

National Culture and the  
Iron Law of Hollywood  
Dominance

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The "Iron Law" of Media Americanization:  
An Economic Analysis

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Critics of media liberalization frequently postulate an "iron law of television," according to which a liberalized television environment in a European country will invariably lead to its flooding by cheap American imports. Bad programs drive out good programs. This, if indeed true, could be considered to be merely a case where the demand for a product is better satisfied by foreign suppliers, except that such a conclusion would be mildly subversive, because it undercuts the legitimacy of the existing broadcast system by suggesting that its programs are watched only by the grace of some form of cultural protectionism. Hence, a "scientific" argument is made instead which purports to show that it is not the content of imported programs which undermines domestic ones, but rather that some underlying economic logic is at work. The thesis, in a nutshell, is that a TV broadcaster in a country, deciding how to fill time slots, faces a choice of either costly domestic production or importing off-the-shelf American programs which have already been produced and can therefore be obtained for marginal cost, i.e. for almost nothing.

Therefore, given budget constraints or profit maximization, the cheap imports will drive away the local production, leaving American programs to predominate. To political pessimism ("The Russians are coming") and economic pessimism ("The Japanese are coming"), cultural pessimism is added ("The Americans are coming"). The argument has been

repeated so frequently by respected media scholars that hardly anyone bothers to think through its dubious logic. This argument, and a discussion of the reasoning behind it, will be the subject of this chapter.

It should be noted at the outset that the treatment of cultural issues by using economic reasoning is not likely to be persuasive to many. Most economists will consider the subject matter and its antagonists hopelessly "soft." Others, from more aesthetically-oriented disciplines, view an economic analysis as a mark of philistinism and an affirmation of the adage that economists know the price of everything and the value of nothing. But economists are fairly accustomed to various industries or groups denying that economic principles apply to themselves. The author is not so politically or culturally naive as to deny the centrality of non-economic issues in this debate. It is, however, the opposition to media diversity which keeps making the economic argument to buttress its position. Having chosen this ground, it must accept to defend it on those terms, too.

It should be noted at the outset that the analysis pursued in this chapter applies largely to the flow of media products between developed countries. When it comes to less developed countries, some of the notions discussed below are not realistic. Where there are no active production organizations of sufficient size and technical sophistication, and where

financial resources are minuscule, one cannot expect to find the same conditions as in the mature and culturally active countries of Europe.

Also, it is not the purpose of this chapter to trace the effects of modernity on traditional societies and the role of information flows in such change. This is important, but has been done by others.

#### Eight Flaws of the Iron Law

A British government White Paper outlines an economic argument that explains the potential for American programs to drive out domestic ones:

(T)he economics of programme production [for cable] will ... militate for the maximum possible use of the sort of ready-made material of which there are vast archives in the United States available at off-shelf marginal cost ... an hour of original material can range from 20,000 pounds for a current affairs programme to 200,000 pounds for drama (or even more in the case of prestige product). Bought in material from the USA, where production costs have already been largely if not wholly recovered on the domestic market, can be obtained by the broadcasters for as little as 2,000 pounds an hour. (White Paper, 1983: p.50-51) [Home Office and Department of Industry, 1983, The Development of Cable Systems and Services, (White

Paper). London: Her Majesty's Stationery Office.]

This argument is seriously flawed.

First: it compares the marginal cost of distributing an existing product, where investments have already been sunk, to the total cost of new production. The statement, "It is cheaper to buy an already produced American program rather than to produce a program domestically" is a bit like saying, "it is cheaper to take a Chrysler taxi into the city rather than to buy a new Leyland car." In other words, it compares apples and oranges; the marginal cost of rental with the total cost of production. It assumes that the American program is part of a usage sequence, whereas a British program is not. But there is nothing natural about this asymmetry, as will be discussed.

Second: it assumes that a program would be imported primarily due to its low cost; however, broadcasters have a choice of programs. Why would a low quality American program have an advantage? Programs at similarly low marginal cost are available from other English-speaking nations such as Canada and Australia, as well as from the European continent at the cost of dubbing. Large libraries of motion pictures from around the world are also available at low marginal cost. Thus, if American programs are indeed intolerable in terms of quality, it is only necessary to pick from low-cost alternatives produced in other countries. It could be argued

that U.S. productions are the "best value," because its domestic market is large; this will be dealt with further below.

The exception would be if, somehow, the entire world would not offer enough programs above the US quality level to fill the program requirements of one country's broadcasters, thus leading to dependence on Hollywood. But that is wildly implausible if one simply adds up the film and TV productions in the various countries and then subtracts time for such domestic mainstays as news and sports. The argument further requires a simultaneous abundance of US productions; otherwise prices would be bid up above marginal cost by foreign broadcasters in search of product. Finally, it also implies that of the tremendous output, past and present, of Hollywood and US commercial television networks, not enough decent material can be found to satisfy the quality requirements of foreign channels.

