THE ECONOMIC FACTORS RELATING TO CANADIAN TELEVISION BROADCASTING POLICY:
A NON-TECHNICAL SYNTHESIS OF THE RESEARCH LITERATURE

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Effective television broadcasting policy needs to be based on an appreciation of the economic forces driving the industry. A non-technical synthesis of the associated literature is provided to make it more accessible to non-economist communication scholars.

Les principes d'une télédiffusion efficaces doivent se fonder sur une évaluation des forces économiques qui gouvernent cette industrie. Est disponible une synthèse non-technique de la documentation s'y rapportant. Elle est à la disposition des spécialistes non-économistes de la communication.

Communication is a field of study which draws on many disciplines, one of which is economics. Much of the research on the economic aspects of communication, however, has been published in economic or public policy journals, or books often of a technical nature, rather than mainstream communication journals and hence has been relatively inaccessible to non-economist communication scholars. In this article we set out to provide a non-technical synthesis of the research literature concerning the economic factors relating to Canadian television policy.

An examination of the literature dealing with the economic factors relating to Canadian television must, to provide a proper context, recognize that in the eyes of many observers economic factors are a comparatively unimportant element in Canadian broadcasting policy. The Massey Royal Commission, for example, argued that the:

...principal grievance of the private broadcasters is based on a false assumption that broadcasting in Canada is an industry. Broadcasting in Canada, in our view, is a public service directed and controlled in the public interest by a body responsible to Parliament. (1951, 283)
While we would agree that broadcasting is not an industry "just like all the others," effective policy formation must be based on a proper appreciation of the economic factors driving the industry. Policies that are made without this appreciation are not likely to have desired effects.

From a policy perspective, economic research on the television industry is useful principally in understanding why, despite extensive regulation, the industry fails to perform in the manner envisaged by the 1968 Broadcasting Act, Section 3(d) of which stipulated that each broadcaster should offer programming that is "of high standard, using predominantly Canadian and other resources."

In the first section, various analyses of the economics of program production will be examined. This explains the basic problem of Canadian broadcasting, namely that it is more profitable to purchase television programming from abroad that produce it at home. Next the literature concerning regulatory approaches to influencing industry performance and their effectiveness will be considered. Then the policy recommendations that have been suggested will be reviewed. Finally, a summary and some conclusions are provided.

THE ECONOMICS OF TELEVISION PROGRAM PRODUCTION

The role of programming is to attract an audience for exposure to commercial messages. If each viewer/listener is worth the same to the advertiser, a broadcaster will maximize profits by choosing the program mix that maximizes audience size for a given program cost or minimizes program cost for attaining a given audience.

A useful exposition of the economic realities of Canadian television production is contained in a Canadian-Radio-television and Telecommunications Commission (CRTC) (1976) paper which contrasts the production cost of Canadian programs with the acquisition costs of American programs and matches both with the corresponding advertising revenues for each of the CBC and CTV networks. The study found that, in January 1975, CTV was obtaining an average margin (revenue minus costs) per half hour of $21,000 from foreign (primarily U.S.) programs compared to $55.00 on Canadian programs.

Lapointe and Le Goff (1980) in their study of the television program production industry argue that the major factor determining market potential for programs, whether Canadian or foreign, is the price broadcasting undertakings are able to pay when taking into account the audience the programs can reach. They gathered cost and revenue data for a sample of 112 programs and observed that Canadian programs are mainly news and information programs along with a few entertainment programs requiring small investments. Inspection of their cost and revenue data, displayed in Table One, reveals why this
### TABLE ONE

Average Cost and Revenue per Half Hour for Canadian English-Language Programming by Program Category, 1978

