SYNOPSIS

Study No. 1
Regulation Review and Public Broadcasting

This report considers public interest considerations arising from market failure in broadcasting. Ongoing market failure problems in this area persist despite the impetus for a more liberal broadcasting market emerging from new technology.

It is argued that public broadcasting provides an appropriate and effective means to enhance public interest objectives in the evolving broadcasting arena. It does so in a manner that is substantially more flexible and less restrictive than direct regulation.

Study No. 2
National Public Broadcasting Benefit

This study reviews salient data on the public benefit from ABC public broadcasting. It concludes that the ABC is, in fact, a quite efficient broadcaster by both domestic commercial and global public standards.

It is also established that the ABC well serves the public interest through general composition of its activities, especially in areas such as program diversity and innovation while, inevitably, leaving room for improvement. The public is demonstrably satisfied that its tax support for public broadcasting is warranted and, indeed, there is rigorous evidence of support for an expansion of funding in this area.

However there are dangers that efficiency for the ABC is coming at a growing cost in terms of some indicators of public benefit such as Australian content.

Also there are dangers for the future as broadcasting technology changes, if a comprehensive public broadcasting presence across existing and new mediums is not maintained.
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REGULATION REVIEW AND PUBLIC BROADCASTING*

GLENN WITHERS

* A report commissioned by the Australian Broadcasting Corporation. Glenn Withers is Professor of Public Policy at ANU. Report completed June 1999.
REGULATION REVIEW AND PUBLIC BROADCASTING*

"No medium of entertainment, whether it be stage, cinema or literature, has such a powerful influence for good or evil as broadcasting."
Joint Parliamentary Committee on Broadcasting, 1942


1.1 The Productivity Commission has been directed by the Commonwealth Treasurer to undertake a legislation review in relation to the Broadcasting Services Act 1992 and certain closely related Acts. This review is to operate under the Productivity Commission Act of 1998 and in terms of the Competition Principles Agreement 1995, consistent with the Commonwealth’s general requirements for regulation assessment.

1.2 The Terms of Reference for the Inquiry draw specific attention to the “Guiding Principle” for National Competition Policy legislation review, which is given in Clause 5(1) of the Agreement as follows:

"The Guiding Principle is that legislation (including Acts, enactments, ordinances or regulations) should not restrict competition unless it can be demonstrated that:

(a) the benefits of the restriction to the community as a whole outweigh the costs; and

(b) the objectives of the legislation can only be achieved by restricting competition."

1.3 The Acts for the public broadcasters (ABC and SBS) have not been referred to this Inquiry. Nevertheless as a major participant in the broadcasting system the Australian Broadcasting Corporation

has a sustaining interest in the Inquiry and in its findings and recommendations. For the same reason the Productivity Commission itself needs to be fully informed as to the ABC’s role and activities. If it is not, it will be unable to properly assess the legislation referred to it. In particular, the ABC contributes centrally to common objectives in Australian broadcasting policy. As such it represents one very important means by which broadcasting objectives can be met and so must be properly taken into account under the Competition Principles Agreement Guiding Principle, and the associated requirements for conduct of a review under the Agreement. For instance, Clause 5(9)(e) explicitly requires a review to “consider alternative means of achieving the same result including non-legislative approaches.” Public broadcasting squarely fits that requirement in relation to broadcasting policy objectives.

1.4 Competition Policy legislation review is predicated on the presumption that there should be no restrictions on competition unless they can be shown to be in the public interest, and that those restrictions are the most appropriate way of meeting the objectives of the legislation.

1.5 The balancing of public benefits and public costs is the ‘public benefit test’ in legislation review. Guidance on the content of this test is offered in Clause 1(3) of the Agreement. It is the purpose of this report to provide some analysis of the public interest considerations that do arise in broadcasting markets and to review the role of the ABC in serving to enhance that public interest in an effective and efficient manner.

2. Old Broadcasting Industry Economics

2.1 The Inquiry’s terms of reference refer to the broadcasting industry as a “diverse range of radio and television services for entertainment, educational and information purposes.” As such the industry is distinct from live arts and education and from non-electronic media such as books, magazines and newspapers. It is also, in principle, distinct from electronic information technology and communication services such as computing and telephony.

2.2 However the degree of complementarity and/or substitution between these activities is important for broadcasting review, and their increasing technological overlap or convergence in both production and distribution is explicitly a matter referred to the Inquiry for consideration. Indeed technological change has introduced an important distinction between ‘old’ and ‘new’ broadcasting economics and the implications thereof for policy intervention.

2.3 Old broadcasting economics saw broadcasting as a distinct and special industry. This referred to both industry structure and behaviour and to industry performance or output. At the structural and behaviour level key features were:

(a) a technology which involved access to a limited frequency spectrum for supply of a product unpriced to the program user;

(b) a product demand which was derived commercially from advertisers’ demand for message time linked to programs;

(c) economies of scale and scope, both vertical and horizontal, which inhibited competitive conduct and structure.

