OPENING UP CABLE TV

By Eli M. Noam

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New York City and other municipalities are in the process of selecting companies that will distribute cable television. Before the pattern of a vast communications industry is set, some implications of a ''wired nation'' should be considered.

Cable TV, with its scores of channels, is supposed to provide viewers with a diversity of programs. However, because cable operators fill two very different functions, the opposite is quite likely.

First, cable operators are program distributors. Since it is inefficient to have several sets of wires criss-crossing an area, one company ends up with a distribution monopoly.

Second, the cable company is a programmer since it selects what to telecast. True, it is required to carry existing local stations and provide a few nonprofit public-access channels and even fewer ''leased-time'' commercial channels, but the vast majority of the available channels are subject to the company's control. In addition, a cable operator could primarily transmit programs it has produced and packaged and exclude those of others. Operators are also likely to slow the growth of available channels, since by adding viewer options they would only compete with themselves. Imagine a city where nearly all TV channels are controlled by one network - this could be television of the future.

This is not idle speculation. For example, a New York City cable system, Teleprompter Manhattan, once provided the movie service Home Box Office. However, after Teleprompter became part owner of its own movie service, Showtime, it promptly canceled HBO. Next, it introduced the Uptown pay channel, also its own, but has now no slot in which to carry Ted Turner's Cable News Network. The only way for a viewer to get Cable News and HBO is to move below 79th Street on the West Side and 86th Street on the East Side; there, HBO is supplied by Manhattan Cable, HBO's sister company, and Showtime is at the moment non grata.

Giant program producers vie for their own cable systems in order to create secure markets sheltered from competition. For example, Westinghouse, a major TV broadcaster and program supplier, is about to buy Teleprompter in the biggest merger in the history of cable communications.

It is important to realize that the Federal Communications Commission's policy of cable deregulation does not let the free market take its course, because there is no free cable market. Cable deregulation means leaving local monopolies largely unconstrained. This places the burden of supervision on local governments, which are completely unequipped to handle it.

Separating programming and distribution functions would reduce cable companies' potential power without direct government control. Cable systems should distribute programs but without the power to select what the public can see. This conclusion has been reached by bodies as diverse as the American Civil Liberties Union and the Nixon Administration's Cabinet Committee on Cable Television.

One alternative would make cable TV open to all comers as a common carrier, much like a telephone company, which does not control what goes over its wires. But this approach would require rate regulation, a chronic source of administrative headaches. A better alternative is to open cable-television programming to competition. For example, after a number of channels have been set aside for community and limited-interest programs, a city would auction off each remaining channel for a period of, say, three years. Those with the highest bids would then gain exclusive rights to a channel for this period. A share of the auction revenue would be given to the cable operators in order to keep viewers' subscription fees low. This share could be higher in the first years of a system, when the operator has to invest heavily; when a city is substantially wired, it could be reduced.

This system would bring a greater diversity of programs to viewers, and would promise a rich source of revenue, without administrative burdens, to cities and towns. To the Ted Turners of this world, this would offer an opportunity to enter the competition.

On the other hand, cable operators would have to accept less future power. But society would not permit them a programming monopoly for long. The auction system in which they could participate as bidders and in whose profits they shared should be preferable to direct governmental controls.

If the separation of programming powers from distribution functions is unavoidable in the long run, it is easiest accomplished now, before structures have become rigid. In the words of the blue-ribbon Sloan Commission on Cable Communication, in 1971: ''Cable television is at a stage where the general exercise of choice is still possible... It is not yet encumbered by massive vested interests, although that day may no longer be remote....'' Time, however, is running out. -- Eli M. Noam is associate professor of business and a lecturer in law at Columbia University.