

CBS and Hearst Radio Testify Before FCC at Allocation Hearing

Representatives of the Columbia Broadcasting System and Hearst Radio, Inc., appeared today at the allocation hearing before the Federal Communications Commission and completed their testimony.

Hearings were adjourned today until next Monday when they will again be resumed. While members of the Commission would not express a definite opinion it is generally understood that the hearings will be completed either Tuesday or Wednesday of next week.

Harry C. Butcher, vice president and Washington representative, Dr. Frank N. Stanton, E. K. Cohan and William B. Lodge, all of Columbia Broadcasting System, testified, and E. J. Gough, vice president, and J. L. McCarthy, Director of Marketing of Hearst Radio, Inc., also presented their case to the Commission today.

E. J. Gough

Mr. Gough during the course of his testimony recommended that the collection of up-to-date information as to the number and distribution of radio families in the United States and pertinent data related to it be again undertaken by the government in view of the fact that present governmental information is obsolete.

He told the Commission that the principles which he would discuss are fundamental "to the successful social and economic functioning of American broadcasting."

Mr. Gough said:

In coming to this hearing, Hearst Radio does not appear in the favor of any particular class of station or service.

The ten stations comprising Hearst Radio embrace all classes of transmitters as at present defined. They are widely scattered throughout the country and are located in sections which vary greatly as to social and economic characteristics as well as with regard to technical broadcast service required.

Though Hearst Radio is one of the varied Hearst interests, it is operated independently and strictly as a broadcasting business.

Present Information

The purpose of Hearst Radio in appearing before this Commission is to present certain information, principally in the economic field, which we believe will be of assistance in the determination of fundamental policy regarding the allocation of broadcasting facilities in the public interest.

We present this information in response to the Commission's express desire, when it stated in its original notice of hearing that it wished "to obtain the most complete information available with respect to this broad subject of allocation, not only in its engineering but also in its corollary social and economic phases, to the end that such regulations and standards as it may retain or adopt will make possible such use of the band 550-1600 kc. as will provide maximum service (both transmission and reception) in the public interest."

Our testimony will concern itself principally with the economic factor as it relates to American broadcasting and broadcast regulation. We have done this for one reason.

The more we have studied the problems involved in this hearing and the proposals advanced for their solution, the more we have become convinced of the fundamental and even dominant part which must be played by economic considerations in the development of sound constructive policy for the future growth of broadcasting in the public interest.

ALLOCATION HEARINGS BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WERE ADJOURNED TODAY UNTIL NEXT
MONDAY SO THAT THE NEXT DAILY BUL-
LETIN WILL BE DATED OCTOBER 19.

Sound Technical Development

We are firmly convinced that sound technical development in the public interest can result only if adequate scientific study is given to the economics involved.

The economic testimony which we will present undoubtedly will have a bearing upon a number of phases of this hearing as these were outlined in the original notice of the Commission.

Among these are included the possible desirability of establishing new classes or of subdividing, modifying or abolishing any existing class of station; the question of the proper definition of each class of station with respect to its purpose and character of service; the weight which should be given to such factors as area, population and economic support in the allocation of facilities; and the desirability of establishing a system for evaluating facilities so that a fair, efficient and equitable distribution of radio service may ensue.

We shall not attempt to advance any detailed and specific recommendations on particular points such as the aforementioned.

Fundamental Principles

Rather we shall confine our discussion to a consideration of the fundamental principles and information in fields such as the aforementioned which constitute the raw materials out of which detailed regulations or policies necessarily must be constructed. We have confined ourselves to this purpose partly because we wished to avoid every possibility of bias in our discussion and partly because we believed further detailed study of fundamental data might be required before specific regulations could be formulated.

If our testimony has any specific purpose it is this: To indicate as clearly as possible the fundamental relationship which exists between broadcasting economics and the public interest so that adequate and scientific consideration of the economic factor may be incorporated in any future regulation which may be developed; and to emphasize the need of sufficient elasticity in specific regulations, when, as and if promulgated, to allow a reasonable and scientific combination of the economic and technical factors in broadcasting to the end of greater listener service.

