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International Trade in Television Programs: Quota Policies and Consumer Choice Revisited

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The debate revolving around the international flow of television programs predates the communication deregulation era. In their 1974 pioneering survey, Nordenstreng and Varis (1974) documented the essentially unidirectional nature of this flow—from industrialized to developing countries—and the origin of the traded material—overwhelmingly American. Situated within the North-South context of the New World Information Order rhetorics, the ensuing "media imperialism" debate contributed little in way of understanding the mechanics of the international trade of television programs from the economic perspective.

The debate about trade in film and television programs is permeated by the unstated assumption that these programs are pure commodities whose production, distribution, exhibition and, ultimately, value are solely determined by market forces. This assumption is not necessarily shared by most recipients of (U.S.) television material worldwide. The clash over the nature of the audiovisual material and the ways in which media resources should be allocated is nowhere better illustrated than in Europe.

The historical view in "public broadcasting" countries according to which media production and consumption should be somewhat insulated from market forces—themselves judged to be poor mechanisms to guarantee optimal consumer welfare—is strongly challenged today by a new group

of entrepreneurs. Thus, in tune with the liberal ideology of the time, the analysis of media industries is dominated by an economic discourse which seeks to exclude political and cultural concerns. This mode of analysis reflects the preoccupation of powerful sectors, especially in the United States, wishing to penetrate new "deregulated" television markets by fighting what they perceive to be protectionist measures.

From the outset, it should be pointed out that the economic analysis of broadcasting is dominated by Paretian welfare economics. This school of thought bases its definition of optimal social welfare on the outcome of individual, autonomous economic decisions expressible in terms of price. It assumes the homogeneity of commodities, the perfect divisibility of both commodities and factors of production, and that all production functions are continuous; it assumes a static economy with no uncertainty about the future and perfect knowledge of the present. These conditions, however, are met only in perfect competition. Collins, Garnham, and Locksley (1988) underline that, in the case of the audiovisual industry in particular, such a model of optimal resource allocation under market conditions is highly abstract and unrealistic.

In view of the media entrepreneurs' contention that the government has no business involving itself in what should be a competitive market for media products, it is imperative to revisit the assumptions underlying four major interrelated claims put forth in most of the economic thinking about the international media market.

First, media entrepreneurs claim that the worldwide domination of U.S. media products is the sole product of the free interplay of competitive market forces. Is the dominance of U.S. programs on foreign television screens really the result of competitive market forces? The trade of television products rather conforms to oligopolistic practices inherited from the internationalization of the motion picture industry, a process thoroughly documented by Guback (1969).

Whereas World War I had disrupted European film industries, the productive capacity of U.S. companies was burgeoning. In the decade up to 1923, the volume of U.S.'s film exportation quadrupled. From 1913 to 1925, film exports to Europe increased five times and to the rest of the world 10 times. The industry was characterized by a strong vertical integration, a condition which persisted until the Justice Department forced the studios to pull out of the exhibition circuits in 1949.

The Motion Picture Export Association—the umbrella organization for the Hollywood majors—was registered under the Webb-Pomerene Export Trade Act of 1918 which exempted the overseas operations of U.S. firms from provisions of the Sherman and Clayton antitrust acts regulating their domestic activities. In practical terms, the strength and associated harmful consequences of a cartel are essentially to decrease and, at worst, eliminate

the negotiating power of its clients through monopolization of distribution of film and television material. A cartel finds its concrete expression in practices such as market allocation, price fixing, block booking, and information sharing, among other collusive strategies. Independent producers have recently been allowed to benefit from the Webb-Pomerene exemptions. The State Department has also been assisting in the internationalization of the U.S. film industry.

"The Motion Picture Industry—A Pattern of Control," a report prepared in 1941 by the Temporary National Economic Committee already pointed to the dangers of economic concentration in the film industry. More recently the Washington Task Force on the Motion Picture Industry noted in 1978 that the major producers/distributors were effectively limiting competition by maintaining tight control over the distribution of film, both by the failure to produce more films and by their failure to distribute more films produced by others.

Given the huge potential profit anticipated from national and world markets for audiovisual products, it is no surprise to witness oligopolistic consolidation. Cartels restrict output within the range where price exceeds marginal costs. Firms in a cartel arrangement will charge the highest possible price to maximize profit. Indeed, 265 films a year were produced in the 1970s down from 375 a year 20 years earlier. Proportionally, the number of films distributed by the large companies has decreased even more rapidly. Since 1920, eight majors have dominated the film industry, and now control 90% of the U.S. market and 70% of the world market. In this context, it is somewhat ironic for Jack Valenti, MPAA president, to quarrel about "a marketplace dominated by a handful of actors" as he mentioned the program acquisition practices of some MPAA's foreign clients.

