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ABSTRACT

This paper traces the development of federal regulations of the broadcast industry aimed at controlling the industry's monopoly abuses within the United States, and describes the development of the industry's major network domination of the media markets and audiences throughout the world. Suggested reasons for this transnational domination include absence of effective governmental regulations, network expensive production quality, and high production costs unattainable by developing countries. The author cautions that the major network domination of the United States and international market leads to cultural pollution since the networks' major emphasis is upon building large audiences rather than program quality. (CMV).
ECONOMIES OF SCALE AND CULTURAL POLLUTION

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ECONOMIES OF SCALE AND CULTURAL POLLUTION

"What's good for the goose, is good for the gander... (Anon.)."

To the extent that information is the product of an industrial process, which may be exchanged, purchased, or otherwise distributed in society; and to the extent that its production and distribution can be controlled by the application of monopoly power; and further, to the extent that its production or use is associated with substantial externalities or diseconomies, there is a need for regulation.

Mountains of paper attest to the fact of a historic need for regulation of the telecommunications industry in the US. And, though we appear to be momentarily in the clutches of a deregulatory fever, developments in the use of the satellite and the computer promise to add even more paper to the mountain.

This essay will argue that the conditions which have historically supported the regulation of telecommunications in the US have been reproduced around the globe, and exist most formidably within the developing economies. It will be argued further that many of the solutions chosen for the protection of the public interest in domestic matters, are just as appropriate when selected for implementation by the non-aligned nations, or other members of the world community.

THE REGULATORY Nexus

Though it is currently being touted as a "new" approach to regulation, the focus on structural, rather than content-oriented approaches, has characterized the federal posture from the beginning. While the Radio Act
of 1927 specifically forbade any regulation which would interfere with the
right of free speech, the Commission's interpretation of the public interest
found it making comparative decisions so as to explicitly favor the broadcast
of one class of content over another.

Specifically, in the aftermath of its first attempt to bring order to
an overcrowded and chaotic spectrum, the Federal Radio Commission issued
comments on its emerging interpretation of the public interest standard.
The Commission explicitly favored diversity, and opposed "too much duplication
of programs and types of programs." In fact, this concern with duplication
was extended to include the duplication of services which were available in
other forms:

"For example, the public in large cities can easily purchase and use
phonograph records of the ordinary commercial type. A station which
devotes the main portion of its hours of operation to broadcasting
such phonograph records is not giving the public anything it can not
readily have without such a station." 1

While not explicitly limiting the right of licensees to provide whatever
programs they wished, the Commission indirectly constrained the freedom
of broadcasters by assigning frequencies to those who promised to provide
programming not so readily available elsewhere.

Initially, the regulators saw a fundamental conflict of interests
between the public and the advertisers, and came down somewhat hesitantly
on the side of the public. While not denying the right of advertisers to
benefit from commercial broadcasting, the FRC argued that "such benefit
as is derived by an advertiser must be incidental and entirely secondary
to the interest of the public." 2 In record time, however, the FRC's regulatory
heirs had come to see the public interest as being indistinguishable from
the interests of broadcasters, and whenever the free flow of information
could conceivably threaten the economic viability of the existing stations, structural policies emerged to restrict that flow.

Following the Carroll decision in 1958 (3), the Federal Communications Commission (FCC) gave explicit consideration to economic injury whenever petitioners alleged that such injury would result in a reduction of service to the public. The Commission's efforts to restrain the growth of the cable television industry is the most telling case in point.

In response to the demands of broadcasters for protection against the threat of imported signals, the Commission in the Carter Mountain case denied the application for microwave service to a cable system where a duplication of network programs would place a station "in the economically disadvantageous position of finding it more difficult to sell its advertising." Once the duplication case had been made, it was only a matter of time before the FCC would offer protection from the importation of any signals which might conceivably threaten the economic viability of a local broadcast licensee.