<table>
<thead>
<tr>
<th>Program Category</th>
<th>Costs</th>
<th>Revenues</th>
<th>Margin</th>
<th>Margin/Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drama serials</td>
<td>$114,750</td>
<td>$59,536</td>
<td>$(55,214)</td>
<td>(.48)</td>
</tr>
<tr>
<td>short films</td>
<td>137,160</td>
<td>78,166</td>
<td>(58,994)</td>
<td>(.43)</td>
</tr>
<tr>
<td>teledramas</td>
<td>112,830</td>
<td>46,318</td>
<td>(66,512)</td>
<td>(.59)</td>
</tr>
<tr>
<td>Variety</td>
<td>115,620</td>
<td>74,452</td>
<td>(41,168)</td>
<td>(.35)</td>
</tr>
<tr>
<td>Game Shows</td>
<td>18,900</td>
<td>57,882</td>
<td>38,982</td>
<td>2.06</td>
</tr>
<tr>
<td>News</td>
<td>36,887</td>
<td>68,301</td>
<td>31,414</td>
<td>.85</td>
</tr>
<tr>
<td>Documentaries</td>
<td>20,768</td>
<td>26,098</td>
<td>5,330</td>
<td>.26</td>
</tr>
</tbody>
</table>

Source: Columns 1 and 2 are from A. Lapointe and J. Le Goff *Television Programs and Their Production in Canada*. Department of Communications, May 1980, Tables 1.25 and 1.26; columns 3 and 4 by the authors.
is so. Lapointe and Le Goff do not provide data for Canadian sports programming but we suspect this is also profitable. However, undoubtedly the most profitable programming is U.S. light drama. Hoskins and McFadyen (forthcoming) have estimated the margin/costs ratio for U.S. drama shown by an English-language broadcaster to more than 3.00. In another study, McFadyen, Hoskins and Gillen (1980) found that an extra hour a day of prime time Canadian programming would roughly double the expenses of an average station.

Private broadcasters, acting in the pecuniary interests of their shareholders, would obviously like to virtually fill their prime-time programming with foreign programming, particularly the very profitable U.S. light drama. The role of regulation has been to try to prevent this and instead induce broadcasters to offer programming consistent with the mandate provided by the Broadcasting Act of 1968.

REGULATION AND ITS EFFECT ON BROADCASTING PERFORMANCE

Alternative policy approaches to influencing industry performance are CRTC regulation of the private sector and public ownership through the CBC.

Regulation of the Private Sector

Direct regulation of the conduct of Canadian television broadcasters has been the principal approach to attempting to achieve desired industry performance. This regulation is not economic regulation in the sense of measures designed to restrain advertising rates or other elements of economic conduct in order to constrain industry profit level to a competitive level. As McFadyen, Hoskins and Gillen (1980) and Babe (1979) and others, have shown, industry profit levels are high. For example, McFadyen, Hoskins and Gillen (1980) found that, in 1975, the fifty-nine corporations owning television stations in major markets earned an overall average rate of return of thirty-two percent (compared to a competitive norm of thirteen percent). Rather, regulation has focussed on the issue of Canadian content. McFadyen, Hoskins and Gillen (1980) observe that:

CRTC policy has been to attempt to force or entice private broadcasters to offer programming they would not otherwise undertake. An example of compulsion is the Canadian context regulations. As expected, however, we find broadcasters try to maximize profits subject to this constraint by offering Canadian programs at the less popular times and by producing the least costly types of programs.

Babe (1979), following careful analysis of program selection, scheduling, and purchasing practices of Canadian broadcasters, concludes that:
Of the three major policies of the CRTC designed to increase the availability of quality Canadian programming, only policies designed to extend the physical distribution have met with a degree of success...Canadian content quotas and local programming policies for cable systems have not been very successful. (1979, 152)

It is interesting to note that, even before Canadian content regulations were introduced in 1960, the Fowler Commission (1956) argued that such an approach would be ineffective:

A half hour program of excellent quality may cost far more than several hours of quiz shows and the like, and will undoubtedly be worth more in this context, but will still only be chalked up as half an hour of Canadian content. We believe that, taking all these factors into account, enforcement of Canadian content by universally applicable regulations is impractical. (1956, 47)

Mcfadyen, Hoskins and Gillen (1980, xvii) have noted that besides attempts at compulsion through Canadian content regulations, the CRTC has also tried to entice private broadcasters to offer unprofitable Canadian programming through:

the reluctance of the CRTC to make decisions that would adversely affect the profits of private broadcasters. The CRTC view appears to be that such profits are necessary to provide the means for production of quality Canadian programming. Whether the level of expenditure on Canadian programming is actually determined by profitability, however, is open to question. (1980, xvii)

Examples of such decisions include Bill C-58, the simultaneous substitution policy, the attempts to prevent cable introducing distant U.S. signals by microwave (given public pressure and the efforts of the cable lobby the CRTC only managed to delay introduction), and delayed introduction of pay-TV.

