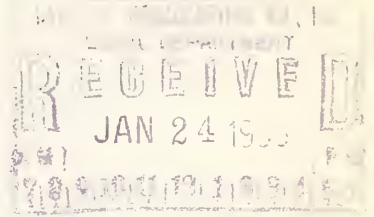


# HEINL RADIO BUSINESS LETTER

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No. 1094

January 22, 1938

## CRAVEN URGES CAUTION, FEW CHANGES IN ECONOMIC REPORT

The Federal Communications Commission was advised to proceed cautiously in disturbing the present economic set-up of the American broadcasting system, particularly in licensing super-power stations or forcing newspapers out of the radio business, by Commissioner T.A.M. Craven this week in a long delayed report on the economic phases of broadcasting.

The voluminous report, which was to be released for publication Monday morning, was prepared by Commissioner Craven while still Chief Engineer of the FCC and prior to July 1st last. It was held up because of the uncertainties of the Inter-American Conference at Havana last Fall.

Submission of the report paves the way for the FCC to put into effect the general reallocation and classification of stations recommended a year ago by the Engineering Department and endorsed by the Inter-American Conference.

Major findings and recommendations in the Craven economic report are:

That there is no immediate need for super-power stations, such as WLW's 500,000 watt transmitter and that their general establishment might prove detrimental to the economic welfare of smaller-powered stations.

No drastic action should be taken against newspaper ownership of radio stations until a further study is made. Decisions, as in the past, on applications of newspapers for facilities should be based on the conventional standard of public interest, convenience, or necessity.

The present American system of private commercial broadcasting should be left undisturbed basically by the Federal Government or Congress but "standards of public service" might be set up and provisions "for the rendering of specific services."

More accurate and comprehensive reports should be demanded of broadcasting stations, especially as to their profits, expenses, and programs, for consideration when licenses are up for renewal.

The report contains a mass of information as to the cost of broadcasting stations, distribution of classes of stations, and other data.

Commissioner Craven explained that the report was submitted "solely as a basis for discussion" by the Commission and should not be considered as the final conclusions of that body.

Explaining the American system of broadcasting in contrast with government ownership or government-fostered monopolies as they exist in foreign countries, Commissioner Craven said it is "reassuring" that Congress as recently as 1934 "reaffirmed the basic American policy by carrying forward in the Communications Act of 1934 the principles concerning broadcasting, which, after extended study and public hearings, it had established in the Radio Act of 1927.

"Therefore, the Engineering Department has adopted the premise that the existing policy of the nation, as expressed in the organic law enacted by the Congress of the United States, is fundamentally sound", the report added. "The Engineering Department knows of no facts or legal reasons for suggesting a radical change in this fundamental law, and we feel that basically the American system of broadcasting has been proved beyond question to be the best for our country. In fact, we believe that compared to all foreign systems with which we are personally familiar, the American system of broadcasting has demonstrated its acceptance by the public in greater listening hours and larger ownership of receivers in proportion to the population. It is also particularly reassuring to note that the ownership of receivers in the United States has been increasing from year to year.

"We know of no reason for changing the doctrine of fair competition, both local and national, among individuals as well as among organizations, and we believe that adherence to the diversification doctrine of licensing stations in any community or region, as well as in the nation as a whole, is a sound public policy,

"In view of the natural technical limitations in the total radio facilities which can be made available to any community or to the nation as a whole, a faithful adherence to the American system requires the voluntary refraining by licensees, or groups of them, from using their own broadcasting facilities to engage personally in editorial discussions of public questions to their own advantage or solely in accord with their own doctrines or personal beliefs. We suggest that an essential practice in the continued successful operation of the American system of broadcasting appears to be that in which licensees of stations will make reasonably available their stations for use by all classes and creeds on a fair and equitable basis having due regard, of course, for the necessity of rendering a balanced program service to sustain the interest of the public in their broadcasts.

"The evidence shows that at the present time by far the major portion of the financial support of radio broadcasting in this country is as a result of advertising, both national and local. This differs greatly from the practice of many foreign



countries where the support for service is obtained by direct taxation on the receiver-purchasing public. Congress has never directed that such an additional tax burden be placed on the people."

The report states that one of the greatest advantages of the American system of broadcasting is that it is sufficiently flexible to be capable of improvement, and it is undoubtedly true that in any such new art as radio broadcasting, progress can be made and improvements should be continuous.