Features

In presenting our testimony we shall deal with the following features:

We shall show, first, the close and varied relationship which exists between the economic aspects of American broadcasting and its operation in the public interest.

We shall show, secondly, that consideration of the economic factor as a fundamental one is in the public interest.

We also will show that the economic factor as it affects broad-

casting is measurable, so that it can be included in regulatory theory and practice.

Following this, we will indicate that the consideration of the economic factor as a fundamental one in broadcasting regulation is not incompatible with sound engineering.

Finally, we will indicate that its inclusion in regulatory theory and practice will not result in radical changes in the present broadcasting structure but will furnish a basis for the constructive evolutionary development of broadcasting facilities in accordance with the public interest.

Before discussing our first point, I should like to make one final comment regarding the manner in which Hearst Radio will present its case.

Relationship

It is my intention as a business man long associated with radio to outline the relationship which exists between broadcasting economics and operation in the public interest and to deduce, possibly, some fundamental principles in this field.

However, I am not an economic expert. Though I may forecast in theory what he will deal with in practical detail, I have asked Mr. J. L. McCarthy, Director of Marketing of Hearst Magazines, Inc., to discuss the marketing aspects of our presentation. I mention this so that you may address your questions as to marketing details to him.

We had originally planned to have our consulting engineer, Mr. J. C. McNary, discuss the technical phases, but, having heard the engineering testimony presented in the last few days, we came to the conclusion that anything he might say would be repetition.

We will therefore confine our presentation to economic matters and if this proves helpful in the solution of any of your problems it will be because you will be enabled to coordinate the economic factors to the technical factors which have already been thoroughly discussed.

In emphasizing the economic aspects of broadcasting service and allocation we are by no means unmindful of its basic reason for existence. Radio broadcasting exists fundamentally for the purpose of serving listeners. All other purposes are secondary to this.

Listeners

It may seem elementary to ask what constitutes listeners, but it is nevertheless important to do so. Listeners are persons possessing sets or having reasonably regular access to sets for purposes of use. For practical purposes one can consider the number of families possessing one or more radio sets scattered throughout the various portions of the country as the measure of the number and location of radio's listeners.

Here we are faced with a social problem which has its roots in economics. I have here a chart prepared for me by my economic expert. This chart shows the percentage of U. S. population located within the borders of each state. Population data have been taken from the 1930 Census. The chart also shows the percentage of total radio families of the country found in each state. This percentage is based upon the estimated number of radio families located within each state on January 1, 1936. The estimates were made by the technical subcommittee of the Joint Committee on Radio Research, which is sponsored jointly by the American Association of Advertising Agencies, Association of National Advertisers and the National Association of Broadcasters. It is the latest and most accurate information available on the subject. It is undoubtedly a conservative estimate since it represents the joint work of technical experts representing the buyers of time, the agency and the medium.

Distribution of Population

You will note from the chart that important differences occur in the distribution of population and radio set ownership throughout the several states.

The reason for the difference is obvious. Radio ownership is dependent upon purchasing power, and purchasing power varies greatly in different sections of the country. The distribution of radio ownership will continue to be conditioned by the existence of purchasing power. This is all the more so since the possession of radio receiving sets by approximately three-quarters of the families of the country already has brought set ownership sufficiently far down the income scale to tend to make the distribution of sets in various portions of the country a relatively static matter. When we introduce our expert marketing testimony, we shall deal with this matter in greater detail.

This being the case, we can establish our first principle based upon economics and social needs alike: radio regulation should be conceived in terms of radio families and not total population if *fair, efficient and equitable distribution of radio service* is to be made among the several states.

Degree of Growth

This regulation naturally should include some allowance for such degree of relative growth as may occur in the less saturated areas. However, this allowance should be based upon a scientific forecast of possible future development, and not upon either guesswork or optimism. Ample market data and tested estimating technique exist to make such a scientific forecast possible.

May we conclude our discussion of this specific point with one comment.