Bill C-58, later enacted as Section 19.1 of the Income Tax Act, in disallowing deductions for advertising on foreign television stations if commercials are directed primarily to a Canadian audience, raises a broad range of concerns in relation to the interaction of Canadian and U.S. broadcast and economic policies. These concerns were the subject of a conference the proceedings of which were reported in Cultures in Collision (1984). The principal economic analysis of the consequences of Bill C-58 is contained in the Braunstein paper: "The Economics of Advertiser-supported Television in Adjacent Countries: Consumer Sovereignty, Advertising Efficiency, and National Policy," (152 - 161), and a critique by Ian Parker (162 - 177). Braunstein, on the basis of a theoretical analysis premised on advertisers maximizing profits by setting the marginal revenue from advertising equal to the
marginal cost of advertising, concludes that there will be no additional flow of advertising dollars to Canadian broadcasters as a result of the legislation. Parker points out that Braunstein's model involves a fundamental misspecification arising from the assumption that sales can be assigned to the advertising that generated them. Parker presents an alternative "Optimal Media-Mix" or "Advertising Portfolio Choice" model which would imply that, in the absence of tax change, advertising rates (corrected by a program ratings factor) should be more or less identical for all stations reaching a market. Parker concludes that Bill C-58 can be expected to result in a "...significant drop in U.S. border station revenues from Canadian advertisers...accompanied by a corresponding...increase in the revenues of Canadian broadcasters (and) continued presence of some Canadian advertising on U.S. border stations" (169).

An empirical study undertaken by Donner and Kliman (1984) on the effect of Bill C-58 supports Parker's claim. It concludes, on the basis of a partial equilibrium analysis, that:

(1) U.S. border stations have reduced their rates to Canadian customers, but not likely by the full amount of the extra tax payable by the advertiser; (2) advertising dollars that previously went to the United States have been spent on Canadian commercials instead, although some Canadian advertising has continued to flow to U.S. border stations; and (3) Canadian advertising prices have increased.

Donner and Kliman (1984) also consider the protectionism impact of the CRTC's simultaneous substitution policy which allows Canadian broadcasters to substitute their signal for a foreign signal when both are carrying an identical program being delivered by a cable company with more than 6,000 subscribers. Using data for 1975 (the last year before the passage of Bill C-58) and for 1982, Donner and Kliman answer the following question: suppose that the market shares that existed in 1975 still exist in 1982, how much more Canadian revenue would the U.S. stations in the three markets have had in the latter year? Their overall answer for all U.S. border stations was only $15.2 million leaving a foregone revenue estimate of $37.2 million. The portion of the $37 million that is due to simultaneous substitution was reported as a range from $4.5 to $9 million resulting in an estimate of the effect of Section 19.1 (Bill C-58) of $28 million to $33 million, the equivalent of 4 - 5% of net private television advertising revenues or 20 - 23% of pre-tax profits in the industry.

Liebowitz's work suggests that CRTC fears about the effect of cable on broadcasters' profitability were misplaced. He examined the impact of cable-television on the advertising rates of broadcasters, advertising efficacy, audience size, and habits of television viewers. The results from this econometric analysis are presented in Liebowitz (1980) and Liebowitz (1982). He found that cable did not significantly
alter the relative size of audiences for large and small stations and that the time people spent watching television appears largely invariant to the choice of programming. Although cable appears to have led to an increase in the market shares of American stations and a decrease in the market shares of Canadian stations and hence a reduction of their advertising revenues because of audience fragmentation effects, at the same time it was found to enhance the revenues of broadcasters by increasing market segmentation and hence the effectiveness of advertising. Liebowitz estimated the net effect of these two impacts was to slightly increase revenue. This result is of considerable interest since it provides a basis for an argument that Canadian broadcasters need no protection from the effects of additional American signals imported by cable-television firms.