"It is our conception that this rapidly growing but young industry has already rendered much excellent service in the interest of the public and that, while it can be improved, it should be given the opportunity to do so with the cooperation and guidance of the Federal regulatory body within the provisions of the Communications Act of 1934", the report states. "This is one of the many reasons that this Department feels that the procedure to accomplish the improvement previously recommended by it - briefly, 'evolution, cooperation and voluntary action, in accordance with sound economics and sound engineering' - is a wise course which will not only create a responsive action from the industry, but will also react ultimately to the benefit of the public in the 'social' aspects of radio without sacrifice of the continuity of good broadcast service to the public."

Regarding super-power the report says, in part:

"The factor involved in the use of super-power is that a small group of licensees operating on frequencies which have been assigned to them by the Federal Government would have control of radio facilities capable of reaching the entire nation. Unless care were exercised in the regulation of these licensees, the possibility exists of having granted to a few people, from natural resources of the Federal Government, the control of a system of mass communication having untold potentialities of being utilized to influence public opinion. Hence it seems that in the determination of the question of super-power must also come the consideration of the ability of the Federal Government to control these facilities, both from the standpoint of individual licensees as well as combinations thereof, in such a manner that they will operate always in the interest of the public. Therefore, if the Commission intends to grant any of the pending applications for super-power, it certainly should impose limitations on the use of such a facility as to insure its operation in the interest of the public from the broadcast standpoint.

"The evidence is not conclusive of the immediate general need for super-power, and in view of the fact that there is a risk involved to the welfare of facilities for local self expression in smaller communities, the Engineering Department urges most strongly the most careful scrutiny and consideration of each individual application that may be presented in the future, with the view of determining not only the social advantages and disadvantages from the standpoint of the individual case, but



also potentialities involved in the future. We firmly believe that any enlargement of the differential between the highest power station class and the lowest power station class should not be encouraged unless, after full consideration of the effects on the lower power classes of stations, it can be shown conclusively that a super high-power station is necessary and that beyond doubt it will be in the public interest. We also feel that considerable caution is required in granting such powerful media."

With respect to newspaper ownership of radio stations, Commissioner Craven pointed out that broadcasting obviously has present and future potentialities for public service which have affected or may affect the other media of mass communication, of education, and of entertainment. Among those which may be affected in the future is the moving picture industry, just as the latter has affected the legitimate stage. Still another which has already been affected somewhat, and may be still more in the future, is the press.

It is within the realm of possibility (perhaps very remote at present), that, through the development of facsimile, the newspaper of the future will be transmitted by radio into the home. On the economic side, while at present broadcasting obtains less than 15 per cent of the revenues expended for time and space sales in the advertising media, its rate of increase appears to be more rapid than that of other media.

From its examination of the data at hand (largely taken from the Commission's own files), the Department feels that to adopt any rule-of-thumb on a subject such as this would run the hazard of working an injury to the service received or entitled to be received by the public. The subject has too many aspects on which little or no trustworthy information is available or analyzed.

"To take the case of the press", the report states, "the question does not appear so simple as dividing all stations into those owned by newspaper publishers and those which are not. There is a considerable variety of situations among the newspaper-owned stations themselves, varying from the case where such a station is merely one of several competitive stations serving the same community to the case where the only newspaper and the only station in a community are owned by the same person; many publishers have only one station each; some have two or more, sometimes in the same city and sometimes in different cities. No adequate study has been made to show whether as a class they have furnished average, superior or inferior service; whether they, or any group of them, have acquired or exercised any undue power, social or economic; whether they, or any group of them have been guilty of any unfair practices, either editorially or with respect to advertisers, due to the combination of ownership; whether there is any tangible evidence of a tendency among them to combine and whether and to what extent they contribute toward keeping broadcasting on a competitive basis.

"Eventually a choice may have to be made between permitting or preventing other media such as the press an opportunity to supplement their older facilities with the newer invention of radio . . . . Pending the securing of adequate information, the Commission has at hand the existing procedure established under the Communications Act of 1934 and, by applying the standard of public interest, convenience or necessity to all applications, whether for new stations or for renewals of licenses, has power to cope with the situations where actual or proposed newspaper ownership of a station raises a doubt as to whether the standard has been or will be complied with in practice."