At the performance or output level the key feature was:

(d) the pervasive and persuasive nature of the resultant broadcasting product.

2.4 These features of the industry gave rise to concern over market failure under free markets because of the potential for:

(a) monopolisation arising from economies of scale and scope and spectrum access limits (and low elasticity of substitution for alternative products and services);
asymmetric information issues arising from advertiser-derived demand not reflecting program consumer demand intensity beyond the decision to watch or listen;

inequities arising from the cost-incidence of advertiser funding falling disproportionately on lower income consumers;

externalities and merit issues arising from the pervasive and persuasive nature of broadcasting with profit-based decisions neglecting social costs of imported culture, violence and pornography and neglecting social benefits of children’s and educational programming and of presentation of political and community affairs, except to the extent reflected in commercial outcomes; and

disequilibrium and co-ordination issues arising from adoption of new technology ahead of suitable standardisation.

Some or all of these market failures were seen as so important in broadcasting that most countries around the world intervened heavily in the industry, and continue to do so. It is not simply special pleading to characterise the industry as having been distinctive for these reasons.

In Australia the policy response to these factors took the form of access restrictions to existing technology and to the introduction of new technology for broadcasting;

regulation of ownership: vertical and horizontal and foreign;

regulation of program content, particularly in terms of local content, censorship, children’s programming, and advertising time; and

fiscal subsidy for public and community broadcasting.

The result was a mixed system, with more commercial orientation than was common in Europe but stronger public broadcasting regulation and access restrictions than emerged in the United States. The system was slow in introducing new competitive technologies, while often (but not always) displaying high consumer adoption rates post-introduction.

Within these arrangements the Australian Broadcasting Corporation has played a major role in:

enhancing program diversity, including for advertising-free broadcasting and for minority tastes not catered to by the limited number of commercial broadcasters;

promoting desirable social and political effects of broadcasting especially through Australian content, children’s television, innovative content, cultural programming and news coverage and public affairs, in a manner divergent from commercial broadcasters; and

providing inclusive national broadcasting coverage whilst also maintaining an ‘adequate and comprehensive’ service for all Australians, as required by its own legislated obligations.

3. New Broadcasting Industry Economics

‘New broadcasting economics’ takes account of changes in broadcasting technology which have the potential to significantly alter some or all of the features of the traditional free-to-air broadcasting industry outlined above. Most important currently here are:

- broadcasting band spectrum reallocation (UHF) and expansion (HDTV);
- Microwave distribution of broadband services (MDS);
- DTH satellite;
- Hybrid fibre-coax cable (HFC); and
- Copper-wire enhancement eg digital subscriber line (DSL) technology.

The significance of these is in overcoming frequency-spectrum limits on service supply, increasing opportunities for substitute
and/or complementary service provision, and allowing increased direct user charging.

2 Some commentators see these changes as sufficient to transform the broadcasting industry, removing its special status. In particular the diversity and charging options promise reduced supply delivery limitations and allow direct user payment systems – muting two distinctive elements of traditional broadcasting and rendering the industry more like other user-pay, supply-responsive industries. In these circumstances greater deregulation seems to some a natural policy response and a consummation devoutly to be wished.

3 However, it must be made clear that substantial market failure considerations may continue to be present and hence raise ongoing public interest concerns as follows:

(a) while monopolisation concerns due to limited spectrum access and low substitution are reduced, new economies of scale and scope emerge as do new access issues for delivery platforms;

(b) while user-pay technology reduces asymmetric information and funding inequity issues deriving from advertiser-funding, direct-pricing of what still remains a non-rival commodity with low marginal cost raises a new ‘public good’ problem for broadcasting services, so artificially limiting resource use;

(c) while externality and merit concerns may be reduced in some areas if more specialised programming is more profitable (eg news coverage), in others they can increase eg pornography. Moreover all such service in a free-market will still source from profit motives for which no incentive exists to consider non-commercial perspectives or spillovers that diverge from the business bottom line; and

(d) premature introduction on new technology in the absence of appropriate product standardisation runs the risk of substantial consumer welfare loss (eg the abortive Beta-cord VCR introduction in Australia, US early adoption of the NTSC colour system vs PAL later adopted elsewhere) just as does unnecessarily delayed adoption.

3.4 Such market failure and market inadequacy concerns provide a necessary (albeit not sufficient) condition for collective intervention under the public interest criteria of Competition Policy Agreement requirements, and the new technology and associated broadcasting industry economics do not dispose of such concerns in any easy way.