The county estimates of the Joint Committee on Radio Research are an excellent pioneering venture of greatest value socially and economically to broadcasting. However, these estimates do not provide all of the information which the Commission should have if it is to shape its regulation intelligently in terms of radio families. Neither is it everything which the advertiser or broadcaster desire.

Information as to urban and rural receiving set ownership in various parts of the country; data for at least all towns of 10,000 or more in population; the relative degree of ownership of sets in different parts of the country by various income and racial groups; data regarding age of sets in different sections and among various groups—these are some of the facts which the Commission should have at its disposal for detailed and painstaking analysis. Collection of information of this type involves a task of considerable magnitude. Its social and economic importance makes it a logical function of government, just as is the conduct of the U. S. Census, which in 1930 included a radio set census.

Radio Families Increase

Unfortunately an estimated increase in the number of radio families in this country of more than 90 per cent has made this information completely obsolete.

We respectfully recommend that the collection of up-to-date information as to the number and distribution of radio families in the United States, and pertinent data related thereto, be again undertaken by the Government.

This, then, is the first and most elementary point at which economics impinge upon broadcasting in the public interest. However, it is but one point.

Let us therefore proceed with the more important aspects of the relationship which exists between broadcasting economics and public service.

It should be axiomatic that a broadcasting station is able to operate in the public interest only to the degree to which it can secure revenues adequate to render the standard of service required for this purpose. Without adequate revenues, continued operation in the public interest is impossible.

Revenues for the operation of a broadcasting station can be secured from two sources, depending upon which of the two basic forms of broadcasting organization most prevalent in the world today happen to be employed.

Government Ownership

If government ownership is resorted to, either directly or by means of a public corporation such as the British Broadcasting Corporation, then revenues for operation must be secured by taxation.

If private ownership and competitive operation under government regulation, such as prevalent in the United States, is employed, then revenues for operation must come from the sale of the station's facilities to advertisers.

These two methods, advertising and taxation, are the only practical methods of financing a broadcasting station or national system.

Analysis of Commission station lists and similar data reveals that in this country, out of 628 licensees, only 11 stations, comprising 1.7% of the total number and representing less than one-half of one per cent of the nation's total facilities, calculated on a quota unit basis, are financially supported by other than the sale of time to advertisers or indirectly by taxation as in the case of educational or municipal stations. The method of private ownership and competitive operation of broadcasting stations is firmly established in this country. This system received official

recognition and sanction when, after extensive hearings touching upon every conceivable aspect of the organization, operation and service of radio broadcasting, the Congress of the United States passed the Radio Act of 1927. The basic theory and detailed provisions of this act were unequivocally based upon a privately owned and competitively operated broadcasting system. The so-called American system again was confirmed in the Communications Act of 1934, the provisions of which continued to be predicated upon such a system.

System Justified Itself

This system has amply justified itself in the fifteen years of its operation and in the ten scant years of its recognized legal existence. During that period it has come to serve approximately 23,000,000 families representing more than 70,000,000 people. These families are scattered throughout every one of the 3,073 counties in the United States. Approximately 3,000,000 of these families consider radio sufficiently important to have more than one set in their homes while about 3,000,000 of them have sets in their automobiles.

According to the statement made by Mr. James W. Baldwin, Managing Director of the National Association of Broadcasters, at the June 15th hearings of this Commission, the ownership of radio receiving sets is more widespread than is that of any other commonly accepted standard of living factor in American life. The 23,000,000 radio families are to be compared with 11,000,000 residence telephones, 21,000,000 wired homes and an estimated 17,650,000 families possessing one or more passenger automobiles.

Such a degree of radio set ownership can occur only where appreciative and satisfied listeners exist.

The competitive aspects of the American system have produced one of the most advanced broadcasting services in the world, both technically and from the program viewpoint. American program service has been particularly democratic, since it is based upon popular approval. Private ownership and competitive operation in this country also has fostered and maintained a degree of freedom of speech and civic discussion unparalleled in any other country.

Private Ownership

The continued existence of a broadcasting structure based upon private ownership and competitive operation in the United States has been made possible only by the financial support derived from advertisers. Service of American broadcasting in the public interest is therefore fundamentally dependent upon its economic success as an advertising medium. Eliminate advertising revenues and you eliminate the American system of broadcasting, just as you would eliminate the American press.