Discussing the criticism of the American radio system made at the hearing by Education and Labor, Commissioner Craven agrees with the justness of some of these criticisms and indicates that others do not take into consideration all of the factors necessarily involved. He suggests that education can be given an opportunity to utilize radio for its own purposes in the ultra high frequency portion of the radio spectrum.

The report clarifies the difference between a "network" and a chain company and states that the network system of distribution is an essential service to the public. However, it stresses the necessity for accepting the network system to preserve competition between networks, individual stations, sponsors, performing talent and others comprising the structure of broadcasting program service.

The report suggests that study should be made of the contractual relationships between chain companies and affiliated stations.

The report suggests a study of the profits being made by broadcasting stations of all classes, and declares that accurate information with regard to the subject is lacking by reason of the fact that the financial returns now being made to the Commission do not give all the necessary data to justify a critical analysis of the present situation with respect to profits. The report recommends the adoption of a form of financial report which will insure a proper study of this question. It says there is no basis for the fear that such comprehensive financial reports, if required by the Commission, would be necessarily a step in the direction of rate regulation.

The report shows that chain companies held, as of July 1, 1937, 3.86% of radio facilities in the broadcasting band; newspaper or affiliates, 28%; educational institutions, 4.85%; religious or charitable institutions, 1.71%; special groups as labor, farm organizations or chambers of commerce, 0.43%; states or municipalities, 0.86%; insurance companies, 1.29%; manufacturers of radio and electrical equipment, 1.86%; retailers of radio and electrical equipment, 2.71%; department stores, 0.72%; and others, widely diversified, 53.71%.



An important section of the report is devoted to a study of ways of securing better information and a better system with relative ease on the social and economic aspects of radio broadcasting. To accomplish this end the following suggestions are made:

Revision of existing forms for renewal of licenses to secure better factual data with reference to revenue, expenses and programs. The Engineering Department has prepared tentative suggestions as to the new forms and feels that if this matter is taken up with the industry an excellent basis for securing facts can be set in motion.

Station log forms should be revised to secure better factual data with reference to the character of programs and their sponsorship.

Organization of the Commission's staff so as to summarize the information suggested above and put it into a form readily usable for interpretation by the Commission with respect to social and economic trends. An expert should be available to advise on the interpretation of such data.

Cooperation with various trade associations and other interested organizations to centralize and coordinate all data on the subject.

Utilization of available sources of information relative to capabilities of economic support of radio broadcasting stations by various communities and sections of the nation.

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#### JAPAN TRADE SEEKS TO LIFT BAN ON S-W SETS

The Japan Radio Manufacturers' Association of Japan is initiating a campaign to have the Communications Ministry lift its ban on the use of short-wave receivers, the U. S. Commerce Department reports.

Two reasons are advanced. Most significant from the manufacturers' point of view is the promotion of sales of Japan-built all-wave apparatus abroad, where short-wave instruments are in wide use, says the Nikkan Kogyo. Another point made by the association is that removal of the ban would enable Japanese listeners to tune in on international broadcasts.

Preparations to organize a formal committee to direct the campaign were made last week at a meeting of the association's provisional committee sponsoring the movement. The organization is said to have been laying the groundwork for the movement for some time.

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## RADIO NO LONGER A LUXURY, RMA TELLS HOUSE GROUP

The day has passed when a radio receiver may be considered a luxury, Bond Geddes, Executive Vice-President of the Radio Manufacturers' Association, told the House Ways and Means Committee this week while urging that the 5 percent excise tax be repealed or at least modified.

"Radio now in the American scheme of life is a prime necessity, more necessary than ten or five years ago, and still more necessary in the future", he said. "Radio is as characteristically American as the automobile, the moving picture, or the telephone, and reaches a larger audience. There are 7,000,000 more radios in the United States than passenger automobiles. There are more than twice as many homes in the United States equipped with radios than with telephones. In some foreign countries radio is even supplied by the government, at cost, to make it more available to the poorer citizen.

"In what classification radio may have been considered in the past does not prevail today. What might have been termed a 'luxury' or 'semi-luxury' ten years ago, or five years ago, is today a universal necessity of public usage and service. Our industry has brought down the cost tremendously, to a fraction of former years, and to a point where the poorest American family can and does enjoy its possession and the all-embracing service of radio. It is one of the most necessary and most used, most influential adjuncts of American every-day life."

