The Entertainment Industries, Government Policies, and Canada's National Identity

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Contents

Executive summary

One of the longest standing shibboleths of Canadian public policy is that popular culture industries in Canada must be financially supported and protected by government if those industries are to survive. Moreover, the survival, if not the growth, of those industries—the "entertainment" industries—is essential to maintaining what supporters identify as Canada's "national identity". From this point of view, government support and protection of Canada's entertainment industries can be seen as contributing to the survival of Canada as a sovereign nation or, at least, to the promotion of a more civil and cohesive Canadian society. A related argument for government intervention is that it is "justified" by the economic contributions that the entertainment industries make to Canada.

The broad objective of this study is to assess the main arguments for direct and indirect government support for the entertainment industries in Canada. While the focus of the analysis is on Canada, the main theoretical arguments could apply to most small, open economies. The assessment includes identifying and evaluating the relevant arguments for and against government support, as well as an evaluation of the admittedly limited evidence bearing upon those arguments.

The study comes to two main conclusions. One is that specific and plausible economic arguments can be made in support of government policies to encourage increased production and consumption of Canadian entertainment programming; however, the empirical evidence in support of those arguments is scarce and limits the applicability of the arguments to a relatively circumscribed set of entertainment products. A second is that prominent government policies such as Canadian-content regulations in broadcasting and restrictions on foreign ownership in a variety of cultural sectors are costly and inefficient instruments to promote increased production and consumption of Canadian entertainment programming. Arguably, the main justification for government intervention in the entertainment industries is the *externality*—one person's actions affecting the well-being of others—of a stronger Canadian identity. The main policy inference to be drawn is that government intervention should be much more focused than it currently is on encouraging activities that reinforce the population's pride in, and commitment to, distinctly Canadian political, social, and economic institutions. Another policy inference is that increased government expenditures on educating and training Canadians to work in new media activities can be an important instrument to promote the economic vitality of Canada's entertainment industry.

1 Introduction

> *"... if Canada stops supporting its culture, it will be endangering its survival as an independent nation."*
>
> —Tom Hennighan (1996: 3)

> *"Canada is the only country in the world that knows how to live without an identity."*
>
> —Marshall McLuhan (Canadian Studies Centre, 2008).

One of the longest standing shibboleths of Canadian public policy is that popular culture industries in Canada must be financially supported and protected by government if those industries are to survive. Moreover, the survival, if not the growth, of those industries, which will henceforth be called the "entertainment" industries, is essential to maintaining what supporters identify as Canada's "national identity". From this point of view, government support and protection of Canada's entertainment industries can be seen as contributing to the survival of Canada as a sovereign nation or, at least, to the promotion of a more civil and cohesive Canadian society. A related argument for government intervention is that it is "justified" by the economic contributions that the entertainment industries make to Canada.

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The study proceeds as follows. The next section provides an overview of the entertainment industries in Canada and puts their size in context relative to other Canadian service industries. Section 3 describes the main forms of government intervention designed to promote and protect Canada's entertainment industries. In Section 4, the main economic justifications advanced for government intervention are introduced and considered. Key empirical issues arising from the theoretical economic considerations are identified. These issues are assessed against some available empirical evidence in Section 5. Section 6 addresses the costs of government intervention. A summary and a set of policy conclusions is provided in the final section.

1 An externality arises wherever one individual's actions affect the well-being of another individual.

2 Overview of the Entertainment Industries

Typically, a distinction is drawn between popular culture (or entertainment) and other cultural activities such as fine arts, theatre, ballet, symphonic music, and so forth. While the distinction is not drawn with a bright line, a major characteristic of entertainment programming is that it is distributed through mass media channels such as television, the internet, radio, and retail chains, whereas other cultural products tend to be distributed through local and specialized channels such as museums and galleries, concert halls, and specialized dealers and websites (as in the case of paintings or rare books). While federal and provincial governments in Canada provide direct and indirect financial support for all types of cultural activities, the major focus of government regulation is on protecting domestic producers of entertainment programming against foreign competition. Furthermore, if one includes the Canadian Broadcasting Corporation (CBC) as part of Canada's entertainment sector, the latter receives the largest single share of direct financial subsidies. Since financial "need" and related arguments for government assistance are particularly controversial in the context of entertainment industries, those industries are the focus of this study.

Size of the entertainment sector

> *Writing and publishing has translated into profits and employment for many Canadians. As a result, the federal government has a vested interest in supporting the writing and publishing industry.*
>
> —Sheffield, 2009

For the purposes of this study, entertainment products encompass TV productions, feature films, recorded and/or published music, books, and periodicals. Also included is the production of commercials. Increasingly, advertising is part of what is being called "new media" entertainment, where the latter includes computer graphics and other specialized services used for video creations.[2] **Table 1** reports estimated total revenues derived from sales of entertainment programming in 2011 in billions of current dollars. Obviously, the boundary between entertainment and "industrial" new media activities is somewhat arbitrary. Hence, the estimates of production activity in various segments of Canada's entertainment industry that are summarized in table 1 are certainly subject to fine-tuning.

Table 1: Total revenues ($ billions) from entertainment products, 2011

Sector	Revenue
Made-for-TV productions	2.1
Feature films	0.4
Recorded/published music	0.8
Book publishing (2010)	2.0
Periodical publishing (2010)	2.2
Commercials	0.5

Sources: Statistics Canada, 2013a,2013b, 2014.

The total entertainment sector also encompasses the distribution of entertainment products. The main distributors of entertainment products are over-the-air broadcasters, cable and satellite companies, and, increasingly, internet broadcasters and content distributors. Revenue estimates are available for the various broadcast distributors, and recent estimates are provided in **table 2**. Revenues earned by independent web site operators and internet broadcasters are unavailable but are suggested to be economically important. For example, Canadians are thought to watch more videos online than consumers in most other countries on a per-capita basis (Canadian Internet Registration Authority, 2013). Furthermore, online music broadcasting and downloading are major distribution channels for recorded music.

Table 2: Total Revenue ($ billions) from Broadcast Distribution, 2012

Sector	Revenue
Conventional TV	2.04
CBC TV	1.37
Commercial radio	1.62
CBC radio	0.33
Cable and satellite	14.1

Source: CRTC, various publications.

