

The Economics of Trade in Recorded Media Products in a Multilingual World: Implications for National Media Policies

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INTRODUCTION

Complaints that U.S. media products dominate foreign markets have been commonplace in discussions of trade in the recorded media of films, television programs, and music recordings for some time.¹ While these claims are sometimes exaggerated, it is clear that motion pictures, television programs, and popular music created and produced by American companies and performers are a significant, sometimes pervasive, presence in the media markets of many countries. By contrast, foreign (especially non-English) films, programs, and music have achieved only limited penetration in the United States.² The success of American productions has given rise to charges of unfair competition and the erection of various forms of subsidies and trade barriers intended to protect and encourage domestic producers and artists.

¹ In popular music the complaints are sometimes directed at Anglo-American recordings, not just American recordings.

² British popular music has traditionally done very well in the United States, and this is becoming increasingly true for Australian and Canadian music as well. Films from the United Kingdom and Australia have also enjoyed commercial success in the United States, although not in as spectacular a fashion as popular music.

Recent work on the political economy of trade restraints has shown that the political/regulatory process generally works to protect domestic industries in which a country has a comparative disadvantage relative to its trading partners (Brock & Magee, 1978; Hillman, 1982; Pincus, 1975). We argue below that in the recorded entertainment media, the United States, and, to a large extent, other English-language countries, benefit from a particular kind of trade advantage which we refer to as a domestic opportunity advantage (DOA). The effect of a DOA is similar to a comparative advantage of the more traditional sort—products flow from countries with a comparative advantage to countries with a comparative disadvantage. The nearly unidirectional flow of recorded media products from the U.S. to other countries suggests that the American DOA is large in these industries. Therefore, it is not surprising that the export efforts of American media firms are hindered by barriers raised by the national governments of other nations. Still, comparison with other industries of similar size or larger clearly indicates that in most countries, the intensity of the debate over the fates of national media industries exceeds considerably what might be warranted by economic considerations alone.

National media industries are defended passionately because media products are more than just objects of commerce. They are also vehicles of communication and embodiments of national culture. From this perspective, a strong foreign presence is seen as a threat to national autonomy and an unwelcome challenge to cultural uniqueness.

Given the strength of the passions aroused by trade in media products, surprisingly little work has been done on the economic determinants of trade flows and factors that affect the economic health of domestic media industries. In Wildman and Siwek (1988) we present an economic model of international trade in films and television programs which explains observed trade patterns for these media products. In this chapter we provide additional evidence in support of that model and elaborate on the applications of the model to trade policy issues. Important similarities between sound recordings and the two video media, which will become clearer to the reader as we proceed, lead us to expand this discussion to include popular music, although with a lesser emphasis.

The remainder of this chapter is organized as follows. In the next section we provide a brief overview of available data on trade flows in the three recorded media, focusing on broad patterns in these flows. In Section III we examine linguistic and cultural correlates of the media trade flows documented in Section II. An economic model of trade in recorded media products, which explains the observed patterns of trade and identifies the roles of linguistic and cultural variation is presented in Section IV. In Section V, we look at recent experiences with liberalizing media policies in countries besides the United States in an attempt to provide a rough assessment of the strength of the economic tendencies identified in the trade model. We use

the analytical perspective developed in the previous two sections to evaluate various options available to national media policy makers in Section VI.

TRADE FLOWS

Our objective in this section is not to provide exhaustive documentation of world trading relationships. More complete descriptions of individual media are available through other sources (Guback, 1969; Katz & Wedell, 1977; Tunstall, 1977; Varis, 1983; Vans & Nordenstreng, 1974; Wildman & Siwek, 1974). Rather, our intention is to familiarize the reader with the empirical character of the relationships we describe. In describing trade flows in media products, we make use of a variety of types of data. For example, in examining trade in films, we consider financial measures of trade, audience share data for domestic and imported films, and statistics on numbers of titles imported. Similarly, we look at financial totals, hours of programming, and audience measures in describing trade in television programs. The use of a variety of such measures makes for less tidy descriptions of trade flows, but a combination of factors make this approach unavoidable.

First, there are significant gaps in the data available of each type. Thus, the use of different types of data provides a more complete picture of trading relationships. Second, each type of data has its advantages for the consideration of particular policy issues. Financial magnitudes are important if policy makers are concerned with the impact of media trade on the trade balance, but measures of audience share are more relevant if the topic is the effect of imported entertainment on domestic media industries or the extent to which a country's citizens rely on foreign sources for information and entertainment. If the range of choices available to a country's citizenry is the issue, the number of titles imported would be important.

In addition, the need to use different measures is a consequence of the importance of the public good characteristics of media products.³ In the absence of government intervention, free trade will ensure a single international price (after allowing for transportation costs) in traded commodities. This follows from the exclusive nature of commodity consumption. A unit of steel used to produce Fords in the United States cannot also be used to produce Toyotas in Japan. With competitive markets and free trade, steel prices in two countries cannot differ by more than the cost of transporting it from the lower-priced country to the higher-priced country. A higher price differential would cause steel users in the higher-priced country to increase their imports of steel from the lower-priced country until the price in the former had fallen and/or the price in the latter had risen enough to make a larger flow unprofitable. The tendency of trade to equalize prices for goods

³ A public good is a product or service for which consumption by any one economic agent does not reduce the amount available for others in the community.

also means that there will be a fairly close correlation between monetary measures and physical measures of trade.

Trade does not lead to a similar equalization of prices in films, television programs, and recordings. The performances, which bulk so large in the costs of these media products, can be enjoyed simultaneously by millions of consumers around the world. Therefore, a film shown to New York audiences can also be viewed in Tokyo and, depending on local market conditions, admission prices and film rental fees may vary significantly between the two cities. Thus the close correlation between physical and financial measures that will be observed for traded goods is attenuated considerably for film and television programs, and to a somewhat lesser degree, recordings.⁴

Regardless of the type of measure employed, two relationships stand out: (1) Anglo-American product, primarily American, dominates trade flows; and (b) Countries with large populations and/or large GNPs are the most imported suppliers of films and programs imported by other countries.

Films

Unesco's annual survey of films produced and imported by member countries is by far the best, and most comprehensive, source of data on numbers of films (titles) traded. Table 1 is based on a data set constructed from 1984 and 1985 Unesco statistics.⁵ The nine countries listed in this table are the countries identified by Unesco as the most important sources of films created by Unesco member countries. (While Hong Kong is a British colony, we will continue to refer to film or program exporting nations for expositional convenience.) Unesco does not identify other countries separately as sources of film imports. The number of countries in which a particular country's films are distributed and the fraction of total imports accounted for by that country's films are two measures of a country's importance as a source of traded films. The importance of the United States as a supplier of imported titles is clear from both measures. U.S. films were distributed in 79 of the 87 countries for which Unesco reported imported statistics. France, Italy, and the United Kingdom followed with 68, 71, and 69, respectively. The percentage of imported titles column shows that, in terms of number of titles supplied, there is no close second to the United States. The U.S. accounted for an average of 34.8% of imported titles in the countries to which it exports films. This is four times the corresponding figure for Italy, which ranks second by this measure.

The comprehensiveness of the Unesco figures cannot be duplicated with statistics on theatrical attendance and box office shares. However, for those

⁴ The cost of the physical medium, vinyl, tape, CD, and so on, is a much larger fraction of total cost for recordings.