Third: even when imports are cheap, domestic production need not be curtailed. To demonstrate this is elementary: suppose that there are two types of programs, F (foreign) and D (domestic), and that a programmer is indifferent between them according to a trade-off schedule that is more elastic than Albania's. This, together with the broadcaster's budget constraint, determines the distribution of foreign programs.

As foreign imports become cheaper, more resources will be freed up to support domestic production. Depending on the

elasticities and prices involved, the income effect of the cheaper import could more than offset the substitution effect toward the foreign programs. Subsequently, it is possible that more rather than less domestic production will take place, unless there is a ceiling on total programs. This shift to increased domestic production is more likely where the preferences for domestic programs are high (i.e., where indifference curves are flat.)

Fourth: The thinking behind the "iron law" has been asymmetric. It considers the American product to be exportable to the UK at low marginal cost, without taking into account the worldwide export value of a similar British production. Indeed, given the global prevalence of public broadcasting, one would predict an even larger international market for publicly-produced programs than for American commercial products. Furthermore, the advent of cable television systems in the US has created channel packagers with a voracious appetite for programming. Hence, foreign producers would find a large, competitive, potential market for their productions. In one instance, the BBC switched its program offerings to the US from the non-commercial Public Broadcasting System to the commercial Arts & Entertainment channel, which promised a higher compensation. And this is not surprising, since all large public broadcasters are under budget pressures.



Hence, the potential earnings of international exports should be factored into the economic analysis of whether or not to produce a program domestically. Such economic opportunities for export can become a cultural double-edged sword, since it could lead to a greater "Americanization" of the exporting country's media products to make them attractive in foreign markets. British films, for example, often cast well-known American actors, since their presence provides an easier entry to US audiences. The low-budget Italian "Spaghetti-Westerns" of the 1960s were an extreme case, promoting American and universal imagery to the exclusion of Italian themes; these films were an enormously financial success worldwide, and made Clint Eastwood's day.

The American market, of course, has barriers to entry. For example, American audiences are accustomed to slick production quality, and are uncomfortable with subtitles, British accents, or unfamiliar sitcoms involving French families. Such barriers may fall as familiarity evolves audience fragmentation reduces the need to appeal to vast majorities, and foreign producers learn to pitch their programs to US audience tastes, too.

Fifth: the "iron law" does not take into account the effect of competition for imported video products within a foreign country. If a multichannel environment existed in a European country, an attractive program from the United States would fetch no more than the marginal cost

broadcasters currently pay. Under any reasonable scenario of competition among program channels, the price for the imported American show would be above what conventional wisdom believes is an invariably low standard rate.

At present, a number of cartel arrangements prevent such competition, making rival bidding practically non-existent. In countries where several public channels are programmed independently, joint organizations exist for the purchase of foreign materials. In the UK, the ITV companies purchase programs centrally, and operate an elaborate allocation mechanism if several companies are interested in the same item. A tacit arrangement of non-competition exists between the ITV companies and the BBC. This arrangement broke down in one instance when an ITV company acquired the rights to a new season of the American soap opera "Dallas," a highly popular BBC offering. A confrontation and much debate ensued, eventually forcing the ITV company to retreat and leaving "Dallas" with the quality-conscious BBC for another season.

Domestic arrangements are buttressed by international purchase cartels preventing competitive bidding between countries and denying program suppliers the option to hold out and seek higher prices from at least some nations, especially where cross-border broadcasting could reach many viewers. Foremost among such organizations is the European Broadcasting Union (EBU).

From the beginning, the EBU established a common bargaining position toward copyright holders such as music publishers, denying them a competitive environment to negotiate in. EBU set several standard agreements, which were entered into by the associations of copyright holders.

The EBU is the sole negotiator on behalf of its member countries for the rights to international events, and controls program distribution between member organizations. If one sells to an EBU organization in one country, one must deal with EBU members in other countries. For example, the EBU purchased the rights for Olympic games for all of its members, assessing individual costs according to a certain formula. This allows them to restrict bidding for events and squeeze out potential buyers who seek rights for one country only, thereby limiting payments to the owner of the events. In contrast, the various US networks compete with each other for broadcast rights. This has led to payments that are extraordinarily higher than the ones paid by the EBU for all West European countries.