The original Liebowitz (1980) work was done for the purpose of determining the desirability of placing copyright obligations on cable-television firms. On the basis of the econometric results reported above, Liebowitz arrived at the following public policy conclusion pertaining to the desirability of invoking copyright liability for cable-television rediffusion of broadcasts: "...that cable has influenced the transmission mechanism in such a way that advertising rates have gone up and therefore there is no need to impose copyright liability on Cable-television owners" (Liebowitz, 1980, 77). Babe and Winn (1983) dispute this conclusion and present a book-length examination of how copyright law might be used to improve performance in the Canadian broadcasting industry. Babe and Winn accept Liebowitz's empirical observation that rate cards are lower in highly concentrated markets but argue that his hypothesis that this is so because cable-television enriches broadcasters by segmenting their audiences, is untested. Causal relationships are often questionable in econometrics but Babe and Winn fail to provide a more attractive hypothesis.

To summarize, Canadian content regulations have failed to result in the programming performance envisaged by the Broadcasting Act. This type of regulation, known as conduct regulation, which attempts to dictate conduct without effecting the underlying economic incentives against such conduct, is invariably met by "tokenism" whereby the spirit of the content regulation is broken if not the letter. Similarly, protectionist measures aimed at increasing or maintaining profitability, although Liebowitz has argued cable-television was not a threat in this regard, have failed to entice private broadcasters to invest heavily in Canadian programming. This is scarcely surprising as it would entail voluntary investment in unprofitable or less profitable opportunities.

Evidence that Canadian content quotas and protection have failed is overwhelming. For example, CTV in 1978-1979 offered 94% foreign content in peak period (8:00 p.m. to 10:30 p.m.) (CRTC, 1979, 1 (48), Table 14) but managed to achieve its 50% prime time (8:00 p.m. to
midnight) by bunching Canadian programming into the early and late evening. The failure is greatest in the area of drama where only 4% of the English-language drama offered is home produced (CBC, 1981, 9).

Public Ownership Through the CBC

A direct approach to influencing the conduct of an industry is for the government itself to launch a publicly-owned enterprise which can be operated specifically in pursuit of public purposes. In Canada, television broadcasting was initiated by the publicly-owned Canadian Broadcasting Corporation in 1952 with the private sector having a role only as affiliates to the public network until the formation, against the advice of the Fowler Commission (1957), of the private CTV network in 1961. Like the private sector, the CBC is subject to CRTC regulation and has had to meet stiffer Canadian content requirements of 60% Canadian content in prime time as well as on a full-day basis.

The performance of the CBC has been evaluated by several Royal Commissions and other agencies. An intensive case study of the Corporation was undertaken by Bruce McKay (McKay, 1976). He examined the Canadian broadcasting system in the years 1970 to 1974 and considered the following issues: nationalism, regional recognition and portrayal, audience orientation, and costs and financing. In observations that remain as pertinent for 1986 as 1976, McKay noted the major problems posed by annual funding, disagreements about commercial activity, evidence of inadequate resource allocations to meet the CBC's existing local and regional program service commitments, and evidence of network program under-financing. McKay concluded that, given the expectations of increased contributions to special regional services, major increases in Canadian production, and improvements in program quality, there was "...a severe demand/programming resource imbalance within English-television during the case study period" (McKay, 1976, 223).

Babe (1979), following an examination of the programming and financing of the CBC, concludes that it operates under several constraints that serve to limit its performance as envisaged by the Broadcasting Act. He notes the difficulties posed by annual fiscal appropriations, the problem of meeting diverse and conflicting goals while using only a single channel in each language, and the inadequate level of parliamentary funding.

The importance of the programming provided by public sector broadcasters, in terms of the degree of balance, diversity, and choice provided by the television broadcasting system in Canada, was highlighted in the empirical analysis of McFadyen, Hoskins and Gillen (1980). The findings of the study, as summarized by Audley (1983, 298), were that:
The CBC-owned French and English stations provided the most balanced program schedules, including balanced proportions of information, light entertainment and serious entertainment.

The CBC-owned French and English stations also provided the widest diversity of kinds of programs, followed by the CBC's French and English affiliated affiliated stations. The least diversity was provided by Global's programming.... Diversity was lowest in those markets without a CBC-owned station.