Let us be quite clear on one point regarding advertising support of American broadcasting. In spite of obvious shortcomings in individual instances, advertising support has been in the public interest.

Advertising, over and above its fundamental value as a source of revenue, has made constructive social contributions to the service of American broadcasting.

It has fostered technical development in that stations have exerted every effort to adequately cover their market areas so as to be able better to reach listeners and therefore to attract advertising accounts.

Advertising has fostered the development of general program service. The many and varied programs sponsored by national advertisers, ranging from the world's best symphonic music to its funniest comedians, have added greatly to the wealth of entertainment and cultural material available to American listeners. In a similar manner have the local programs of the more important individual station advertisers been of service to listeners.

Advertising Sponsorship

Possibility of advertising sponsorship and of attracting accounts has impelled stations to build programs which would win loyal audiences in their community.

Advertising also has tended to pioneer in the use of new program forms and thus enhance the variety of entertainment available to listeners. This has been definitely established by Dr. Herman S. Hettinger of the University of Pennsylvania in his authoritative study of broadcasting economics entitled "A Decade of Radio Advertising." (Table XXXIII, pages 228-229.)

Finally, radio, in common with all advertising, has been a constructive force in its own right, where properly applied. Advertising is a constructive force. It educates the public to new utili-

ties, thus aiding in raising the standard of living. It stimulates demand, and therefore aids in speeding up the movement of trade. Consequently it assists in keeping the wheels of industry in motion and in maintaining employment.

One thing is particularly important to remember when considering the relationship of advertising revenues to the operation of broadcasting in the public interest.

Increased Advertising

The helpful effect of advertising support is cumulative. Increased advertising volume means added revenues. Added revenues make possible improved technical and program service to the end of attracting more and loyal listeners. Such improved technical and program service make the station even more attractive to advertisers with consequent further stimulation in advertising volume. Thus an ever widening circle of service is set up.

It is assumed, of course, the station owners will turn back sufficient portions of their increased revenues into listener service. This seems to be a reasonable assumption, at least from the experience of Hearst Radio. No sooner did we take over station KTSA than we proceeded to install a new transmitter so that we might better serve the surrounding territory. We also are taking steps to improve the general program service to the maximum degree possible in keeping with local needs and desires.

Of particular importance to this hearing is the converse of the preceding observation. If added advertising revenue exerts a cumulatively helpful influence on station listener service, then the loss of advertising revenue likewise constitutes a cumulative drag upon station service.

Broadcasting is a peculiar industry in that it is the only one of which I know where costs increase as volume of business decreases. Every hour not filled with a sponsored program must be supplied with sustaining program service.

Thus the loss of an advertising program reduces revenues and at the same time increases operating costs, if program standards are to be maintained.

Difficult to Supplant

Moreover, if the advertising program is a particularly popular one, it may be difficult to supplant it with another of like quality. Loss of any large number of such programs may reduce program quality over the station to the point where the listening audience begins to turn to other stations. Reduced listener audience tends further to reduce advertiser interest in the station, so that financial failure becomes almost inevitable.

We can now deduce a second principle from these observations as to the fundamental relationship of advertising to the public interest: Since the operation of the American system of broadcasting in the public interest is dependent upon the revenues which it secures as an advertising medium, any system of regulation, if it wishes to foster operation in the public interest to the maximum degree, must recognize, as *one fundamental factor*, the potentiality of securing sufficient advertising revenue by the station to make such service possible.

The question now arises as to how this principle may be recognized in a practical manner. Answer of this question requires a more thorough analysis of the nature of the advertiser's interest in a specific radio station. What is this interest?

Potential Purchasers

The advertiser is concerned with the potential purchasers of his product. Radio listeners are potential buyers, especially for mass consumption goods. The broadcasting station provides the advertiser with a potential contact with the listeners situated in this service area. This contact consists basically of the station's ability to deliver a signal in that area of a strength, quality and consistency sufficient to make possible regular listening. Herein lies the fundamental value of a station as an advertising medium.