2 See Britton, Tremblay, and Smith (2013) for a discussion of new media activities.

While the production and distribution of entertainment products make substantial contributions to the Canadian economy, their economic importance is relatively modest compared to other service industries in Canada, as suggested by the data in **table 3**, which reports estimates of gross domestic product (GDP) for a number of Canadian service industries. These data highlight the relatively small size of the arts, entertainment, and recreation sector, of which entertainment is only a component. Indeed, arts, entertainment, and recreation accounted for slightly over 1% of the GDP produced by all service industries in 2012. The main point here is that arguments defending government intervention in the entertainment industry based upon the important economic contribution made by the industry can also justify government intervention into virtually all Canadian service industries.

Table 3: Total GDP (millions of chained 2007 dollars) of select Canadian service industries, 2012

Sector	GDP
Wholesale trade	83,748
Retail trade	83,648
Transportation	64,725
Finance and insurance	101,798
Real estate	192,523
Education	83,144
Health care	109,376
Arts, entertainment, and recreation	11,418

Source: Industry Canada, 2013.

3 Government Policies

It is impossible in this relatively brief report to identify, let alone discuss in detail, the numerous direct and indirect modes of government intervention into Canada's entertainment industries.[3] Therefore, attention is focused on the current major government programs that financially support and protect those industries. The programs can be sorted into two broad categories: 1. Direct or indirect financial subsidies; 2. Direct or indirect restrictions on competition from foreign-based competitors, primarily imposed by government regulations and investment restrictions.

Financial subsidies—direct

Both the federal government (primarily), as well as the provincial governments, provide direct grants to qualified producers of Canadian cultural products, as well as indirect funding in the form of tax credits. Examples of direct funding programs include:

- Canada Feature Film Fund, administered by Telefilm Canada;
- Canada Media Fund (formerly the Canadian Television Fund), administered by Telefilm Canada as mandated by Canadian Heritage ;
- Canadian Independent Film & Video Fund, administered by Telefilm Canada;
- Canada Periodical Fund, administered by Canadian Heritage;
- Canada Book Fund, administered by Canadian Heritage.

Canadian Feature Film Fund

The objective of the Canadian Feature Film Fund (CFFF) is to increase the supply of feature films produced by the Canadian audiovisual industry as well as to improve the financial performances of the films produced. In

3 For an historical timeline that identifies the federal government's policy initiatives going back to the mid-1800s, see Jeanotte, 2006.

this regard, Telefilm Canada has developed a "Success Index" that it uses to assess the performance of its funding program and to prioritize funding support for production companies.[4] The CFFF prioritizes funding support to production companies with a track record of success commercially (box office results and other sales), culturally (nominations and awards), and industrially (private sector and international contributions), as measured by Telefilm Canada's Success Index. At the same time, the program also has an announced intent to encourage a "diversity of voices" in feature films by providing financial support to promising Canadian-content productions that represent "a variety of genres, budgets and company sizes, regions across the country, different viewpoints such as those of women and emerging talent, as well as projects showcasing the cultural diversity of the country through the presence of Aboriginal communities, linguistic and visible minorities, etc."[5]

Eligibility for funding under the CFFF is determined by an extensive list of criteria that includes requirements for corporate applicants to be Canadian controlled and headquartered in Canada, and for individual and other key production personnel involved in the project to be Canadian citizens or permanent residents. Telefilm Canada explicitly notes that it seeks to support the production of feature films that are owned or controlled by Canadian companies and which contain significant Canadian creative elements. While Telefilm does not restrict filmmakers in their choice of stories or their natural settings, it will, wherever possible, give priority to projects presenting a distinctly Canadian point of view.[6] Telefilm provides funding in one of two ways depending upon the choice of the producer. One form of funding involves an equity investment by Telefilm of up to 49% of the eligible Canadian production costs to a maximum cap of either $3.5 million or $4 million per project depending upon whether the film is a French- or English-language project. Alternatively, the producer may choose to receive Telefilm's financing in the form of a recoupable advance of up to 49% of the eligible Canadian production costs to the maximum cap.

Canada Media Fund

The Canada Media Fund (CMF) is a not-for-profit funding agency that provides financial support for Canadian content creation for the television and digital media industries. Canada's cable and satellite distributors are mandated by Canadian Heritage to fund the CMF with the Government of Canada

4 For a description of the CFFF, see Telefilm Canada, 2013.

5 Telefilm Canada, 2013: 2. Resources within the CFFF are allocated on a linguistic basis that maintains approximately one third of funding for French-language projects.

6 Telefilm Canada, 2013: 3. I was unable to find any definition of what constitutes a "distinctly Canadian point of view" in descriptions of the CFFF.

also providing funding.[7] The CMF delivers financial support through two streams of funding. The Experimental Stream encourages the development of "innovative, interactive digital media content and software applications." The Convergent Stream supports the "creation of convergent television and digital media content for consumption by Canadians anytime, anywhere."

Funding for Experimental Stream projects can take the form of repayable advances or recoupable investments and can be used for development, production, and marketing and promotion activities. Funding is based on the Canadian portion of a project's eligible costs subject to a financial cap. Projects are selected according to a set of criteria that includes requirements:

1 that the underlying rights to the project are owned and significantly and meaningfully developed by Canadians;

2 that the project is produced in Canada, with at least 75% of its eligible costs being Canadian costs; and

3 that the project remains throughout its production under Canadian ownership and Canadian executive, creative, and financial control.

International co-productions may be eligible for funding when there is an acceptable degree of Canadian ownership and control. The actual content of eligible projects is briefly summarized as follows: "An Eligible Project must be digital media content and/or application software that is innovative, interactive, and which is connected to the Canadian cultural sector."[8]

Funding for the Convergent Stream supports projects at the development stage. The program encourages partnerships between broadcasters, television producers, and digital media producers to create convergent content for Canadian audiences. It also supports the growth of production in specific regions, like Northern regions and areas outside of the Montreal production centre, as well as content that reflects specific language targets such as Aboriginal languages, or specific segments of the Canadian population, to ensure, for example, that Canadians living outside the province of Quebec have access to French productions reflecting francophone cultures other than that of Quebec. The programs and incentives that make up the Convergent Stream are targeted at supporting the creation of content in

7 Canada Media Fund, 2013b. The Canada Media Fund delivers approximately $360 million in funding per year.

8 See Canada Media Fund, 2013a: 5. I was unable to identify the meaning of "connection to the Canadian cultural sector." There is mention of an expectation that projects funded under the Experimental Stream be subject to uptake by the Canadian media industry. See Canada Media Fund, 2013a: 2.

drama, documentary, children's, and youth programming and variety and the performing arts. The forms of funding include licence fee top-ups, equity investments, and repayable contributions that are paid directly to applicant producers. In addition to the Canadian ownership and control requirements that were described in the summary of the CFFF, Canadian elements for the television components of projects funded under the Convergent Stream must achieve an acceptable score on the Canadian Audio-Visual Certification Office (CAVCO) scale (Canadian Heritage, 2012). The scale allots points if the person rendering a particular service in a production is Canadian. For example, for live action productions, the use of a Canadian screenwriter obtains two points, while the use of a Canadian art director earns one point (see **table 4**).