While there is thus evidence that the CBC's programming is closer to that envisaged by the 1968 Broadcasting Act than that of the private sector, there is nevertheless fairly widespread dissatisfaction with CBC television. (This is in contrast to the widespread approval of CBC radio.) For example, the CBC's drama output is less than one-fifth that of the BBC in the United Kingdom (CBC, 1981, 25) and as a result the CBC relies heavily on U.S. light drama series. Hoskins and McFadyen (1982, 356) consider this to be "indefensible when one considers that this type of programming dominates the offerings of Canadian private stations and also that most Canadians can receive the same U.S. shows directly from signals from U.S. stations." The fundamental problem is that public ownership does not isolate the CBC from the economic incentives governing program offerings. First, the CBC gets about 16% of its revenue from advertising. Second, and probably more important, unless the CBC is very generously funded, it cannot afford to substitute many hours of Canadian drama costing $500,000 for U.S. drama which can be purchased for $50,000.

POLICY RECOMMENDATIONS

While there is virtual unanimity in the economic literature concerning the reasons for the deficient programming performance of the Canadian broadcasting system and the failure of regulatory attempts to rectify this situation, many alternative solutions have been put forward. Some believe the answer lies in more or stricter regulation of the private sector while others advocate deregulation, some advocate an expanded role for a better financed CBC while others suggest that the CBC is unnecessary in today's multi-channel world. There are also differences of opinion with respect to the best strategy for Canadian programming in terms of source, program quality, the desirability of subsidy, and the market opportunities in an industry transformed by rapid technical change. We review each of these debates in turn.

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Regulation of the Private Sector

In response to the failure of the Canadian content requirement of an annual average of 50% on both a full day and prime time basis, some authors have suggested the solution lies in revising the quota system. Thus the Cline Committee (Consultative Committee, 1979) suggested a quota based on a points system, with programs weighted according to quality and time offered. Lapointe and Le Goff (1980) reach a similar recommendation. The Report (1982) of the Federal Cultural Policy Committee recommends that private broadcasters should be required to allocate substantial percentages of their programming time, programming budgets, and gross revenues to new Canadian program production. An excellent critique of the Report, on the basis that its analysis and recommendations ignore economic realities, has been provided by McQueen (1983). With specific respect to the Committee's content recommendation, he bemoans "the absence of analysis of how the politico-economic forces that so undermined the letter and spirit of content regulation in the past are to be better controlled in the future" (McQueen, 1983, 132).

In an earlier paper, Hoskins and McFadyen (1982, 355) argue:

Amending these regulations is not the answer as firms are reluctant to act against the interests of their shareholders and would attempt to satisfy any new requirements through tokenism... In any case, even if such amendments had some partial success, the room to manoeuvre in this area is relatively small. The profits of Canadian broadcasters are extremely sensitive to the amount of Canadian programming shown... A mere 50 minutes per day more Canadian content in prime time would reduce the average price-cost margin to zero.

Erica Redler, in a short paper contained in the Proceedings of the Communication in the 80's Conference held at the University of Calgary in 1984, (McPhail and Hamilton, 1984) identifies the main problems with the system of Canadian content quotas: the difficulty of deciding what Canadian content is, the difficulty of legislating quality in the face of contrary economic incentives, and the problems of obtaining adequate enforcement of measures such as licence non-renewals.

It is interesting to note that Harry Boyle, when Chairman of the CRTC, admitted that "there is not a regulation that has ever been passed that someone cannot get around if they want to" (Boyle, 22 March 1977).

Babe and Slayton (1980) after a review of the goals of the broadcasting system and of the regulation and performance of the Canadian
industry, as well as an examination of licensing practices in other countries, recommend stronger CRTC enforcement procedures. They argue that:

the CRTC cannot stand neutral with respect to matters of program quality...the Commission needs to strike a balance between total implicit support of program efforts of broadcasting undertakings as currently is its practice and detailed explicit approval and disapproval of programming. The one extreme policy is associated with cheap programming bearing little relation to the enrichment of the social and cultural fabric of Canada; the other extreme policy position is associated with censorship. (vi-3 to vi-4)

They argue against the existing system of virtually automatic licence renewals by the CRTC. They feel a balance must be struck between protection of the financial position of existing licensees and the "cultural goals set for broadcasting, the interests of the creative element, and the interest of Canadian audiences in high quality Canadian programming" (vi-4).