Here we come to another highly important economic factor. An advertiser's interest in a station does not rest upon its indiscriminate coverage of listeners. Coverage in a distant continent or some other far-removed spot is interesting but of dubious economic value.

This does not nullify the value of coverage over wide distances on clear channel stations where sky wave reception from such transmitters may constitute the principal means of night-time listening.

But such coverage is of importance only where the advertiser has sufficiently widespread markets and where his distribution

takes in a sufficiently large proportion of possible retail outlets to give him a really close approximation of national distribution. This condition exists less frequently than is commonly supposed.

Intensive Coverage

Even then, the advertiser is first and basically interested in the intensive coverage of his primary markets: those markets in which the greatest number of people with the most buying power either reside or buy. Only following this, is he interested in the wider coverage of extensive areas. This is even the case with regard to national network advertising, the greatest economic value of which is that of making possible the simultaneous coverage of primary markets.

Viewing the nation as one great market, therefore, we can say that the advertiser's principal interest centers in those points where population and buying power tend to concentrate. He therefore makes a practice of dividing the country into a number of such areas for control purposes and in order to reduce distribution costs.

It is only natural that these areas—usually referred to either as consumer trading areas or retail trading areas—should center about important communities or key cities. Trade always has tended to concentrate where buyers and sellers have congregated, so that the cross roads has become the market place and the market place, drawing from the surrounding countryside, has grown into the town. Thus the city in itself has become one great market place, drawing trade from the territory adjacent to it.

Consumer Trading Area

The city and the contiguous territory dependent upon it economically may be said to constitute a consumer trading area. Such a trading area is comprised of the dominant city and such satellite communities and portions of the countryside which habitually trade within its limits and which are economically dependent upon it. This is what constitutes the advertiser's principal interest, for it is through the retail establishments located in such a market area that he can reach the purchasers located there. It is by means of the radio station serving such a consumer trading or market area that the advertiser can establish contact with prospective purchasers and perhaps persuade them to buy his product.

On the basis of these observations we can state the advertiser's interest in a broadcasting station even more specifically than before. The advertiser finds a broadcasting station of value if it is located in a market which is economically important to him; and if the station is able to cover that market in a satisfactory manner.

From this we can deduce a third principle: Stations must be located in and guaranteed adequate coverage of markets of general interest to advertisers if potentiality of advertising revenue and consequent operation in the public interest is to be safeguarded.

Broadcast Regulation

This principle must be considered as a fundamental aspect of broadcasting regulation if economic stability, the prerequisite to public service, is to be secured.

The application of this principle raises a large number of detailed economic and technical questions which fall more properly into the category of expert testimony. I do not wish to raise them now, since our experts will deal with them in detail. I do wish, however, to anticipate some of the questions which undoubtedly have occurred to you at this juncture so that you at least may possess the bare outlines of the complete picture.

Allocation of stations on the basis of service to logical market or trade areas is not incompatible with the public interest. It has already been shown that such areas constitute the advertiser's principal concern and that coverage of them therefore increases the economic stability and well-being of individual stations and of the American system as a whole, with consequent safeguarding of operation in the public interest.

Moreover, as our expert testimony will show in greater detail, such market areas tend to be *social* as well as economic units, so that they comprise logical spheres of influence for broadcasting stations. They also are sufficiently varying as to contour, population, trade and similar features not to impose rigidity upon classes of stations established, but rather to impel toward even greater elasticity than now exists.

Buying Power

Finally, as I have indicated in a general manner, radio families now tend to concentrate in terms of buying power location and

therefore in markets, so that coverage of markets results in reaching the great majority of listeners. These points will be developed more fully in our expert testimony.

Expert testimony also will develop the fact that these markets can be defined and evaluated with sufficient accuracy to make possible their use in any system of allocation which may be developed. It will show that advertising potentiality can be determined, at least to a relative degree, so that recognition of the economic factor in these terms is a practical consideration.

Expert engineering testimony also will develop the fact that improvements in the broadcasting art have made possible sufficient elasticity to enable the combination of the technical and economic factors in station allocation to the end of improved listener service.

