

# HEINL RADIO BUSINESS LETTER

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No. 1359

## FRANCHISE SUGGESTION BECLOUDS TAX VICTORY

The belief that there will be some kind of a working agreement between the Senate Finance Committee and the Federal Communications Committee in an effort to levy a franchise tax on radio stations somewhat dampens the sweeping victory of the elimination from the defense revenue bill of the proposed \$12,500,000 tax on broadcast time. The theory that the broadcasters were still in for something was strengthened by Senator George of Georgia, Chairman of the Senate Committee, saying that the senators had not given up the idea of taxing radio stations and the Treasury Department and the Joint Sub-Committee on Revenue taxation had been requested to study some sort of a franchise tax. The idea of such a tax would be to raise approximately \$2,000,000, enough to pay for the operating expenses of the Federal Communications Commission.

In addition to eliminating the tax on broadcast time the Senate Committee also threw out the proposed tax in billboard advertising. Approved without change was the House schedule which doubled the excise tax on radio sets. On long-distance telephone calls, telegrams, radiograms and cables, the Senate Committee levied a flat 10 per cent tax. The House bill provided a 5-cent tax on messages and conversations costing between 24 and 50 cents, and 5 cents per 50-cents charge above 50 cents. The Senate committee approved the House tax of 5 per cent on all telephone bills. It voted a tax of 10 per cent on leased wire talking circuits; and it voted to exempt leased wires and general ticker circuits and burglar alarm systems from the tax on communications.

It was very apparent to those who attended the Senate Finance Committee hearing the day the radio industry presented its case, that some senators were not enthusiastic about the broadcast time-sales tax. Although it is believed there must have been some previous discussion between the Senate Committee and the FCC of the matter, as it is known their experts had been conferring, the first public discussion of a franchise tax was when Chairman James L. Fly, of the Communications Commission, appeared before the Senate Committee as a witness. Senator Vandenberg asked Mr. Fly if he was opposed to the tax on radio time sales.

"I think it is a pretty dubious tax," Chairman Fly replied.

It was then that Mr. Fly expressed a preference for a franchise tax, but said he believed it should be borne by the other branches of the communications industry - telephone, telegraph and cable.

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He explained that only a portion of the Commission's time was taken up by radio, and mentioned the telephone people as those who should carry a considerable portion of the burden. Mr. Fly said it might be difficult to know how much to charge for a radio station franchise but that this might better be on a basis of coverage rather than power. Senator Bailey remarked that the broadcasting industry "enjoying the franchise given to it to operate in the public domain should be willing to pay well for it." Mr. Fly said he thought that might be true.

Ellsworth C. Alvord, tax expert, speaking in behalf of the National Association of Broadcasters, suggested if the government is to embark on a policy of making industries pay for their own regulation that radio should be one of the first industries picked out for the experiment. Mentioning railroads and some others, he said radio should really be the last. It is almost certain that the broadcasting industry will take this as its cue and put up the hardest kind of a fight to keep from being an initial group for such an action.

Unquestionably the big factors in the defeat of the proposal to tax broadcast time were (a) that it would have set a precedent in the taxing of advertising, inasmuch as a broadcast station revenue is derived from the sale of advertising, and (b) that it would have been a tax on gross income which it was argued would have caused a deterioration in the quality of the service the radio stations are now giving.

Just how soon the Senate sub-committee and the Treasury Department, and as indicated above, the Federal Communications Commission may agree upon recommendations to the Senate Finance Committee with regard to a franchise tax is not known. Senator George remarked if the time were too short for the question of a radio broadcast tax to be considered in the pending bill, it would come up with a later revenue measure.

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#### A. F. OF L. LEGISLATIVE CHAIRMAN OPPOSED BROADCAST TAX

With the Senate Finance Committee dropping the proposed tax on broadcasting stations from the defense revenue bill attention is called to the fact that though the tax was advocated by John B. Haggerty, President of the Allied Printing Trades Association, whose organizations are affiliated with the American Federation of Labor, it was strongly opposed by another representative of the American Federation, W. C. Hushing, Chairman of the Legislative Committee of the A. F. of L.

Testifying before the Senate Committee, Mr. Hushing said:

"The American Federation of Labor, Executive Committee, in its meeting at Chicago this month, adopted the following motion:

"While labor believes that the United States Government



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should levy extra taxes on the people to pay for defense work we do not believe in punitive or discriminatory taxation as a special levy on radio advertising broadcasts."

