

BROADCASTERS AND MARKET BEHAVIOUR

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Broadcasting has received limited attention from economists in Australia, in part due to the uniqueness and stability of its market structure. The need for a solid economic foundation in broadcasting policy analysis has recently been highlighted. Service convergence and changing industry structure often raise questions as to appropriate regulation.

The Bureau of Transport and Communications Economics (BTCE) *Working Paper* is a recognition of the need for a solid economic foundation. The purpose of this review is to highlight some of the major points made in the paper on the nature of broadcasting services. The paper provides a discussion of the type of goods and markets that occur in broadcasting, the nature of the supply and demand for broadcasting services and advertising time. Through this discussion, the economic interests of broadcasters emerge pointing to their likely responses to changes in regulation.

Fundamental to an economic analysis of broadcasting is a description of the goods produced by the industry. The paper concludes that broadcasting services have a dual identity. The first identity is similar to a public good in that viewing by one person does not reduce the value of viewing to another. The opposite of a public good is a private good wherein consumption by one reduces the value of consumption by another. The exclusiveness of consumption of private goods leads to scarcity which is the basis of its market.

The concept of a public good has traditionally been the basis for government provision funded through taxation. The public good characteristic of broadcasting services is the traditional entree for public broadcasters, and it is also used as a rationale for regulation of commercial broadcasters.

Broadcasting services are also an in-

termediate good used in producing audience access for advertisers i.e., advertising time. As an intermediate good it can be considered a cost of production, as a contribution to the cost of advertising time.

Following from the discussion of the dual characteristics of broadcasting services, two corresponding markets are identified. The public good is supplied in a market for the delivery of programs to audiences and the intermediate good feeds into a market for advertising time. The market for advertising time is a conventional market with a price and an exchange, however the market for program services is quite different. Although money does not change hands between the broadcaster and the audience, programs are supplied to the audience in exchange for their viewing time.

The audience is a central aspect of the model described in the paper. The audience is the focus of regulation aimed at increasing social welfare through strategies such as diversity, and is the focus of advertisers which gives advertising time its value. The paper describes a program choice model which illustrates why broadcasters will tend to provide mass appeal programs. The tendency to provide mass appeal programs follows on from the absence of a price mechanism which would allow audiences to express the intensity of their preferences. The absence of a price mechanism means that even if a small audience places a high value on a specialised program, it may not be attractive to broadcasters because only the number and to some extent the demographic characteristics of the audience are valued by advertisers. Subscription broadcasters are offered as one service type to consider the intensity of audience preferences when making provision of services to small audiences profitable where there is a high willingness to pay.

The conclusion drawn is that advertiser funded broadcasting services may not achieve as high level of social welfare as could subscription services when there are small numbers of people with a high willingness to pay for particular programs. This type of model implies greater diversity in broadcasting services may follow from subscription services.

Another area of analysis is the cost characteristics of broadcasting services and the implications that these characteristics have for the supply of services and industry structure. Cost characteristics can be used to determine if there is a potential for market dominance. Market dominance in turn has a strong bearing on the need for regulation, particularly of market structure. There is a range of factors which affect the issue of market dominance including the extent of substitution between different media, the limitation on the number of services that can operate in a given market and economies of scale.

Economies of scale are characterised by a unit cost which decreases as audience size and the amount of advertising increases. It gives larger broadcasters a cost advantage over smaller broadcasters, encouraging the emergence of dominant broadcasters. Much of the sale prices for licensee companies in the late 1980s were premised on significant economies of scale that could be realised through networking. The presence of significant economies of scale would be an important consideration in changes to the number of services that could be owned in a market, or the effect of mergers.

In summary, the paper provides an important basis for future work on the relationship between social objectives and the commercial objectives of broadcasters.

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