In 1975, the EBU threatened not to carry the Olympic Games rather than accept the rather modest \$18 million price asked by the Montreal Olympic Organizing Committee, which, along with Canadian tax payers had incurred billions of dollars of expenses to stage the event. After protracted negotiations, the EBU acquired the rights for approximately \$10 million. Thus, a 3-week event watched intently by much of EBU's 240

million TV-population was compensated at less than one cent per day per household, while Canadian taxpayers contributed huge subsidies. In 1984, the American TV rights to the Los Angeles Summer Olympic Games were acquired by ABC, after competition among the three major networks, for \$1.67 per household; the EBU, acquired the rights for \$0.17 per household without facing competitors (Crane, 1987). [Crane, Thomas Joseph, 1987, "The Future of Sports Broadcasting: An International Question," Seton Hall Legislative Journal, vol. 10: pp. 201-261.]

The EBU system is, in effect, a "beggar thy neighbor's cultural and event producers" system. It is a protectionist cartel in which the interests of the broadcast institutions in receiving programs cheaply dominate the goal of encouraging cultural production. Though each country's institution is trying to minimize its program acquisition cost, they collectively depress the market for program productions. Members may even end up paying more of their share toward the cost of domestically produced programs than they otherwise would under adequate international compensation mechanisms.

Sixth: the fear of media Americanization overlooks changes in the supply of American media programs themselves. It assumes a static trend in American production: low quality today, low quality tomorrow. Any potential for variation is overlooked by such spokesmen as the BBC's former

Director General, Alistair Milne, who claims that,

We at the BBC already know, from years of experience and buying only the best American entertainment programmes, what an immense amount of inferior programming is being offered. To imagine that it is possible to buy additional American programs and maintain a broadcasting standard we are used to, is not to live in the real world" (Milne, 1983: p. 84). [Milne, Alistair, 1983, "A View From the Brits: Westward No," Channels, vol. 3, no. 2 (July/August):84.)

Such a statement seems hard to accept, considering that the BBC has in recent years been showing series, such as The Dukes of Hazzard, which are notoriously low-brow even by the standards of American commercial television. The BBC's selection of some of the least intellectually demanding American shows, while ignoring more notable U.S. programming, is presumably based on the need for broad audience appeal to maintain rating shares comparable to its commercial rival, ITV.

Despite Milne's view, the American media are experiencing fundamental changes. In the past, the scarce resource of electromagnetic spectrum permitted only a tiny number of program channels, resulting in program content that attempted to serve the viewing interests of numerous groups. For the well-educated, sharing the airwaves with the less educated was generally an experience they loved to hate. In America, commercial television with its body-count economics is aimed at the peak of the bell-shaped statistical distribution, which is often--but mathematically erroneously --referred to as the "lowest common denominator." It strongly reflects

popular tastes.

Commercial broadcasting has not been bad in the sense of low creativity relative to its self-defined task. It is not necessarily "easier" to successfully create popular entertainment for a huge and fickle audience. Intellectually more ambitious dramas can have their own relentless cliches and formulas just as much as a situation comedy. What one has to understand is that the outputs of a medium are defined by its structure; change the structure and the outputs will also change. There is nothing inherent in private media that produce only low brow materials. Because they do not require an audience of 20 million households to be kept alive, as US network shows do, private book and magazine publishers and filmmakers have produced high-brow as well as low-brow products. But when there are only two or three channels, profit-and audience-maximizing broadcasters will aim their product at the peak of a Gaussian distribution of viewers. When the number of channels increases, economic logic dictates that broadcasters disperse across the distribution (Noam, 1987). [Noam, Eli, 1987, " A Public and Private Choice Model of Broadcasting" Public Choice 55: 163 - 187. Dordrecht: Martinus Nijhoff.] Some will specialize in programs for particular audience segments. This is what publishers and movie producers habitually do.

The proliferation of channels in America changes the medium's infrastructure, leading to increased production and

greater differentiation of the overall fare. Fragmented audiences demand higher quality shows (as well as lower quality shows), presenting foreign broadcasters with much more variety to choose from than in the past.

Seventh: another aspect of the argument of cheap American imports flooding the European television market is the assumption that American exporters do not take international program preferences into account, but view Europe as merely a dumping ground for Hollywood studios and New York networks. This, again, is flawed economics. Before making a substantial investment decision for a series, program producers calculate costs and compare them with expected revenue flows. The latter includes the probability of the series being ordered by a network and becoming an ongoing success, as well as the potential for subsequent syndication revenues in the United States and from abroad. In recent years, most series have not broken even financially in their network runs, becoming profitable only through their syndication. Thus, the anticipated purchase decisions of foreign broadcasters directly affect the nature of the programs offered by the American producers. A show which clearly has no appeal beyond the United States may not be produced, and therefore not offered to a US network. Therefore, a view of the BBC and other European broadcasters as mere passive recipients of the hand-me-down programming decisions of American producers who inflict them on the

international market as an after-thought, is seriously mistaken.

