BOOK REVIEW

S. McFadyen, C. Hoskins and D. Gillen, Canadian Broadcasting: Market Structure and Economic Performance, (Montreal, Institute for Research on Public Policy, 1980), xxviii + 277

This study was funded by the federal department of Communications and published by the Institute for Research on Public Policy. Two of the authors teach in the Faculty of Business Administration and one in the Department of Economics at the University of Alberta. The study uses an industrial organization framework which examines market structure, market performance and the relationship between these two sets of variables. Numerous policy questions are raised in the study as a result of statistical analyses including econometric calculations. In many ways the study is a pioneering one for Canada, not because there is an absence of material on broadcasting and the media, but because this type of fairly detailed industrial organization study has not been previously undertaken in Canada.

The purpose of the study is to answer the following questions using data for 1975:

(a) What are the ownership patterns at the local and national levels inthe television, radio and cable-television industries?

(b) What are the effects of ownership and cross-ownership on the conduct of firms in areas such as pricing and programming?

(c) What effects do the ownership patterns have on various performance measures such as profitability, audience size, and program choice and diversity?

In order to address these questions, the broadcasting industry is defined in terms of geography and markets. The authors contend that the appropriate geographic definition is not national but local. The relevant market is the "signal shed" or the area, usually an urban one, in which viewers or listeners may substitute one signal for another. Concentration is then measured, using the Herfindahl index, for 14 television markets and 16 radio markets in Canada: these markets correspond to 'signal sheds' such as Toronto, Montreal, Winnipeg, Vancouver, etc.

Television is viewed as a different market to radio, while cable television is included in the television market

because cable brings competing signals into an area. The ownership characteristics of the broadcasters are introduced as explanatory variables for the rates charged for radio and television commercials and for the profits earned by the broadcasting enterprises.

The study emphasises the critical factor which distinguishes the broadcasting industry from most other industries. Commercial broadcasters compete both for audiences and for advertising revenues. Programs are produced and broadcast in order to reach audiences, but because it is very difficult to make audiences pay for programs, except in the case of pay television, the audiences are sold to advertisers who sponsor programs by mixing their advertising messages with the program content. This method of financing programs means that program content is produced with the advertiser's interests in mind. The impact on program content in terms of balance, diversity and choice is the subject of one chapter. The CBC's programming which is financed 20% by advertising and 80% by government funding is contrasted with commercially financed programming.

There are numerous interesting findings which are of importance to students of industrial organization and especially to those concerned with competition and regulatory policies:

1. As concentration increases, so the rates for television and radio commercials increase, and profits are higher for stations in more concentrated markets.

2. Corporations which own television stations are extremely profitable enterprises. Their average rate of return in 1975 was 32%, and the largest ones earned 40%, well in excess of firms in most other industries. The most profitable firms are those which own more than one television station: these firms had an average return of 45%.

3. Corporate rates of return for radio station ownership are lower than for television, 19% versus 32%. The interesting finding here is that radio-newspaper cross-ownership has a substantially higher rate of return at 28%.

4. AM and FM radio stations owned by corporations which also own newspapers charge significantly higher prices for commercial air time.

5. Increased station budgets for entertainment programming increase profits while increased budgets for news programming reduce profits.

6. The programs which attract most viewers are crime dramas or situation comedies imported from the U.S.

7. Increased Canadian programming is especially unprofitable for television broadcasters, because of the expense of these programs relative to the purchase of U.S. programs. A Canadian network in 1974-75 could import a U.S. program for about $2000 per half hour episode, which cost the U.S. producer $125,000 to make. It cost a Canadian firm $30,000 to produce a similar half hour episode. The advertising rate structure reflects the audience attraction of a $30,000 and $125,000 program. The result is lower revenues and higher costs for the Canadian program, such that a station's margin (revenue-cost) for a Canadian program was $55 per half hour, and for a U.S. program $21,000 per half hour.

The selection of these seven findings does not do full justice to the contents of this study, but it does indicate that the study contains data of importance for policy makers concerned with competition and broadcast regulations regarding entry (licences), content (programming), profits, concentration, and cross media ownership. These data will undoubtedly be used in future regulatory hearings, and for that reason should be of concern also to television and radio broadcasters and cable companies.

These findings should not however be viewed as the final word on the policy issues, because there are limitations to the analysis and to the data which require further evaluation.

1. The data on profitability is based on one year only, 1975, with a suggestion, but no proof, that these profit levels were obtained in other years.

2. The analysis of profits and risk is backward looking. The future is bringing increasing competition for audiences by way of satellite transmission, which will affect profitability because these signals will further fragment audiences, and may carry advertising messages. The definition of the market in terms of substitutes for consumers (viewers and listeners) is changing and with it the level of concentration will change. Much has probably happened since 1975.

3. The significance of overflow advertising in its present and future forms is not analysed. The existence of North American brand names diverts advertising revenues away from Canadian broadcasters despite Bill C-58. This affects competition for

revenues and concentration by altering the definition of the market.

4. Print and broadcast media are merging. The Wall Street Journal and the Globe and Mail are partly electronic newspapers now, and could be completely if they were available on a screen as opposed to hard copy. The significance of this development needs to be incorporated into the analysis of competition.

These comments are aimed at suggesting where future research should be undertaken to build on this pioneering study. The study contains useful findings but not the final word. The technology of communications and the ownership characteristics of firms are changing so quickly, that any study in this area rapidly becomes dated. Policy considerations have to be based on the present and the future not on the past. My congratulations to the authors for their study.

C.J. Maule, Carleton University

BOOKS RECEIVED

Competitive Procedures For Broadcasting - Renewal and Transfers, by Robert E. Babe and Philip Slayton. Study prepared for Department of Communications, Ottawa, 1980. The authors contend that the means employed by the C.R.T.C. to maintain broadcasting standards have not been successful. Those means are Canadian content requirements and promises of performance. They say content requirements have been met by presenting Canadian programming of low quality at off-peak hours, and that promises of performance have not been fulfilled. Moreover, licenses tend to be renewed despite poor performance. With regard to license transfers, the C.R.T.C. considers only the party brought forth by the seller, whose interest is to sell at the highest price, and the cost of the license erodes the buyer's capacity to meet quality goals. The authors recommend competitive bidding both for renewals and transfers.