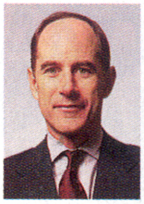


HOW TO FIX TV DRAMA

Want more good Canadian shows? ROGER MARTIN has a blueprint.

LAMENTS OVER the dearth of good Canadian television drama are frequent and, if anything, intensifying. In the July 15 issue of *Maclean's*, the new CRTC chairman, Charles Dalfen, joined the chorus and hoped that discussions with Canadian producers and broadcasters could help focus their attention and resources on the holy grail of high-quality drama.

Sadly, I predict that nothing that has been discussed by Charles Dalfen or anyone else will change the current circumstances. Except for news and sports, Canadians mostly get second-rate Canadian content, and they respond the only way they can or should—by not watching it. But this problem can be fixed. It requires a change in the fundamental structure of content rules, from regulating input—hours of Canadian programming—to output—the level of Canadian-content viewership.

This story should be seen as a cautionary tale about high-minded but sloppy-thinking regulators producing the exact opposite of what they want. These officials need to be incredibly precise in their logic or they will wreak havoc while trying to help.

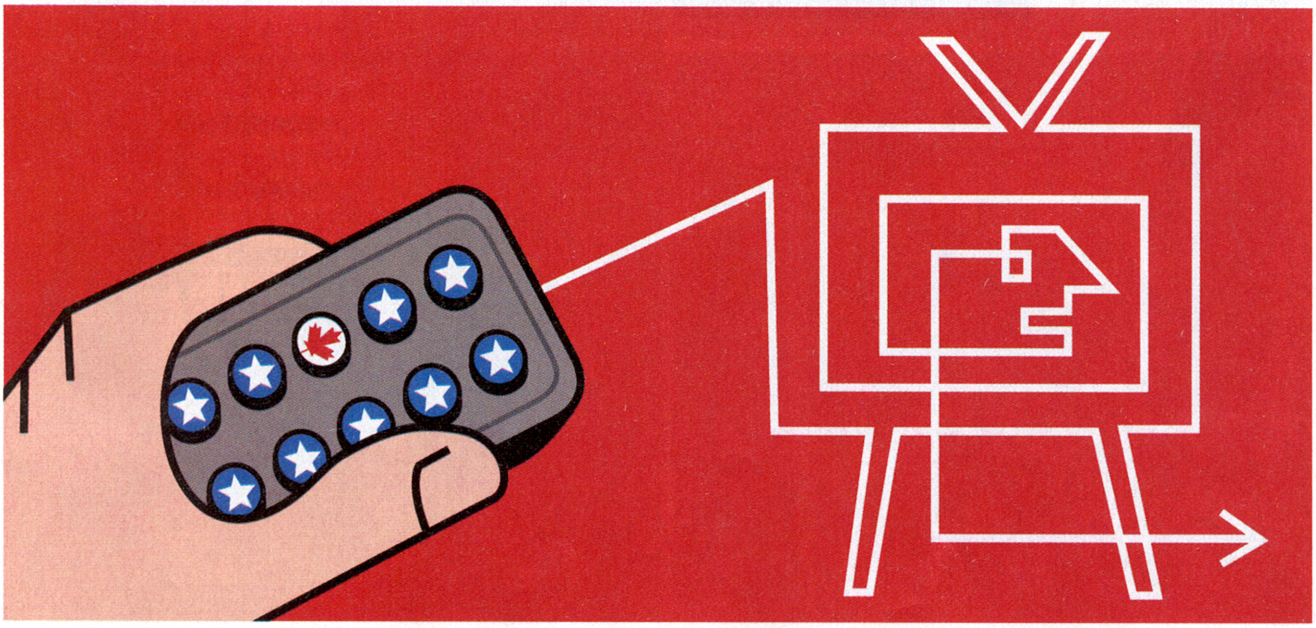
In this case, the story of unhelpful help started in 1961, when the Board of Broadcast Governors, the CRTC's predecessor, became concerned about the increasing Americanization of Canadian television screens, and instituted new requirements. The rules have been tweaked several times over the years, but since the 1960s, at least 50 per cent of Canadian prime-time broadcasts—60 per cent for the CBC—has had to be "Canadian content" (with a point system to identify the true Canadian-ness of any program). This started a downward spiral that has continued to the present.

To see why, the underlying structural logic must be understood. When the regulations came in, it's obvious that broadcasters were producing less than the desired 50 per cent Canadian content. Let's say, for the sake of argument, that it was 35 per cent—that at that level, they were able to attract the viewership that would interest sufficient advertisers in order to produce Canadian content at a profit.

But then the requirement changed to 50 per cent—21 of the 42 hours a week of prime time, rather than the 15 that made economic sense to broadcasters. Of course, the regulators could say: "Too bad, that's just the cost of doing business, and by the way, we gave you your licence for free so you're getting a good deal." All true, but truth doesn't help the regulators accomplish their goals.