Hoskins and McFadyen (1982), after weighing the Babe and Slayton arguments and assessing the experience in the United Kingdom, conclude that, despite some attractions, introducing competitive licensing into the Canadian broadcasting context would be likely to cause as many problems as it solves. The basic argument in favour of competitive licensing is that it provides an incentive to live up to programming promises and provide superior performance in order to try to ensure licence renewal. Hoskins and McFadyen are concerned that this may not happen however. The uncertainty introduced by the possibility of non-renewal, far from causing the licence holder to invest in the hope of improving renewal chances, may cause the company to aim for profit maximization over the period of the licence. Such a strategy would involve a minimum investment in program production and in hardware. This short-term approach is more likely to be adopted if the licence renewal decisions appear arbitrary.

On the basis of their comparison of the Canadian and British situations, McFadyen and Hoskins (1982, 355) conclude:

A good case can be made that regulation in Canada has largely been to the benefit of private broadcasters. In return for undemanding levels of Canadian content, which in any case have not always been met, the CRTC has protected broadcasters from competition.

In the light of the demonstrated failure of conduct regulation of the private sector, they consider the most appropriate course of action is deregulation of private television broadcasting. It is recommended that public policy makers look to an adequately funded CBC for the provision of Canadian content.
Even if there is no explicit policy to deregulate, the CRTC Research and Analysis Group's (1984, x-xii) view of the implications for Canadian television broadcasting of the new alternative delivery technologies is that some protective measures will lose their effectiveness:

The future environment will be characterized by a variety of alternative distribution technologies, some of which will lie outside the control of the regulator. Some of these alternatives such as satellite master antenna television (SMATV) will pose a significant threat to the future of cable. As such, they will reduce the effectiveness of those cable regulations which are intended to protect local broadcasters, i.e., cable priorities, simultaneous program substitution.

Nevertheless, despite audience fragmentation, and consistent with the conclusion of Liebowitz with respect to the effects of cable, they expect private broadcasters will continue to achieve the coverage needed by advertisers and do not anticipate that the broadcasters' financial position will be significantly affected. Indeed costs may decrease as "specific technologies such as direct broadcast satellites (DBS) may be utilized by existing broadcasters to achieve more effective and/or less costly means of network coverage."

Role of the Canadian Broadcasting Corporation (CBC)

Audley in the television chapter of his interesting book on Canada's Cultural Industries concludes his examination of the CBC with the observation that "the incentive structure in television broadcasting is such that only public broadcasting can provide the core of Canadian programming that is Canadian in both content and character" (Audley, 1983, 332). He feels that the collapse of the feature film industry in Canada shows that the Canadian television program production industry must have a domestic market for a steady and dependable volume of production and that foreign sales should be regarded as a high risk bonus. Audley favours a strengthened CBC as providing the basis for a dependable home market.

Babe notes that economic analysis is not well suited to evaluating performance of the CBC because first, it has always been more suited to quantitative judgements than to qualitative ones, second, there is no satisfactory measure of the output of the CBC, and third, performance evaluation is difficult since the CBC is required to fulfill simultaneously conflicting goals (Babe, 1979, 113 - 114).

These very difficulties led to an increasing exchange between Boardman and Vining (1984) and Hoskins and McFadyen (1984c). Hoskins and McFadyen (1982) recommend the role of the CBC should be to comple-
ment the programming of the private sector and this would be achieved through higher Canadian content, increased public financial support, and removal of commercial incentives to maximize audience share. The goal of complementarity was in fact adopted by the Government in Building For the Future: Towards a Distinctive CBC (Minister of Communications, October 1983). Boardman and Vining (1984) argue that the Hoskins and McFadyen (1982) recommendation, which was based on a comparison of the Canadian and United Kingdom experience, is invalid because of a failure to take into account the larger number of channels available to Canadian viewers as compared to British viewers. But, as Hoskins and McFadyen (1984c, 354) point out, large numbers do not necessarily make for greater choice. For example, three Canadian stations in Edmonton, in the week of 27 January to 2 February 1979, provided 2.06 options per period (in terms of the fourteen CRTC program categories), whereas Boardman and Vining report 3.76 category options from eleven channels in 1984. Hence eight additional channels result in only 1.7 additional category choices. Even in Boardman and Vining's large numbers or poly-channel Canadian structure, it is in fact the public broadcasters that are the most important contributors to choice. The reason is that programming is "horizontal", except for the recent specialty pay channels, and not "vertical" as envisaged by Griffiths (1977).

