WOULD WE CREATE
a CBC if none existed?

BY Colin Hoskins, Stuart McFadyen and Adam Finn

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EXAMINATION OF THE CBC TYPICALLY BEGINS WITH THE EXISTING ROLE AND STRUCTURE OF THE CBC AND CONSIDERS HOW THIS SHOULD BE CHANGED. OUR APPROACH IN THIS PAPER IS MORE RADICAL. WE ASK WHETHER WE WOULD WISH TO INVENT A CBC IF NONE EXISTED. IF INTRODUCED, WHAT WOULD THE PUBLIC BROADCASTER LOOK LIKE? HOW WOULD IT COMPARE TO CBC'S CURRENT OPERATIONS AND WHAT WOULD BE ITS FOCUS? OUR EXAMINATION OF THESE QUESTIONS WILL CONCENTRATE ON CBC ENGLISH TELEVISION.

Before answering these questions we provide background by examining what economists understand by the term "externalities". An *externality* is a benefit or cost arising from an economic transaction that falls on a third party. In terms of television programming, externalities can be thought of as side effects, good in the case of benefits or bad in the case of costs, of viewing. It is commonly believed that people are influenced, for good or for bad, by what they watch on television. This is an external benefit or cost because it is not enjoyed or borne by the parties to the economic transaction, namely the program producer, distributor, broadcaster, and advertisers or, for pay-TV, the viewer. Hence, for example, the parties to a transaction involving a violent show will ignore any ill-effects of that violence on society. A competitive broadcasting market will provide too many violent shows.

But programs also have the capacity to provide external benefits. For example, news, current affairs, and documentary programming may promote a better-informed public. Some domestic drama may reinforce a sense of national identity and awareness of Canadian themes and values. Some children's programming may be educational in a broad sense.

Market failure exists if insufficient programs with external benefits are exhibited.

WOULD THERE BE MARKET FAILURE WITHOUT A CBC?

The key to whether we would wish to create a CBC is whether there would be market failure in its absence. Would the programming mix be deficient?

The easiest approach to answering this question is to look at the programming that is being offered by CBC now and imagine the programming mix without CBC. While considering what programming would be lost if CBC were shut down we must bear in mind that in some areas, after an adjustment period, the private sector could be expected to expand and partially or wholly fill the void.

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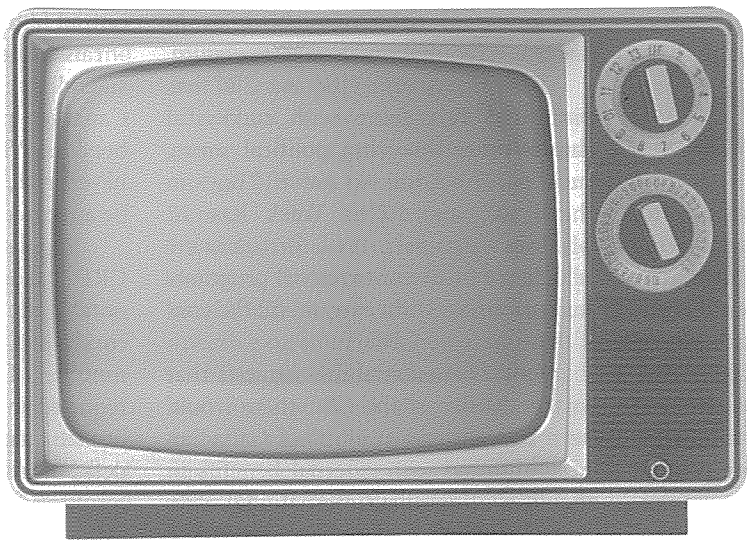
CBC shows a much higher percentage of Canadian programming than private broadcasters. CBC English Television is 81% Canadian on an all day basis, and 91% during prime time. In contrast, the Canadian content of private broadcasters is around the 50% level required by the CRTC. Global's 2000-2001 schedule was comprised entirely of US shows during the 8:00 p.m. – 10:00 p.m. peak period. It is thus safe to assume there would be less Canadian programming in the Canadian broadcasting system without CBC. As it is largely Canadian programming that has the potential to provide positive externalities, this is of concern. But where would the reductions take place? To consider this we examine the different genres of Canadian programming. The approximate number of hours per week (Fall 1998) that the CBC devotes to each genre is given, in parentheses after the sub-heading, to indicate the importance of the genre in CBC's schedule.