In the Southwestern case(5), the FCC won not only explicit authority to regulate cable, but the right to deny the importation of distant signals into the top 100 markets. The 1972 cable regulations (6), characterized by both restrictions and requirements in the area of content, represented movement to the extreme boundaries of acceptable limits on the free flow of domestic information. While requiring the establishment of municipal, educational and public access channels, the 1972 cable rules proscribed the number and origin of distant signals which could be carried by cable systems, and specified strict limits on the kinds of programs the cable operator could originate on its own channels.
It is important to note that in all this time, not a single broadcaster has been required to demonstrate that the public interest had been harmed as a result of competition from cable or pay television systems. The implicit, but untested model supporting FCC restrictions on cable systems has the following assumptions:

1) that distant signal carriage, which objectively implies an increase in viewer options, would "fractionalize" or further divide the potential audience for any single program, or program source;

2) this fractionalization of the audience would result in a directly proportional revenue loss to the broadcasters, and

3) this revenue loss would result in a reduction in local public service and news programming, thereby producing a net loss in information valued by the public.

The closest anyone has come to validating this operating policy model is an econometric study by the Charles River Associates (CRA) for the National Association of Broadcasters (NAB), submitted to the FCC in 1978 (7). The CRA study established the obvious link between audience size and revenue, but it did not, and could not speak to either the influence of cable programming on audience size, nor the change in the amount information and value available to the public.

Thus we can see in the case of cable television, the establishment, by government, of substantial restrictions on the free flow of information on the basis of an unsubstantiated, and weakly argued threat to the public interest.

In contrast with the essentially anti-competitive approach to the regulation of cable and pay television, the FCC and the Department of Justice have acted periodically to limit the activities of US media giants because they had been determined to exercise monoplistic control over their industry. In this case, government regulation can be seen to restrain one
communicator, in order to increase the freedom of a larger group to participate more freely in the marketplace of ideas.

Though FCC action has failed to substantially alter the power of the networks, it has tried continually since 1941 to restrict several of the more explicitly anti-competitive practices. The Chain Broadcasting Regulations were promulgated following the first in a series of investigations by the Commission to determine whether the public interest required special regulation of broadcast networks. The Commission identified eight specific abuses which were characteristic of network operations, and were in their view, in conflict with the public interest.

One of those abuses involved the provision of "territorial exclusivity" to affiliates, by agreeing not to sell programs to any other station in the same market or region. This resulted in a formal barrier to the flow of programs to these markets whenever an affiliate declined to carry a program which might conceivably have been aired by other stations in the market.

A second abuse cited by the Commission was in the area of the affiliate's right to reject network programs. Networkaffiliate contracts required the affiliate to make an impossible determination that broadcasting a given program would not be in the public interest, in advance of its having been reviewed. The Commission argued, and the Court agreed, that such rules resulted in the affiliates transferring program decisionmaking responsibility to the networks.

A third abuse, and one which continues in large part to this day, involved the network ownership of broadcast stations in the major markets. Because the networks had bottled up the best facilities, it was virtually
impossible for competing networks to develop. While networks no longer operate more than one station of the same type in the same market, those stations are still in the major markets, and make it possible for the three networks and their fifteen owned and operated (O&Os) stations to capture 52% of broadcast revenues in 1977, while the other 655 stations scrambled for the rest (9).

In the early 60s, the Commission once again attempted to enhance competition within the television industry by restricting the network's control over the production of programs, and their syndication once the network run was completed. The Prime Time Access Rule (PTAR), in one hotly contested version after another, sought to stimulate independent production. While direct network control may have been reduced in the syndication market, and there are signs that the independents in Hollywood have been getting a larger share of the network program dollar (10), program decisions at the station level are still very much constrained by programming decisions made by the nets.