Now this proposed tax is exactly the type of tax the American Federation of Labor, Executive Council, objects to in that statement. I had no intention of mentioning or in any way referring to in any way those arguments made for or the organizations who advocate this tax. Four of them are affiliates of the American Federation of Labor, and have joined with one organization not an affiliate of the American Federation in advocating this tax. None of the organizations advocating it has a single member employed by the radio stations. It is simply an attempt to deprive the radio industry, a new industry, of some of the work or some of their income and transfer it to an older industry where those who advocate the tax do have members employed.

"On the other hand, we have four organizations directly employed by the radio stations. The radio stations employ approximately 40,000 people. The total membership of the organizations advocating this tax is but 85,000, and it is an interesting thing to note the main point of their contention, which, as I get it, is that it will deprive them of work.

"Of course they do mention the exorbitant profits made by radio stations, but it is not my intent to go into that phase of the question, because I believe that should be and will be taken care of by the excess profits tax.

"Their main idea, apparently, is to transfer work that is secured now by the radio stations, to the newspaper business, and, they contend that their members will lose work as a result.

"Now then, according to official figures submitted by those who advocate the tax, to the American Federation of Labor, since radio stations have come into existence, in the last sixteen years, one of those organizations has increased its membership 11.7 per cent, another 9.25 per cent, still another 37.5 per cent; still another 45.8 per cent, and still another 23.5 per cent.

"This is not a new question to us by any means. In the middle 1890's there was another new industry coming into existence and in one of the Central Labor Unions on the West Coast, which was located in the largest West Coast city, there was an organization which came in with a proposal that no member of the organization of organized labor, ride in an automobile, even to a funeral, and the motion was adopted. This proposal here is on all-fours with and is made for the same reason that that motion was passed through that central body over 45 years ago; and in the future you will probably look back on this proposal in the same manner that you do on the one I have just mentioned."



Here Senator Vandenberg of Michigan inquired:

"Isn't it true that these unions who are suggesting these punitive taxes at the present time may be opening the way for a tax on all advertising by suggesting such a dangerous precedent?"

"That is true," Mr. Hushing replied. "There is some advertising, outdoor advertising, being taxed, but I have left those organizations to speak about that. Now a new industry does make what may be called excess profits, because the pioneers in the field have things pretty much to themselves, but as others see that it is a good thing, they enter that field and competition becomes great with profits correspondingly decreased.

"That happened I think in the automobile industry. The proposal in this bill could well have been made against electric lights, because they put the manufacturers of oil lamps out of business, or could have been made by the candlemakers with the same force when the oil lamp came into use.

"Now that is our view in regard to this broadcast tax section, and we hope you will wipe it out of existence when you report the bill."

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#### RADIO SALES SOAR AFTER NEW RECORD LAST YEAR

As a news-hungry public grows more and more eager to follow latest war developments sales of radio receivers have been soaring to new highs, Dun and Bradstreet report. Retail sales, after setting an all-time record for unit volume in 1940, were running about 20 per cent ahead of last year during the first half of 1941. The expanding demand has outpaced production and dealers have been finding it increasingly difficult to secure merchandise as manufacturers have been forced to allot supplies to distributors on the basis of past orders. Delivery dates have been pushed further and further ahead while backlogs of unfilled orders have piled up at factories.

Producers have been seriously hampered by raw material shortages although no formal reduction in output has been introduced. As defense requirements have tightened supplies the industry has found it necessary to seek substitutes for aluminum, steel, tungsten, nickel, and other materials for civilian production.

Many manufacturers have been able to maintain operations at a high rate through work on defense contracts. It is estimated that Government orders accounted for about 15 per cent of output in August as the industry worked on over \$200,000,000 worth of defense contracts.

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Manufacturers have advanced prices from 5 to 10 per cent on many models and have moved to curb the price cutting which has been prevalent in retail channels. Profit margins have been widened by these policies, as well as by a general trading-up tendency on the part of consumers, and earnings of leading manufacturers were well above last year during the early months of 1941. These were some of the recent developments disclosed in a survey of the radio industry which has just been completed by Dun and Bradstreet, Inc.

Manufacturing activity, as evidenced by employment statistics, has continued at a good rate since last Fall although it has not reached the 1936-1937 peaks. Employment in radio factories advanced contra-seasonally during the early months of 1941 and in July was at the best level since October, 1937.

Sales have made an even better showing than production and unit volume has exceeded all past performances.