Sports (15 hours) The Mandate Review Committee (1996, p. 67) complained that sports programming comprised 25% of CBC's prime-time schedule and 37% of its prime-time audience. Much of this program is professional sports and during the National Hockey League play-offs CBC becomes almost another sports channel. It can be argued that hockey provides external benefits as it is an interest shared by many Canadians. However, there would be little if any diminution in the amount of hockey and other professional sports available on television if the CBC were to shut-down. This programming attracts large audiences and the private sector would find it profitable to pick up properties dropped by the CBC.

National/international news and current affairs (37 hours) This has been an area of strength for the CBC and most would consider it the most authoritative television news service in the country. It has more reporters and foreign bureaus than the private networks and consequently relies less on feed from foreign (mainly US) broadcasters than Canadian broadcasters. It thus provides a greater Canadian perspective on international news. Its selection of news

items tends to be more informational and less sensational. It is difficult to imagine the private networks expanding their coverage to fill the void if there were no CBC.

Local News (7 hours) Television news is the most popular source of news in Canada (Gallup Poll, February 13, 1997) but the CBC's audience share for local news is down from 28% at beginning of 1990s to 13% now. In many major markets, such as Toronto, Vancouver, Calgary and Edmonton, the CBC trails its private competitors badly. Losing CBC local TV news would hardly be noticed in major centres.

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Children's (27 hours) CBC's children's programming has scarcely been exemplary and the Mandate Review Committee (1996, p. 71) complained that CBC has subtly reduced its emphasis on children's programming and replaced some after-school children's programming with old US series. Nevertheless it does offer some broadly educational children's programming, including drama like "Anne of Green Gables", and the private sector could not be expected to expand in this area in the absence of CBC.

Drama (20 hours) While, in terms of a comparison with some other public service broadcasters such as the BBC, CBC does not exhibit much Canadian drama, it nevertheless out-performs the private broadcasters in this area. From the perspective of a private broadcaster, Canadian drama is the least attractive genre of programming as the licence fee that has to be paid is far in excess of the advertising revenue generated. If there were no CBC, no compensating increase in Canadian drama from the private broadcasters could be expected.

Documentary (5 hours) An increasing number of documentaries are now appearing on specialty channels like Discovery Channel, History Channel, The Learning Channel, Vision and The Women's Network. But the small audiences for specialty channels can only support low licence fee programs, not high budget distinctively-Canadian documentaries. During the 2000-2001 season CBC aired "A People's History", a thirty-hour, $25 million production that achieved good ratings. If there were no CBC it would be high budget programs like this directed at the Canadian market that would be lost. Also, private broadcasters, more than PSBs, generally steer away from documentaries on controversial topics in order not to antagonize advertisers.

Comedy/variety (7 hours) CBC has pioneered this genre with successful shows, often involving political satire, such as "The Royal Air Farce", "Boys in the Hall", and "This Week has 22 Minutes". Again, private broadcasters reluctance to air controversial programs makes it unlikely they would fill the void if there were no CBC.

Our discussion above suggests that in the absence of the CBC there would be a sub-optimal amount of Canadian programming with external benefits in the areas of national/international news and current affairs, broadly educational children's programming, drama, big budget or controversial documentaries, and comedy/variety.

It is more cost effective to produce a one-hour television program for a national audience than the set of programs needed to fill one hour for local or regional audiences.

But would there be alternative ways of correcting for this market failure? Two approaches, which are already used and could be expanded, are subsidies to program production and regulation.

Subsidies for independent productions resulting in external benefits are suitable for programming like drama, children's programming, or documentaries that are undertaken on a project basis. (The project being a one-off program or a series of a specified number of episodes, where the project can be assessed on the basis of the treatment and scripts before shooting begins.) However, this approach is not suitable for news programming which is immediate and continuing and where program content cannot be assessed in advance. In addition, there are administrative difficulties inherent in a subsidy program as illustrated by the allegations against Cinar. More fundamentally, directing subsidies to projects on the basis of a points system for Canadian inputs rather than on the basis of the output – the nature of the program itself – raises the question of what is being subsidized: inputs or distinctively Canadian programs delivering external benefits. While we believe such subsidies have a role, we do not consider they can be a replacement for a CBC.