⁵ This data set is presented in Appendix A of Wildman and Siwek (1974).

Table 1. Distribution of Films from Major Film Exporting Nations

Exporting Country	# Countries Distributed in	Average % of Imported Titles Supplied
U.S.	79	34.8
France	68	8.1
Italy	71	8.7
India	42	7.5
U.S.S.R.	55	7.1
U.K.	69	6.0
F.R. Germany	56	2.6
Japan	46	2.1
Hong Kong	53	7.7

Sources: Unesco, *Statistical Yearbook, 1984*, Table 8.2 and *Statistical Yearbook, 1985*, Table 9.2.

Table 2. Cinema Attendance Shares in the Combined Market of Four EC Countries*

Films From	% of Attendance
United States	47
Italy	24
France	17
United Kingdom	8
West Germany	3
Other Countries	1

* France, Italy, United Kingdom, and W. Germany.

Source: European Parliament Working Documents 1983-1984 Document 1-504/83, PE 76.975/Fin. 15 July 1983, p. 23.

countries for which such data are available, it is clear that the Unesco statistics on imported titles understate the importance of U.S. films at the box office. Statistics on attendance and theatrical rentals are most complete for Europe, as a result of a series of studies conducted by the European Parliament and the Commission of the European Communities (1984a). Table 2 reports European Parliament statistics on shares of attendance accounted for by films from the United States, France, Italy, West Germany, and the United Kingdom in the combined markets of these four large European countries. U.S. films accounted for nearly half of cinema attendance in these countries. Smaller European countries and non-European countries other than the United States were not significant factors. Of course these averages are not representative of the situations in individual countries. The same study reports shares of attendance for U.S. films in eight European countries ranging from a low of 30% (Italy) to a high of 92% (the United Kingdom). The pattern reflected in the *Variety* statistics for West Germany in Table 3 are fairly typical. Domestically produced films draw much better

Table 3. Variety Estimates of Market Share in West German Film Market.

	1979	1980	1981	1982	1983
W. Germany	16.8%	9.3%	18.7%	11.7%	13.0%
U.S.	39.5	54.9	52.9	49.0	52.0
France	12.3	6.4	6.7	14.7	NA
Italy	11.4	13.8	8.4	13.8	NA
U.K.	13.0	6.9	6.6	5.1	NA
Others	7.0	8.7	6.7	5.7	NA
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: *Variety*, March 7, 1986, p. 336.

Table 4. Summary of Top 10 Grossing Films in Four Latin American Countries (1986).

	Brazil	Colombia	Mexico	Venezuela
No. of titles from U.S.	9 of 10	10 of 10	5 of 10	7 of 10
U.S. films' share of top 10 box office	91.8%	100.0%	56.4%	70.2%
No. of titles from Latin American countries	1 of 10	0 of 10	5 of 10	3 of 10
Latin American films' share of top 10 box office	8.2%	0.0%	43.6%	29.8%

Source: *Variety*, March 25, 1987, pp. 92, 94, 96.

within the country than elsewhere, but the important sources of imported films are those reported for the larger market.

Although comparable data on total market attendance is not available for most non-European nations,⁶ statistics on top-drawing films in other countries suggests that the European pattern is repeated elsewhere with the not surprising difference that European films are considerably less important. The statistics on cinema attendance for South American countries reported in Table 4 show that films from the United States are generally the top draws, followed by native language films. This pattern appears to be fairly typical of less-developed countries.

There is very little data on the financial flows that accompany flows of films. U.S. earnings run in the neighborhood of \$1.5-1.7 billion annually, with some variance due primarily to fluctuations in exchange rates. The U.S. earnings of foreign films are miniscule by comparison.⁷ The trade

⁶ Japan is an exception. In 1984, the earnings of U.S. major distributors in Japan were about 30% of the total for the Japanese market (Wildman & Siwek, 1974).

⁷ For example, a study of the European film industry for the Commission of the European Communities reported that "in the first fifty of the five 'Variety' lists of Box Office Winners for 1975-1979 (that is, 250 films in all), twenty-six were national films of foreign countries. Twenty-four of these were British, all of which were distributed in the United States by American companies." (Filson, 1980).

surplus realized on these sales runs in the neighborhood of \$1 billion (U.S. Congress, 1986). Comparable figures for other countries are hard to come by. The 1983 export earnings of \$35 million and \$30 million for France and Italy, respectively, provide one basis for comparison (Commission of The European Communities, 1984b). U.S. earnings on films in that year were \$1.5 billion (Goldman Sachs Research, 1985). France and Italy are probably second and third to the United States in film export earnings.

Television Programs

The most comprehensive data on flows in television programs are the product of surveys of broadcast time devoted to imported programs conducted by Varis (1983) and Varis and Nordenstreng (1974). According to the most recent Varis survey, imported programs fill an average of about 30% of broadcast time worldwide, although there is considerable variance among countries and among regions. The United States is at the very low end of the range of variation, importing only 1 to 2% of its program hours.

The Varis figures suggest that, in most countries, domestic productions play a much more important role in television than is the case for films shown in cinemas. This is no doubt due in part to the fact that governments play a much larger role in determining content for television than for films. In many countries broadcasting is programmed by the government or by an independent, noncommercial body, and in most countries there are strict limits on the percentage of air time that can be occupied by foreign programs. The countries identified as important suppliers of trade programs in the Varis surveys are among those identified as important suppliers of films above. The United States dwarfs other countries as a source of programs, but the large Western European countries and Japan are also important.

There are no studies of the audiences for domestic and imported programs that match the global sweep of the Varis surveys. However, the limited work that does permit a comparison of the importance of imported programs measured by program hours and by audience suggests that in countries with a history of commercial broadcasting, imports account for a larger share of program hours than of audience. This relationship is apparent in the Table 5 data on imported programs' shares of program hours and audiences from a recent study by Livia Antola and Everett M. Rogers (1984). The dominance of U.S. programs among imports is also apparent in this data. According to Antola and Rogers, imported programs' shares of audience are lower than their shares of program hours because domestic programs dominate the prime time hours when the audience is largest. Similar relationships have been reported for Japan and Italy.

Films are an important source of television programming in many countries. The success of American films in foreign cinemas is mirrored in sales

Table 5. Comparison of Audiences and Program Hours of Imported Programs in Four Latin American Nations (1982).

	% of Broadcast Hours Imported	% of Audience Viewing Hours for Imported Programs	
		Total	U.S.
Argentina	40%	37%	28%
Brazil	39%	22%	19%
Mexico	50%	34%	33%
Peru	70%	66%	33%

Source: Antola & Rogers (1984), pp. 189, 191.

to foreign broadcasters. This is evident in the statistics from the *Green Paper* on the national origins of films shown on European television reported in Table 6.

The *Variety* data on Italian TV imports reported in Table 7 provide a rare glimpse of the financial figures associated with the purchases of imported programs. U.S. programs and films account for 77% of spending for imports, followed distantly by programs and films from other European nations combined at 16%. Not reflected in these figures is the recent declining trend in purchases from U.S. suppliers as their popularity with viewers has fallen relative to domestic productions.