4. Public Broadcasting and the Public Interest

4.1 The key point to be made here is that public broadcasting is a central instrument catering to these identifiable public interest objectives in broadcasting. It is a light-handed intervention primarily based upon transparent public subsidy, not regulatory, mechanisms, and it continues to provide:

(a) countervailing power in situations of concern over monopolisation and concentration;

(b) alternative funding arrangements to both advertiser and user-pay methods, each of which has inefficiency properties; and

(c) programming that allows for divergence of social from private cost and benefit and for promotion of recognised ‘merit’ objectives.

4.2 It is also important to stress that alternative subsidy of commercial broadcasters cannot for the most part provide equivalent achievement of these objectives, because the crucial difference is the value derived from introducing into the broadcasting system an alternative system of ownership, funding and accountability. Ownership does indeed matter and in this case public ownership matters precisely because it does produce diversity, pricing and socially-responsive programming divergent from commercial imperatives. No matter how much programming the new abundance of technology produces for the broadcasting market, its private provision remains profit-derived. In this field an alternative is still desirable.
4.3 Crucial conditions for public broadcasting to fulfil this role effectively are:

(a) comprehensive provision of technology access for the public broadcaster to enable equivalent benefit from the economies of scale and scope available to private providers, including in new multi-media;

(b) guarantee of funding sufficient for independence from short-term political pressure and for full-scale multi-media provision without direct charge so easing public broadcasting pressure to restrict system innovation and ensuring different pricing than the commercial systems; and

(c) provision of statutory status to give short-term political independence combined with full accountability to Parliament, auditor-general, ombudsman, administrative appeals tribunal and under FOI legislation.

4.4 Criticism is made that such public broadcasting will be provided inefficiently compared to commercial providers and will allow pursuit of provider objectives divergent from the intended public interest. Such theoretical ‘property rights’ and ‘public choice’ critiques may have some merit in some applications. But the status of such theories in broadcasting markets is quite open in logic and quite contrary to considerable relevant evidence. In fact there is strong empirical evidence that:

(a) public broadcasting can and does operate at lower unit costs of production than for commercial broadcasting; and

(b) public broadcasting can and does meet rigorous standards of public preference, including through willingness-to-pay studies.

4.5 In the new broadcasting economics as in the old there is a very strong role evident for public broadcasting in advancing the public interest. Indeed, if anything, the need for that role is enhanced by new technology which:

(a) limits the effectiveness of alternative industry-specific regulatory approaches; and

(b) releases public broadcasting from the need for merely niche or minority programming.

In fact, new technology can be argued to strengthen the need for a major national broadcasting presence that is both fully comprehensive and squarely based on thoroughly different ownership, funding and accountability principles from the commercial sector.

4.6 The significance of the public alternative is readily seen in an area such as news and current affairs. The commercial interests of private proprietors can clearly influence the extent and direction of provision of such programming, often in subtle ways. The capacity for public broadcasting to provide a different approach in an area central to the health of our democracy is well established. Numerous program analyses and public opinion polls attest to both the difference and to the high regard in which that difference is held across the population.

4.7 Enthusiasm for economic liberalism and technological change can lead to a view that there is little the state can and should do, perhaps especially in this most globalised and changing of industries. This view does not withstand closer scrutiny. Policies certainly need to adapt in the light of these influences, but they are neither impotent nor unnecessary.

As technology alters and a plethora of new private sources of information and entertainment opens up, the key function in such an era of abundance will become that of editorial guidance. The market itself will provide more such editorial capability. But a healthy civil society will be better fostered if a strong public alternative is also seen as central to our broadcasting future.

4.8 This is not to say that public broadcasting need be the only response. It is to say that it is an important part of any response.

5 Conclusion

5.1 This report has considered public interest considerations arising from market failure in broadcasting. These are matters required to
be reviewed by the Productivity Commission in its Inquiry into the Broadcasting Services Act 1992 and certain related Acts.

5.2 Certain market failure problems have been identified despite the impetus potentially available for a more liberal broadcasting market emerging from new technology.

5.3 It is proposed that public broadcasting provides an appropriate and effective means to enhance public interest objectives in the evolving broadcasting area. It does so in a manner that is substantially more flexible and less restrictive than much regulation. Since the aim in competition policy must be to maintain the least legislative restriction on competition, consistent with protecting the public interest, public broadcasting meets this need well.

REFERENCES


* A report commissioned by the Australian Broadcasting Corporation. Glenn Withers is Professor of Public Policy at ANU. Marion Powall is Director, Applied Economics (Canberra). Report completed April 2000.
1. INTRODUCTION

1.1 Broadcasting is a key sector in our society, not only economically but, more than most sectors, culturally, socially and politically. Yet the sector is changing. Ongoing changes in technology for broadcasting, information technology and telecommunications, including media convergence, are in train.

1.2 The Australian Broadcasting Corporation (ABC) has always played a central role in the evolution of Australian broadcasting. The changes in relevant technology and the broadcasting environment point to a future role that is at least as important.