Retail sales of receivers in 1940 totalled 11,750,000 sets, 12 per cent above the 1939 peak of 10,538,000 (Radio Today). Dollar volume, reflecting lower unit prices, did not reach 1937 levels although it exceeded both 1938 and 1939.

Sales of all types of sets increased last year with the exception of console models. Auto radios and portables continued to gain wide consumer acceptance, accounting in part for the increase in total sets in use in this country from 45,200,000 in 1940 to 50,197,000 in 1941.

The broadcasting division of the industry continued its steady advance last year with radio advertising showing a faster rate of growth than any other major media. Gross time sales of stations and networks set another record in 1940, reaching \$207,956,000 which represented an increase of 22 per cent over a year ago. Time sales of national networks were running about 10 per cent ahead of last year during the first six months of 1941.

Broadcasters' profits have not kept pace with the marked sales expansion. During 1940 increases in operating costs, higher taxes, and expenditures for the development of frequency modulation, among other factors, were responsible for a 5 per cent decline from 1939 levels in the earnings of the three major networks.

The average retail price of radio receivers in 1940 held at the 1939 low of \$34, compared with \$35 in 1939.

Television has suffered a temporary setback due to the defense program despite the FCC order permitting commercialization this Summer. Priorities on metals, particularly aluminum, affect television receivers more seriously than other types.



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In the first six months of this year exports totalled \$12,076,000 as against \$11,054,000 in 1940, a gain of 9 per cent (U.S. Bureau of Foreign and Domestic Commerce).

All branches of the radio industry showed an improvement in the failure record in 1940 and this trend was continued in the first seven months of 1941. Failures among manufacturers, wholesalers, and retailers totalled 76 last year as against 99 in the previous year, a decrease of 23 per cent.

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#### EXPECTS DEFENSE SUBSTITUTES TO IMPROVE SETS

Stating that he had visited more than 100 plants in 12 states, Lewis Winner expresses the opinion that changes in radio manufacture designed to release essential defense metals, will result in the improvement of 1942 radio sets.

"Variable condensers, which consumed over 50 per cent of the 2,000 tons of aluminum used by the radio industry last year, are being replaced with lead-coated steel condensers," he discloses in the September issue of Radio News. By treatment with special liquids, corrosion is entirely averted and there will be less drift and less microphonics, two difficulties that have previously stumped engineers.

Aluminum pieces will be absent from many other portions of the 1942 receiver, Winner adds. Shield cans will be of steel or powdered iron. Impregnated kraft paper, cardboard containers or plastic tubes will cover electrolytics.

"With the pronouncement that nickel was on the critical list, came the fear that tube production would be stopped," he reveals in the Radio News article. "Thus far, production has been reduced, but not sufficiently to cause shortages. Some substitutions that have been affected have to an extent eased the situation. Whether or not metal tube manufacture will be curtailed soon is problematical."

The chassis of 1942 will be of steel or iron, copper flashed or scrap metal sprayed, Winner reports, explaining that plastic chassis for fall production do not seem a probability because of die problems and present fragility of the structure.

Because of the shortage of chromium he says, the beautiful mirror-like finish found on many parts will not appear in 1942, but new designs will actually be an improvement.

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NOTE - Due to the fact that the Government offices will be closed Labor Day there will be no issue of this service Tuesday, September 2.

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# HAGGERTY HITS DROPPING OF RADIO TAX

John B. Haggerty, chairman of the board of governors of the Allied Printing Trades Council, criticized the committee's elimination of the radio broadcasting time sales tax. He said:

"It is difficult to understand how the members of the Finance Committee can justify levying taxes on millions of wage workers earning less than \$1,000 yearly, those least able to pay, and exempt from excise taxes the privileged few who operate radio networks and who are yearly deriving millions in wage profits, which profits represent more than 200 per cent and 300 per cent yearly on their investment.

"We have every reason to believe that the Treasury Department and committee experts, as well as the subcommittee appointed by Senator George, will find that the radio networks after payment of rebates and discounts in addition to agency commissions have deprived 25,000 printing trades workers of their jobs and have received net profits of \$40,000,000 in the period 1931-40 inclusive, while the profits for the 1931-35 period were less than \$20,000,000. The printing trades are right and righteousness will prevail."

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# PAN AMERICAN NLT NOW 35 STATIONS

The National Broadcasting Company has added 14 stations in six Central American Republics to its Pan American network, Frank E. Mullen, vice president and general manager of the company announced.