Boardman and Vining apply the general approach developed by Globerman (1983) in his discussion of cultural regulation in Canada by arguing "...that CBC can only be justified insofar as it corrects a market failure or fills a need that the market does not" (Boardman and Vining, 1984, 347). On the basic question of the case for subsidizing Canadian programming, Boardman and Vining argue, and Hoskins and McFadyen (1984c) agree, that evidence of net positive externalities resulting from such programming is required. It is apparent that Canadian news and public affairs programs, as well as Canadian drama programming, result in significant externalities and there is ample evidence that Canadian viewers are attracted to well financed quality Canadian productions. But, placing a dollar value on externalities which take the form of contributions to the development of national unity and enhancements in the appreciation of and identification with Canadian values, history, geography, political and legal systems, is not a problem with a ready solution. Thus we are left with Hoskins and McFadyen (1984) feeling the external benefits outweigh the subsidy at the level suggested whereas Boardman and Vining do not.

Canadian Programming Strategy

David Ellis (1979), in his assessment of measures to stimulate growth of the domestic television program production industry, evaluated the capital cost allowance provisions covering films and recommends that they be broadened to cover the peculiar needs of television programs and series. He also recommended a broadening of the mandate
of the Canadian Film Development Corporation but considered the Federal Business Development Bank to be an unlikely source for programming support because of its conservatism. He pointed out, however, that such supply-side measures will be ineffective unless coupled with changes on the demand side, including the initiation of CBC-II, and the penetration of international (especially U.S.) markets which are an "indispensable prerequisite to the stability and growth of the domestic industry" (Ellis, 1979, 41). Audley (1983) cautions that "the notion that a Canadian film and television production industry can be developed on the basis of exports sales is a dangerous yet seemingly pervasive fantasy among policy makers."

Lapointe and Le Goff also consider independent producers to be worthy of support. They see a problem in the high concentration of Canadian program production within broadcast undertakings (with independent producers accounting for only three percent of television production in 1978). To the broadcaster, whose main activity remains broadcasting, the output of the Canadian production sector is a residual which permits the firm to meet its Canadian content requirements. Independent producers whose main activity is production have a more dynamic attitude as a result of their different incentives.

Belanger, Chabot and Associates (1980) reach a similar conclusion. Using financial data generated by the Canadian Association of Broadcasters, they found that independent producers, although accounting for only a tiny fraction of the total amount spent on Canadian programs, were most aggressive when it came to sales abroad. They concluded that the financial problems of Canadian broadcasters might best be met through the development of programs which are more commercial in nature and so capable of appealing to both international and Canadian audiences.

Support for independent producers became a reality with the new national broadcasting policy (Minister of Communications, March 1983) and initiation of the Canadian Broadcast Program Development Fund in July 1983. When the Fund was initiated it provided for support in the form of a loan, a loan guarantee, or equity participation, rather than a subsidy. Hoskins and McFadyen (1984b) concluded that the Fund would provide insufficient incentive to attract private sector investment into Canadian programming or produce the world-class programming envisaged. These concerns were borne out by subsequent experience and the provisions of the Fund were amended effective 1 April 1985. In a later paper, Hoskins and McFadyen (forthcoming) conclude that these amendments in addition to a change in administrative policy which permits investment in the form of subordinate equity, can be expected to rectify the situation.

A number of authors agree that quality rather than quantity is necessary if Canadian programming is to compete in the global market being created by technical change.
The best treatment of the impact of new communication technologies on the Canadian broadcasting industry in Peter Lyman's book, Canada's Video Revolution (1983). Lyman examines the new communication technologies and their profound impact on cultural industries -- an impact that is global in scope but that has particular implications for Canada. The introduction of communications satellites, interactive cable, video cassettes, and videotex all increase efficiency in delivering cultural products and remove many of the remaining obstacles to free flow of cultural products and services between countries. They also create a direct link to the home and thus broaden the market for cultural products and bring cultural products from around the world into the home. Although Lyman recognizes the possible trade off between bigger budgets for Canadian programming to compete internationally and the possible decline in the Canadian content of the shows, his major policy suggestion is that Canadian cultural industries must become export-oriented and thus more competitive internationally. To do this, resources must be concentrated on specific projects instead of being scattered. An important implication of this policy suggestion is that Canadian cultural policy cannot be isolationist.