Because of the tremendous resources available to the networks for the purchase of dramatic and comedy series, made for television movies, and the latest series of long form specials, like Roots and Holocaust, the production costs for comparable product has been inflated well beyond the reach of the individual station owner. Indeed, for many independent stations, the cost of popular series in the first year of off-network syndication is still too high. Variety reported that in 1978, Viacom was asking $55,000 for each episode of ANTHE FAMILY from stations in the Los Angeles market (11). There is no wonder then, that independents have been clamoring for protection against the pay television systems, which, with the aid of satellite interconnection, have reached an
operational scale where the expenditure of $10 million for original material begins to make good economic sense (12).

Now, almost every corner of the federal administrative bureaucracy, there is an agency involved in formulating regulations for the broadcast industry, either because of anti-competitive practices, or because of a more general concern with the impact of these media on special groups in society. Each of these proposed regulations presents the very real potential for restricting what we affectionately call the free flow of information.

It is hypocritical therefore, for these same policymakers to join with the media industry in raising a great hue and cry when other governments seek to establish regulatory limits to the flow of information across and within their borders. Efforts of these developing nations to reduce or eliminate the domination of these information channels by Western, and primarily American transnational corporations (TNCs) may be seen to flow from a natural desire on their part to support the development of their own fledgling media industries, or to reduce the harmful social costs which are associated with the continued use of a polluting technology.

THE COMMERCIAL IMPERATIVE

While television systems may have been introduced ostensibly for the purposes of development, national integration, foolish pride, or just for the entertainment of the urban elites, once the decision is made to support that system through the sale of commercial time, it automatically becomes vulnerable to domination by Western TNCs. It is simply in the nature of things that once the production of audiences becomes the goal of the programming effort, the choice of content is constrained.
The production of audiences is an industrial process like any other. Its technology can be described in terms of the attributes of the program used to produce audiences varying in size, age and income. The commercial imperative requires the selection of the technology, or programs, which maximize the audience while minimizing the costs of production. For a variety of economic and historical reasons, these programs are either American telefilms, theatrical releases, or a reasonable facsimile produced in the former colonial centers.

The Hollywood film industry is without peer in its ability to produce audiences in theaters, or in front of the television set. I suggest that it is only the explicit policies of nations to restrict the importation of the Hollywood product that limits its domination of the world's screens, as it is clear that cultural differences no longer serve as a protective shield.

Japan is perhaps the best example of the transcultural power of the Hollywood film. E. Pinder suggests that "Japanese taste in movies now parallels American tastes with 'All the President's Men,' 'One Flew Over the Cuckoo's Nest' and 'Taxi Driver' not only box office favorites, but also winning Japanese awards (13). Pinder notes that the majority of films imported by Japan come from the US, and though the domestic feature output of Japan exceeds the import figure, the imports generate more in total box office receipts. Star Wars, is a more recent example of the power of the Hollywood product in producing Japanese audiences and box office revenues. The take from a two day premiere of the film in 167 theaters produced more than $623,000 in receipts, and in just 16 days in 147 theaters, the film generated a staggering $8.2 million (14).

The picture is little changed in television sales, though the members of the Motion Picture Export Association (MPEA) are less dependent upon television contracts than they are on foreign film rentals. Jack Valenti,
president of MAA, reported that in 1976, "the foreign theatrical market represented 49.5 percent of total film grosses, while for television, the foreign markets accounted for 23.4 percent of grosses(15)." Figures for 1977 reflected a 20-25 percent increase, over 1976 sales, and 1978 estimates topped $275 million in gross revenues(16).

American program sources now dominate the international telefilm market, and there is every reason to believe that as import restrictions increase, the US product will capture an even larger share of the pie that remains. The US leads the way with its familiar line-up of police, detective and other action-filled series, it also dominates some of the more specialized markets, such as that for children's television. In Sweden, a country which imports half of all its television programs, approximately one-third of all children's programs broadcast were produced in the US (17).

American series enjoy the best prime time slots everywhere around the globe. Katz and Wedell examined the television schedules for 9 countries in July, 1975, and the only station that did not include at least one American program was the BBC service, and that was dominated by coverage of the Apollo/Soyuz adventure in space (18). In Argentina, 1977 ratings showed American series to be winners of audience production awards most nights of the week. Bonanza and Bionic Woman carried Monday night, Streets of San Francisco on Tuesday, Wonder Woman, Charlie's Angels and Kojak captured the Thursday viewers, and Police Woman dominated the ratings on Sunday after 10:30 PM (20).