Covering Costa Rica, Panama, El Salvador, Nicaragua, Guatemala, and Honduras, this new extension assures complete short-wave coverage by NBC's International Division of all the Central American countries and Mexico. Affiliation with Mexico's largest network, 21 stations, was announced by NBC last week, making a total now of thirty-five stations just added to the Pan-American network.

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# OPM LIFTS BAN ON PLASTIC CABINETS

The OPM, following representations of the Radio Manufacturers Association last Thursday, modified its August 23 order prohibiting plastics for radio cabinets. Following a conference with OPM and OPACS officials, the OPM yesterday removed its complete prohibition of plastics for radio cabinets and authorized reduced quotas of 75% during September of receiving set manufacturers' orders for plastic cabinets. For October and future months, the OPM in mid-September will review the situation and make further orders.

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While the OPM relief ruling on plastics is temporary and is designed to reduce gradually the production of plastic cabinets, it is expected that plastics for the September 75% quotas of set manufacturers will be substantially available. Also the OPM order of August 23 does not freeze stocks on hand of plastics for radio cabinet production and their use for current orders was also authorized by Deputy Administrator Arthur E. Peterson of the OPM chemical section. The OPM withheld action regarding re-classification of phonographs, escutcheons and other radio parts, which also was urged by RMA. The prohibition of plastics for their manufacture still remains.

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#### FCC ATTORNEY MARRIES SENATOR WHEELER'S DAUGHTER

Allen Sayler, 31 years old, supervising investigator of the Inquiry Section of the Federal Communications Commission, was married August 15 to Miss Frances Wheeler, daughter of Senator and Mrs. Burton K. Wheeler of Montana. The marriage, just announced, took place while the bride's parents were out of town.

Mr. Sayler, an attorney from Illinois, was the FCC's chief witness in the recent press-radio hearing. Miss Wheeler had recently had a position with the National Labor Relations Board at St. Louis.

Senator Wheeler is chairman of the Senate Interstate Commerce Committee which passes upon all FCC matters in the upper House. The marriage of the daughter of another member of Interstate Commerce Committee took place when Miss Francelia Tobey was wed to Dr. Edward Ten Eyck Munson, a physician of Rochester, N.Y. The ceremony took place at the ancestral home of Senator and Mrs. Charles W. Tobey, built in 1789 in Temple, N.H.

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The Seaboard Broadcasting Corporation (WIBG) of Glenside, Pa. was granted a construction permit for an FM transmitter serving the Philadelphia area. Using the call letters W81PH, the new station makes the fifth FM transmitter approved for Philadelphia,

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Station WWVA, Wheeling, West Virginia, an NBC Blue Network outlet, has been granted a construction permit to increase its power from 5000 to 50,000 watts, unlimited time.

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:::: TRADE NOTES ::::  
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Listeners in Latin America and throughout the Orient report greatly improved reception of KGEI, General Electric shortwave broadcasting station in San Francisco, since the recent increase in the station's power from 20 to 50 kilowatts.

"Better than local" read a cablegram from Shanghai. Trade Commissioner Williams in Tokio reported "Reception excellent." The Dutch East Indies gave the same report "Employees Royal Dutch Shell this city compliment you on initial broadcast. Reception excellent."

In Singapore KGEI comes in equally well.

A report on "Furniture Manufacturing Corporations" in the Federal Trade Commission's project for the collection of annual financial reports from a large number of industrial corporations operating in many of the principal industries of the United States was issued last Thursday. The fifteen manufacturers of furniture, whose financial reports are combined, represent fifteen of the more important concerns in this industry from the standpoint of investment and value of goods sold. The classification of "Furniture", refers to corporations primarily engaged in the manufacture of household furniture made of wood commonly used in dwellings, including cases and cabinets for radios and numerous other uses.

Roxie Thorson, trading as Thorson's Soap Lake Products Co., according to Federal Trade Commission findings, represented by circular matter and radio broadcasts that her packaged mineral salt preparations will prevent or cure or be beneficial in the treatment of some 30 ailments, when in fact the therapeutic benefits, if any, of the preparations, are limited to those resulting from their laxative, diuretic and cleansing properties and the products will not accomplish the results claimed.

The O.P.M. Fair Employment Practice Committee to eliminate colored discrimination against colored persons in government jobs, the chairman of which is Mark Ethridge, former President of the National Association of Broadcasters, and a member is David Sarnoff, President of the Radio Corporation of America, reported personally to President Roosevelt at the White House last Wednesday. Ethridge told the President that the committee thus far had received only scattered complaints.