Table 4: Key Creative Functions Points System for a Canadian Audio-Visual Production

Key Creative Functions	Points
Director	2
Screenwriter	2
Lead Performer	1
Second lead performer	1
Director of photography	1
Art director	1
Music composer	1
Picture editor	1

Note: A production must be allotted a minimum of 6 points to be eligible for tax credits; 8 points to be eligible for financing of feature films, and 10 points to be eligible for financing of television programs.

Source: Canadian Audio-Visual Certification Office, 2012.

The Canada Book, Periodical, and Music Funds

The principal stated object of the Canada Book Fund is to ensure access in Canada and abroad to a diverse range of books written by Canadians. Under the program, financial support is provided to Canadian-owned and controlled publishers, as well as to organizations producing literary festivals, book award programs, and similar events (Canadian Heritage, 2010a). The Canadian Periodicals Fund provides financial assistance to Canadian print magazines, non-daily newspapers and digital periodicals to enable them to "overcome market disadvantages and to provide Canadian readers with content that they choose to read" (Canadian Heritage, 2010c). The Canada Music Fund's New Musical Works Component provides Canadian creators and entrepreneurs with funding to produce and promote Canadian sound recordings and to develop their craft and expertise. Eligible recipients are Canadian artists, not-for-profit organizations, associations, and corporations including record labels, music publishers, and those involved in management of artists. The Collective Initiatives Component of the Canada Music Fund provides financial assistance for conferences and award shows, real and virtual showcases and market development initiatives. Eligible recipients are Canadian not-for-profit organizations, or associations or corporations owned and controlled by Canadians. Other funding components focus on supporting established Canadian music entrepreneurs to build a strong, sustainable industry, service organizations to promote Canadian artists and music content, and Library and Archives Canada to preserve Canadian sound recordings (Canadian Heritage, 2009).

The Canadian Broadcasting Corporation

The single largest recipient of government funding is the Canadian Broadcasting Corporation (CBC). To be sure, a substantial portion of the CBC's budget should not be characterized as funding the production of entertainment programming. This would include funding of most national and local news broadcasts, as well as public-affairs-related programming, although there is no "bright line" that separates entertainment and non-entertainment programming. The CBC has a long and well-established mandate as a national public broadcaster. It is regulated by the Canadian Radio-television and Telecommunications Commission (CRTC) under the Broadcasting Act, which sets out the broad mandate that the CBC should provide a wide range of programming that "informs, enlightens, and entertains" (CBC/Radio-Canada, 2012: 19). Among its more specific mandates, the Act states that the CBC's programming should be predominantly and distinctively Canadian and should reflect Canada and its regions to national and regional audiences. It is expected to provide programming in each official language reflecting the particular needs and circumstances of English and French linguistic minorities. Programming is also expected to contribute to a shared national consciousness and identity and to reflect the multicultural and multi-racial nature of Canada.[9]

Financial subsidies—indirect

Indirect financial government subsidies primarily take the form of tax credits. In this regard, two programs are particularly important: 1. the Canadian Film or Video Production Tax Credit (CPTC); and 2. the Production Services Tax Credit (PSTC). The former is a refundable tax credit that is available at a rate of 25% of the qualified labour expenditure of an eligible production with the credit not to exceed 15% of the total cost of production net of assistance. The tax credit is designed to encourage the creation of Canadian film and television programming and the development of an active independent

9. See **table 5** for list of direct financial subsidies.

Table 5: Federal Government Direct Funding (2012–2103)

Program	Amount ($ millions)
Canada Feature Film Fund	35
Canada Media Fund	361
Canada Book Fund	31
Canada Periodicals Fund	53
Canada Music Fund	9
CBC	1,160

Sources: Canadian Heritage, various websites; Telefilm Canada, 2013.

production sector.[10] The CPTC is available to taxable Canadian corporations that have permanent establishments in Canada and that primarily carry on the activities of a Canadian film or video production business. The CPTC has many rules and regulations that are difficult to summarize; however, several rules might be highlighted. One is that eligible productions must meet the previously discussed CAVCO minimum key creative-functions point requirements (table 4). A second is that all production-related personnel (other than those receiving exemptions permitted in limited circumstances) must be Canadian. Not less than 75% of the total of all costs for services provided toward producing the programming (other than excluded costs) must be payable for services provided to or by individuals who are Canadian, and not less than 75% of the total of all costs incurred for the post-production must be incurred for services provided in Canada. A third is that the production must be shown in Canada within the two-year period following its completion, and the Canadian production company must control the initial worldwide exploitation rights over the production.[11]

The PSTC provides a refundable tax credit for foreign location shooting in Canada. The credit is set at 16% of Canadian labour expenditures. The wages to which the credit applies must be paid to Canadians and incurred for accredited productions undertaken in Canada by a firm that is primarily in the film business and that has a permanent establishment in Canada. Certain types of films and television programs, such as current events, are not eligible for the credit. The value of PSTC tax credits at the federal government level in 2011 was estimated to be around $100 million. Tax credits at the provincial government level were valued at around $300 million for the same year.[12]

10 The CPTC is jointly administered by the Department of Canadian Heritage through the Canadian Audio-Visual Certification Office (CAVCO) and by the Canada Revenue Agency. See Canadian Heritage, 2010b.

11 I have estimated the value of the CPTC tax credit at around $1.2 billion for the 2011-2012 program year.

12 For a description and analysis of the PSTC, see Lester, 2013.

Regulation and restrictions on foreign ownership

Besides direct and indirect financial incentives, government intervention into the entertainment industries takes the form of regulations and legislation governing foreign ownership. The CRTC is responsible for regulating the broadcasting sector under the Broadcasting Act. Foreign-ownership restrictions applying to the culture industries, including the entertainment industries, are incorporated in the Investment Canada Act, which is administered by Industry Canada.