Japan, which tends to hold its own theatrical product away from the
television market, depending instead upon its four major studios to make telefilms under contract, remains a significant market for dubbed American films for television use (21). A major Japanese film importer, Yoshaiki Enoki, recently announced plans that would further extend the American presence in Japanese television. Enoki has begun packaging theatrical features which have not been seen in Japanese theatres, for use on television. He reported:

"The networks are ready to acquire unreleased films from established firms like ours, the main job of which is to put together interesting packages of features. War films, science-fictioners and suspense-actioners are up high on our list of desirable product(22)."

Enoki's efforts will support the development of a larger role for American independents in the international television market. Because they are not members of Valenti's cartel, they do not enjoy the negotiating edge enjoyed by the majors. The independents have suggested that "the only alternative to this is the exploitation feature with a 'gimmick' which would currently include disco films, science fiction, horror and high quality sex exploitation"—just the kind of thing Enoki has in mind (23).

THE NATURE OF TRANSNATIONAL DOMINATION

While there can be no question that American product dominates the international market for film and television material, there is some question about the reasons for the present state of affairs, and whether there is sufficient justification for government intervention. American anti-trust policy, developed over the years through attempts to implement the intentions of the Sherman Act of 1914 and the Clayton Act of 1914, would seem to apply specifically to the foreign operations of the MTEAA, in that monopolization on its face, or attempts to monopolize through conspiracies, or price discrimination is against the law.
Of course, we recognize that the 1918 Webb-Pomerene Act exempts members of NEAR from prosecution for its anti-competitive activities abroad, we cannot remain self-righteous in our negotiations at UNESCO and at future UNESCO summits while we continue to openly support practices which would be illegal at home. In fact, if the FTC, which is charged with supervision of agreements under the act were to seriously investigate the relationship between collusion by the majors abroad, and their continued domination of the industry at home, these protections would ultimately be denied.

Less critical observers of the international market would deny that the present state of domination is the result of anti-competitive practices, but is a reflection of the fact that the American product is superior, that viewers around the world recognize this, and demand nothing less that the best from their media systems. To the extent audience ratings are a reflection of viewer preferences, superior ratings for American telefilm would support such a view. However, it is also clear that ratings don't tell the whole story.

Coleman and Nixon suggest that:

"An essential element of TNC power is their ability to create demands and mould tastes, and the products of the advanced capitalist economies are being increasingly consumed by the middle and upper income groups of the LCs...An international elite has come into being which, although geographically widespread, exhibits a basically uniform pattern of consumption...This process has also spread to those in the lower income groups who will often consume the brand-differentiated, heavily advertised products of the TNCs rather than the cheaper, but less sophisticated products of the local firm (24)."

This is no less true for mass media products than it is for processed foods, clothing, or other imports which many of the developing countries have tried to replace with local products, and failed without the support of protective tariffs.
Program quality is of course, a factor in America's domination of the world's media channels. To deny it would be pure folly. But, it is the historic fact of significant market power that makes this level of quality possible—one feeds the other. While there is no one-to-one relationship, one must assume some positive and significant link between production expenditures and the quality of the product—especially where "quality" is measured in terms of those production attributes important to today's mass audience. Production costs for American motion pictures have increased each year since 1921, with the average negative cost going from $400,000 in 1941 to over $4 million in 1976; an increase by a factor of ten (25).

No other nation's industry can even come close.

This scale of operation exists as a virtually impenetrable barrier to successful entry by smaller units hoping to compete in the local domestic market. It is in the nature of monopolized production and distribution systems that market power varies directly with the size of the market served. The relationship of network affiliates to independent stations in the US provides a convenient, but illustrative example.