The second claim of U.S. media companies regarding the international market relates specifically to import quotas. Given the popularity of U.S. television imports, it was argued that quotas in recipient countries deny consumers their rights of choice; these are protectionist measures that should disappear. In fact, the success of U.S. exports over indigenous production, or rather the presence of U.S. programs on foreign screens, has much less to do with any intrinsically superior appeal of commercial broadcasting over public broadcasting than with the unique features of the U.S. market. Audience preferences for programming produced in their own country or culture has been solidly documented (Chevaldonne, 1987; Straubhaar, 1983; Tunstall, 1977; de Sola Pool, 1966). Tracey has provided the most thoroughly researched empirical verification of this phenomenon to date (1988). So, why is there a systematic mismatch between expressed tastes and actual consumption?

In many cases, local product is simply not available. Television is an expensive business. The huge U.S. domestic market has so far enabled pro-

ducers to recoup most of their costs, making programming available on international markets at a very cheap price. Smaller markets cannot benefit from the economies of scale which can be achieved in the U.S. market (Hoskins & Mirus, 1987). Because of these economies of scale, the actual consumption of American audiences can somewhat approximate expressed tastes, at least as defined by producers and distributors.

Quotas have been criticized on the grounds that they reduce the freedom of choice of the consumer. "If people watch *Dallas,* no restraints should be exercised," goes the common complaint. This assumes that audiences are segregated by television formats, and that people watching *Dallas* watch only similar shows. It remains that if *Dallas* receives, say, a forty ratings, sixty percent of viewing audience do not watch it. Empirical evidence recently collected by Ehrenberg (1986, p. 3) in the United Kingdom shows that viewers of all kinds make use of the wide range of different types of programs that are provided now:

> People do not just watch the most popular program all the time. Their full viewing needs and preferences are revealed by the other, lower-rating, programs which they also choose to watch. People spend almost 40 percent of their time on relatively more demanding programs, and this is equally so for different social classes, for heavy and light viewers, and for all the other population subgroups. The demand for range is there.

A similar pattern in television consumption was observed in Switzerland in an editorial in *Media Magazine* (1984). As the U.K. weekly *The Economist* put it succinctly: "Everybody is a minority for part of his viewing life."

Quota policies can be seen as fulfilling distributive aims. In an arena dominated by oligopolistic circuits of television programs distribution, quotas become a means, however imperfect, of improving the negotiating position of those nations that do not possess the natural attributes (market size and single language) of the United States. Far from distorting competition, quotas can conceivably be understood as aiming to restore competition if not in international market then at least in the domestic market. However, Lange and Renaud (1988) make it clear that quota policies are sensible only if accompanied by positive measures for promoting the audiovisual production, such as tax incentives, subsidies and liberal patronage and sponsorship rules.

The quota system is criticized for being paternalistic and inefficient: Popular programs subsidize the production of demanding programs. However, in broadcasting it is not the case of the many subsidizing the few. Instead, such a policy lets people choose to watch their individual selections of programs for substantial parts of their viewing time. Competition or market forces are not necessarily synonymous with the consumer interest. In an unregulated market, viewers would be deprived of a program altogether

just because less than a majority might watch that program. Profit-maximizing broadcasters do have a direct economic incentive to respond to audience demand, but the nature of this incentive produces a pattern of output which is clearly suboptimal. The broadcaster wholesales audiences to advertisers, rather than programs to final consumers, on the basis of crude numbers unrelated to intensity of demand. Studies have shown that under competitive conditions such a relationship tends to maximize total audience but restrict the range of program choices (Hoskins & Mirus, 1987).

If, indeed, one could make the case that some audience segments subsidize the welfare of others, it would not be out of line with allocation of other public goods. Citizens without children subsidize others' education, highway construction is paid for by those without cars, and people pay for police, fire departments and public hospitals irrespective of their need for them. In any case, the empirical work conducted by Hoskins, Mirus, and Rozeboom (1986) provides very weak evidence that import quotas—if it is to work like import tariff—drive up the price of programming.

Regulation of broadcasting is also a matter of industrial and employment policy. As Collins (1988) put it:

> One does not need to errect an argument against the quality or desirability of U.S. television programs on the cultural grounds of the wall-to-wall *Dallas* variety, in order to argue that free trade in general, but especially in the broadcasting sector, may not be in the national interest. (Collins, Garnham, & Locksley, 1988, p. 166)

The third claim focuses on the cultural preoccupations underlying quota policies. Critics of quotas claim that only an undisturbed marketplace can cater to cultural needs, thus denying the wisdom of public-sector intervention in the cultural industry. Those critics, U.S. distributors in particular, have found ideological, if not intellectual, comfort in the work of media diffisionists like Pool, for whom cultural protectionism is self-defeating in three ways: (a) one country loses the opportunity to learn, borrow, and adapt from other cultures; (b) commerce seeks to reflect world cultural tastes, subsequent cultural protections can be attributed to a painful process of men's emotional resistance to the change in value; and (c) cultural products, like other commercial commodities, must submit themselves to an open-market competition: "Any culture that can exist only with cultural protectionism policies are not worthy of protection" (de Sola Pool, 1974).