Canadian content rules

Canadian television and radio commercial broadcasters are subject to regulations that require them to devote a minimum number of broadcast hours to Canadian content. Radio and TV content policy was first introduced in 1959 following passage of the 1958 Broadcasting Act (Acheson and Maule, 1990). Specifically, the regulations require private conventional television licensees to devote not less than 60% of the broadcast year, and not less than 50% of the evening broadcast period (6 P.M. to midnight) to Canadian programs. The largest multi-station ownership groups are required to broadcast at least eight hours per week of priority Canadian programs during the viewing period from 7 P.M. to 11 P.M. on average over the broadcast year. Priority programming does not include news or sports, but dramatic programs receive a 150% time credit against required hours of priority Canadian programming, if the dramatic programs are broadcast during peak viewing hours.

There are also minimum levels of Canadian music content required of commercial radio stations. Specifically, regulations require that at least 35% of popular musical selections and at least 10% of "special interest" musical selections aired during each broadcast week be Canadian selections. They also require that at least 35% of popular musical selections broadcast between 6 A.M. and 6 P.M., Monday to Friday, during any broadcast week be Canadian selections. For French language radio stations, regulations require that at least 65% of the popular musical selections aired during each broadcast hour be in the French language. They also require that at least 55% of popular vocal musical selections aired each week between 6 A.M. and 6 P.M. be French language selections. There are exceptions from Canadian content rules for music formats such as classical and jazz, where Canadian selections can be as little as 20% of all selections played.[13]

As in the case of major government funding programs discussed earlier, for purposes of broadcast regulations, Canadian content is defined in terms of the citizenship of those performing key functions in program production and

13 For a summary of Canadian-content rules applying to commercial broadcasters, see CRTC, 2006.

the percentage of expenditures on services provided by Canadians. Variations of the content system apply to other categories of programming such as animation, musical video shows, and sports events. As Acheson and Maule point out, Canadian content regulations as currently constituted create anomalies such as a documentary about Emily Carr made by Australians not being considered Canadian content (Acheson and Maule, 1990).

Preponderance and simultaneous substitution regulations

Other manifestations of CRTC broadcasting regulations are the preponderance and simultaneous substitution rules. The preponderance rule requires all Canadian broadcasters to provide a majority of Canadian-owned channels to their viewers, regardless of the consumer's service plan or package. This equates to "50% plus one" of the channels received by viewers to be Canadian-owned (Coemmunications, 2013). For example, if a consumer subscribes to a basic cable package from Rogers™ and receives 28 channels, 15 of those channels have to be Canadian-owned. The goal of the preponderance rule is to encourage the predominant use of Canadian creative and other resources in the creation and presentation of programming. Since subscribers must pay for a majority of Canadian-owned channels if they subscribe at all to the relevant distribution service, the Canadian copyright holders whose programs are carried on Canadian channels receive an implicit financial subsidy through the subscription process.

The CRTC's regulations regarding simultaneous substitution mandate that cable systems and other broadcasting distribution outlets must substitute for the US signal with the Canadian signal when the same program is aired at the same time by an American broadcaster whose signals are distributed in Canada. The purpose of the regulations is to increase the audience size of the Canadian signal, along with the advertising revenues of the private broadcasters that exhibit acquired US programming at the same time as it is aired on US stations.[14] As well, provisions of the Canadian Income Tax Act prohibit a Canadian corporation from deducting as an expense for tax purposes any advertising purchased on a non-Canadian broadcasting outlet primarily to reach Canadian audiences. The provisions are meant to discourage Canadian companies from advertising on US border stations near large Canadian population centres. In short, the simultaneous substitution regulations and the tax provisions have the effect of increasing the demand for airtime on Canadian television broadcast channels on the part of advertisers. Hence, Canadian broadcasters can charge higher rates to advertisers. Nordicity (2011) has estimated that the total impact of these two indirect policy measures lay in the range between $274 and $335 million in additional

14 See CRTC, 2008. For a full discussion of the economic impacts of the simultaneous substitution rule and related tax-based advertising incentives, see Nordicity, 2011.

revenue to English-language broadcasters in Canada in the broadcast year 2009/2010. It can be expected that the higher prices paid by advertisers are passed through to purchasers of the advertised goods, thereby acting as an indirect tax on Canadians.

Restrictions on foreign ownership of Canadian culture businesses

Foreign investment in every sector in Canada is governed by the Investment Canada Act (ICA). Investments by non-Canadians that constitute a controlling acquisition of a Canadian business and that exceed defined size thresholds are subject to review under the ICA. At the same time, certain sectors of the Canadian economy have industry-specific restrictions on foreign ownership that operate concurrently with the ICA.[15] Broadcasting is one such sector. The Broadcasting Act requires that the Canadian broadcasting system be effectively owned and controlled by Canadians. Currently, foreigners may own up to 20% of a broadcaster and up to 33.3% of a holding company that owns a broadcaster.

Given the ongoing technological convergence between the communications and the broadcasting sectors, foreign ownership restrictions of telecommunications carriers under the Telecommunications Act are also relevant.[16] The restrictions provide that non-Canadians may not own, directly or indirectly, more than 46.7% of the voting securities of a telecommunications carrier and may not otherwise exercise "control in fact" of such carrier. The Telecommunications Act was amended in 2012 so that foreign ownership restrictions on telecommunications service providers that hold less than a 10% share of the total Canadian telecommunications market (based on revenue) were removed. Furthermore, foreign-owned companies that are successful in growing their market shares in excess of 10% of the total market other than by way of mergers and acquisitions will continue to be exempt from foreign ownership restrictions (Industry Canada, 2012).

Ownership-specific restrictions exist in other cultural sectors under the ICA. They include book publishing, distribution, and retailing; the periodical publishing and newspaper publishing sectors and the film distribution sector. For these sectors, the ICA prohibits foreign acquisitions of existing Canadian-owned business and prohibits or sets conditions for the establishment of new businesses. Foreign investments in the sound recording industry, the distribution and retail sectors of the periodical and newspaper industries, as well as film production, exhibition, and retailing are subject to the "net benefit" test that applies to foreign acquisitions of Canadian businesses in other industrial sectors.