Combined technical and economic testimony will show that recognition and inclusion of the economic factor will not result in radical and far-reaching changes in present broadcasting structure or allocation. Rather it will constitute a logical basis for an evolutionary development of service along constructive lines, and will provide a means whereby the regulations of the Commission may be brought up-to-date in response to their avowed intention of bringing them to "conform to the actual practice of today."

Relationships

There is still one point regarding the relationships existing between broadcasting economics and operation in the public interest which should be raised.

It is quite true that coverage, in the technical sense, of a desirable market is the fundamental value which a station possesses for the advertiser. However, listening is the result of more than coverage. Listening is compounded of the ability and the desire to hear the station's programs. The probability of actual listener contact for the advertiser therefore is increased materially if the station has built up a loyal audience in the area which it serves. This loyal audience is the result of the quality of the station's signal, plus the sum total of its program service, its promotion and policies.

Programs loom especially large in this respect, and in fact are the deciding influence. Since quality of program service is a fundamental factor in operation in the public interest, it follows that operation in the public interest is what creates the value of the station as an advertising medium. Thus the cycle is completed.

Broadcasting Economics

This aspect of broadcasting economics and service is of marked importance in regulatory practice and procedure. Delivery of adequate signal and the presentation of a sufficiently high standard of program service to attract any important measure of regular listeners necessitates the possession of sufficient working capital and technical and program skill to make this possible. We can therefore state axiomatically that if a new station is to operate in the public interest or to become successful as an advertising medium, it must possess both adequate working capital and a sufficiently experienced and expert staff.

This is an old story, but it has a new angle. The amount of working capital and skill which will enable a station just to get by in the community and to provide a minimum of service is one thing, and the amount of each of these factors required to enable it to win a definite place in the community as an important force, and to grow in service and advertising value, is a highly different thing. If a station merely possesses sufficient resources and skill to provide minimum service, it probably will remain a marginal unit of the industry, socially and economically, for the remainder of its days.

Fourth Principle

We therefore can formulate a fourth principle: Progressively higher standards of working capital and broadcasting experience are desirable and necessary if the general level of broadcasting service is to be improved and if probability as well as possibility of adequate revenues from advertising to enable operation in the public interest is to be safeguarded as far as is practicable.

The determination of adequate standards with regard to working capital and similar matters is dependent largely upon the collection and compilation of financial and other data for groups and classes of stations. This then serves as a basis for evaluation in specific cases. The increased collection of such data on the part of licensees is to be encouraged, as is the keeping of station accounts in a sufficiently standard manner as to make such compilation possible.

A policy of requiring progressively higher standards of working capital and skill and of encouraging the compilation of fundamental comparative data in the field of broadcasting economics should assist materially in further shaping American broadcasting service in the public interest.

In the past half hour we have traversed such ground, some new and some old. Before turning to our expert testimony may I summarize the principles which we have developed and which Hearst Radio feels should be considered by the Commission in the formulation of policy as to broadcasting regulation.

Summary

1. Radio regulation should be conceived in terms of radio families and not of total population if "fair, efficient and equitable distribution of radio service" is to be made among the several states.
2. Potentiality of securing sufficient advertising revenues to enable continued operation in the public interest must be considered as one fundamental factor in broadcasting regulation and in the allocation of facilities.
3. The most practical means of recognizing this principle seems to be the location of stations in markets of general interest to advertisers and the guaranteeing of stations so located of adequate coverage in the market to enable them to be of economic and social value.
4. In order to safeguard such coverage, the signal of the station located in the market should compare favorably in its logical service area with that of any competing station of a like or comparable class delivering a signal in the territory in question. Though complete attainment of this goal is probably impossible, it should be followed as far as is technically feasible.
5. If there is any question of adequacy of coverage, it should be made to exceed rather than fall short of the market limits, though not to an unreasonable degree.
6. Standards should be imposed, as far as is practicable, which will ensure the possession of the requisite working capital and skill to make possible initial program service and technical operation of more than marginal quality, thus ensuring constructive future development in the public interest.
7. When once it is established by careful economic analysis that a community possesses as many stations of proper class and kind as the community can reasonably be expected to support, then the potentiality of advertising of these stations should be safeguarded by protection from unreasonable further increases in facilities and consequent ruinous competition.
8. Enough healthy and constructive competition should be fostered by every legitimate means to maintain vitality of service and incentive for further development and improvement thereof.