If, because of revenue necessities of the Federal Government, the Committee feels that it is not practicable at present to repeal the excise tax, Mr. Geddes said, the RMA asks that it reduce the tax to  $2\frac{1}{2}$  or 3 percent with exemptions allowed for radio taxable units incorporated in police, marine, aircraft, address, intercommunicating apparatus, and other commercial radio equipment.

The loss in revenue to the Government, he said, would be \$3,150,000 if the tax is cut to  $2\frac{1}{2}$  percent and \$2,500,000 if it is reduced to 3 percent.

"Radio is the only method of communication to and between the public that is entirely controlled by the public itself, through its authorized agency, the Congress of the United States, under its laws and its established administrative agency, the Federal Communications Commission", Mr. Geddes asserted.

"As a feature of family life radio ranks first. It serves every member of the family and a recent survey by Fortune magazine disclosed that listening to the radio 'led all other recreations' with the movies in second place.



"This Administration often has recognized the indisputable position of radio in our national life. President Roosevelt frequently has expressed this opinion, and I quote: 'Radio continues to play an increasingly important role, in our daily life. Radio broadcasting has contributed much to the cause of national recovery.' And again: 'I am not unmindful of another benefit which radio gives all the people and to all classes of business, that is, the stimulation of buying power and its assistance to commerce generally.' No administration has made such effective and frequent use of radio."

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#### DENIAL OF FOREIGN WAVES FOR W3XAU RECOMMENDED

An unfavorable report, with loopholes, was filed by Examiner Robert L. Irwin this week with the Federal Communications Commission on an application of short-wave station W3XAU, Philadelphia, for authority to add the frequencies 15,150 and 25,750 kc.

The Examiner pointed out that prior rights to the waves are held by other countries. Use of the frequencies by W3XAU, moreover, probably would result in interference with international stations in other nations, the report stated.

However, the Examiner suggested that the applicant might specify other frequencies now held by foreign countries and admitted that the additional service is necessary.

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#### NEW INDIANA STATION RECOMMENDED; OTHER REPORTS

A favorable report on the application of Gerald A. Travis, of La Porte, Ind., for a construction permit to build and operate a broadcasting station on 1420 kc. with 250 watts, daytime, was filed with the Federal Communications Commission this week by Examiner P. W. Seward.

Station WAAB, Boston, was given a favorable report by Examiner Melvin H. Dalberg on its request for an increase in power from 500 watts, 1 KW to 1 KW.

A shift in frequency for WGRC, New Albany, Ind., from 1370 to 800 kc. was recommended by Examiner Dalberg.

A transfer from 1420 kc. to 1240 kc., together with an increase in power to 500 watts, with unlimited time, was recommended by Examiner John P. Bramhall for Station WEED, Rocky Mount, N. C.

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TRADE NOTES

E. K. Cohan, CBS Director of Engineering, sailed on January 15th for Cairo, Egypt, where he will represent the Columbia Broadcasting System at the International Telecommunications Conference in February. The American delegation, headed by Senator Wallace H. White of Maine, sailed on January 4th. Enroute to Cairo, Mr. Cohan will stop in London to confer with engineering executives of the British Broadcasting Corporation and to visit Columbia's European headquarters.

The U. S. Government has appealed to the Supreme Court in an effort to compel the Mackay Radio and Telegraph Company to reinstate five employees of its San Francisco office who are members of the American Radio Telegraphists' Association. The petition was signed by Solicitor General Stanley Reed.

Matters of public relations and policies of the Canadian Broadcasting Corporation were discussed with the general manager, Major Gladstone Murray, when a special meeting was held Jan. 10 in Toronto of the directors and members of the Canadian Daily Newspapers Association, the Canadian Press and the Canadian National Newspapers and Periodicals Association. In an extended exchange of views it was agreed that closer cooperation between the press and the broadcasting corporation not only would be mutually advantageous, but also would serve the public interest.

WOR, Newark, will make its entry into the realms of the ultra high frequencies next week when its new short wave transmitter starts operation from the 44th floor of 1450 Broadway overlooking Times Square. The new equipment, under the call letters W2XJI, will transmit Mutual network and WOR programs, but because of the characteristics of ultra high frequency signals, its reception will be effective primarily within a 40-mile radius.