This line of argument finds its economic legitimation in the following four-stage product life cycle theory: (a) innovation of products in the U.S. made possible by large domestic markets; (b) loss of monopoly position at home owing to competing firms, followed by growth through foreign export; (c) foreign companies exploit technology transfer to challenge U.S. companies, and (d) decline of U.S. firms, and rise of foreign industries

which penetrate the U.S. market. Lee notes evidence which shows this theory is less than satisfactory. The product life cycle theory predicted that the American television program flow would lead to (a) establishment of local production facilities abroad, (b) co-production efforts with local film makers abroad, (c) local acculturation of imported television culture, and (d) erosion of the American television market and the rise of foreign-produced programs in the United States. This process, at least in its last stages, failed to materialize because the model ignores conditions of production and distribution of cultural goods (Lee, 1980).

One does not need to go outside the United States to find evidence that public intervention can come to the rescue of market forces to secure consumer welfare. In the United States, the government has passed measures based on assumptions, some of which are noneconomic in nature. When the government subsidizes education, highway construction, hospital, defense, social security, food stamps, and minority programs, the desirability of this intervention is hardly questioned. The establishment of the National Endowment for the Arts and Humanities points to the limit of market forces in the cultural industries. Tax breaks exist for the foreign exhibition of U.S. documentary films, while foreign artists who wish to perform in the United States must prove their star status in their home countries; a law apparently aimed at combating high unemployment in the domestic cultural industries.[1] The same concerns presided over the development of a federal shelter program to stimulate film production, which was terminated when the 1976 Tax Reform Act became law, but restored in 1978 by a program launched by the Small Business Administration to finance production by independent companies. The Informational Media Guarantee Program allows film companies to sell some of their soft currency earnings to the American government for dollars to help U.S. films to be exhibited in critical foreign areas. The Revenue Act of 1971 includes provisions for the establishment by a U.S. firm of a Domestic International Subsidiary Corporation, which, if 95 percent of its revenues are derived from foreign activities, can qualify for a tax break. The money saved can be used for development of export activities or production of export products (Guback, 1969).

There are nationality requirements for the ownership of U.S. media properties. The stringent regulation of horizontal integration of broadcast media and media cross-ownership has more to do with the protection of the Miltonian "marketplace of ideas" than with the Friedmanian Chicago School of Thought. The same consideration presides over special postal rates and tax breaks for the newspaper publishers. It is well understood in the United States that some cultural products which contribute to overall

[1] Difficulties in having the leading role in the British-imported *Les Miserables* performed by a British actress on Broadway is the latest example.

consumer welfare—and to which the consumer is entitled—cannot necessarily be governed effectively by market forces alone.

> Protectionism is a word that has a pejorative ring, but we would do well to understand the many facets of such a policy. All countries, all industries, all companies, are concerned about the sanctity of their markets. Businesses naturally seek to safeguard and enlarge their markets and their earnings, but not all businesses do this in the same way. U.S. interests typically point to European governments and European industries as being protectionists. But U.S. interests are protectionists in their own right. The distinction is essentially this: European interests seek to protect their *domestic* markets; U.S. interests seek to protect their *foreign* markets. (Guback, 1986, p. 58)

The strategy to protect those foreign markets will intensify because of the very nature of television economics. The need for product innovation is not unique to cultural industries, but only in the cultural industry is extremely rapid product innovation a central condition of existence. Cost-inflation pressures stem from the incidence of Baumol's cost-disease model. Baumol argues that the basic commodity production process of the cultural industries—that of constantly producing prototypes—is inherently labor intensive. The possibilities for exploiting the productivity advantages of capital investment in labor-intensive technology in the production of a television program are strictly limited. Much capital investment is a form of nonprice competition which increases costs rather than being labor-intensive. The general real level of prices and wages in the economy is determined by increases in productivity in the capital intensive sectors. As a result, there is an inexorable tendency for the real costs of cultural production to rise (Baumol & Bowen, 1966, 1985). Entrepreneurs will be forced to exploit economies of scale in order to keep unit costs down in the face of these inflationary pressures. Since the domestic market is already saturated, the cost of production rises and so must the unit costs of consumption. This trend is exaggerated with the number of competing channels. In the United States the index of costs per program hour rose tremendously (Collins, Garnham, & Locksley, 1988). As Renaud and Litman show, access to foreign markets therefore becomes critical as revenues derived from them are increasingly important in the overall financial equation (Renaud & Litman, 1985).