Estimates of U.S. earnings on foreign sales of television programs vary from \$500 million to as high as \$1 billion. The extent to which these figures duplicate sales of motion pictures to broadcasters, which are also included in the motion picture export totals, is hard to determine.

Popular Music

Probably in part because it has not been the subject of intense policy debate, as have films and television programming, it is not possible to construct as complete a picture of patterns of trade in popular music as was the case for the other two media products. However, the 1982 and 1984 IFPI¹ data in Tables 8 and 9 on the national origins of popular music recordings sold in various, mostly European, nations suggests that the pattern of trade in popular music is similar to the patterns in films and television programs. In most countries the United States is the dominant foreign source of imported recordings. Comparison of figures for U.S. shares in Table 8 with Anglo-Saxon shares in Table 9 for the countries for which both are broken out indicates that the United Kingdom is also a very important international source of popular music.

¹ The International Federation of Phonogram and Videogram Producers.

Table 6. European Economic Community Origin of Films Shown on Television 1981.

Country of Showing	Country of Origin													
	Belgium		France		Germany		Italy		United Kingdom		USA		Other	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Belgium RIBF	160	48.8	15	4.3	24	6.8	12	3.4	107	30.70	17	4.9		
BRI	11	6.25	7	3.98	4	2.28	24	13.64	104	59.10	26	14.17		
France ¹	—	—	4	2.29	8	4.59	12	6.89	140	80.45	10	5.74		
Germany ²	—	—	48	11.79	15	3.68	26	6.38	221	54.29	93	22.85		
United Kingdom ³	—	—	6	1.14	2	0.38	6	1.14	491	93.70	20	3.81		

Source: EEC Green Paper (Television without Frontiers), Annex 3, p. 334.

¹ TF, FR 3; figures broken down by country of origin not available for A2.

² ARD, ZDF; the ZDF figures include the first half of 1982; co-productions classified according to the first-named country of origin.

³ BBC only.

Table 7. Italian Film and TV Imports (1983).

Source	No. Films	Dollar Total	No. TV Episodes	Dollar Total	Grand Dollar Total
Asia	18	\$ 201,500	913	\$ 2,996,300	\$ 3,197,800
Australia	2	14,000	8	34,500	48,500
Europe	313	6,668,200	2,345	11,974,400	18,642,600
N. America	1,082	31,508,900	8,327	59,343,588	90,852,488
U.S.A.	1,069	30,803,900	8,298	58,922,588	89,726,488
Others	13	705,000	29	421,000	1,126,000
S. America	0	0	1,127	3,048,000	3,048,000
Not classified	0	0	71	92,500	92,500
Total	1,415	38,392,600	12,791	77,489,288	115,881,888

Source: *Variety*, May 9, 1984, p. 303.

Table 8. Breakdown of Popular Music Sales in Europe (Percentages Based on DM Retail Values 1982).

Country	Total Pop	National	International		
			Total	USA ¹	Other ¹
Austria	100%	29%	71%	20%	51%
Belgium/Lux	100%	9%	91%	25%	66%
Denmark	100%	30%	70%	40%	30%
France	100%	59%	41%	21%	20%
Germany	100%	52%	48%	25%	23%
Greece	100%	55%	45%	20%	25%
Ireland	100%	25%	75%	30%	45%
Italy	100%	55%	45%	27%	18%
Netherlands	100%	31%	69%	33%	36%
Norway	100%	18%	82%	45%	37%
Portugal	100%	24%	76%	26%	50%
Spain	100%	38%	62%	20%	42%
Sweden	100%	36%	64%	40%	24%
Switzerland	100%	10%	90%	25%	65%
U.K.	100%	66%	34%	25%	9%
Other Europe	100%	12%	88%	30%	58%

Source: *Statistical Profile of the Music Industry, 1983-1984*, IFPI Secretariat, London.

¹ Estimates.

It is also worth noting that the importance of foreign sales to U.S. record companies is comparable to the importance of foreign sales to the U.S. motion picture industry. In both cases sales in other countries account for about one-half of worldwide revenues, although this is a more recent pattern for the recording industry (International Marketplace, 1987).

Of course, popular music is an important component of radio programming. While we have no data on the national origins of music broadcast by radio stations, it is well known that English language songs are relied on heavily by popular music radio stations in many European countries.

Table 9. Sales of Records and Tapes—1984,^{1,2} Origin of Repertoire.

Country	National Repertoire	Anglo Saxon Repertoire	Other Foreign Repertoire
Austria	25.0%		75.0%
France ³	66.0%	30.0%	4.0%
Germany (FR)	35.0%	45.0%	20.0%
Hungary	96.5%	3.0%	0.5%
Italy	55.7%		44.3%
Japan	36.0%		64.0%
Netherlands	32.0%		68.0%
Norway	18.0%		82.0%
Portugal	10.0%		90.0%
United Kingdom ⁴	64.0%	34.0%	2.0%

Source: IFPI.

¹ Estimates.

² Excluding classical music.

³ 1982 figures.

⁴ Anglo Saxon Repertoire should be read as U.S. repertoire for the United Kingdom.

LINGUISTIC MARKETS

The proposition that differences in language and culture are the primary determinants of the natural markets for media products is virtually self-evident. Translation from one language to another, even when facilitated with dubbing or subtitles, is a burden to the consumer. Thus viewers and listeners have a natural preference for works recorded in their native tongues over material produced in other languages. Therefore, a producer of a film, television program, or musical recording in any given language starts out with an advantage over sellers of similar productions recorded in other languages in selling to consumers with the same native language. Differences in culture also impose "translation" costs on consumers since an understanding of cultural context is often a prerequisite to full appreciation of recorded entertainment. To the extent that culture varies with nationality, this would be a source of home country advantage. Of course, linguistic and cultural differences among peoples are closely correlated. Since linguistic variation is much easier to document, in what follows we focus on differences among linguistic populations on the assumption that linguistic populations constitute natural markets for recorded media products. The importance of differences among linguistic markets as determinants of trade flows is explored in the economic analysis presented in the next section.

There is no readily available metric for gauging the strength of a consumer's preference for a film, program, or recording produced in his own language over a similar piece of recorded entertainment produced in a foreign tongue. That such preferences exert a strong influence on media consumption patterns is clear from some of the data presented in the previous section

Table 10. Linguistic Preferences in Film Imports

Country of Origin	Language	Percent of Titles Imported	
		Importing Countries with same Official Language	Other Importing Countries
United States	English	45.7	31.5
United Kingdom	English	8.2	5.4
France	French	25.7	6.5
Italy	Italian	23.6	8.4
West Germany	German	10.3	2.3

Source: *Statistical Yearbook, 1984, Table 8.2 and Statistical Yearbook, 1985, Table 9.2.* Paris: Unesco, 1985.

of this chapter. It is quite obvious in the two tables on popular music (Tables 8 and 9) that national repertoire sells much better in the home country than in other countries which generally have different languages. Table 3 shows German films averaging nearly 14% of German cinema attendance over a five-year period, but in Table 2 we see German films accounting for only 3% of attendance in the combined markets of Germany, Italy, France, and the United Kingdom. The importance of preferences for native language recorded entertainment, and not just native language entertainment produced in the home country, is demonstrated in Table 10. Table 10 uses Unesco data to compare five major film exporting countries' sales as a percentage of imported titles to countries with the same official languages and to countries with different official languages. The preference for same language films is quite evident.