In deciding on the approach, script, casting, etc. of a film, a rational American producer will take the foreign market into account. Let us assume that there are three "content inputs" into a film, D(domestic), F(foreign), and U(universal), and that the world consists of two countries. Domestic and foreign inputs are those that touch and illuminate familiar experiences specific to their respective societies; universal ones touch upon both cultures. If only the domestic market is served, the producer will utilize inputs D and U up to the point where their marginal cost is equal to the expected marginal revenue they generate. Content input F is assumed to have a negative effect domestically, and will not be included. If the second country is now included, where the content input D has a negative audience effect, the producer will shift more toward universal inputs. Furthermore, there will now be inputs of F, as long as the value of the audiences gained in the second country is greater than the negative impact in the first country.

It could of course be argued that while this model of behavior is theoretically true, reality is quite a different matter. In particular, the argument goes, the US domestic market is so competitive that a program must be a super-achiever in it, or it would not be produced at all. Thus,



even potential success in foreign markets would not help the survival of a program that is not a top hit with American audiences. Hence, foreign audiences play no role in shaping them. This notion of a two-stage maximization is probably empirically true at present, but only because foreign TV markets are not yet profitable. Still, would an American network buy only the programs which maximized the domestic audience, without concern for follow-up foreign audiences, thus skewing the producers' choice of the mix of D, F, and U program inputs? There are two answers. First, if this is the case, it is a by-product of the rules against network syndication which are defended by the Hollywood producers. By preventing the networks from follow-up gain, they are unfortunately, more likely to choose programs without regard to the after-markets.

Second, program producers can offset network preferences by proper substitution of input and budget factors. Suppose that a producer sells an episode to a network for \$1 million, the network's expected advertising revenue after its own expenses and normal profit. This amount provides the cost ceiling for the episode's producer, assuming for the moment there is no follow-up syndication or after-market. For a \$1 million total budget, the cast will not include "name" stars, special effects will be minimal, etc. Suppose now that the foreign syndication would be introduced, and can be expected to yield another \$1 million. To serve the foreign audience,

the program input may have to shift relatively more toward U and F. While this mix will not be optimal for the network's domestic audience, the producers are likely to use the higher revenues to increase the overall production budget, making name stars, larger casts, and special effects affordable. In consequence, the program will be domestically more attractive than the previous one, and the network may well acquire it.

Many television executives deny that production costs affect their selection among programs; given the cost sunk into programs, this may be true. Still, the empirical fact remains that made-for-TV productions have noticeably lower budgets than theatrical films, and that theatrical films are presented as television program highlights. The mechanism at work is the producer's implicit realization of upper limits on network revenues, which creates also a ceiling on the expected payment from the network for a production.

It is also true that current foreign broadcast revenues are relatively small potatoes for Hollywood television producers. But when the revenues obtained abroad increase, as they invariably will in a more varied foreign multichannel environment, the impact of global feedback on US decisions will become even more important than before. Hence, the "Americanization" of foreign television environments would be accompanied by a "universalization" of Hollywood television programs.

Eighth: the "Iron Law" assumes that the American head start will prevent entertainment-oriented television programs from being produced in other countries. Actually, many non-American media empires emerged as soon as foreign media were liberalized: in Italy and France, Berlusconi; in Britain, Maxwell; in Australia, Britain and the US, Murdoch; in Brazil, Teleglobo; in Mexico, Televisa. All have extensive international activities that go far beyond the scope of American networks, and many are also active in production. In 1986, Berlusconi's subsidiaries accounted for 62% of all Italian film production, a far greater cause for concern than American imports.

Many of the problems of large-scale American program exports result less from American media offensives than the underdeveloped state of domestic independent production in importing countries, often beholden to the monopoly broadcast institutions which are its main clients and financiers. The weak state of media financing, and the absence of profitable foreign outlets for media products also contribute to the major imperfections of domestic markets. One could argue that some "infant industry" protection would improve this situation. But to confer the status of "infant" to the cultural industries of Germany, Italy, France, or Britain is to make a mockery of that term.

### The Paradox of Hollywood Advantage

The success of Hollywood studios is unusual insofar as they are, by a wide margin, the high-cost producers. Over the years, production costs have grown steadily for a variety of reasons. Labor unions have established high compensation schedules and restrictive work rules. Name actors have grown more expensive since stars are usually necessary for a film's visibility, and talent with international recognition and appeal is scarce. The essence of a star, after all, is rarity, and rarity commands monopoly rents. In the days of the old studio systems, actors had long-term contracts with the companies; as a result, a studio reaped the benefit of early investment into an actor's reputation as it controlled subsequent compensation. Under the current system of unrelated deals, the actor is the primary beneficiary of early investments in his reputation, and this is one source of increased production cost. Another factor is the escalation of the public's expectations: sensational special effects in a new film set a standard which future audiences will want to see matched, or surpassed. Yesterday's standard may not be acceptable today, leading to ever-increasing costs. Despite occasional breaks in this escalation when some elements become too expensive (e.g. animation, or mass battle scenes), aggregate production costs generally increase with the number of highly specialized skills in production and distribution.