Functioning of Broadcasting

This completes the more general portion of our case. The principles which have been set forth, to our view, are fundamental to the successful social and economic functioning of American broadcasting.

Since technical considerations loom large in these hearings and in the proposals which have been and undoubtedly will be made during their course, there is one thing which should be made clear.

Hearst Radio wishes to emphasize that it is not in opposition to any technical change of procedure or regulations which will result in improved listener service, viewing this term in its broadest implications.

Hearst Radio merely requests that such changes as may be contemplated be first studied most carefully from the viewpoint of the principles which we have set forth.

In other words, we ask that technical developments be fitted to and be made the servant of social and economic needs to the end of further progress in the listener interest.

Mr. Gough, under cross examination, stated that Hearst Radio is not a subsidiary of the Hearst Newspapers but is a separate organization of Mr. Hearst. He answered no to the question of whether further development of broadcasting would affect other advertising mediums. He agreed, he said, with evolutionary changes in radio and said that they should be "slow but sure." The same broad lines of economics, he stated, applied to broadcasting stations whether they are owned by the government or by individuals. In his opinion, he said, the Commission must consider both national and local needs in any changes it makes in radio.

J. L. McCarthy

Mr. McCarthy, of the Marketing Division of Hearst Magazines, who stated that he had been a marketing expert for the past sixteen years, spoke in considerable detail of the three-year market survey made by the Hearst Magazines in the United States. He said that in his opinion the economic facts of broadcasting could be ascertained by the Communications Commission by getting much data which are filed in other government departments.

Mr. McCarthy spoke of the 626 trading areas which had been surveyed and said that he had not applied the trading area system to the broadcasting stations of the country. The marketing data, he thought, however, should make a good base for study by the Commission.

Mr. McCarthy testified that in his opinion radio sets are approaching a saturation point in this country and that they will never reach one hundred per cent.

He spoke in some detail of surveys which he had made in the trading area of Watertown, New York, and Grand Rapids, Michigan, and of the New York multiple trading center market. Also he made a comparison of areas of equal population which vary widely in buying power.

Mr. Butcher and Mr. Cohan made very brief statements of introduction on behalf of the Columbia System.

Dr. Frank N. Stanton

Dr. Stanton, of the Market Research Department of Columbia Broadcasting System, made an elaborate presentation with lantern slides, taking up specifically a study which was made by that company in rural Pennsylvania.

He admitted that the study, which necessarily had to be made in haste, was not typical of rural conditions throughout the country. He said that the results of the study were in complete agreement with that made by the Communications Commission a year earlier. The figures which were arrived at, he stated, can merely be taken as range finders. During the course of his testimony Dr. Stanton said that he is of the opinion that the poor reception received by farmers in various parts of the United States is not only due to the station but due to the condition of their sets.

Dr. Stanton said that the Columbia's survey of favorite stations in rural Pennsylvania showed that 86.6% are in favor of clear channels, compared with 82.5% shown in the Commission's survey. The Columbia's survey gave 12.3% as favoring regional and 1.1% favoring local channels, compared with 14.8% and 2.7%, respectively, in the Commission's survey.

Two Questionnaires

The Columbia, said Dr. Stanton, sent two separate questionnaires into the rural Pennsylvania area. The first one showed the favorite vs. the strongest station and the second one took up day vs. evening reception.

As a result of the first questionnaire on the relation of the favorite to the strongest stations, 47.6% voted for a favorite station which is not the strongest station heard on their set. On another survey of program vs. signal taken in 10 cities of the United States, including Baltimore, Maryland; Boston, Massachusetts; Charlotte, North Carolina; Chicago, Illinois; Erie, Pennsylvania; Evansville, Indiana; LaCrosse, Wisconsin; Lowell, Massachusetts; Syracuse, New York; and White Plains, New York, the returns showed that 64.9% selected their favorite station because of the programs it broadcasts, while 17.7% selected their favorite station because it was easy to get on their sets, and 17.4% selected their favorite station because it had the best programs and came in the easiest.