How do the natural media markets composed of linguistic populations differ? In the next section we argue that the most important differences among markets in terms of influencing media trade flows are differences that affect spending on media products. Spending is a function of demand and the extent to which governments' policies affect financial expressions of that demand. Besides tastes, which are unobservable, the most basic determinants of demand for media products are the number of potential consumers of media products and their incomes. Table 11 reports for 12 languages the number of native speakers and the combined national income for countries for which these are official languages. The linguistic populations described are the 12 largest linguistic populations whose members are located for the most part in countries that rely significantly on market forces to organize economic activity.⁹ For a variety of reasons, countries that rely on market economies tend to dominate international trade in films, television programs, and records. In addition, market economies reflect more directly the linkage between supply and demand for media products.

⁹ The most important languages excluded by this criterion are Russian and Chinese.

Table 11. A Comparison of Linguistic Markets

Language	Native Speakers (Millions)	1981 GNP* (Millions U.S.)
English	409	\$4,230,375
Hindi/Urdu	352	209,023
Spanish	265	653,958
Arabic	163	328,547
Bengali	160	12,692
Portugese	157	303,465
Malay/Indonesian	122	237,715
Japanese	121	1,185,861
French	110	812,179
German	101	1,017,528
Punjabi	69	29,575
Italian	62	502,306

Sources: 1985 World Almanac and World Tables (3rd ed., Vol. I). World Bank, Washington, DC.

* Totals for countries that rely on market mechanisms to a significant degree to order economic activity.

As Table 11 shows, English speakers greatly outnumber native speakers of all other languages for which market economies predominate. In addition, the relative advantage shown by English speakers, as measured by income, is still more dramatic, far surpassing the incomes of Japanese and German speakers, the second and third ranked groups. The combined GNP of the English-speaking countries is nearly four times the combined GNP's of the Japanese-speaking or German-speaking countries.

The combined GNPs associated with different languages should be viewed as rough indices of the *potentials* of the associated linguistic populations as markets for recorded video products and music. Linguistic groups differ in the extent to which their market potentials are realized. The effective size (in monetary terms) of the media market comprised of native speakers of a language may be reduced considerably below the level that its collective income would suggest. In general, the factors that most reduce the extent to which media market potential is realized can be traced directly or indirectly to the policies imposed by the governments of the countries in which the linguistic populations reside. Legal restrictions on film and program content, which are present in all nations to some extent, depress the demand for certain types of entertainment. As content censorship of this type increases, market potential is almost certainly reduced. Restrictions on film screening dates and frequency of showings have similar consequences.

Government restrictions on commercial television broadcasting probably comprise the most important factors preventing the realization of media market potential around the world. Because of the intricate ties between film and television production in most countries, television restrictions directly

affect film production and vice versa. More importantly, governments in most countries tend to regulate television far more pervasively than films or record distribution. Governments, to some extent, are involved directly in the operation of broadcast stations in nearly every country in the world. Governments own or license stations, allocate broadcast frequencies, and control program content and origin in many countries. Not surprisingly, these activities can all influence media market potential in quite dramatic ways.

In general, there are considerably fewer restrictions on commercial broadcasting in English-speaking countries than in non-English speaking countries. In Western Europe, for example, television in many countries is entirely a public enterprise. Even in countries where commercial broadcasters exist, the time allowed for commercial advertising daily is much less than in the United States. The result is a significant reduction in the funds available to support programming, since, in most countries, public funding does not come close to compensating for funding lost due to commercial restrictions (Wildman & Siwek, 1987, 1988). Because most English-speaking countries impose fewer restrictions on commercial broadcasting, a greater portion of the media market potential of English-speaking peoples is realized. Accordingly, the relative difference between the actual size of the English language market and the actual sizes of other linguistic markets is probably much greater than the comparison of potentials in Table 11 would indicate.

AN ECONOMIC MODEL OF TRADE IN RECORDED MEDIA PRODUCTS

The data presented in the previous sections revealed a pattern of trade that is similar across three recorded entertainment media. The similarity of basic trading relationships for the three media suggests that a similar economic mechanism plays an important role in trading relationships in each. In this section we present a model of trade in recorded media products which shows that trade characterized by flows of product primarily from large markets to small markets may be a straightforward consequence of the economics of competition in products with significant public good components.¹⁰

An understanding of the distinction between private goods and public goods is essential to the economic analysis of trade in media products. A public good is a product or service for which consumption by one individual does not reduce the amount available for consumption by other individuals. National defense is probably the most commonly used example of a public good. Each citizen of a country consumes the same amount of national

¹⁰ This discussion is based on a mathematical model of trade in video products which is presented in Appendix B of Wildman and Siwek (1988).

defense, and the addition of a new citizens does not reduce the amount of defense consumed by the original citizens as long as the defense budget is not changed. By contrast, a private good, such as a candy bar, can be shared by more individuals only if it is divided into smaller portions. Exclusivity of consumption is the defining characteristic of a private good.

Media products have both public and private good components. The performances, which are preserved in physical recording media such as 35mm film, tape, vinyl, and so on, are public goods. The physical media on which the performances are recorded are private goods. It is the performances, which are the public good components of media products, that are the primary sources of value to consumers. Furthermore, expenditures on creative elements such as acting, directing, writing, and special effects which determine the consumer appeal of a performance, dominate the costs of recorded media products, especially for films and television programs. The trade model presented in this section is a model of the behavior and economic incentives of individual producers of media products for which public good elements dominate.

Critical to the financial success of a motion picture or program producer is the decision on how much to spend on creative elements such as actors, scriptwriters, directors, special effects, camera crews, props, musicians, and musical composers and arrangers. Each of these elements will have an effect on the audience appeal, and therefore the revenue generated by the production. By increasing expenditures on creative elements, the producer can increase the likely size of the box office or television sales revenues.¹¹ However, there are limits to how much a production budget can profitably be increased. For a single, isolated national market, which is where we begin this analysis, these limits will vary with the size of the market and with the number of competing producers in the market.

The effect of expenditures for creative elements on anticipated revenue for an individual producer's film or program is illustrated in Figure 2.1. D1 and D2 are the demand curves for the film or program with production budgets of B1 and B2, respectively.¹² Different points on the demand curves can be thought of as the amounts that purchasers (theaters or television stations) in different localities would be willing to pay to rent the film or program. The demand schedules order the locations according to willingness to pay, beginning with those willing to pay the most (presumably buyers in

¹¹ Obviously, there is no way to guarantee the popularity of a film or program. However, by spending more on talent and other creative inputs, a producer can increase the probability that his work will have popular appeal.

¹² It is assumed that the number of competing producers and their budgets are the same for D1 and for D2. That is, other producers are assumed not to respond to changes in the production budget of this particular producer by changing their own budgets or entering or leaving the market.