1.3 There is core value to be derived from maintaining within the Australian broadcasting system a national sector that is publicly owned and funded, politically independent and fully accountable. Public ownership brings a distinct difference to the broadcasting system, with national broadcasters required and able to provide comprehensive, innovative programs not influenced by commercial imperatives.

1.4 No matter how much programming and new delivery systems the new technology facilitates in the broadcasting sector, private provision is profit derived and driven. New technologies can be harnessed to provide more programs and services. However, more outlets and activities will not in themselves provide sufficient diversity, innovation, credibility, regional impact or Australian content for the public interest to be met. This is because commercial broadcast services will still be driven by profit incentives. The pervasive and persuasive nature of broadcasting makes a major national public broadcasting presence even more essential in an increasingly globalised broadcasting world in which audiences are likely to be more fragmented.

1.5 Crucial conditions for national public broadcasting to fulfil its role effectively in these circumstances are (Withers 1999):

(a) appropriate access to the full range of production and delivery technologies to enable national broadcasters to achieve sufficient scale and scope to be able to participate alongside commercial broadcasters and datacasters in both traditional and new media;

(b) provision of statutory status to allow political independence, combined with accountability to Parliament, (and on specific matters, to the Auditor-General, the Ombudsman [in relation to administrative matters], Administrative Appeals Tribunal, the ABA [in relation to complaints covered by the Code of Practice] and under FOI and other relevant legislation); and

(c) guarantee of funding sufficient to ensure the national public broadcaster is able provide an innovative and comprehensive package of services, including traditional and new services, to citizens from its free to air networks on television, radio and online. This will ease national public broadcaster incentives to seek to restrain system innovation, and importantly also to ensure continued different pricing from the commercial systems.

1.6 In this present report the capacity and performance of the ABC in meeting public broadcasting objectives efficiently and effectively is reviewed. It is shown that there is strong empirical evidence that:

(a) Australia’s national public broadcaster can and does operate at lower unit cost and aggregate budget call than for domestic free-to-air commercial broadcasters and overseas comprehensive national public broadcasters, respectively.

(b) national public broadcasting can and does provide major distinctive benefits in comprehensive and specialised programming and innovation – though compromise in performance in some dimensions (eg reduced original first release Australian content) has been a price paid in achieving the economies required by funding constraints for ABC operations; and

(c) national public broadcasting can and does meet rigorous standards of public preference and support, as evidenced by thorough and independent taxpayer valuation studies as well as through conventional commissioned survey and interview analyses.
2. **EFFICIENCY: COSTS OF PROVISION**

2.1 When assessing efficiency and effectiveness, prejudice can play as great a role as fact. Indeed there is a not uncommon view that public providers by definition must be more inefficient, more bureaucratic and less innovative than private firms. Yet this is manifestly wrong in the case of Australian national public broadcasting.

2.2 For example, taking the case of radio, the cost for the national public broadcaster in putting an average broadcasting hour to air compared to the equivalent cost for the commercial sector as a whole is indicated in Figure 1, which covers the forty-five year period since 1961.

![Relative Cost of Radio Services: ABC/Commercial Sectors, 1961-1998](image)

**FIGURE 1**

2.3 It is seen that over the period of four decades ABC radio cost has declined consistently relative to the commercial radio sector. It is not surprising that the ABC should have some economies not available to commercial radio eg not needing to maintain marketing advertising departments. But the downward trend in relative ABC cost, not just its lower level, is an important observation.

2.4 The measure in Figure 1 is based on total expenditure in each sector divided by an average broadcasting hours per station in each sector. More complicated measures based on costs per station (rather than for each sector as a whole) can also be constructed, and they too show ABC cost to be consistently below commercial station costs (Withers 1982 updated).

2.5 Similarly, if attention is switched to television, the ratio of ABC expenditure per average television broadcast hour compared to equivalent commercial expenditure averaged across the three networks is shown in Figure 2. A downward trend in relation to costs is also evident there.

![Relative Costs of Television Provision: ABC/Commercial Networks, 1961-1998](image)

**FIGURE 2**

2.6 As indicated for radio, an alternative benchmark is cost per station. If this calculation is done for the television networks, the comparative results for the ABC vs the commercial networks are as follows for 1998:

- ABC: $26.18m per station
- Ten: $46.39m per station
- Seven: $83.21m per station
- Nine: $88.59m per station

Again the ABC is seen as an efficient provider relative to commercial services, based on ABA Form 18S data for total service expenses for the commercials and the equivalent ABC data in the.
Annual Report, both being for the 1998 financial year.