Hollywood's high-cost environment is partly offset by its advantage of economies of concentration, which are related to, but distinct from, economies of scale. These economies arise not from a single firm's size, but from an entire industry operating in close proximity. As with automobiles in Detroit, financial in New York, microelectronics in Silicon Valley, silk in Lyon cutlery in Sheffield and Solingen, and film production in Hollywood; these instances of clusters and related economic activity offer great advantages. There are many examples of clustering are not especially dictated by the specific location of raw materials; instead they make possible highly specialized firms providing special services, shorten communications flows, and provide efficient labor markets. Clusters may be the industrial form of the future, combining the control efficiency of small firms with the economies of scale of providers of specialized inputs.

Another question is whether the large size of the American domestic market permits production budgets larger than those of other countries, thus creating products of greater appeal. Market size per se cannot be the issue, or else the numerous Indian films would be more successful internationally. Even factoring in wealth, the US market does not give the obvious advantage one might initially ascribe to it. The total US audience is far more fragmented among the much larger number of films created in the US than in Western European

countries. According to the Motion Picture Association of America's 1987 Economic Review, there were 497 films produced in the U.S. compared with some 200 in the more densely populated and heterogenous European community. Consequently, the attention given to any US film is very short-lived. The domestic market may be larger only in a hypothetical sense; in reality, it is more crowded than that of most other countries. Should Hollywood producers necessarily have more money at their disposal, when Western Europe is such a rich region? Although it is linguistically diverse, each of its three major languages are spoken or understood by about or more than 100 million, and millions more overseas. If European film budgets are lower than in the US, it may reflect the caution in its financial market's financing risky ventures, a problem that has similarly plagued European high technology development.

Furthermore, the American market is also accessible to foreign producers. It is again the two-stage thinking -- that a film must first make money domestically, with exports only an added windfall -- which leads one to consider the size of the domestic market as determinative of production decisions. With this kind of thinking, nobody would produce watches in Switzerland or grow Kiwi fruits in New Zealand. Ultimately, the problem is again a reflection of a country's infrastructure of financial risk taking, i.e., in this sector, whether a film would be financed which requires large

exports to become profitable.

If the American firms are the high-cost producers and many non-American programs are offered in the world market, what explains the global success of American products? Though it is not within the scope of this chapter to answer this question, some reasons may be suggested.

1. Hollywood programs are squarely aimed at the broad middle peak of distribution of tastes, rather than to satisfy upper culture tastes. It is thus "popular" in the way that "public" television often is not, and this seems to be appealing to the broad audience majorities of other societies, too.

2. America is a country of significant ethnic and cultural diversity; thus, a program that proves popular across its population tends to have many universal themes that appeal elsewhere.

3. By force of its economic, political, scientific and cultural influence, American themes have reached a global audience, making its own issues universal. This is not simply the might of America that puts its images forward. For nearly a century, the most popular books in Germany have been the 80-plus volumes of the Karl May series, whose adventures take place on the American frontier. These books

were written, well before the American political ascendancy, by an author who had never travelled across the ocean. Such a fascination with American themes is not the offspring of American power but more likely its sibling: both are derived from the rapid American development from untamed wilderness to riches, and to a new society. "Amerika, du hast es besser," (America, you've got it better) wrote Goethe. Even if one did immigrate to it. One of America's functions was to serve as an ink blot for people around the world to ascribe to it solutions to their own problems. From there, it was only a small step to America the Dream Factory.

4. American film production has been at the technical forefront almost from its origins, creating entertainment on a highly professional level. Any visitor to DisneyWorld must marvel at the ingenuity with which technology and imagination are harnessed into creating a leisure-time experience. Entertainment is one of America's best outputs, just as food may be France's. American business has moved entertainment production from individualized, small-time operations to a mass-production with tremendous technical sophistication.

5. Film and television are part of the broader US service economy. Throughout the developed world, manufacturing-based economies are shifting toward a service base, and this trend is most advanced in the United States. Hence, the leadership



of the American film production industry is no more surprising than that of the American computer software production industry. As its manufacturing loses its primacy to Pacific Basin countries, the US economy relies on such services for its present comparative advantage. From the American perspective, this makes restrictions against its own media products especially unfair: while flooded by foreign manufacturing products, its own export strength in information is stymied on grounds of cultural domination.