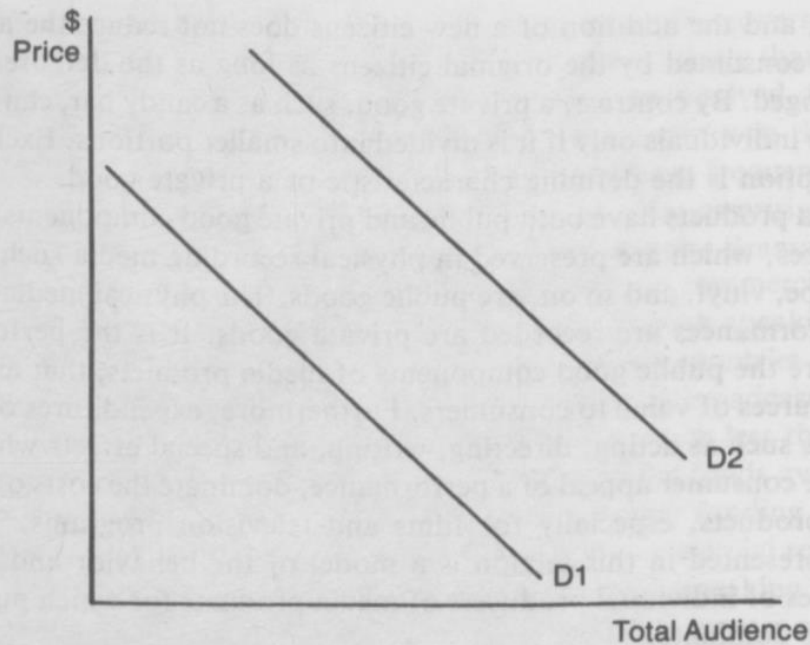


Figure 2.1. Effect of Production Budget on Demand

major metropolitan areas) on the left. B2 is assumed to be larger than B1, therefore D2 lies above D1. That is, larger rental payments can be expected with budget B2. Revenues for the two budgets will be equal to the areas under their respective demand curves. If we assume for convenience that distribution costs are negligible, profits will be higher with B2 than with B1 if the area under D2 exceeds the area under D1 by more than $B2 - B1$.

The effect of expenditure for creative elements on producer profits is illustrated in Figure 2.2. The curve labeled R shows the relationship between revenue and production expenditures. The horizontal intercept for R is to the right of the origin to reflect the assumption that some positive level of expenditure on programming is necessary to generate even the smallest audience. R rises rapidly at first, indicating that at lower budget levels increases in expenditure on creative elements have a large effect on anticipated earnings. However, the slope of R decreases with additional expenditures, indicating that, as with other products, decreasing returns eventually set in, limiting the extent to which production expenditures can be increased profitably. Profits are equal to the vertical distance between R and the 45 degree line. Profits are maximized (the difference between revenue and production costs is greatest) at the point at which R has a slope of 1 (or is parallel to the 45 degree line drawn through the origin). The profit maximizing budget is indicated by B^* .¹³ One would expect that in a competitive market, entry of

¹³ The distance from the origin to any point on the horizontal axis is equal to the vertical distance from that point to the forty-five degree line. Therefore, for any budget, profits are equal to the vertical distance between R and the forty-five degree line. This distance is maximized where R also has a forty-five degree slope.

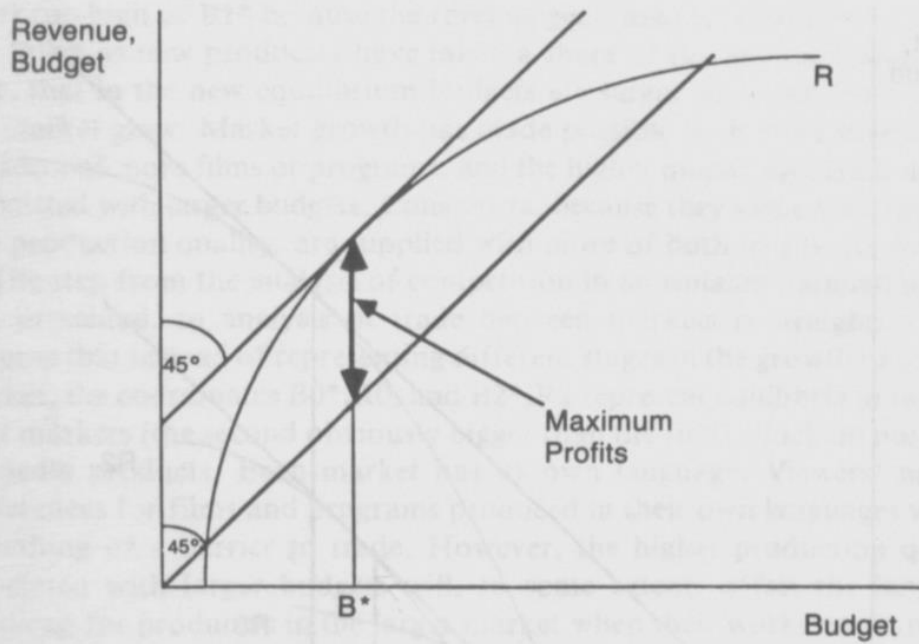


Figure 2.2. Profits as a Function of Production Expenditures

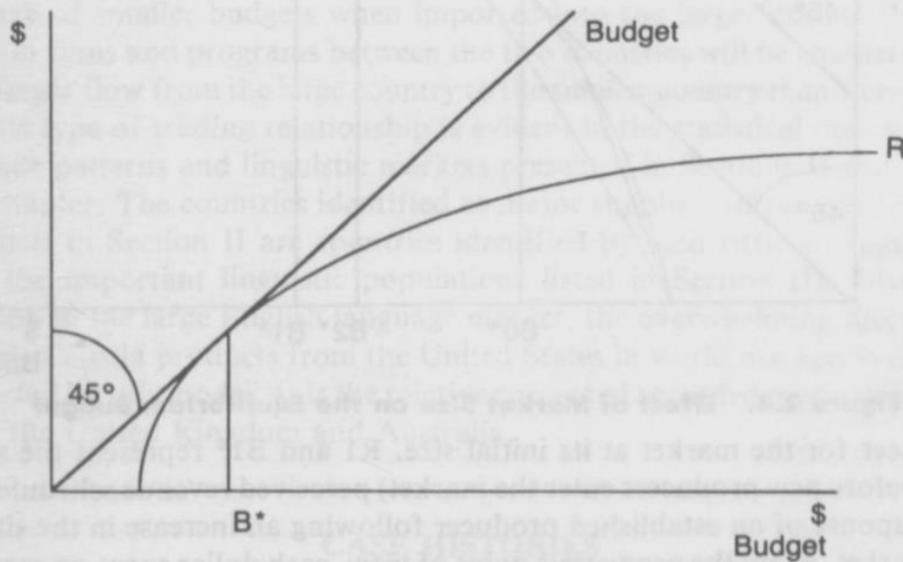


Figure 2.3. Zero Profit Equilibrium

new firms would result in the zero expected profits situation illustrated in Figure 2.3, with R tangent to the 45 degree line through the origin.