2.7 Other measures available for television similarly confirm this cheaper provision by the national public broadcaster. One further such alternative measure is total expenditure per employee. This is available for 1997 (but not yet since) because the Australian Bureau of Statistics gives commercial employee figures for that year, figures which are otherwise not easily obtainable. Dividing the total television expenditure for each sector in that year by the number of employees gives the picture illustrated in Figure 3. The full validity of this measure is in turn affected by any differences in full-time vs part-time work force composition and by any difference in the extent of outsourcing between the sectors, but the point to note is overall consistency across the range of all of these indicators discussed, despite individual problems with any one such performance indicator. The same applies to the significance of problems such as allocating ABC costs by media since the move to “One ABC” in 1996-97. In this report a “rule of thumb” using the last previous available ratio is adopted and applied to the subsequent years to give media split for the short period concerned.

FIGURE 3

Expenditure per Employee, Television, 1997

While the ABC’s efficient performance relative to commercial broadcasters is in part explained by the absence of advertising transaction costs and by the requirement to respond to a reduced parliamentary appropriation, it can also be explained by the Corporation’s own strategies. For example, the ‘One ABC’ policy of 1996/97 was directed at, among other things, better control of costs of corporate management. Similarly, substantial contestability has been introduced to enhance production costs comparison. Table 1 shows the decrease in operating expenses and employee numbers for financial years from 1996, covering the period over which these particular corporate changes took place. There is also a capacity for an organisation such as the ABC to benefit from the distinctive sense of purpose of its employees – which manifests in a willingness to work for less than commercial rates in many cases.

<table>
<thead>
<tr>
<th>Year*</th>
<th>Operating Expenses ($m)</th>
<th>Employee Expenses (%)**</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>698.7</td>
<td>45.1</td>
<td>5437</td>
</tr>
<tr>
<td>1996</td>
<td>719.8</td>
<td>45.7</td>
<td>5343</td>
</tr>
<tr>
<td>1997</td>
<td>707.1</td>
<td>45.9</td>
<td>4887</td>
</tr>
<tr>
<td>1998</td>
<td>631.2</td>
<td>43.2</td>
<td>4177</td>
</tr>
<tr>
<td>1999</td>
<td>664.7</td>
<td>43.2</td>
<td>4134</td>
</tr>
</tbody>
</table>

*Note formation of “One ABC” in 1996-97
** Covers remuneration and leave entitlements. Note role of retirement/termination payments sustaining employee costs in 1996-97.
Source: ABC

2.9 A further output measure relative to cost is ratings (audience) per dollar expended. This goes beyond the physical output measures used in Figures 1 - 2 and beyond the financial input measures used in Figure 3 and Table 1 and it avoids some of the definiational problems therein and now takes additional account of audience levels. Yet the ABC is required by its Charter to be comprehensive, providing a balance between broadcasting programs of wide appeal and specialised broadcasting programs. Commercial broadcasters have no similar constraint upon their imperative to pursue mass audiences. It is notable that despite this, the ABC is highly efficient in achieving ratings. (Figure 4)

2.10 The ABC also reportedly is quite successful in relation to the comprehensive “reach” that can lie behind these ratings in turn. An AC Nielsen survey conducted at end 1998 is reported as finding that
70% of the population use the ABC television service each week, 24% use an ABC radio network each week and 2.4% use the ABC website each week. (Communication Law Centre, 1999, p. 15)

2.11 Figure 4 shows cost per rating point for ABC television and for each of the commercial networks. For 1997-98, on a full service expense measure, ABC and Ten Network costs per rating point are quite similar and both are well below the Seven and Nine Network costs per rating point. Even if fees and commissions which apply only to commercial stations are excluded, the ABC is quite comparable in cost to the Seven and Nine networks, though it is now higher in rating cost than Network Ten.

FIGURE 4

2.12 ABC television cost per rating point has not always been on par with that of commercial networks (Withers 1982). This particular position of cost comparability for the ABC dates basically from the mid 1970s, at which time there was a major escalation of commercial expenditure relative to that of the national broadcaster. The relative expenditure position has been stable since the mid 1980s, with the commercial networks remaining on the higher expenditure trajectory established in the early 1980s and with ABC outlays constrained at a lower level. (See Figure 5)

FIGURE 5

2.13 This analysis reflects the position for television. The same cost per ratings unit is not available for radio, but it would be likely to show an even stronger outcome, as ABC radio audience share has increased substantially to higher levels over the past decade – as is seen in Figure 6.

FIGURE 6

2.14 Both national public and commercial sectors have restrained television cost growth substantially since the late 1980s. For the ABC, once the basic national public broadcasting infrastructure for comprehensive service was in place, this then allowed annual marginal cost of maintaining and extending its services to fall from
$92 million in the early 1980s and $31 million in the later 1980s to $9 million in the early 1990s. In recent years the real marginal cost of providing ABC programs, services and outlets has become negative.

2.15 This marginal cost measure reported here is simply the average annual increment to total operating expenses for ABC television for each time period indicated. It is further expressed here in constant 1996 dollars to allow absolute dollar comparisons to be made more meaningfully over time. The calculation thus involves measuring the change in total television expenditure for each year, converting that to constant dollars using the consumer price index and taking an annual average for each period of concern.

