

## Lecture on Public Policy Mechanisms

- Why is the article (“Refocusing the CBC” or ‘If there wasn’t a CBC, would we create one’) relevant to a discussion of public policy?
  - CBC is a mechanism to achieve public policy goals.
  - Other public policy mechanisms are production incentives (e.g. CTF, tax credits), legislation/regulation (e.g. canon quotas, foreign ownership rules) and competition.
- What are some of the conflicting visions of public broadcasting and broadcasting policy in general?
  - Industry vs. public service
  - Profit-maximization vs. the achievement of cultural and political goals
  - Nationalism versus public service (are they contradictory?)
  - Nationalism requires an aggregate audience yet there is fragmentation
  - Nationalism requires shared tastes and culture, yet we live in a pluralist, multi-lingual, multicultural society
  - Citizen versus consumer
  - Public rather than market
- What are the three major economic characteristics of broadcasting?

### Non-rivalry consumption

- People are rivals in consuming most products – we can’t all eat the same Big Mac, take the same seat on an airplane, etc.
- People are not rivals in consuming programming. It is in an intangible product. One or more people can simultaneously watch programming.
- Distribution, admin and to some degree, programming do not vary depending on size of the audience.
- Most of the costs of broadcasting are upfront.
- Larger markets can better support the costs of programming.

### Advertising as a source of revenue

- Most products are sold directly to consumers. As such, the value of the product is priced based on the value people see in consumption.
- The product in television is not sold to people. People are the product. Their attention is what is sold to advertisers.
- Broadcasters choose programming, not that is of value to consumers, but which will draw the largest audience for the lowest cost. Composition of the audience is also important (e.g. 18-34 year olds, 18-49)
- The value of the programming to consumers is of lower importance to broadcasters than the size of the audience (e.g. 1M for violent show is picked over an educational show drawing 0.99M).

### Programming results in consumption externalities

- An externality is a benefit or cost arising from an economic transaction that falls on a third party (e.g. pollution is cost bore on society by the production (seller) and consumer of cars).
  - Remember, the benefit or cost of programming is bore on the viewer because broadcasters are the seller and advertisers are the buyer.
  - In the case of television, externalities can be thought of as side effects of viewing. Good in the case of benefits or bad in the case of costs.
  - What are some examples of good and bad programs? (e.g. foreign vs. domestic drama; informative vs. sensational news and public affairs; educational vs. violent children's programming)
  - It is commonly believed that television will influence people.
  - A competitive television market will produce too many shows with negative externalities.
  - Television can provide positive externalities, which is precisely the basis of broadcasting policy!
  - Depicting Canadians on TV is the principal positive externality the Government is trying to promote.
- There is a market failure in the Canadian television industry. That is, if left to the private enterprise alone there would be too few programs with external benefits. Why? (Compare to each of the three major characteristics)
    - Canada is small market compared to others, particularly the US. (Non-rivalry of consumption)
    - Content can easily be imported from countries with larger markets, particularly the US. (Advertising as a source of revenue)
    - That content would not represent the Canadian public. (Externalities)

**Without some Government intervention, there would be little on our television screens that represents the Canadian public.**

- What are the genre's of Canadian programming that English-Canadians demand? (refer to handout and article)
  - Review the demand for genres of programming (first slide)
  - Do English Canadians demand Canadian news and public affairs?
  - Do English Canadians demand Canadian sports?
  - Do English Canadians demand Canadian entertainment programming?
  - Do French Canadians demand Canadian entertainment programming?
  - Who delivers Canadian programming that Canadians want to watch?

- What are the types of support mechanisms the government has in its toolbox?
  - **Legislative Framework** – provides the framework for government support for the sector (e.g. Broadcasting Act, Investment Canada Act)
  - **Public Sector Institutions** – the government facilitates the provision of audio visual products and services through public sector agencies (e.g. CBC)
  - **Regulatory Framework** – the rules and conditions placed on each element of the audio-visual sector to meet public policy demands.
    - Quotas on products to increase the supply of Canadian products (e.g. cacon requirements)
    - Market restrictions (e.g. foreign ownership restrictions and the list of eligible foreign services)
    - Regulatory requirements (e.g. financial contributions, such as the Net Benefits funds and the CTF).
  - **Support Mechanisms** – a range of mechanisms designed to support the audio-visual sector at various points along the value chain.
    - Direct/indirect subsidies to Canadian producers and distributors intended to increase supply of Canadian products (e.g. CTF)
    - Taxes on imports which are intended to reduce the demand for non-domestic produce by increasing their cost
    - Fiscal measures such as loans, equity participation, tax incentives and tax credits
    - Business development activities (e.g. co-production agreements, trade missions) designed to help SME's
  