The effect of differences in market size on production budgets in different markets is analogous to the effect of market growth on budget size within a market. The effect of market growth on production budgets is illustrated in Figure 2.4. B_0^* is the initial profit maximizing production budget for a representative producer in the market before growth occurs and R_0 is the schedule of revenue possibilities associated with different budgets perceived by the

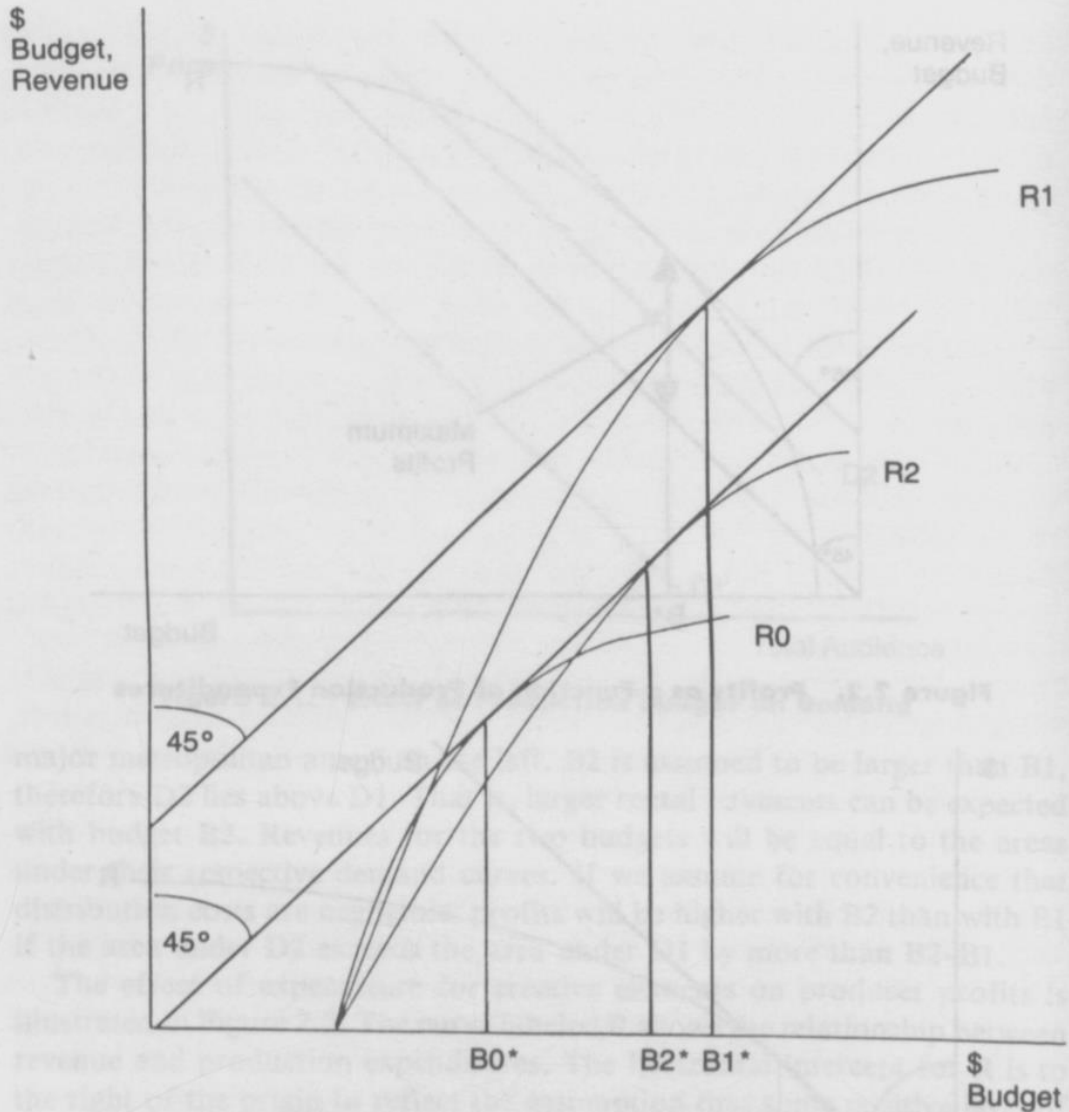


Figure 2.4. Effect of Market Size on the Equilibrium Budget

producer for the market at its initial size. R1 and B1* represent the short run (before new producers enter the market) perceived revenue schedule and the response of an established producer following an increase in the size of the market. From the producer's point of view, each dollar spent on creative inputs now generates more dollars in revenue than when the market was smaller. Thus R1 lies above R0. Since the return to production expenditures has increased (at the margin) the producer will increase its budget. B1* is the new profit maximizing budget. Profits have clearly increased. In the longer run, however, positive profits for existing producers will attract new producers to the market. As the market is divided among an increasing number of producers, revenue per producer and revenue per production dollar will fall. The new equilibrium is represented by R2 and B2*. In the new equilibrium producers are again earning zero profits. Budgets have fallen from the

short run high of $B1^*$ because the revenue generated by a production dollar has fallen as new producers have taken a share of the market. Note, however, that in the new equilibrium budgets are larger than they were before the market grew. Market growth has made possible both more diversity, in the form of more films or programs, and the higher quality (audience appeal) associated with larger budgets. Consumers, because they value both diversity and production quality, are supplied with more of both in a larger market.

The step from the analysis of competition in an isolated national market just presented, to analysis of trade between markets is straightforward. Assume that instead of representing different stages in the growth of a single market, the coordinates $B0^*, R0$, and $B2^*, R2$ represent equilibria in two distinct markets (the second obviously bigger than the first) which do not trade in media products. Each market has its own language. Viewers' natural preferences for films and programs produced in their own languages will be something of a barrier to trade. However, the higher production quality associated with larger budgets will, to some extent, offset the language handicap for producers in the larger market when their works are imported into the smaller market. On the other hand, films and programs produced in the smaller market will face both the language handicap and the disadvantage of smaller budgets when imported into the larger market.¹⁴ Thus trade in films and programs between the two countries will be characterized by a larger flow from the large country to the smaller country than vice-versa.

This type of trading relationship is evident in the statistical descriptions of trade patterns and linguistic markets presented in Sections II and III of this chapter. The countries identified as major suppliers of recorded media products in Section II are countries identified by their official languages, with the important linguistic populations listed in Section III. Given its position in the large English language market, the overwhelming success of recorded media products from the United States in world markets is clearly predicted by this model, as is the relative success of recorded media products from the United Kingdom and Australia.

CASE HISTORIES

The trade barriers which many nations have erected to limit the inflow of media products from other countries can be attributed in part to the international success of Anglo-American film and television exports. These restrictions have been justified on the grounds of protecting domestic media industries, limiting foreign domination of information and entertainment,

¹⁴ Trade may produce some equalization in budgets for the two markets. However, because the preference for native language productions acts as a partial barrier to trade, trade in films and programs will not eliminate complete differences in budgets among large and small nations.

and preserving the artistic expression of national culture. The model presented in Section IV, combined with the analysis of linguistic markets in Section III, suggests that the relative success of American films, television programs, and music in other countries is a consequence, at least in part, of economic factors that are fairly permanent. English speakers will continue to be more populous, and wealthier as a group, than other linguistic populations for the foreseeable future. On the other hand, as we pointed out in Section III, much of the commercial potential of the English language market is already being exploited. By comparison, potential opportunities for commercial media ventures, especially in broadcasting, remain largely undeveloped in most of the countries identified with other languages. It is also clear that, in general, public funding does not come close to replacing the financial support for programming that otherwise would be provided by commercial broadcasters. The possibility therefore remains that many countries may find policies that encourage the development of commercial television to be effective in promoting the growth of viable domestic media industries and in meeting domestic content objectives for broadcasting. The trade model presented above, in combination with what is clearly a strong preference for native language entertainment in most countries, suggests that liberalization of restrictions on media industries should produce movement toward these goals. How much movement is an empirical question. The recent histories of commercial television in Latin America and Italy, summarized briefly below, suggest that there are considerable grounds for optimism.