The Federal Trade Commission has order N. R. Baskin, 32 Randolph St., Chicago, to cease and desist from certain unfair methods of competition in connection with the interstate sale of so-called novelty merchandise, including radios, clocks, cameras, smoking sets, etc. which he distributes in combination with sales books and pull boards and punch boards. Baskin trades as American Radio Company, American Novelty Company and American Radio & Novelty Co.



## GROSS RADIO TIME SALES \$140,000,000 IN 1937

Showing a gain of 19 percent over 1936, gross radio time sales last year amounted to \$140,000,000, according to Dr. Herman S. Hettinger, radio economist and a faculty member at the Wharton School of Finance and Commerce, University of Pennsylvania.

In a survey prepared for the 1938 Yearbook Number of Broadcasting to be released early in February, Dr. Hettinger emphasizes that radio has been remarkably successful in maintaining its rate of relative growth, the 1937 gain comparing favorably with one of 23.5% in 1936 and a 20% increase in 1935.

National network gross time sales totaled \$68,970,000, in 1937 a gain of approximately 16% over the 1936 total of \$59,743,860. Local gross time sales showed an increase of 20% for 1937, the total being \$38,000,000, while national non-network gross time sales for 1937 totaled \$33,000,000, a gain of 35% over 1936. Gross time sales for the regional networks were \$1,200,000, a gain of 4% over the 1936 total. The national network time sales increased 19.3% in 1936 as compared with the 16% increase in 1937 may well be attributed to the absence of political time sales during the Fall months and the slowing of general business during November and December, according to Dr. Hettinger.

In the absence of NAB monthly reports which were discontinued last Summer, Dr. Hettinger based his analysis on monthly totals furnished by the Publishers' Information Bureau and on reports from individual stations and the networks.

A summary of his conclusions indicates that broadcast advertising in 1937 continued to lead the media field in rate of growth. National magazine volume gained between 12% and 15% during the year. The Weld Advertising Index indicated an increase of 15% in outdoor volume. Newspaper advertising during the first 11 months rose 3% over the 1936 level. Retail newspaper lineage increased 3.8% and total display advertising 1.8%. General newspaper lineage declined 0.6% and automotive lineage 6.6%. Farm paper volume rose approximately 10% during the first 11 months of the year.

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E. J. Girard, Mackay Radio and Telegraph Company, District Manager in Washington, D. C., who is well known to all leading radio communications officials, has been transferred to the Federal Telegraph Company as special commercial representative with headquarters at Newark, N. J. R. N. Scribner, New York Traffic Manager, succeeded Mr. Girard.

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## CLIENTS SPENT 27% MORE IN 1937

The \$28,722,118 spent by advertisers on the Columbia Broadcasting System in 1937 represents an average expenditure per client of \$326,388 - or an increase over 1936 of 27% per client, according to a CBS statement.

Of the 66 advertising agencies which placed business on the CBS network during 1937, eight billed over \$1,000,000 with Ruthrauff & Ryan in the lead.

A breakdown of figures for 1937 by industry classification reveals seven industry groups expending over \$1,000,000 as follows:

	<u>1937</u>
Foods and Food Beverages	\$6,437,273
Drugs and Toilet Goods	5,114,454
Cigars, Cigarettes, Tobacco	5,040,336
Automotive	3,907,343
Soaps and Housekeepers' Supplies	2,233,933
Lubricants and Fuel	1,992,889
Confectionery and Soft Drinks	1,507,214

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DRUG AND TOILET GOODS HEAD NBC LIST FOR TIME

Maintaining its lead as the largest user of time on the National Broadcasting Company's Blue and Red Networks, the drug and toilet goods industry increased its investment in NBC time during 1937 by 19.3 per cent, or \$2,203,435, over 1936, according to figures released this week. Total billings of the industry reached \$13,322,990, against \$11,119,555 in 1936.

The food and food beverage industry was second in total expenditures, with an increase of 13.4 percent over 1936 to \$11,008,762.

The average expenditure for NBC time by 134 network advertisers was \$288,442, up 24.4 per cent over the 1936 average of \$231,818.

NBC's total billings for the year amounted to \$38,651,286, up 12 per cent over 1936.

Among the major changes in the ranking of industries was the jump of the laundry soaps and cleaners industry into third place with expenditures of \$3,392,383, up 53.4 per cent over 1936. The automotive industry was third in 1936.

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