If the average costs for the production of a local television program was in the neighborhood of $10,000, a distributor serving 100 markets would need to collect only $100 from a single station in each market in order to provide them all with a program of average quality—a savings for each station of $9,900. However, if the distributor asked $5000 from each station, a savings of 50% over average program costs, these stations could sell the larger audience which would surely be produced by a $500,000 program. No other station could hope to compete with a program 50 times more expensive than its budget would allow. Those stations would be effectively barred from competing as program producers, and would be forced to seek out a program distributor of their own.
Thus, given the tremendous economic advantages associated with acquiring programs from monopoly firms, it is quite unlikely that production units in the developing countries could seriously hope to compete as producers in their home markets. While many analysts have explained the persistence of the one-way flow as a problem of inadequately developed production infrastructures in these countries, this is obviously not the case. Brazil began its television operations in 1950. Since this predated the development of videotape, or the introduction of telecine, Brazil had to develop some expertise in live teleproduction. However, telecine operation began in 1959, and the first vtrs were introduced in 1964 (26), and today, Brazil is one of the five top buyers of American television programs (27).

Even the BBC, long revered for the quality and originality of its programming, is finding that competitive pressures are taking their toll. Even though the BBC does not yet depend upon commercial sales for its support, its management believes that it is in competition for audiences—a competition it cannot hope to win. Production budgets are limited at the BBC because production costs have skyrocketed, while the income derived from set license fees have leveled off (23). As a result, the original programming for which the BBC was known is giving way to game shows and American serials like Starsky and Hutch. While the BBC is entering its decline, the fortunes of its commercial competitor are growing steadily, and it is picking off the BBCs producers, directors and popular personalities as it goes. While the end of the BBC is not in sight, the trend is unmistakable.

Just as there can be no question that the American cartel has an insurmountable advantage over any single producer, or producing nation, it can be seen that these same benefits of scale make it difficult for other distributors to compete. While bigness allows American producers to
outspend its competitors, it also allows the cartel to underprice most of them as well. France recently established a pool of more than $600,000 to subsidize the sale of French programs in the world market. One French official is quoted as saying:

"The price asked for US productions sets the level at which TV stations all around the world are prepared to buy. The French networks cannot sell in some of these territories at these low prices without incurring a loss. The money obtained for programs does not cover the cost of prints and rights payments to authors." (29)

F.M. Scherer notes that "price discrimination can be practiced profitably only if the discriminator possesses some market power(30)." The American cartel is without a doubt a perfectly discriminating monopoly. It operates not only to capture virtually all consumer surplus, but it acts predatorily to exclude competitors from the market. Though one would expect a reasonable amount of variation in the prices asked, based on the differences in the conditions of the marketplace, there should be some common factor to all. Unless, of course, price discrimination is being used to create or maintain market advantage.

One would expect that sales in different nations would reflect the number of television sets, or points of distribution for the purchased programs. A country with more sets should naturally expect to pay a higher price than a country with less. One could see the justification for Nigeria with its 500,000 television sets paying between $100-500 for each half hour series, while West Germany, with more than 20 million sets would be expected to pay around $5000 for each half hour. After all, the cost for programming each thousand sets would be nearly the same, about twenty five cents.

Using 1973 data published in Variety and Movie/TV Marketing, costs per thousand (CPM) were calculated for 49 countries doing business with
American exporters (Table One). These costs ranged from a low of three cents in South Korea, to a high of $1.67 in Saudi Arabia. While there are probably a great number of additional factors which might help explain the marked divergence of these CPM estimates from a constant figure, predatory pricing by monopoly firms cannot be ruled out. In addition, the unexpected discovery that Chile, South Korea and Taiwan had by far the lowest CPM's provides some support for a cultural imperialism thesis, which would suggest that there is much more at stake than short-run foreign exchange gains.

When economic power is not by itself enough to maintain American firms in the dominant position in the entertainment markets of the world, the record suggests that political pressures are then brought to bear. As a witness before the Senate Committee on Foreign Relations, Jack Valenti spoke openly of his dependence upon State Department muscle in his negotiations with foreign governments.