Woodrow and Woodside (1982), in a collection of eight essays from people in different disciplines and from different backgrounds, provide a wide range of views on the desirability of pay-TV and on the policies applicable to its introduction. A number of the papers, which differ radically on other issues, advocate policies aimed at promoting quality (high budget), rather than quantity, Canadian programming.

It is encouraging to note that the CBC views the new communications technologies as providing an opportunity to be exploited. The CBC's strategy document (CBC, 1983) recognizes that:

the steady expansion of program services, primarily in the United States but to an increasingly significant degree in Europe, Australia and other countries, is creating new demand for:

- International program sales
- International production financing
- International program services.

...In the case of international program services, the rapid growth of cable and promise of other new distribution technologies such as DBS will create the potential to deliver whole program services (rather than individual program or series) to other countries. The Board believes that if the CBC's television schedules were more distinctively Canadian, they would be attractive to the international market and would provide export opportunities which could be pursued either by the CBC alone or with domestic or international partners. An obvious target would be the U.S., which offers both cultural proximity and the greatest short-term market potential. (CBC, 1983, 29)
Hoskins and McFadyen (1984a) examine the globalization of the television industry and the threat, perceived by many nations, that this poses for cultural independence. The Government of Canada's new national broadcasting policy is analyzed to identify how it proposes to deal with the issue of cultural independence in a world of increasing television competition as a result of technological change. Expanding the choice of American programming services delivered by cable and abolishing satellite dish licensing requirements while, at the same time, strengthening the Canadian program production industry through the Canadian Broadcast Program Development Fund is seen as a potentially powerful package. The new methods of delivering television programs, via satellite, cable, and video-cassette recorder, are seen as providing new outlets for the marketing of Canadian programs as well as additional competition to Canadian broadcasters.

One strategy, that has not perhaps received the attention in the literature it deserves, is international co-production which not only spreads the costs of production but virtually guarantees an export market. It is interesting to note that the British Broadcasting Corporation now depends on co-productions for about 40% of its music and arts output and over 50% of its drama series and serials output (Reynolds, 11 July 1985).

SUMMARY AND CONCLUSIONS

We have seen that there is widespread agreement that policy problems in the field of Canadian television broadcasting stem basically from the economics of programming. Particularly in the important area of drama, it is much less costly and more profitable to purchase from the United States than produce at home. It is also fairly generally accepted that program offerings have been deficient in terms of Section 3(d) of the Broadcasting Act (1968). Regulation has failed to force or entice broadcasters to offer programming that is "of high standard, using predominantly Canadian and other resources."

There is less agreement with respect to policy recommendations. The Cline Committee (Consultative Committee, 1979), Lapointe and Le Goff (1980), and the Federal Cultural Policy Committee (1982) propose amending the Canadian content regulations. Others, such as Hoskins and McFadyen (1982), believe that such attempts to force private broadcasters to act against their own self-interest can never be made to be effective.

Tax policy and other protective measures have been examined. For example, Braunstein and Parker, in Cultures in Collision (1984) disagree with respect to the effectiveness of Bill C-58 in protecting the advertising revenue of Canadian border stations, while Donner and Kliman (1984) find the C.R.T.C.'s simultaneous substitution policy has boosted advertising revenue four to five percent. However, there is no
evidence, even where protective measures are successful in boosting broadcaster's profits, that these additional profits lead to additional expenditures on Canadian programming. This is not surprising as such measures do not affect the incentives that favour exhibiting United States programming.

A policy that does provide an economic incentive is provision of a subsidy for Canadian programming, whether it be provided under the auspices of the Canadian Broadcast Program Development Fund, a grant to the CBC, or some other vehicle. Subsidies of sufficient magnitudes can induce the production of high quality internationally competitive Canadian programming. Ultimately, the justification for such subsidies rests on value judgments, and political judgments, that the external benefits (benefits to Canadian society for which the producer and broadcaster receive no revenue) associated with programming that would not otherwise be produced exceed the dollar cost of the subsidy.

FOOTNOTES

1An earlier version of this article was presented to the 35th Annual Conference of the International Communication Association, 23 - 27 May 1985, Honolulu, Hawaii, U.S. A.

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