Case I: Latin America

Developments in Latin America are of interest for at least two reasons. First, most of the Hispanic programming currently broadcast in the United States originates in Latin America. U.S. Hispanic television networks such as Univision (formerly SIN) and Telemundo, which broadcast extensively in the United States, provide firm evidence that linguistic populations are more important than national boundaries in defining global television markets. Accordingly, the growth of these networks clearly undercuts earlier theories of programming flow which focused on political and economic hegemony rather than on language and market size (Schement, Gonzalez, Lewis, & Valencia, 1984). Latin American broadcast trends are important also because studies of Latin American broadcasting systems show that several of these countries have reduced significantly their reliance on imported U.S. programs without resorting to extensive restrictions on commercial broadcasting.

Industry characteristics. The economic organization of the production and distribution of television programs in much of Latin America is, in many ways, quite similar to the organization of production and distribution

Table 12. Population, GNP and Television Sets in Various Latin American Nations

	Population	GNP (Billions of U.S. Dollars)	No. of Sets
Brazil	131,305,000	\$267.0	16,500,000
Mexico	75,702,000	151.2	8,300,000
Argentina	29,627,000	54.2	5,910,000
Venezuela	17,993,000	66.8	2,050,000
Colombia	27,663,000	38.0	2,700,000
Chile	11,486,000	21.7	1,350,000
Peru	18,663,000	18.3	920,000

Sources: Population statistics from *World Almanac*, 1987, New York: Newspaper Enterprise Associates, Inc.; GNPs (1983) from *Statistical Abstract of the United States 1987*, 107th edition, U.S. Department of Commerce, Washington, DC: Bureau of the Census; No. of sets from *Statistics on Television Broadcasting*, 1983, Unesco, PX-23, (1983).

in the United States. For the most part, broadcasters are privately owned. While they may compete with government-controlled channels and may be required to maintain government licenses, the larger networks remain in private hands.

Another important similarity relates to commercial advertising. Private broadcasters rely primarily on advertiser support and do not derive extensive revenues from television receiver fees or other tax-based sources of income. Thus, the Latin American practice departs markedly from the prevailing model in Western Europe where receiver fees are widespread. In addition, the number of advertising minutes per day permitted in most Latin American nations seems to be much more generous than current limits on advertising in Western Europe.

Brazil and Mexico are the largest national television markets in Latin America followed by Argentina, Venezuela, Columbia, Chile, and Peru. Table 12 presents data on population, GNP, and the number of television sets in use in these countries. By way of comparison, for the same year as the data presented in Table 12, the GNP of Brazil was about the same as the GNP of Canada, while the Mexican GNP could be compared with the GNP of Australia. The economies of both nations are considerably smaller than the economies of the United Kingdom, France, West Germany, and Japan.

Trends in programming. The recent study of programming trends in six Latin American countries by Livia Antola and Everett M. Rogers (1984) is probably the most comprehensive work to date on this subject. Antola and Rogers examined trends in the percentage of program hours imported for Venezuela, Brazil, Chile, Mexico, Peru, and Argentina. They found that for the first three of these nations, imports as a percentage of total program hours declined considerably. The import percentage held steady at about

Table 13. Audience-Hours of Television Viewing in Four Latin American Nations

Country	Percent of Imported Hours			Percent Domestic
	U.S.	Latin America	Other	
Argentina	28%	9%	0	63%
Brazil	19%	2%	1%	78%
Mexico	33%	1%	0	66%
Peru	33%	25%	8%	34%

Source: Livia Antola and Everett M. Rogers, (1984). Television flows in Latin America. *Communications Research*, 11 (2), 189.

50% for Mexico, and imports' share of program hours increased in Peru and Argentina. Significantly, the traditionally commercial broadcasting systems in Peru and Argentina were placed under government control for considerable periods of time and only recently returned to private hands. For all the nations in their study, Antola and Rogers reported a general trend toward domestic productions (Straubhaar, 1984). Their comparison of program hours and audience hours (program hours weighted by audience size) for four countries showed that domestic programs' shares of audience were larger than their shares of program hours (see Table 5). Their data on audience hours for domestic and imported programs are shown in Table 13. For three of the four nations for which they were able to construct audience share statistics, domestic programs clearly dominate in terms of total audience.

The trend in Latin America toward greater reliance on domestic programs is apparently due to the increasing competitive strength of domestic program production industries. As television advertising revenues have grown in Latin American nations, more resources have been committed to producing domestic programs. Imported programs have been displaced as the production values of domestic productions have risen.

Exports to the United States. Televisa, the dominant media conglomerate in Mexico, is the primary source of Hispanic programs imported into the United States. Televisa founded the Spanish International Network (SIN) in 1961. Since then, SIN has grown rapidly to the point where it now maintains more than 400 satellite-linked broadcast and cable affiliates in the United States. In 1986, SIN was forced by the Federal Communications Commission to sell off eight UHF broadcast stations. Televisa is now the sole owner of all remaining assets of SIN (now Univision) (Lenti, 1987). During 1986, the network earned revenues of about \$67,000,000 (Lenti, 1987).

The most popular type of Latin American program, both in Latin American nations and in the United States, is the "Telenovela." Telenovelas resemble American soap operas in many respects, although they seldom run beyond 120 one-hour episodes. Among its imports into the U.S., SIN has

long broadcast telenovelas from several Latin American nations. In 1986, telenovelas in SIN's twelve and one-half hour, Monday to Friday, broadcast schedule included one from Venezuela, two from Puerto Rico, and three from Mexico before 6:30 p.m.; and one from Argentina and three from Mexico in prime time (Current SIN-TV Soaps, 1986).

As the U.S. Hispanic television market continues to grow (advertising revenue is now estimated at \$100,000,000 per year (Hispanic TV giants, 1987)), it seems reasonable that U.S. Hispanic television imports will increase correspondingly.

Case II: Italy

Our second case history focuses on the rise of commercial, advertiser-supported television in Italy. Commercial television was initiated in Italy in 1974. By 1986, the country had five new commercial television networks (Valenti, 1986) and television advertising expenditures had grown to over \$750 million annually (Privatization, 1986). While Italian commercial television, as pioneered by entrepreneurs like Silvio Berlusconi, relied initially on U.S.-made television series and motion pictures, the more recent schedules on the Berlusconi networks feature increasing numbers of Italian-made films and comedy programs. The Italian experience was undoubtedly an important catalyst for the current movement toward regional privatization of the broadcasting industry in Western Europe.

Recent history. In 1974, an Italian cable entrepreneur, Peppo Sacchi, began to operate the first private cable television station in Italy. Although Sacchi's signals were limited to the small northern city of Biella, his station provided direct competition to RAI, the Italian public television monopoly, and the legality of Sacchi's service was challenged. On July 19, 1974, the Constitutional Court ruled that local, community cable TV of the type provided by Sacchi was legal. However, the Court also reconfirmed RAI's monopoly over *national* broadcasting (Werba, 1986). Following the Court's decision, Italian entrepreneurs like Berlusconi installed commercial cable systems and independent TV broadcasting stations throughout Italy. Today there are over 300 commercial television stations operating in Italy and most Italians can receive 10 or more over-the-air television signals.

