transforming the way we live, how we communicate, and what we view and hear. Thanks to the increasing power and sophistication of devices such as cell phones, wireless laptops, and iPods, you can watch TV wherever you go and phone people from your computer through the Internet.

The technology explosion has attracted many companies that now compete with each other to bring myriad services to consumers. This competition has been beneficial for consumers, according to the Federal Communications Commission.

In the 10-year period from 1994 to 2004, for instance, the average cell phone bill fell 5.6 percent, the average long-distance rate dropped 50 percent, and the price of computers declined by 78 percent. Unfortunately, during that same period, cable television's prices *increased* 86 percent – and they rose again in 2005 and 2006.

The cable providers attribute some of the increase to higher fees charged by program providers, and that's correct – up to a point. Yet it's also a fact that some of the largest cable providers are in the business of providing program content, so some of those higher program fees are a byproduct of self-dealing.

Competition can rein in these kinds of abuses, but Florida consumers remain trapped in the remnants of an outmoded system. Under that system, you talked on your home phone courtesy of your neighborhood phone company, and you watched TV thanks to your local cable monopoly.

Today's market is vastly different from the market of even a few years ago. The networks that traditionally brought us phone service, cable television, and the Internet are converging.

Now phone companies would like to offer video services. Unfortunately, they're stymied by laws written for a different time and a different technology. The worst of these are franchise laws, which limit the number of providers serving consumers in any given area.

Outmoded franchise regulations are keeping new technologies out of the hands of ordinary Americans, but in a sense they do put money in the hands of politicians. Cable providers pay “franchise fees” – ostensibly for their use of the public right of way. Those franchise fees now provide a significant source of revenue in some communities.

Nowadays that revenue stream – plus the photo ops that arise when cable companies provide politicians with “government access channels” – may explain why so many elected officials have opposed regulatory reforms that would benefit their constituents.

The FCC has documented that head-to-head competition provides incentives for the incumbent cable operators to lower prices, provide additional channels at the same monthly rate, improve customer service, and/or add new services.

Several other states have already begun streamlining the regulations that keep new competitors out of the cable marketplace. Texas and Indiana, for instance, have both adopted rules that let companies make one statewide franchise agreement instead of jumping through the hundreds of hoops required by local franchising.

Thanks to these new rules, phone companies are rolling out services. Households that once lacked a choice are now enjoying the benefits of competition. In Texas, which approved statewide franchising just last year, one newly competitive community saw cable rates fall by nearly 25 percent instead of going up, as is occurring in most non-competitive markets.

A new statewide franchising process would benefit Floridians in many ways. If phone companies saw that Florida is making it easier for them to compete in this marketplace, they will direct their investment budgets accordingly.

If so, consumers would have the advantage of choosing next-generation services from phone companies and cable companies competing head-to-head. This portends lower prices and new waves of innovation as companies strive to serve consumers better and differentiate themselves from the “pack.” It’s time to give Floridians that kind of choice.

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