Second Questionnaire

In the second questionnaire which the Columbia sent into Pennsylvania dealing with the relation day to evening preferences, 68.8% of the evening favorite station are not daytime favorite stations as shown by the survey.

Dr. Stanton told the Commission that two more questions might have been added to the questionnaires which were sent out, including (1) are you getting satisfactory radio reception? and (2) how old is your radio? He said this was not done, although the answers would have been very interesting because of the shortness of the time available for the surveys and because it is not satisfactory to put too many questions in such inquiries to the public.

He presented an interesting chart showing urban and listening

curves based on 15,650 personal interviews conducted in 304 cities and rural communities and 2,223 scattered farms.

Suggestions

Dr. Stanton made six suggestions for future research study, including:

1. A study of rural areas to determine
 - a. The degree of radio ownership;
 - b. The present rate of radio set sales and replacements.
2. A study of rural radio listeners to determine
 - a. Their attitude toward radio;
 - b. Rural opportunities to listen;
 - c. Rural listening habits;
 - d. Rural coverage, day and night;
 - e. Rural program services.
3. A study of general audience attitudes
 - a. Toward local and remote stations;
 - b. Network and non-network programs;
 - c. Sustaining and commercial programs;
 - d. Live talent and transcription programs.
4. An analysis of general listening habits over a period of years to determine the trends toward or away from local and remote listening, DX-ing, etc.
5. Determine the size and economic status of the United States areas which would be newly served by all possible 500 kilowatt stations.
6. An analysis of the stations which would fall within the primary service areas of new 500 kilowatt stations * * * a study of the operating costs and incomes of these and other stations with regard to the possible changes in operating practice which would follow power increases.

William B. Lodge

Mr. Lodge, also on behalf of Columbia, presented charts and exhibits from the engineering standpoint. He recommended that no increase in power be made on clear channels from 50 kilowatts at this time.

Mr. Lodge suggested the re-classification of broadcast stations as follows:

1. The purpose of a CLASS A (Clear) STATION is to serve a widespread area of low population density in addition to a large metropolitan area. The association of a Class A Station

with a large city should not obscure the fact that its assignment is established primarily for the listener within a radius of a thousand miles, and for whom it would otherwise be economically impossible to provide satisfactory service.

2. The purpose of a CLASS B (Dominant Zone) STATION is to serve a considerable area of low population density and a large metropolitan area. Its skywave signal is intended to provide a satisfactory nighttime rural service within a radius of 300-400 miles and in all directions from the transmitting station. A non-directional antenna is permitted.
3. The purpose of a CLASS C (Restricted Zone) STATION is to serve a considerable area of low population density and a large metropolitan area. Its skywave signal is intended to provide fairly reliable nighttime rural service within a radius of 300-400 miles but not in all directions from the transmitting station. A directional antenna is required.

NOTE: Combinations of either one Class B and one Class C or two Class C stations may be authorized to operate on a particular frequency. Two Class B stations will not be authorized to operate on the same frequency.

4. The purpose of a CLASS D (Regional) STATION is to serve a city or important detached center of population, in addition to the suburban and rural areas in its immediate vicinity. In general, the night service will not extend beyond the daytime range of the station.
5. The purpose of a CLASS E (Sectional) STATION is to serve a smaller city or large town. During the daylight hours its range may include rather large areas, but after nightfall its service will include only that section in immediate proximity to the city or town.
6. The purpose of a CLASS F (Local) STATION is to serve a small town or community.

NOTES: A station of lower classification will be authorized to operate on a channel used by stations of higher classification, provided:

- (1) *the primary use of the channel on a national scale is not impaired thereby;*
- (2) *all stations involved (existing on potential) shall receive the protection specified by considerations of good engineering practice.*

A Class E or Class F station will be authorized to operate in a large area which can be completely served only by a station of higher classification.