"Many times our ambassadors have accompanied me to conferences with heads of state and with leading cabinet officials to express the concerns of the United States in a successful outcome (31)."

Such behind-the-scenes pressure has been successful recently for temporarily keeping the UK from lowering its quota on imported television programs from 14 to 12 percent (32).

By now, it should be clear that there is sufficient reason for any nation that wants to develop its own production capacity to seek protection against the might of the American cartel. Not even the BBC appears able to hold its own against the competitive pressures generated by these firms in increasing their annual take in the entertainment market. If unfair, anti-competitive practices provides the basis for government action in the US, and protective tariffs exist in great number to protect threatened US industries, why should we expect anything less from our neighbors around the world?
CULTURAL POLLUTION

In this final section, I would like to return briefly to an earlier statement about the production of audiences. As Smythe and others have noted in the past, commercial broadcasting is an industry which produces audiences for sale to advertisers, or other sponsors. As in any industry, there is more than one way to produce a desired level of output, though some are more efficient than others. My own research into audience production functions for American television (33) has been able to explain as much as 70% of the variance in the size of the CBS television audience with measures of the amount of violence in each program. We have seen that in the international market, the American formula, well-laced with sex and violence, is perhaps the most efficient technology for audience production presently developed.

However, in the US, and in most other advanced capitalist states, industries are not free to use any technology they choose. Or, more specifically, there are regulations which limit or control the use of certain factors of production because of the externalities associated with their use. While atomic power, in the absence of regulation might be the most cost-efficient means of producing electricity, the society has correctly determined that there are sufficient dangers associated with the use of this technology, that some regulation is required. Efforts to reduce air pollution, water pollution, noise pollution, or even urban congestion through the regulation of industrial processes are accepted forms of government action.

I wish to suggest that there is a clear analogy to be made with audience production. The use of the most efficient technology for audience production is unavoidably accompanied by what we might call cultural pollution. There is a rich literature in the US establishing the link between exposure.
to television violence and aggressive behavior in children. The FTC is wading through mountains of evidence which links television viewing with dental and other health problems in children. The work of Gerbner and his colleagues at the University of Pennsylvania has provided convincing evidence that the more television one watches, the more one comes to see the world in television terms (3). And, because the world of television diverges significantly from the world of everyday experience, heavy users of television develop a distorted view of society. They tend to overestimate the amount of violence in the world, overestimate the probability of their becoming victims of violent assault, and more importantly, are more willing to have the police or other social agents take aggressive action to protect them from their neighbors.

Television is replacing parents, peers, teachers and the church as the primary socializing agents in society. Television teaches values, and it does so through the constant repetition of formulas where the "good guys" win and the "bad guys (or helpless gals)" lose. Television also teaches options, provides a yardstick against which to evaluate yourself, your family and friends, and always come up short. American television, in a foreign land cannot help but pollute the social atmosphere. Rather than react with alarm when a progressive government questions the wisdom of providing its citizens with a daily dose of Happy Days and the Hulk, we should applaud their foresight, and wish them luck.
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*Variety, April 19, 1978 (rounded median score)

+Movie/TV Marketing, July 1978 (rounded)
NOTES:


2. Ibid.


6. Cable Television Report and Order, 36 FCC 2d 143, March 31, 1972


11. Variety (August 30, 1978) p 54

12. Gerald M. Levin (President of Home Box Office), "HBO Relies on Originals to Aid Growth" Variety (January 3, 1979) p 196

23. Variety (April 19, 1973) p. 75
21. Finder (op. cit.) p. 669
22. Movie/TV Marketing (July, 1973) p. 27
23. Michael F. Goldman (President, Lanson International) "US Indies and Overseas Arts" Variety p. 40
26. Katz and Wedell (op. cit.)
27. Broadcasting (April 19, 1979) p. 32
29. Variety (April 19, 1973) p. 100