By 1980, Berlusconi controlled three station groups including CANALE-5, which reached the major cities of northern Italy. He began to challenge RAI's monopoly on national broadcasting through "cassette networks" which supplied affiliated stations with common programming. He also began to air popular American programs such as *Dallas*.

By 1985, Berlusconi's station groups had grown to three commercial "networks" and his operations were called "the world's fourth biggest

**Table 14. J. Walter Thompson—
Italian Advertising Budgets (Billions of Lire)**

	Publitalia (Silvio Berlusconi)	RAI
1985	56	33
1984	44	21
1983	23	19
1982	13	N/A
1981	5	N/A
1980	0.8	N/A

Source: J. Walter Thompson Ad Budgets, (1986, April 23).
Variety, p. 148.

media operation after the three U.S. networks" (Werba, 1986, p. 168). While repeated court decisions still prohibited the practice of cassette networking, political support for commercial "networks" was such that various interim agreements were worked out to permit their continued operation. Berlusconi now plans to expand operations beyond Italy into all of Europe.

The importance of advertising. The growth of commercial television in Italy was supported from the beginning by the local advertising community. The Association of Advertising Companies (UPA) lobbied for commercial broadcasting in the Italian parliament and pressed for relatively generous limits on time permitted for advertising. The Italian division of the U.S. advertising agency, J. Walter Thompson, was a strong supporter of commercial television. Table 14 compares J. Walter Thompson's advertising purchases from Berlusconi with the firm's advertising placements with RAI. As the table indicates, by 1985, advertising purchases from the Berlusconi networks exceeded those from RAI by 23 billion lire.

J. Walter Thompson Italia's backing of commercial broadcasting was not surprising. RAI, with its strict advertising limits, simply could not support the large scale advertising campaigns common on U.S.-style television networks. For Berlusconi, advertiser support meant more appealing programming. In 1981, he acquired 64 episodes of *Dallas* after RAI's contract to broadcast the first 13 episodes of the popular U.S. program concluded. Subsequently, as bidding for U.S. programming drove up prices, RAI and Berlusconi both turned increasingly to Italian-made product. By 1986, the Italian Motion Picture Association (ANICA), an early opponent of Berlusconi, expressed strong support for both Silvio Berlusconi and for private television generally. ANICA president, Carmine Cianfarani set forth the Association's views:

Berlusconi has revolutionized the TV market for the members of the film industry. In the old days, public broadcaster, RAI, acquired Italian films for an average of only 6,000,000 lire (\$3,750). In 1978, with the growth of commercial

**Table 15. Italian Imports of Films for Television and TV Programs
1982 vs. 1983**

	1982	1983	1982 to 1983
Imports From All Countries			
No. of films	1,827	1,415	-412
No. of TV episodes	18,928	12,887	-6,041
Total value (U.S. dollars)	\$135,568,467	\$115,043,388	-\$20,525,079
Imports From United States			
No. of films	1,418	1,069	-349
No. of TV episodes	12,865	8,298	-4,567
Total value (U.S. dollars)	\$113,531,000	\$89,726,488	-\$23,804,512

Source: Imports of Films for TV and TV Programs (May 9, 1984), *Variety*, p. 303.

television, this situation changed. In the competition between private broadcasters and RAI for Italian pictures, the TV acquisition price increased. Today, the sale of TV licensing rights brings an average of 250,000,000 lire (\$150,000). Films of classic or substantial commercial value can get much more (Italo Motion Picture Association, 1986)

Mr. Cianfarani went on to express his group's strong support for the "Pan European" broadcasting ambitions now espoused by Berlusconi and others.

The growing competitive strength of Italian program producers is reflected in import statistics. Spending for imported, mainly U.S., programs and films increased dramatically in the early years of Italian commercial broadcasting.¹⁵ The growth in import purchases slowed as Italian producers began to turn out more popular fare. Table 15 shows that spending on imported programs and films for television actually declined from 1982 to 1983, as did the numbers of programs and films imported. This trend reflects in part a continuing movement to replace foreign series with domestic programs during peak viewing hours. This development in Italy mirrors the similar trend noted in Latin American nations.

CONCLUSIONS

An implication of the trade model and the data on linguistic markets presented above is that the *qualitative* nature of the media trade flows described in Section II is not likely to change. Films, programs, and popular music will continue to flow primarily from wealthier and more populous countries to smaller and poorer ones, and English language productions will remain most prominent in these flows. What is subject to change, however, is the

¹⁵ Italian broadcasters spent less than \$1 million for American television programs as recently as 1978 (Privatization, 1986, p. 62).

magnitude of these flows and their effects on the national media and the industries that supply them in importing nations.

An opinion widely held is that in the absence of restrictions on imported media products, domestic producers in most nations would be overwhelmed by competition from imports, especially imports from the United States. From this perspective, official intervention is required to ensure the survival of domestic producers and to guarantee that national media content will reflect domestic culture and other national interests.

In our opinion, the case histories of television in Italy and Latin America reviewed above convincingly refute this hypothesis. Domestic producers can survive and thrive in fairly open competition with imported programs and films. The key is adequate financial support. The general experience with public broadcasting is that the necessary financial resources will not be forthcoming from public sources alone. Commercial broadcasters appear to do much better in this regard. The lesson from the Latin American histories, in particular, is that, even in fairly small countries, advertiser-supported, commercial broadcasters exhibit distinct preferences for domestic programs and support domestic producers.¹⁶

The Latin American countries discussed above have long histories of commercial broadcasting. By contrast, television was a public-agency, monopoly enterprise in Italy until 1974. The Italian experience with privatization is therefore of special interest to other countries with state-controlled broadcasting systems that have begun, or are contemplating, similar privatization experiments. The private broadcasting industry grew explosively in Italy from the moment of its inception, as did advertising revenues and expenditures on programming. While foreign suppliers of programs, especially American suppliers, benefitted considerably, particularly during the early stages, from the growth of Italian television, the longer-term results seem to be especially favorable to domestic producers. Viewers have also benefitted, as the quality, quantity, and variety of programming have all increased. Furthermore, as we noted above, because broadcasters are important buyers of films, Italian filmmakers have also benefitted from the growth of commercial television.

To our minds, there is little doubt that, for most countries, policies that promote commercial television will also strengthen domestic program producers and filmmakers. Furthermore, domestic media are not likely to be dominated by foreign films and programs as a result of these policies.¹⁷

¹⁶ Of course, producers in Latin American countries also benefit from participation in the larger Spanish-language market.

¹⁷ Very small nations would be the exception. If the domestic market is too small, commercial revenues would not be enough to support domestic producers. The Latin American histories suggest that rather small nations can support significant program production industries through commercial revenues.

Rather, it is the state financed and controlled media that are most threatened by imports. Of course, there is no guarantee that domestic broadcasters and program producers, guided by commercial interests alone, will provide viewers with the programming that government officials want them to see. It is up to policy makers to weigh the importance of content objectives that might not be satisfiable within a commercial context against the potentially significant benefits of commercial broadcasting.

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