Regulation of broadcasting by the CRTC takes several forms. Perhaps most notable are Canadian content rules and conditions, such as a stipulation of the number of hours of Canadian drama required in a season, set out at time of licence renewal. For regulation to fill the deficiencies in the programming mix resulting from the absence of a CBC, it would have to be able to force private broadcasters to show programming (or more programming) that provides external benefits. With the new delivery systems (DBS and the Internet as well as cable), broadcasting and narrowcasting is becoming increasingly competitive and profit margins are decreasing. The old trade-off, show more (loss-making) programs that we (the CRTC) would like and we will protect you from new competition, is losing credibility. A system of regulation focused on the level of Canadian-based inputs is ill suited to inducing private broadcasters to provide programming with external benefits. For example, a condition of say thirteen hours of Canadian drama could be met

by a police series that meets the input requirement necessary to qualify as Canadian but where the output (the program itself) is made to appear as American as possible in order to boost chances of a sale to a US network. Far from being a substitute for a CBC, regulation will become less and less effective in an Internet era where the CRTC cannot control distribution. This then becomes an argument that public broadcasting will be needed more than ever.

WOULD THERE BE GOVERNMENT FAILURE IF A CBC WERE CREATED?

In a world of scarcity, creating a CBC can be justified only if the benefits exceed the costs. Thus the mere fact that the programming mix would be deficient without a CBC is not a sufficient condition for saying one should be created. Benefits are easy to exaggerate and

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difficult to measure, although attempts are being made to estimate the value of the CBC using contingent valuation and choice experiment survey approaches (Finn, McFadyen, and Hoskins, 2000.). If a CBC were created where the costs of intervention are greater than the benefits, then we have "government failure" – the resources used are greater than those wasted through uncorrected market failure. Government failure may occur because it is too costly to set up and operate a CBC and/or the intervention itself may be imperfect and do little to correct the market failure.

There is one program type where we feel safe, on cost grounds, in arguing that the benefits are less than the costs. This program type is local news for a local/regional audience. It is more cost effective to produce a one-hour television program for a national audience than the set of programs needed to fill one hour for local or regional audiences.

IF A CBC WERE TO BE CREATED NOW, HOW WOULD IT LOOK?

What would its mandate be?

The CBC would be given a mandate to exhibit, on a national basis, distinctive programming consistent with provision of external benefits. This programming would complement that provided by the private sector. The mandate would not require that CBC be all things to all people.

What programming would it exhibit?

It would provide distinctive national/international news and current affairs, drama, children's, variety/comedy, and documentaries. This programming would be Canadian in nature, not just in terms of production inputs.

The CBC would produce its own news and current affairs programming. Bureaus would be established across the country supplying local/regional stories for national delivery. Foreign bureaus would be established to provide a Canadian perspective on international news.

Drama, children's, variety/comedy and documentaries, providing external benefits would be commissioned from independent producers located throughout the country. It would be particularly important to provide controversial, big-budget, or very Canadian-specific programming not attractive to private broadcasters or specialty channels.

How would CBC signals be delivered to households?

If a CBC were created in the year 2002 it would not build a 1950s style over-the-air transmission structure. Delivery would be by satellite-to-cable, DBS, and via the Internet. Of the 10.9 million Canadian households in Canada, cable is available to 10.6 million Canadian households (over 97%) of which about 75% actually subscribe to, at the least, the basic tier (Statistics Canada, 2000). Add in subscribers to ExpressVu and Star Choice and about 90% receive CBC via cable or satellite. If cable or DBS subscription becomes necessary to view CBC, current non-subscribers who value CBC can be expected to begin subscribing to one of these services. There is no reason why free access to CBC signals is a right; as it is, households have to purchase a television receiver to view CBC.

How would CBC be funded?

The CBC would be commercial free. A partial reliance on advertising revenue inevitably results in some programming decisions reflecting commercial imperatives rather than public service goals. It is thus no surprise that McKinsey & Company (1999, p. 29), in a survey of twenty public service broadcasters, found that the higher the proportion of ad funding, the less distinctive the programming.

CONCLUSION

Given competing claims on government funds, particularly for healthcare, we suspect a demand for funding to create a CBC (if none currently existed) would have difficulty being heard. A good argument can be made, however, that the contribution a radically different CBC could make is becoming increasingly important in a digital environment where regulation is fast becoming ineffective, if not impossible.

Colin Hoskins is a Professor Emeritus of the School of Business at the University of Alberta. He currently lives in Victoria where he operates EconoMedia Consulting.

Stuart McFadyen is Director of the Cultural Industries Research Centre and Professor of Business Economics in the School of Business at the University of Alberta.

Adam Finn is R.K. Banister Professor of Marketing at the School of Business at the University of Alberta.