

PA

Brooklands



Prime Minister 4

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10 DOWNING STREET

LONDON SW1A 2AA

From the Head of the Prime Minister's Policy Unit

3. v. 1988.

Prime Minister

After this evening's meeting
on BSB I came back to
my room to find the following.
It underpins your note
of optimism!

BS

Exploding the myths of broadcasting

WHY, with all the talk of a revolution in the television industry, have we not seen a burgeoning of choice on our screens?

The television industry is, in Mrs Thatcher's words, "the last bastion of restrictive labour practices". But it is also the last bastion of a mythology which used to shape the thinking of governments on all public services from the railways to the national health, and which still survives in the field of broadcasting.

The chief myth is that because an activity fulfils a public service it is not subject to basic laws of economics, which have been known since the days of Adam Smith to govern the workings of industries and markets.

These are the principles of supply and demand (if the supply of a product doesn't match demand, the price will rise to ration supply), of the behaviour of monopolies and cartels (without competitive forces at play, inefficiencies will set in and costs will increase) and of the allocative function of market (if competition is working smoothly, resources will flow to industries in relation to the

value of their products to consumers).

The ultimate cause of the slow progress of change in television is not the perpetuation of practices by labour but the perpetuation of this mythology by those responsible for broadcasting policy. The laws of economics are, of course, less rigorous than those of physics. But they are as unforgiving as any others that govern the actions of human institutions. Studies by our company demonstrate the price Britain is paying for running the broadcasting industry as if it were exempt from their influence.

● An analysis of the television advertising market showed supply and demand are now far out of balance. Consequently, airtime prices are 65% higher than a reasonable competitive level — or than they are in America, Japan, France and Italy, where more channels have been authorised. The extra cost to British industry and consumers is some £700m per year; they are paying £1.8 billion for television advertising, while the bill would be only £1.1 billion if more competitive prices prevailed.

● As the government starts to reform the TV industry it is ignoring basic economics, says CHARLES JONSCHER

● A review of the efficiency of the ITV companies found that their monopoly over the commercial television market has led to real cost increases of a factor of 2.4 over the past 10 years. With operating costs of £1 billion per year, ITV is now four times as expensive as the average for the other UK channels — it costs 40% more than the other three taken together.

● Another study revealed a large, untapped market for premium channels — such as a feature film channel. Consumers are willing to pay, but resources are not forthcoming because the service is not permitted. Such a channel, Canal Plus, was launched in France three years ago (the signal "scrambled" to prevent unauthorised viewing), and is already taking in £300m per year in revenue from more than 2m households.

● An evaluation of the pro-

cess by which airwaves (channels of spectrum) are allocated among competing uses indicated that present administrative procedures result in fewer television channels than economic principles would dictate. Spectrum is a valuable resource and its full potential can only be realised if it is allocated on the basis of economic value to consumers; in the UK this would mean authorising a larger number of television channels.

Like railways and the national health, broadcasting is both a public service and a multi-billion pound industry. Policy decisions must involve both social judgments and business judgments. Unfortunately, while its heart is set on reform, the government is breaking the most important of Adam Smith's principles: that the business (not the social) judgments are best left to the market.

In television, the social judgments cover the content and balance of programmes; the business judgments cover matters such as financing and choice of technology. New channels can be provided by conventional technology, or by broadcasting satellites, or

by both. The market would choose conventional television first, satellite second. But it was deemed that conventional technology was wrong and the satellite right. A consortium including two ITV companies, Granada and Anglia, has been authorised to launch a three-channel service — with informal assurances of no competition until well into the next decade.

Investors will spend £600m on this satellite service during the next several years. This is welcome news, but does not merit holding back new channels from our old-fashioned sets. Investors would also, if allowed, put £600m into conventional channels — national, local, subscription. Meanwhile, failure to allow supply and demand to balance in the conventional television market will continue to damage consumer interests to the tune of £700m per year — several billion pounds of losses while the £600m satellite project is being protected.

It is an irony that this government, with its bullish views of the future of the UK economy, should deem such protection necessary. Under even modest economic growth fore-

casts, satellite television can co-exist in the 1990s with six or seven terrestrial channels. France authorised a fifth advertising-backed channel, launched a sixth subscription channel, and is going ahead with a state-sponsored Direct Broadcast Satellite system.

A widely praised aspect of the present government's industrial policy is the rejection of the notion of "picking winners" in favour of creating a climate generally favourable for industrial enterprise. Hence, low tax rates, a tougher approach to competition policy, and attacks on restrictive practices are in; subsidies or protection of favoured industries are out. The entertainment industry, like any other, thrives on competition. It is natural that the incumbents — the old ITV companies, and their close relative, the new satellite consortium — will fight to protect a monopoly position. This is not an argument the government should succumb to.

● Charles Jonscher, a partner in Booz Allen and Hamilton, the management consultancy firm, advises government and industry clients on telecommunications and media policy.