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15 For a relatively recent overview of the ICA, see Hunter, Weber, and Berswick, 2012.

16 As shall be discussed in a later section, an increasing percentage of entertainment programming is being distributed over the internet, especially wireless internet.

Foreign ownership restrictions in the entertainment sector are vaguely justified on grounds that they are "strategic" industries. This distinction has also been invoked to block several foreign takeovers of Canadian companies outside the entertainment sector. Perhaps unsurprisingly, government regulators have never explicitly defined what makes a business strategic and, therefore, off limits to foreign control. It might be argued that domestically owned entertainment businesses are better able to identify talented Canadians and popular Canadian entertainment programming. While this is a plausible assumption, it implies that foreign ownership restrictions are unnecessary, since Canadian owners will operate entertainment assets in Canada more profitably than foreign owners. Hence, the assets in question are worth more to domestic owners than foreign owners, so that foreign takeovers are unlikely. It might also be argued that Canadian owners of entertainment businesses are more likely than foreign owners to subsidize unprofitable Canadian programming. This is, in fact, highly unlikely.[17] Indeed, the existence of Canadian-content regulations discussed earlier is *prima facie* evidence that Canadian broadcasters and, presumably, other domestic owners of entertainment industry businesses will not willingly sacrifice profits in pursuit of Canadian content objectives. Indeed, public policies to enhance the revenues of Canadian broadcasters such as the simultaneous substitution rule are the *quid pro quo* for satisfying Canadian content rules. In this regard, there is no reason to believe that the source of ownership would make any difference to the behaviour of broadcasters or other entertainment businesses in Canada given government regulations.

Summary of government policies

It is obvious that the main goal of government intervention in the entertainment sector is to promote increased production of "Canadian-content" entertainment; however, the definition of Canadian content is largely implicit in the criteria used to determine eligibility for direct and indirect funding. For example, it is clear that nationality of the ownership of programming rights, as well as the nationality of the individuals involved in the production and distribution of content, are important criteria for determining whether content is Canadian. To the extent that content, *per se*, is relevant to eligibility, it tends to emphasize showcasing ethnic, linguistic, and cultural diversity of different regions of Canada.

Any public policy evaluation of direct and indirect government financial subsidies to increase the production of Canadian entertainment programming needs to address the following question: why would there be "too little"

17 For a discussion of this point, see Geist, 2011.

Canadian entertainment programming produced in Canada in the absence of such subsidies? Put differently, what specific attributes of entertainment programming contribute to what economists call "market failure" or the inability of private markets to produce the socially efficient amount of a product?[18] A second and separate question is whether the main public policy criteria for determining eligibility for government subsidies and protection should be the nationality or permanent residency of the various participants in the financing, creation, and distribution of entertainment programming. A third issue is whether there are any identifiable benefits associated with government intervention in the entertainment sector and whether the benefits are likely to exceed any associated costs. The next sections of this study address these questions.

18 For discussions of the concept of market failure in the context of culture industries, see Globerman, 1987.

4 Economic Analysis of Arguments for Government Intervention

The proponents of government intervention in the entertainment industries have sometimes argued that economic analysis is an inappropriate tool to use in evaluating government policy, although the justifications for government intervention used by those proponents are typically very imprecise and, therefore, difficult to evaluate empirically.[19] In broad terms, as Acheson and Maule (1998) note, proponents seem to argue that the sought-after benefits of government intervention, most particularly a strengthened Canadian identity, are essential and fundamentally unmeasurable, so that the standard economic approach to evaluating public policy initiatives, with its emphasis on marginal social benefits and costs, is too narrowly focused to encompass "non-material" social outcomes such as a stronger commitment of individual Canadians to the well-being of their fellow Canadians, as well as the peaceful functioning of the Canadian polity. To be sure, measurement of such social outcomes is extremely difficult, if not impossible; however, this does not render economic analysis irrelevant, since such analysis is an important instrument to help assess whether specific policies are logically linked to the production of preferred social outcomes. Economic analysis also helps place potential social benefits in a broader policy context that recognizes that social costs of government intervention can frequently outweigh any social benefits. Even if precise measurement of the relevant social benefits and costs is impossible, their identification can help point the direction that future research should take. In this section, we identify potential economic justifications for government intervention. The empirical relevance of the justifications is assessed in a later section.

19 For an example, see Ostry, 1978. For studies of the entertainment industries that rely primarily upon economic analysis, see Globerman, 1987 and Acheson and Maule, 2001.

Externalities

Perhaps the most ubiquitous argument for government intervention into the entertainment sector is the existence of externalities. An externality is a benefit or a cost that is imposed on third parties through market transactions carried out by other parties. A simple illustration is provided by vaccinations against contagious diseases. If an individual is vaccinated, her chance of contracting the disease in question decreases. This is a direct benefit to the person being vaccinated; however, because she was vaccinated, the likelihood that she will spread the contagious disease is also reduced, which is a benefit to those people with whom she comes in contact. This indirect benefit is identified as an externality. In deciding whether it is worth the time and (perhaps) money to be vaccinated, the individual will presumably compare the direct benefits of being vaccinated, that is, a lower risk of becoming ill, against the relevant personal cost of being vaccinated. She will likely ignore the indirect benefits associated with reduced risks of others contracting the illness. If the personal costs to her are greater than the personal benefits, she will presumably forego getting vaccinated, even if the direct and indirect benefits exceed the direct costs. In doing so, she would be acting in socially inefficient manner. Put simply, while she might feel better off by not being vaccinated, society as a whole is worse off.

In the stylized case of a single individual, social pressure from friends and family might be sufficient to encourage that individual to be vaccinated.[20] In the case of millions of individuals, private sector coordination of vaccination behaviour through moral suasion or direct payment becomes much more costly, and therefore problematic. An alternative is to rely upon government to coordinate behaviour, say through setting up conveniently located clinics where taxpayer-funded vaccinations are provided. By lowering the private costs of being vaccinated, government-funded vaccination initiatives would presumably encourage more people to be vaccinated than would otherwise be the case. In this way, government intervention could promote a more socially efficient outcome than would result in the absence of intervention.[21]

20 Alternatively, family members and friends might use gifts or other material rewards to encourage the individual to be vaccinated.