2.16 If this ABC pattern is compared with the commercial sector a downward trend in marginal cost is also observed there, though with continuing cost efficiency advantage evident for the ABC. Figure 7 shows the marginal cost of providing television network programs, services and outlets for the two sectors, measured as an annual average for commercial networks (averaged over three networks) and for the ABC television network respectively. The evident decline in the marginal cost is dramatic and the contemporary capabilities of both ABC and commercial networks to operate at low marginal cost are manifest.

2.17 Indeed in the case of the ABC a reduced marginal cost has been consistent with growing radio and television audiences, 24 hour broadcasting in both radio and television, expansion of regional studios, substantial expansion of Triple J radio across Australia, Open Learning programs, and establishment of both Newsradio and ABC Online. A past capacity to extend service at low cost building on basic core capability, has therefore been demonstrated – though it is not necessarily inexhaustible, a matter considered further below in relation to areas such as Australian content and localism.

2.18 Finally, in terms of efficiency and effectiveness, it is useful to avoid the problem of comparing "apples and pears" that bedevils commercial vs public broadcasting comparisons, and to move instead directly to comparing like with like. A useful application of this approach is to compare the ABC with public broadcasters in countries such as Britain and Canada. A range of measures can be chosen. But all point in a similar direction. For instance, Figure 8 provides data for government expenditure on the national broadcaster as a share of public outlays and for expenditure per capita per day for those broadcasters in 1998, as extracted from a report by McKinsey and Company (1999).
3. EFFECTIVENESS: NATIONAL BENEFITS

3.1 Moving beyond and/or behind the aggregates, it is also important to consider whether public broadcasting serves the public interest well via the form and content of its activities. This is a subjective call in the end, but there are clear measures and indicators that can help form a basis for informed judgement. They include:

(a) program diversity

(b) innovation

(c) regional impact

(d) Australian content

3.1 This section of the report provides some further illustrative documentation of this contribution. It does not include benefits of a kind not easily or systematically quantifiable, eg credibility and authority in news and current affairs. Yet such excluded matters may be just as important or more important, and so should also be factored in as part of any subsequent deliberation beyond this report. Indeed in an era of growing media outlets, especially on-line, a qualitative editorial function of a national public broadcaster may be one of the key national benefits, yet one that is hard to quantify.

3.2 The ABC Charter requires program diversity, in setting out the requirement that the ABC provide innovative and comprehensive broadcasting services of a high standard. Comparison of television content analyses over time shows that while ABC and commercial television content breakdowns have changed, ABC television programming has consistently been more broadly spread across content categories than that of the commercial channels. The Australian Broadcasting Tribunal published useful analyses of television programs by categories until 1991. Any updating requires data to be extracted from other sources. Table 2 shows the situation for television as at the last publication of ABT analyses for selected years and for the broad categories available. Program allocation to categories is that of the individual broadcaster operating under ABT guidelines.
3.3 For television, it is seen in Table 2 that while the ABC provides a comprehensive offering, including drama, light entertainment and sport, it also provides specialised programs as it is required to do under its charter – notably in key areas such as children's, the arts, education and information programs.

| TABLE 2 |
| Television Program Content |

<table>
<thead>
<tr>
<th>COMMERCIAL</th>
<th>ABC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drama</td>
<td>53.1</td>
</tr>
<tr>
<td>Light Ent.</td>
<td>26.7</td>
</tr>
<tr>
<td>Sport</td>
<td>5.4</td>
</tr>
<tr>
<td>Children</td>
<td>10.3</td>
</tr>
<tr>
<td>Information</td>
<td>4.1</td>
</tr>
<tr>
<td>Arts</td>
<td>0.0</td>
</tr>
<tr>
<td>Education</td>
<td>0.4</td>
</tr>
<tr>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Withers 1982; ABA.

3.4 Of course such broad program category comparisons suppress a range of sub-category differences (and classification discrepancies) and a range of issues regarding quality and innovation in programming. For instance, here light entertainment includes entertainment and comedies; drama includes drama and movies; and information includes current affairs, documentaries, features and “specials”, news and religion. By taking averages across all commercial networks, difference within commercial television is also hidden. This latter at least can be better considered in data that are available for program composition for the year to end-October 1999. This is seen in Figure 9 which contrasts ABC program structure with that for each of the commercial networks. The ABC retains a distinctive emphasis in programming in the children's and information/education areas, with ongoing decline in the program share for light entertainment and sports.