- What are the major mechanisms that Government uses to correct this market failure in the TV industry (i.e. to get people watching Canadian programming)?
  - What does the government need to achieve its broadcasting policy? (A domestic industry – transmission facilities, broadcasters, producers, writers, actors, TV sets, etc)
  - What are the mechanism that the government uses?
  - What does the government get from each?
  - What are the strength/weaknesses of the mechanism?
  - How do the mechanism work together? Are they interdependent?
  - Are there problems with this approach?

Mechanism	Description	Strengths*	Weakness*
CBC	<ul style="list-style-type: none"> <li>• Public service broadcaster, tv, radio and new media in English, French and Aboriginal</li> <li>• \$800M appropriation</li> <li>• \$300M advertising</li> </ul>	<ul style="list-style-type: none"> <li>• Mandate, not profit driven</li> <li>• Works with varied independent producers</li> <li>• Supports independent production</li> </ul>	<ul style="list-style-type: none"> <li>• Only one of seemingly endless choice</li> <li>• Depends partially on advertising revenue</li> </ul>
<b>Regulation</b>			
Content Quotas	<ul style="list-style-type: none"> <li>• 60%/50% Cancon</li> <li>• 8 hours of priority programming</li> </ul>	<ul style="list-style-type: none"> <li>• Clear, measurable, flexible requirements</li> </ul>	<ul style="list-style-type: none"> <li>• Requires 'cash cow' programs to cross-subsidize</li> </ul>

	<ul style="list-style-type: none"> <li>in prime time (150% for 10/10 drama)</li> <li>Varies for specialty services</li> </ul>	<ul style="list-style-type: none"> <li>Supports independent production</li> <li>Multiple broadcast outlets and windows for canon</li> </ul>	<ul style="list-style-type: none"> <li>No control over the quality of content</li> </ul>
<b>Production Funding</b>			
Domestic Tax credit	<ul style="list-style-type: none"> <li>25% tax credit on labour (12% on total production)</li> <li>Must certify as Canadian to be eligible (CAVCO)</li> <li>Costs about \$300M</li> </ul>	<ul style="list-style-type: none"> <li>Open to all (presumably)</li> <li>Scaleable</li> <li>Economic benefits</li> <li>Clear criteria</li> </ul>	<ul style="list-style-type: none"> <li>Inputs, not outputs are controlled</li> </ul>
CTF	<ul style="list-style-type: none"> <li>\$250M fund to create distinct Canadian content, primarily for prime time</li> </ul>	<ul style="list-style-type: none"> <li>Outputs are considered</li> <li>Intense competition for funding</li> </ul>	<ul style="list-style-type: none"> <li>Outputs are controlled, but difficult to achieve</li> <li>Finite funding</li> </ul>
<b>Competition</b>			
Competition	<ul style="list-style-type: none"> <li>Let market forces rule</li> </ul>	<ul style="list-style-type: none"> <li>Consumer empowerment</li> <li>Fewer, if any subsidies required</li> </ul>	<ul style="list-style-type: none"> <li>Consumers may choose even more foreign programming</li> <li>Canadian programming is at a disadvantage</li> </ul>

\* Cast the Strengths/Weaknesses in terms of how the mechanisms help create Canadian content

- What are some of the perceived problems in the TV system?
  - Lack of drama
  - Low demand for domestic content
  - Financing content domestically
  - Defining Canadian content
  - Finding an adequate level of funding to public broadcasting
  - Funding of the CTF
  - Diversity of voices
  - Too many choices (i.e. digitals)
- How will the Government fund Canadian content in the future, considering there is a finite level of funding available?
  - Regulatory, legislative jurisdiction has been reaffirmed
  - Increased competition, reduced margins
  - Balancing industrial and cultural goals
  - Redefine canon