21 It should be emphasized that the costs of intervention would be relevant to any assessment of whether government intervention will improve society's welfare. In this case, the costs include both the direct costs to government of providing vaccinations, as well as (possibly) higher costs of vaccines supplied by private clinics as a consequence of increased demand by government for vaccines. For a discussion of circumstances in which the costs of government intervention are likely to exceed the benefits, see Glazer and Rothenberg, 2001.

"Making and watching our own shows is crucial to our sense of self—our culture. TV shows we make ourselves chronicle our national experiences and shared triumphs, and create a sense of identity among Canadian viewers."
Sonja Smits, Gemini award winner (2006)

Arguments for government intervention in the entertainment industries in order to promote Canadian identity can be seen as a manifestation of the externalities rationale for the failure of free markets to produce efficient outcomes. Specifically, the alleged strengthening of Canadian culture tied to increased consumption of Canadian entertainment programs might be seen as a consumption externality. This argument presumes that the consumption of Canadian entertainment programming by individual consumers is, in fact, encouraged by government intervention, and that increased consumption somehow encourages those individuals to be "better" citizens which, in turn, conveys benefits on other Canadians. Better citizenship might take the form of more informed voting behaviour, increased participation in community activities, greater honesty in filing and paying taxes, and so forth. Improved civic behaviour on the part of individuals presumably makes other individuals in a society better off; however, the individual's decision to spend her own money on Canadian entertainment programming will presumably ignore any civic benefits realized by other Canadians as a result. As a consequence, the individual will likely spend less on Canadian entertainment products than is efficient from a social welfare perspective in an analogous way to the individual's decision to forego spending money to get vaccinated.

In this context, direct and indirect subsidies to producers of Canadian entertainment programming presumably increase the supply of that programming which, in turn, should lower its price to consumers. With a lower price, there should be a greater quantity of programming consumed by Canadians which, in principle, should move overall consumption closer, if not equal to, the socially efficient rate of consumption. To be sure, the degree to which direct and indirect subsidies ultimately contribute to increased production and consumption of Canadian programming is an empirical question, as is the strength of any linkage between increased consumption of Canadian entertainment programs and civic behaviour. In fact, we have no empirical evidence bearing upon the former question and only some indirect evidence bearing upon the latter.

A second type of externality that might justify government intervention takes the form of external economies of scale.[22] The latter arise when production by one or more firms results in lower costs for other firms in an industry or geographic region. Lower costs for other firms may arise from technological spillovers whereby new techniques and commercial strategies of specific producers are imitated or otherwise appropriated by other producers. Improved efficiencies can also be realized if expansion of the industry initiated by a sub-set of firms promotes the growth of specialized factors of production that can be employed by new entrants or smaller firms seeking to

22 These are also sometimes identified as agglomeration economies. For a discussion of agglomeration economies in the context of the feature film industry, see Scott, 2000.

expand their production. In effect, increased production by a sub-set of organizations can help an industry reach a "critical scale", which, in turn, allows more efficient production beyond that critical scale. The relevant empirical issues, therefore, are whether Canadian entertainment industries are subject to external economies of scale and, if they are, whether government subsidies are required to encourage expansion of output until critical scale is reached.

Firms outside the entertainment sector may also benefit from the production activities of local producers of entertainment programming. For example, the creative and administrative talent assembled by TV and feature film production companies operating in Vancouver might also be valuable to videogame production and other "new media" companies.[23] Hence, increased production of TV programs in Vancouver might, at the margin, encourage videogame producers to establish operations in Vancouver rather than, say, Seattle. This is particularly likely if videogame producers can duplicate successful commercial strategies of TV program producers based in Vancouver. In effect, TV production companies may create an infrastructure of talent and knowledge that can be exploited by firms outside the entertainment sector.

A more general version of this industrial development argument maintains that concentrations of creative people, typically in relatively large cities, attract highly educated workers who are intensive consumers of cultural activities.[24] To the extent that some of the growth of a highly educated workforce reflects immigration into Canada of such workers, the process would arguably be a positive-sum game for Canada, since it would increase the supply of highly educated workers for the country as a whole. A more highly educated workforce, in turn, can be expected to promote increased productivity and higher incomes for Canadians, including those that supply complementary inputs to the services of the highly educated immigrants. Since this argument tends to be applied to local cultural institutions such as theatres and museums, it may be inapplicable to popular entertainment that tends to be widely distributed throughout Canada. Moreover, it seems more likely that world-class cultural institutions will at most influence immigrants' choices about where to live in Canada rather than whether or not to migrate to Canada.

Incomplete information

Another potential source of a failure of private markets to operate efficiently is incomplete information. In the context of the entertainment sector, it is sometimes argued that talented Canadians must achieve substantial success

23 For a discussion of this specific external economy of scale, see Britton, Tremblay, and Smith, 2009.

24 Florida (2013) is perhaps the most notable proponent of this argument.

in Canada in order to be able to sell their services successfully in foreign markets, most notably the United States. The presumption in this regard is that foreign producers are typically less well informed than domestic producers about the artistic and commercial benefits of hiring Canadians for productions and, as a consequence, from the perspective of profit-maximizing behaviour "underutilize" Canadian entertainment inputs. Foreign producers may underestimate the benefits of using Canadian talent because of a bias towards using domestically resident actors, directors, and so forth. Alternatively, foreign producers may simply be ignorant of talent resident in Canada because identification of such talent, particularly new talent, requires those producers to spend time in Canada learning first hand about Canadian entertainment inputs. However, the willingness to spend time and resources looking for talent in Canada might be limited in the absence of good information that such talent exists and that hiring Canadians will be profitable.

Even if the incomplete information argument as outlined above is valid, it is not sufficient to justify government policies to promote the hiring of Canadians by foreign producers of entertainment programming. To the extent that the Canadian artists affected by the relevant government policies capture all of the benefits of selling their services in international markets, typically in the form of higher incomes, there is no justification for other Canadians to bear any of the related costs. On the other hand, if Canadians in general derive some sense of pride or other psychic benefits from seeing their fellow citizens achieve great international success as entertainers, writers, and so forth, there may be an argument for having Canadian taxpayers, directly or indirectly, bear some of the costs of overcoming problems of incomplete information that make it more difficult for Canadians to be successful internationally. The relevant and perhaps intractable empirical issue in this regard is whether Canadians identify with the success of fellow Canadians who achieve international prominence in the entertainment industries. To be sure, this latter issue will be moot if the information argument itself is relatively unimportant, say, perhaps because the internet offers a relatively low cost way for "unknown" performers anywhere in the world to make themselves better known to potential employers. More will be said about this possibility in a later section of this study.