3.5 These data relate to television. There is also the question of radio program diversity. The 1999 ABC Annual Report shows the spread of program content there and Table 3 gives this for the most recent available year. However comparable commercial content was not available for this report.
3.6 In terms of innovation, the changing technology encapsulated in phrases such as media ‘convergence’ and the ‘digital age’ means that adaptability and flexibility in such an environment are of the essence. Certainly, innovation is required of the ABC and its ability to be innovative will assist it to navigate the new media landscape effectively. The ABC has shown considerable initiative and creativity in these directions. The ABC reorganisation, as for instance in 1996, was also driven in part by a need to adapt to the convergence in which borders between mediums were becoming increasingly blurred. Thus the ABC moved beyond terrestrial radio and television, and quickly added on-line services to its portfolio and has emerged as a favoured web site. ABC Online accesses have grown rapidly (doubling in 1999 alone) and ABC sites are amongst the most frequently accessed sites in Australia. Figure 10 shows the growth of ABC Online accesses from 1995-96 to 1998-99.

\[\text{FIGURE 10}\]

### ABC Online Accesses (per month)

<table>
<thead>
<tr>
<th>Month</th>
<th>No. of User Accesses (000s)</th>
</tr>
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<tbody>
<tr>
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</table>

Source: ABC

3.7 The ABC itself has also shown a distinctive capability in developing new production technology. For example, innovation by the ABC in digital cartridge and digital radio systems and computer controlled console systems have allowed it to claim leadership in efficient use of such production and presentation technology. Equally, ABC adoption of general international technology has been accomplished very economically, as is also seen in Figure 11 which shows movements in the 1990s in ABC communications, satellite and transmission costs.
3.8 Finally, innovation in program content could and should also be considered, but it falls into that category of performance evaluation that is difficult to quantify in the systematic manner that is otherwise the requirement for this report.

3.9 On the regional question, in fulfilment of its national responsibilities, the ABC provides programs and services Australia-wide. This has included substantial provision of rural and regional programming, including online services. This contribution is most notable in radio, with local radio services in 57 locations across the country. In 1999 local radio production increased from more than 62,000 to over 66,000 hours of local content, plus local news and sport. Increasingly, regional audiences are also served by the ABC harnessing new technology to upgrade regional stations into multimedia centres providing local content across a range of mediums. The introduction of digital broadcasting including datacasting will enable the ABC to provide local audiences with a range of programming across several mediums and outlets.

3.10 Australian Bureau of Statistics data show that, for the latest available year of 1996-97 and compared to the independent film and video production sector, the ABC has much more dispersed employment across Australia - 34 per cent outside NSW and Victoria, as opposed to 14 per cent for the independent sector. However, on the other hand, commercial free-to-air has 39 per cent employment outside NSW and Victoria and commercial free-to-air television 47 per cent (ABS, Cat. No. 8679.0, 8680.0, 1996-97). Of course, these figures include non-national broadcasters and focus on labour inputs and not program services. But it is prima facie of significance that 41 per cent of the Australian population is outside of NSW and Victoria, a significantly higher share than the 34 per cent recorded for ABC employment. That said, there are ABC "head office" staff attributed to NSW who are in fact based in other states. But, equally, the ABS measure for commercial broadcasters excludes some Tasmanian and Territory data. These regions account for 9.7% of ABC employment, by contrast. Further analysis is called for to resolve this issue, if the employment (as opposed to program) content of "localism" is considered important.

3.11 In terms of Australian content, one clear picture comes from comparing the Australian Broadcasting Authority financial results for commercial television stations with those from ABC financial data. The ABC has a consistently lower share of all television expenditure devoted to purchase of foreign product, as is seen in Figure 12.

3.12 An alternative to using expenditure shares is to look instead at Australian content shares in program transmission. This is important because in the period to 1990, ABT and ABC data show that the Australian share of all TV programs for the ABC was lower than that for the commercial stations. Table 4 summarises these data as available to 1990.
TABLE 4

<table>
<thead>
<tr>
<th></th>
<th>Commercial</th>
<th>ABC</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>52.8</td>
<td>49.6</td>
</tr>
<tr>
<td>1990</td>
<td>53.8</td>
<td>50.9</td>
</tr>
</tbody>
</table>

Source: ABA, ABC (percentage of all Programs 6 am to midnight)

3.14 On commercial radio Australian music performance (quota) shares range from 5% for specialist formats to 25% for contemporary rock formats. By contrast for the same period, 1997-98, Australian music results for the ABC range from 25% on Radio National, 27% on ABC Classic FM to 31-34% for Metro/Regional to 36% for Triple J. (Communications Law Centre, 1999) On the radio front the ABC is therefore better practice on Australian content than is commercial radio.

3.15 Naturally, content can also be evaluated in other areas such as online. But comparative data are hard to pin down for this purpose.

4. PUBLIC VALUATION

4.1 Efficiency measures and impact measures are partial indicators of effective use of national resources in public broadcasting. But in the end it is the users of ABC services and the tax payers who fund these services, who are the appropriate arbiters. And, in this context, standard qualitative survey techniques have found widespread and consistent support for the ABC contribution.