There are, of course, also organizational reasons for the global penetration of US films, most notably the distribution networks of Hollywood producers, providing them with superior access to theaters worldwide. There is no intention here to defend practices of Hollywood firms which for decades were the target of U.S. antitrust law suits. The acrimony of Hollywood distributors' relationship with theatrical exhibitors was legendary, but their market power can be dealt with by other countries' own laws and regulations on unfair business practices.

Despite all the war stories, one should not overestimate the power of a well organized distribution system. Like other forms of vertical integration, discrimination in favor of one's own product is sensible so long as that product is not inferior. It would rarely make sense for a distribution organization to push unpopular films of its own production into theaters and reject other producer's blockbusters.

Ultimately, the market power of US distributors depends on their access to US programs, and not vice-versa.

### National Culture

The question of "Americanization" of media is a subtopic of the issue of "national culture," which is one of the ultimate sacred cows. This term needs to be discussed in order to understand why free flow of programs is controversial.

To begin with, using the nation as a cultural unit is to some extent arbitrary. If cultural disaggregation is a central value, why not carry its logic on to units smaller than nations, such as regions and cities? Conversely, there are instances in which cultural cohesion may be stronger across borders than within a country. This can frequently occur within language groups such as the Poles, separated by boundaries for a long time.

Ethnic groups and their cultures can thus be divided into categories that are not based upon geography or language (Morgan, 1985). [Morgan, Janet, 1985, "The Flood of Information -- the Age of Cultural Conflicts," in Medientrends, Hamburg: Intermedia Congress.] Class is an important dimension, as in "proletarian culture", and age another, as in "youth culture."

High culture in Europe was initially that of the highly internationalized nobility, who had more in common culturally

with each other than with their respective subjects. During one period they spoke French; at another time clergy and scholars spoke Latin. The strong value of national culture was largely the creation of the 19th-century nation-state, part and parcel of the aggressive nationalism for which Europe eventually paid so dearly. Differences among national cultures were drawn out to absurd lengths in that era. In Germany, for instance, there was a major conflict between adherents of "sports," viewed as an alien import from England and "gymnastics" (Turnen) which was seen as genuinely German, largely because its exercises were developed during the Prussian War of liberation from Napoleon. Two separate and hostile associations existed, with the Kaiser's sympathy strongly in favor of the German form of exercises. Today, such controversies seem almost charmingly parochial. How many German citizens know that their indigenous culture is being eroded by attendance of a soccer game rather than of a gymnastics event? How many care?

Linking culture and the nation-state brought the concept of national culture was a concept close to the heart of governments. Cultural creation and distribution were typically centered in the national capital rather than the provinces or periphery. Although a certain clustering of cultural activities creates economies of scale, this is not the whole story. From the dawn of civilization, governments glorified their rule through cultural productions, and hence,

culture tended to flow from the center outward. Artists, for example, flocked to the place where subsidies and buyers of their services were most plentiful. To a government, influencing cultural activities was crucial as its producers were among the most articulate, well-educated, and vocal groups in society. Not only is the pen mightier than the sword, it is also much cheaper. Artists of national culture could be used to articulate the state's agenda, such as promoting the reduction of divisions among classes and regions, yearning for lost territories, a political spiritualism, an adventuresome and imperialistic internationalism, etc. Those artists who opposed the then current political dogma were ostracized as outside the national culture, and when their politics ceased to be a threat, they were eulogized as national heroes for their uncompromising creativity.

Underlying the question of national culture is the difficulty of enforcing group loyalty to societal norms and state control. Loyalty is easier to expect in small group situations such as a family or a platoon. As the group grows, the incentive for free-riding becomes larger as the ratio of contribution to direct benefit decreases. The possibility of divergence and coalitions increases, and subsequently, centrifugal forces arise. Stressing national culture is one way to establish a cohesive force, an important factor for large and heterogenous states with

strong centrifugal forces of smaller sub-cultures. Television plays a central role as an ideal vehicle for this patriotic culture. Initially, the nation was its unit of reach and of control. But the new generation of video transmission technology has undermined the concept of a national electronic hearth. Some of the new media are highly individualistic (video cassettes); others are decidedly local (cable television and low power TV); still others are trans-national (satellites). Each one fragments the national audience into more specialized groups, just as magazine publishers reach different sub-groups. Hence, television becomes transformed from the medium of national culture to that of sub-cultures, and from a cohesive force to a differentiating one.

These observations are not made to deny that cultural activities and traditions vary from country to country, or that they are worthy of protection; for that would be absurd. Rather they aim to instill a healthy skepticism for eager invocations of the concept of "national culture" and "cultural identity" by governments and representatives of established and powerful institutions arguing for restrictions on media outlets. Cultural politics are real politics, and cultural dominance is real dominance. Notions of protecting national culture are not necessarily benign, but may instead mask a form of information protectionism that serves entrenched interests just as much as it purports to

help the general population.