Unfair competition

A long-standing historical argument for Canadian government policies to subsidize and protect Canadian entertainment businesses is that the latter face unfair competition from rivals in the United States. The argument rests on the notion that there are large economies of scale in producing entertainment programming, so that a large domestic market imparts a substantial competitive advantage to producers located in that market. Since the Canadian domestic market for entertainment programming is much smaller than the US domestic market, US-based producers can operate profitably at much larger volumes than can firms based in Canada. Thus, they are able to sell their products profitably in Canada at prices below those that their Canadian rivals can afford to charge.

This argument implicitly assumes that Canadian firms are at a significant disadvantage selling entertainment programming in the US market, since the larger US market would provide a unique advantage for US-based firms only if the markets were segmented in some way. Put differently, if Canadian-based firms can operate efficiently on at least a regional, if not global, basis, the smaller size of the domestic market should not pose any significant competitive handicaps on them. Since there are no regulations in the United States comparable to Canadian content regulations discussed earlier, there are no obvious legal or regulatory competitive handicaps facing Canadian entertainment producers trying to sell product in the United States. To be sure, there may be cultural, that is linguistic, disadvantages for Canadian producers of French-language programming selling their output in the United States (Hoskins and McFadyen, 1991). There may also be information problems of the type thought to confront Canadian creative talent as discussed in the preceding section. Canadians also need to obtain visas to work in the United States, which can be problematical for those who are not well-established artists. On the other hand, evidence will be referenced in a later section showing that Canadian companies have had substantial commercial success selling made-for-TV films to US distributors. This calls into question the relevance of the unfair competition argument, at least for this important segment of the entertainment industry. Furthermore, the premise that the scale of operations is a critical determinant of success in the entertainment industry is open to debate.

What must be highlighted is that, even if Canadian producers face a competitive disadvantage because they operate in a domestic market smaller than that available to US producers, this phenomenon by itself does not justify intervention by the Canadian government. The competitive disadvantage in this case would reflect a difference in the two countries' comparative advantages, much as Canadian firms would face a competitive disadvantage trying to grow oranges domestically in competition with orange producers in Florida and California. In the latter case, claims that Canadian orange producers should receive subsidies and protection because US-based producers enjoy unfair climatic advantages would be seen as risible.

The unfair competition argument would have policy relevance if there were evidence that US firms abuse a dominant position that they enjoy by virtue of a larger domestic market size. For example, if US firms use a dominant position to block the competitive entry of Canadian rivals in the latter's domestic market, such anticompetitive actions might well warrant the attention of competition policy authorities in Canada.[25] Such charges of abuse of dominance have been raised, for example, in the feature film industry where Canadian filmmakers have argued that large US distributors put pressure on Canadian movie theatres to show US-made films, particularly those for which US distributors hold the copyright, rather than Canadian-made films. At the same time, Canadian feature film distributors argue that US distributors insist on being granted North-American-wide distribution rights from film producers, so that Canadian distributors have difficulty obtaining film rights for distribution.

It is beyond the scope of this study to address the issue of whether foreign entertainment companies enjoy international market power and, if so, whether they engage in anticompetitive behaviour. Suffice it to say that the evidence with regard to the feature film industry, which has been a focus of such concerns, does not support the relevance of those concerns.[26] Nor am I aware of any actions taken by the Competition Bureau against foreign-owned entertainment companies for anticompetitive behaviour in Canada.

Summary

The economic or social importance of an industry is not sufficient grounds for government actions to support or promote that growth of that industry. Rather, a credible case must be made that, without government actions, the industry will produce less output than is socially desirable. That is to say, proponents of government intervention are obliged to make a credible argument that the free market will fail in some fundamental way to produce the socially efficient (or desirable) industry rate of output. Proponents of government intervention into the entertainment industry rarely address the issue of market failure directly; however, the arguments they have articulated for government intervention can be put into the context of market failure. Indeed, Canadian politicians and regulators have often highlighted externalities, particularly in the form of fostering Canadian identity and Canadian unity, as a prominent justification for government subsidies and regulation. For example, this rationale was highlighted by the Royal Commission on Broadcasting in

25 If the abuse of dominance activities took place in the United States, antitrust authorities in that country could be expected to intervene.

26 For a discussion of anticompetitive concerns about foreign competition in the feature film industry, as well as an assessment of the relevance of the concerns, see Globerman and Vining, 1987. See also Globerman, 1991. For more recent discussions of how digital technology is changing the market structures of the video and music entertainment sectors, see Zhu, 2001 and Hracs, 2012, respectively.

1957 and in a 1966 white paper on broadcasting. In short, a strengthened Canadian national identity has long been viewed as a fundamentally important externality that would allegedly be put at risk if existing subsidies and regulations were curtailed or abandoned.

In fact, and notwithstanding the long history of the cultural identity argument, very little systematic evidence exists bearing upon the practical relevance of the argument, as will be discussed in a later section. At this point, it is merely noted that, even if a market failure problem exists, society might still be better off without any government intervention if the social costs of the intervention exceed the social benefits. Hence, the identification of a significant market failure is a necessary but not a sufficient argument for government subsidies or protection for an industry. In the next section of the report, we assess the potential arguments for the government policies outlined in Section 3.

5 Assessing the Arguments and Evidence for Government Intervention

In this section, we assess the arguments for government intervention from both a conceptual and an empirical perspective. To recall, perhaps the most prominent and longest-standing argument for government intervention is that indigenous entertainment programming is essential to preserving and nurturing a Canadian identity, and that civic life in Canada would deteriorate, if not disintegrate, in the absence of a strong Canadian identity. Since improved citizenship on the part of individual Canadians benefits other Canadians, there will arguably be "too little" consumption of Canadian entertainment from the perspective of social efficiency unless government promotes more consumption of Canadian entertainment than would result from the interplay of market forces of supply and demand.

A related externalities argument focuses on the spillover benefits that arise from domestic production of entertainment programming. In this context, the training and experience that Canadians gain from working in specific segments of the entertainment industry are complementary to production activities in other segments of the industry, in particular, the segment that has come to be described as "new media". This complementarity of highly specialized skills gives rise to external economies of scale. The latter may be thought of as production externalities that contribute to the emergence and growth of production clusters. Since individual private sector participants will contribute more to the generation of clusters than they can recapture in increased profits from their contributions, there will be too little investment in the creation of clusters on the part of private sector industry participants, at least from the perspective of maximizing social welfare.