More than 20,000 employees of the RCA Manufacturing Company, Inc., will inaugurate publicly at noon on Sept. 2 a campaign "to beat the promise" made several months ago to meet national defense production requirements.

Recommendations for civilian defense for Washington, D. C., include an emergency air raid precaution equipment \$17,550, and emergency radio for fire department \$13,625.



## FCC AGAIN DELAYS NEW RULES: CBS PREPARES TO SUE

Following notification from the Columbia Broadcasting System that it intended filing suit the Federal Communications Commission postponed indefinitely the effective date of its new chain-broadcasting regulations, which grew out of its two-year investigation of alleged monopolistic practices in radio broadcasting. The new regulations, the effective date of which had already been twice postponed, had been set for September 12.

It was expected at the Commission that the National Broadcasting Company would join CBS in the court appeal.

Through Commissioner T. A. M. Craven, who is himself a one-man commission, all other commissions being away over Labor Day, the FCC announced, in the following statement, that it would hold still another hearing in the bitterly contested matter:

"On August 14, Mutual Broadcasting System, filed with the Commission a petition requesting it to amend its regulations dealing with network option time and the term of affiliation contracts. This petition has been set for oral arguments before the Commission en banc on Friday, September 12, at 10 A.M. At that time the Commission will hear oral argument by Mutual Broadcasting System, and by any other licensees and network organizations who desire to be heard with respect to the chain broadcasting regulations as promulgated, the Mutual petition, or any other modification of any of the chain broadcasting regulations which those appearing desire to propose. All persons wishing to be heard are requested to file appearances with the Secretary of the Commission on or before September 10th. Written briefs may be filed on or before September 12th.

"Broadcast licensees will be afforded opportunity to adjust their operations to accord with rules with respect to chain broadcasting following the Commission's scheduled September 12th oral argument on petition of the Mutual Broadcasting System, Inc., to amend the same. Reasonable time will elapse after disposal of this, and any other petition offered on that occasion, before making such rules effective.

The chain broadcasting regulations will not be placed in effect with respect to existing affiliation contracts, or network organization station licenses, or the maintenance of more than one network by a single network organization, until after the disposition of the Mutual petition and of any other which may be filed."

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## FIDLER CBS ROW REACHES CONGRESS

The switching of Jimmie Fidler, Hollywood commentator, from Columbia to Mutual, who claimed that his radio talks had been censored has been brought to the attention of Congress by Senator Gerald P. Nye of North Dakota. CBS had previously issued the following statement

in connection with the affair:

"Columbia has often differed with Mr. Fidler as to what is legitimate motion picture criticism. If he has found a network which will wholly accept his views on this subject, we are pleased."

Senator Nye addressing the Senate, said:

"Those who are at all conversant with the radio know who is Jimmie Fidler, a radio commentator of wide renown, who, with his sponsors, has recently seen fit to transfer his program from one chain to another because of what appears very obviously to be a control in some manner over radio broadcasting by the moving-picture industry. Mr. Fidler issued a statement entitled 'Radio Censorship Unbearable.' I ask that it may be printed in its entirety in the Record."

Mr. Fidler's statement read, in part, as follows:

"Due to a policy of censorship of speech imposed by the Columbia Broadcasting Co. on me and which has proved oppressive to me, I have asked my radio sponsor (the Tayton Co., manufacturer and distributor of cosmetics) to cancel its contract, or obtain a release of its contract, with that network and permit me to carry on my program over another broadcasting system.

"Despite the fact that I am a recognized motion-picture authority and critic with 21 years' experience, the Columbia Broadcasting Co. insisted that I must give a 'favorable' notice (three or more bells) to all so-called 'big pictures' reviewed by me, and no less than two bells and favorable notice to any 'B' product reviewed by me.

"In other words, even though a picture was downright bad, I was not permitted to say so. If I reviewed it at all, I had to give it good bell ratings and praising reviews. In such cases I chose the only other path left open; I refused to review bad films.

"The only motion pictures the Columbia network would permit me to review honestly (if they deserved panning) were movies produced by independent or small companies, or in other countries.

"My Hollywood column is published in well over a hundred daily and Sunday papers from coast to coast. Certainly they are not going to jeopardize their good reputations by publishing editorial matter that is dishonest, malicious, or unfair.

"I am sending a copy of this statement to the Federal Communications Commission. It seems to me members of that Commission will be interested in Columbia's attitude concerning the rights of fair comment and free speech. Broadcasting systems are not a public utility, but they certainly must owe their public a reasonable responsibility."