In the field of television, these protected groups are the state and the political parties (both governmental and opposition) controlling the programming policy, personnel hiring, and budget allocation of most existing public broadcast institutions. A third influential group are newspaper publishers, particularly medium- and small-sized operations fearing the loss of advertising revenues to commercial television. A fourth group are insider cultural influentials and journalism unionists, who have achieved links of patronage to the broadcast institutions employing or supporting many thousands of them, often under civil service-like conditions of employment and income security. While their employment potential would be greater in a larger media landscape, it would also be less secure and comfortable, particularly at the upper levels where political connections are vital. A program of liberalization would mostly help outsiders, a group which tends to be unorganized.

The political left is also protective, favoring the system of public broadcasting as part of a general preference for public ownership of social infrastructure, as well as for its potential for offering more sympathetic coverage than the privately owned press, and due to its greater concern with educational and cultural values.

One would therefore expect that the political right would advocate media liberalization for symmetrical reasons. It

is, however, split, because one of its major constituencies are traditionalists, critical of the values of consumption and entertainment which private television promotes.

The noted American sociologist Herbert Gans describes cultural audiences as stratified into groupings of high, upper- middle, middle, and low culture. Adherents of high culture are typically those at the leading edge of cultural creation itself. Upper-middle cultural adherents are the main consumers of culture, the opera and museum attendees and supporters of the arts including US public television. In most countries, they are the culturally dominant group. Middle culture, on the other hand, is that of the best-seller novels and commercial television, representing the broad majority of tastes in industrialized countries. Lower culture is that of supermarket magazines and melodrama. Despite commercial television's alleged tendency to seek the lowest common denominator, it actually serves the low culture grouping poorly, some day-time programming come close. Instead, it serves broad majority of population which peaks in the middle culture range.

The different taste publics -- corresponding roughly to social classes -- are antagonistic toward each other's preferences; lower ones are viewed as vulgar, while higher ones are seen as snobbish. Producing a popular series is no "easier" than creating a high culture program. The quality question is one of optimal production once a target audience

has been chosen; identifying quality simply by the program preferences of higher culture tastes is elitist. Control over television means control over which preferences will be fulfilled, making that control also a distributional issue of whose consumption desires are served.

The political groups in support of the present distributional allocation of television are a formidable array of forces. Moreover, they fight for a cause of undeniable merit, public broadcasting -- and are opposed by forces of often dubious standing, including entertainment entrepreneurs, publishers with imperial ambitions, Hollywood promoters, and assorted right-wingers. There are few people without an axe to grind advocating the extension of freedom of speech to electronic media purely on grounds of principle.

Despite this formidable array of support groups, the traditional monopoly system is breaking up as electronic media are gradually liberalized by the entry of alternative, private distribution outlets. The process of transition is a bitter and highly polemical one. The integrity of proponents on the various sides is routinely discredited, as if the underlying two principles which must be balanced -- information as a public service, and the right of free expression -- are not both reasonable societal goals, regardless of the selfishness of their advocates and beneficiaries.



## The Economic Forces of Integration

The earlier critique of the economic analysis of television's Americanization does not deny that strong economic forces of internationalism are at work. These forces, however, are not especially American. Perhaps the most important long-term economic force affecting media is that of integration in information production. Publishing, film production, television, and computer applications are overlapping and merging to form the information industry.

Integration means that alternative pathways for the delivery of information are not as neatly segregated from one another as in the past. This inevitably leads to "territorial" disputes among the various interests allied with one form of delivery or another. This, however, is not simply a dispute between the public and private sector. In America, private broadcasters opposed private cable television. In Australia, the public ABC and the private broadcasters were united in their dislike of satellite broadcasting, public or private. In Germany, the public ARD institutions opposed the public ZDF. Rather than analyzing new media issues as private versus public, a more accurate model posits newcomers versus an establishment which does not wish to share its favored position vis-a-vis audience, producers, and advertisers.

In addition to technologically interchangeable delivery channels, a key economic element promoting integration is the

importance of controlling and coordinating the sequential release of a media "product" among the different nations and forms of distribution. The underlying principle is the attempt to price-discriminate between classes of viewers of different demand elastically (Waterman, 1985). [Waterman, David, 1985, in Eli Noam, ed., Video Media Competition, New York: Columbia University Press.] The ability to price-discriminate is crucial, since many viewers receive what economists call a "consumer's surplus," having to pay less than they would be willing to. One example are the Olympic Games, for which many viewers would be willing to pay substantial sums if they had to. The significance of new media are that they permit a refinement of price discrimination that reduces this consumer surplus -- estimated in 1973 as \$20 billion in the US (Noll, Peck, and McGowan, 1973) [Noll, Roger G., Merton J. Peck, and John J. McGowan, 1973, Economic Aspects of Television Regulation, Washington: Brookings Institution.]--by setting up a cascading chain of distribution down to high elasticity audiences.