The Canadian broadcaster, already satisfied with 15 hours of Canadian content and 27 of mostly U.S. material, needed to find a solution. One option could have been to invest heavily in the six new Canadian hours in order to make them economically successful. However, logic holds that if such opportunities existed, they would already have been taken. The more likely alternative was to minimize the investment in the six new hours in two ways—use the least attractive time slots, which have the lowest opportunity costs; and spend as little as possible on production, because those hours are guaranteed money-losers in any event.

The second, less obvious effect was to increase the spending per hour on the re-



JOHN HRYNIUK; ILLUSTRATION BY KNICKERBOCKER maining 21 permissible hours of U.S. content. Why? Because instead of operating at the logical equilibrium of 27 hours, a point at which broadcasters were indifferent to adding or subtracting from the total, they now wished they could invest more in U.S. programming. Given its attractiveness and the limited time slots, the incentive for the broadcasters was to pay top dollar per hour for the best U.S. content.

The underinvestment in too many hours of Canadian content and the overinvestment in too few hours of U.S. content widened the quality gap. The reaction of Canadian viewers was absolutely rational. Faced with an excessive quantity of low-budget Canadian shows and a limited amount of high-cost U.S. ones, they chose to watch the American stuff and largely ignore the Canadian. So broadcasters had the incentive to further minimize the investment per hour in Canadian content and maximize the investment per hour in U.S. content, which lowered Canadian viewership and raised U.S. viewership, and so on. . . .

Fast forward to the present to find out where this downward spiral has left us. In drama (including comedy), 90 per cent of English-language viewers' time is spent watching foreign programs and a mere 10 per cent on Canadian shows. This is both an embarrassment and a huge waste of resources spent on programs almost no one watches. But the regulators got exactly what they asked for—production of Canadian content—even though they wanted something entirely different: Canadians proudly and happily watching Canadian shows.

That is the tricky thing about design of regulation—one gets what the structure is designed to encourage. So the lesson is to be incredibly careful about what you encourage. No amount of cajoling, jawboning or anything of the sort will change this.

But it can be changed for the better with a fairly simple shift. What we want is more viewership of Canadian content. So don't regulate production of Canadian content, regulate viewership of Canadian content. If viewership of drama is 10 per cent now—and unlikely to improve under the current rules—set a viewership target of 12 per cent for next year, a whopping 20 per cent increase. Drop the input requirement entirely—the broadcasters can show as many hours of Canadian content as they wish. Establish an agreed-upon methodology for measuring the number of people watching and a schedule of fines for missing the target. The greater the miss, the greater the fine.

The story is a cautionary tale about sloppy-thinking regulators producing the exact opposite of what they want

This would completely reverse the current structure. Instead of minimizing spending across many hours, broadcasters would maximize the investment per hour in a few hours of Canadian programming in order to meet the 12 per cent target and avoid the penalty. Instead of giving Canadian dramas the worst time slots, they would—at least selectively—offer the best. While U.S. dramas would still receive high investment—with 88 per cent of the projected viewership—there would not be a constant push to increase this outlay at the expense of Canadian shows, because the value of a Canadian content viewer would rise substantially.

Moreover, with the incentive to produce fewer, but higher-quality, shows, Canadian producers and broadcasters would be motivated to invest in successfully exportable Canadian programming. The payoff to a Canadian hit would be huge—meeting the Canadian viewership target and gaining export revenues.

In fact, the economics for Canadian producers would begin to mirror those for their U.S. counterparts. American firms produce for the domestic market, hoping to pay for the investment at home and then sell the show internationally at marginal cost. This reality is bemoaned by the supporters of Canadian programming, who correctly point out that the cost per hour to bring in U.S. shows is much lower than the cost of creating Canadian drama. This is because the U.S. producers sell here at marginal cost, while Canadian producers have to recover their investment in a small home market. However, with a high return in the local market for a successful Canadian show, its producer could look to international sales for incremental profit opportunities.

CRTC chief Dalfen is talking with the industry, but the problem lies with the rules

One might ask: Can this really be done? Is it that easy? In fact, output regulation has already been used successfully in a major U.S. industry. Frustrated by the difficulty in getting the automakers to improve their cars' gas mileage, the U.S. Congress chose to use output regulation and let the companies figure out how to adjust. In 1975, it established Corporate Average Fuel Economy (CAFE) targets that began at 18 miles per U.S. gallon in 1978 and rose to 27.5 mpg by 1985. Congress left the "how" to the automakers—through selling smaller cars, making their large cars lighter, making their engines more fuel-efficient, whatever was most effective. Indeed, they did all of the above and met the requirements—doubling fuel economy in the American fleet. The only complaints about the CAFE regulations are that in becoming as much as 500 kg lighter, cars are feared to be less safe, and there has been a migration to SUVs, which are regulated as light trucks with a 20.7 mpg CAFE standard. However, the goal of increasing fuel economy has been achieved efficiently without complicated, bureaucratic input regulations. In fact, SUV makers are fighting against calls to categorize SUVs as cars—having seen only too clearly the effectiveness of output regulation.

Canadian regulators have a choice with Canadian television. They can maintain the status quo and perpetuate an environment that guarantees an uncompetitive and unattractive product. Or they can revolutionize the structure of regulation and give the Canadian industry a fighting chance. It is time to choose, *really* choose. M

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