4.2 The most recent such (Newspoll) survey was for December 1998, and found that:

i) 88 per cent of those surveyed rated the ABC and its services as valuable to the Australian community

and that for all answering respondents

(ii) 86 per cent rated ABC television programming as good, compared to only 44 per cent for commercial television

(iii) 81 per cent felt the ABC did a good job at providing television programs they personally liked to watch – as opposed to 50 per cent for commercial television

(iv) 89 per cent rated ABC radio programming as good quality compared to 66 per cent for commercial radio
85 per cent thought ABC radio did a good job in providing the amount of programs they liked to listen to as opposed to 66 per cent for commercial radio.

4.3 In a separate survey (AustraliaSCAN 1999) respondents were asked how satisfied they were with various public services – 82 per cent per cent said that they were satisfied with the ABC. Respondents were also asked whether the quality of services was improving, getting worse or the same compared with a year ago and, based on net results, the ABC’s quality of service was considered to have improved. That of most other service providers was not.

4.4 In 1994 quantitative research measured client and taxpayer appreciation of services, in dollar terms. In an independent study of public budget outlays in Australia, the Economic Planning Advisory Commission established public willingness-to-pay for the various taxpayer funded activities of government. The EPAC study controlled for a full range of flaws and biases common in less rigorous studies. Of relevance to the ABC was that the study found the following: the mean willingness to pay through taxes for arts and public broadcasting support ($129) exceeded the then mean liability for these activities ($121) by 7 per cent per taxpayer. Unlike other areas, such as family assistance, defence, unemployment benefits, general government, general industry assistance and the like, where decreases were indicated, in the arts and public broadcasting field an increase would be supported, though, it should be noted, the ABC’s parliamentary appropriation was in fact subsequently cut not increased – so potentially increasing the gap between citizens’ preferences and politically determined budget appropriation.

4.5 A growing gap between taxpayer preferences and ABC budget has in fact been confirmed in recent quantitative research updating the earlier EPAC analysis. March 2000 data in the National Social Science Survey indicate a mean willingness to pay for the ABC itself of $48 per head versus an actual outlay in 1999 of $37 per head. The gap here is therefore 30 per cent. Table 5 illustrates further the support for ABC funding and its growth over time.

<table>
<thead>
<tr>
<th>TABLE 5</th>
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<tr>
<td><strong>Willingness to Pay: Public Broadcasting, 1992-2000</strong></td>
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<table>
<thead>
<tr>
<th></th>
<th>1992</th>
<th>2000</th>
</tr>
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<tbody>
<tr>
<td>Increase</td>
<td>28</td>
<td>34</td>
</tr>
<tr>
<td>Same</td>
<td>50</td>
<td>53</td>
</tr>
<tr>
<td>Decrease</td>
<td>22</td>
<td>13</td>
</tr>
</tbody>
</table>

Source: EPAC 1994; National Social Science Survey 2000

4.6 It is also instructive to contrast support for the ABC with related areas of endeavour of comparable expenditure magnitude. Figure 14 shows the spending support findings for the ABC, compared to arts and sport. A very limited constituency is seen here to exist for cuts to the ABC and a sizeable group want increases, in contrast to the case of arts or sport. The strong public valuation of ABC services therefore is very evident in these findings.

![Figure 14: Support for Spending: ABC](source: NSSS, 2000)
5. LOOKING FORWARD

5.1 The picture emerging from this review of salient data on the issue of public benefit from ABC public broadcasting is that the ABC is a highly efficient broadcaster by both domestic commercial and global public standards.

5.2 It also well serves the public interest through the composition of its activities especially in areas such as program diversity and innovation while, inevitably, leaving room for improvement.

5.3 The public is demonstrably satisfied that its tax support for public broadcasting is warranted and, indeed, there is rigorous evidence of support for an expansion of funding in this area.

5.4 There are dangers that efficiency for the ABC is coming at a growing cost in terms of some indicators of public benefit such as Australian content.

5.5 There are also dangers for the future as broadcasting technology changes, if a comprehensive public broadcasting presence across existing and new mediums is not maintained.

5.6 Substantial ongoing public benefit from public broadcasting via the national broadcaster will be delivered if there is appropriate funding support, respect for political independence combined with parliamentary accountability, and full access to the new delivery platforms created by the use of the new digital spectrum and other distribution mechanisms (Withers 1999).

Note on Sources:

The primary sources of data for this report are the annual reports of the Australian Broadcasting Authority (and its predecessors the Australian Broadcasting Tribunal and Australian Broadcasting Control Board) and of the Australian Broadcasting Corporation (and its predecessor the Australian Broadcasting Commission), along with several related specialised publications, notably ABT Broadcasting in Australia and ABA Broadcasting Financial Results. Where a source in tables and figures is given as ABA or ABC, the data are derived as above – or from direct supply by the ABC. Years are financial years unless otherwise stated. The additional references used or cited in the text are:

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