> An expanding European TV industry would offer additional markets to help U.S. companies recover their program production costs, which are increasing dramatically. Helping to finance this expansion of the European program market would be global marketers. (Guback, 1986, p. 54)

The fourth claim of proponents of commercial television eyeing Europe states that deregulated markets combined with new distribution technologies,

particularly DBS, will best meet consumer needs by promoting an indigenous audiovisual industry. The promise of a greater variety of programming sources of increasing quality overlooks the microeconomics of cultural production which tend to develop towards oligopolistic structures, despite the impact of new technologies. Small groups will still dominate the market, strengthening the horizontal and vertical integration of international markets. Warner Brothers is a case in point. It is involved in cable, satellite, and video ventures abroad to maintain its distribution channels.

European entrepreneurs are quick to point out that the opening up of the continent to commercial competitive networks will lead to more indigenous production and, with satellite technology, to the creation of a European market. This market will foster the production of goods competitive with U.S. products, owing to economies of scale. But other economic arguments belie this claim. For one, the advertising market is wrongly assumed to be inexhaustible. Current limitation on competition stems from the finite supply of advertising financing rather than from spectrum scarcity.

So far, evidence shows that by 1987 competition between public and private stations, and among private stations, has generally led to increased use of imports at higher costs, compounded by decreasing revenues since the greater supply of advertising time brings down price. Colin Davis, President of MCA has estimated that program prices in France had escalated by up to 600% or more since the launch of the commercial TV networks there (*Variety,* 1988, p. 37). French producers complain that newly generated revenues have not been directed to the domestic production industry but to purchase imports. Italy is the counterexample used by Waterman (1988) to support the thesis that commercialization and liberalization leads to an increased capacity for domestic production. Indeed, Berlusconi's Reteilatia produces film and television material as the market generates greater financial resources. This in-house production is foremost a response to counter the spiraling costs of imports. It is not yet clear that this strategy will be permanent. Since this evolution threatens U.S. distributors' access to foreign markets especially in a period when revenues derived from those markets increasingly represent the difference between profit and loss, it is likely that the U.S. industry will counter-attack by setting a new price equilibrium whereby "buying American" is still economical for its traditional clients.

Proponents of commercialization of television in Europe are often keen to argue that commercial television is "free" to viewers, and therefore a fairer system than license fees paid by all, irrespective of preference or consumption. The attraction of advertising support over license fees is mainly the lure of the free lunch. But economists know that there is no such thing as a free lunch. Everyone pays for consumed goods whether directly or indirectly. It was calculated that British viewers pay the same amount for commercial and public channels. The counterargument, according to which advertising benefits overall economic performance, has never been supported

with convincing evidence.[2] Most advertising is defensive in nature. Moreover, comparison with countries where there is less or no television advertising (e.g., Germany and Scandinavia) suggests that television advertising is not a sine qua non for efficient marketing. Hence it may be at least in part an extra cost, that is in as far as it is not merely a switch of money from other marketing budgets (Sturgess, 1985).

The question, then, becomes how to allocate viewer resources so as to maximize program offerings given the difficulty of establishing relations between price, quality, and audience satisfaction. In this respect commercial television does not have a natural superiority over a publicly financed system, to the contrary.

Proponents of a Europe-wide market via satellite fail to realize that any European country trying to sell to its neighbors faces essentially the same types of problems encountered in trying to penetrate the U.S. market, namely language barriers and cultural specificities. Even though Europeans are more used to dubbing or subtitling than their U.S. counterparts, the markets for satellite-delivered programs, linguistically defined, are bound to remain relatively small, making it difficult for satellite television producers to benefit from the economies of scale enjoyed in the United States. It is therefore not at all clear that, in the absence of a European market, satellite systems, developed in many instances through public financing, could become self-supporting when left to the rigor of the marketplace. Indeed, to date, all European satellite ventures are losing money, even the best established and the one with the most pan-European programming—Rupert Murdoch's Sky Channel. After all, the DBS systems in which many European entrepreneurs and governments place their hopes failed in the United States at a time when conditions seemed ripe.

As Tunstall (1986, p. 123) put it in his latest book:

> Deregulation does not take communications out of politics. On the contrary, to deregulate communications is to move it out of the government bureaucracy of regulation and throw it into the twin marketplace of commerce and politics. The giant new communications field is a political field. Having fewer rules is not the same as having no rules at all. The significance of the rules that remain is all the greater.

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[2] Argument put forth by Galbraith, in particular, cited in Ehrenberg (1986).

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