Reducing this consumer surplus contributes to inequality, creating costly versions of formerly free products. A historical perspective is necessary to understand that the present consumer surplus is temporary rather than typical for the past, and attributable to the peculiarity of conventional TV as a highly efficient distribution channel but a terrible

collection mechanism for program providers. Television as an entertainment provider, in contrast to most other forms of entertainment, had become a public good, e.g., there was no charge for usage. In contrast, few people attend movies, major sporting events, or arts performances for free. The share of income devoted to movies fell considerably, from 8.7% in 1948 to 2.2% in 1972, suggesting that viewers, if forced to, would be willing to pay at least as much today for television, and probably more, given increased leisure time, higher income, greater convenience of home media, and more viewing choices.

Strong economic incentives exist for a producer of a program to realize these opportunities by directly or indirectly controlling the stages of its distribution, domestic and international, thereby establishing the most profitable sequence of releases. Such incentives are not particular to private firms; without an unlimited budget public broadcasters have similar motivations.

A related economic factor favoring media integration revolves around the externalities from one stage of distribution to the next. Advertising and promotion for the book stage, for example, benefits subsequent cable and broadcasting distribution. The interests of media firms lie in representation through every phase of distribution, from books and motion picture to cable and broadcasting. This need leads to the huge, diverse, multi-media firms such as

Time, Inc. in America, Bertelsmann in Germany, Murdoch (News Limited) in Australia, Maxwell in Britain and the US, Havas in France, and Berlusconi in Italy. The challenge to public policy is not to prevent these giants from acquiring privileged status in their home territory, but encourage vigorous diversity through a lowering of internal barriers. Arguably, the worst of all television systems is one of privileged commercial operators.

### Conclusion

What are the implications of this growing coordination of distribution modes on media productions? First, as discussed, consumers end up paying more than in the recent past, entailing numerous income-distributional issues.

On the positive side, it encourages the production and supply of a larger number of TV programs, books, plays, and films. While some works that would not have been created at all are now being produced, not all media programs benefit equally. The system favors product that can be distributed through multiple stages, such as popular fiction, aiding the large integrated firms that can shepherd such works through each phase. This incentive structure extends not only into film and television production, but also into book publishing and theatre, as production decisions become dependent upon further distribution stages. Similarly, these incentives render productions specific to a national culture less

attractive than works of global appeal allowing for international distribution.

Moreover, this system implies that protectionism will not work in free societies to preserve a domestically-based cultural industry. Given advancing technology, information products will cross national boundaries with ever greater ease. The era when the totality of television was a tiny number of outlets, limited and controlled by the state, will prove a brief historical episode about which future generations may well shake their heads in wonder.

Where, then, are media headed? The resultant media mix will not be American, but rather will derive from a variety of large and integrated international media companies centered in several countries, in addition to numerous small producers, often arranged in clusters. If this structure does not result in enough productions of a particular domestic cultural type, the alternative is to subsidization. Oxford University Press cannot protect its circulation by preventing the publication or importation of popular books by others. Its survival is based on quality of its output, supported by subsidies, and not on restrictions of others. For book or theatre productions, many such subsidy mechanisms exist (to authors, authors' employees, publishers, libraries, theatres, actors, etc.). Current television productions are subsidized through the television set license fee mechanism, channelled through the public broadcasting institutions.

Such a mechanism can certainly be maintained in a liberalized television environment, and further supplemented by other sources of financing and additional destinations of subsidies.

Opening one's borders to foreign cultural products need not cause one's own to disappear. The presence of Tolstoy, Dickens and Balzac did not spell the end of German or Mexican literature. British, American, or Japanese cultures are not undermined by an enjoyment of music by Bach, Beethoven, or Mozart. Today, Latin American literature is among the world's most admired, despite (or perhaps because of) the proximity to the USA.

Ultimately, the popularity of Hollywood glitter does not negate the popularity of domestic productions. Familiar program inputs and the treatment issues close to home enhance the attractiveness of domestic programming. Audiences are not passive recipients of information and program inputs, but select, interpret, and process content selectively in light of their own values and priorities.

Thus, the "iron law of media Americanization," according to which television liberalization leaves foreign countries to be flooded by American programs is seriously flawed in its economic analysis, at least where developed countries are concerned. There are important groups in society fearful of losing their hold over the national culture, as mirrored by television programming. More likely than an Americanization

is a development of increasing cultural homogenization in which program flow move in various directions, while its content becomes more universal for economic reasons. These trends are reinforced by the emergence of integrated media firms controlling many stages of distribution across media and countries. But there is no evidence -- theoretical or empirical -- that these firms will be predominantly American.