Another market-failure justification for government intervention outlined in an earlier section is incomplete information. Specifically, the talents of Canadians participating in the entertainment sector may be either ignored or underestimated by foreign producers and distributors of entertainment programming, either because it is particularly costly for foreign producers and distributors to identify talent that is resident outside their home country or because of local purchasing biases that, in turn, derive from differences in language, culture, and the like. While it is conceptually possible for talented Canadians as individuals to promote awareness of their talents outside their home country, there may be financial and other practical constraints on their ability to do so. There might also be an externalities consideration that undercuts the efficiency of individual solutions to the information problem. Specifically, if successful individual Canadians raise awareness of the more widespread availability of talented Canadians, the former will convey spillover benefits to the latter for which the former are not fully compensated. To be sure, the expected pay-off to being an internationally successful entertainer might be so large as to render irrelevant the issue of whether compensation is also received for raising Canada's profile in the entertainment industry.

Finally, it has been frequently argued that Canada's small domestic market puts Canadian producers at a substantial competitive disadvantage, particularly relative to their US-based counterparts, given ostensibly large sunk-cost expenditures required to produce entertainment programming that attracts relatively large audiences. Consequently, US producers can cover their fixed costs through sales in their large domestic market while pricing exports (to Canada and elsewhere) at marginal cost, while Canadian producers must price at average cost in the Canadian market in order to recover fully all of their costs. The result is that highly popular American entertainment products can be sold in Canada at prices below those that can be profitably charged by Canadian producers. As noted in an earlier section, this argument invites the question why Canadian producers (certainly those producing English-language programs) cannot export successfully to the United States, thereby escaping whatever disadvantages are imposed by a small domestic market.[27] It also invites discussion of why it is in the national interest to protect Canadian producers of "blockbuster" entertainment products when those products are clearly made for international audiences.[28]

National identity externality

Some relatively recent survey evidence suggests that Canadians, on the whole, have a fairly strong sense of national identity, although the degree to which the average citizen identifies herself as Canadian varies across provinces. Canadians in Ontario, Manitoba, Saskatchewan, Alberta, and British Columbia are far more likely to say they are Canadians before they identify their provincial affiliation than are those in Atlantic Canada and Quebec.

27 The incomplete information argument might be relevant here.

28 The justification sometimes offered is that highly popular entertainment programming provides the greatest boost to national identify; however, there is no evidence to support this justification.

More than two-thirds of those polled think of themselves as Canadians first. Across provinces, British Columbians (at 83%) and Ontarians (at 80%) were most likely to identify themselves as Canadians first, while those living in Atlantic Canada (at 57%) and Quebec (at 38%) were least likely (Carlson, 2012). The inference one might draw is that the largest gains from culture policies in terms of strengthening national identity would be realized from policies focusing on Quebec and Eastern Canada, perhaps through encouraging programming that identifies the common interests and values that link these two regions to the rest of Canada.

Acheson and Maule (1990), among others, question whether the concept of Canadian content as a promoter of national identity is relevant in an increasingly multicultural Canadian society. To be sure, Canadian policymakers have generally equated Canadian content to nationality rather than to programming content. Hence, it seems relevant to ask whether the participation of Canadians in the entertainment industry is linked to a stronger sense of national identity on the part of Canadians. Some limited evidence on this issue is provided by responses to periodic surveys of what constitute important national symbols to Canadians. An example is the Dominion Institute's National Survey of Canadians on Canada Day 2008 (Dominion Institute, 2008). Respondents to the survey were asked to choose from a list of 101 people, places, symbols, events, and accomplishments that most define Canada. The list was generated through another survey commissioned by Citizenship and Immigration Canada. The top 20 responses were as follows: 1. maple leaf; 2. hockey; 3. Canadian flag; 4. beaver; 5. Canadarm; 6. Canada Day; 7. peacekeeping; 8. Pierre Elliott Trudeau; 9. universal health care; 10. the Rocky Mountains; 11. Niagara Falls; 12. Wayne Gretzky; 13. Parliament Hill; 14. Ottawa; 15. Frederick Banting-insulin; 16. RCMP; 17. CN Tower; 18. Quebec City; 19. Terry Fox; 20. Confederation. While survey results are sensitive to the structure of questions, sampling techniques, and other factors, the results are suggestive inasmuch as no Canadian entertainer or entertainment-related institution was identified in the top 20 responses. Indeed, the first mention of an entertainer is Celine Dion at the 27th position. The next relevant entries are Anne Murray in the 89th position and the Juno Awards at the 97th position.

To be sure, other surveys provide more support for the notion that entertainment industry personalities and institutions are relevant national symbols for Canadians. An example is the polling done by Environics Institute of a random sample of adult Canadians (Environics Institute, 2010). The poll of approximately 2,000 Canadians conducted in September and October 2010 asked Canadians what made them most proud of their country. The most prominently mentioned national attributes were: a free and democratic society; quality of life; caring people and multiculturalism. Also cited were Canada's health care system; the beauty of the land and the country's social programs. The survey also asked about the importance of established national symbols. At the top of this list is the country's health care system, which was identified by 85% of respondents as an important symbol. This was followed by the Charter of Rights and Freedoms (78%); the Canadian flag (73%); national parks (72%); the national anthem (66%); RCMP (57%); multiculturalism (56%); Canadian literature and music (54%); hockey (47%); bilingualism (46%); the CBC (42%) and the national capital in Ottawa (39%). Quebecers are more likely than other Canadians to identify strongly with bilingualism and the CBC/Radio Canada.

The findings of the preceding survey are similar to an earlier survey of Canadians carried out in the spring of 2003.[29] Two thousand randomly sampled Canadians were asked to rank a set of things and events on a scale of one to ten in terms of their contribution to each individual's pride in being Canadian. The most prominently mentioned factor in this regard was "the vastness and beauty of the land". The high ranking that Canada receives in surveys of "best countries to live in" was the second most prominent factor. Canada's multiculturalism was also highly ranked. The success of Canadian musicians or actors or artists and the CBC were cited by 53% and 39% of respondents, respectively, as making them feel "very proud" of being Canadians. This compares to 66% who cited Canada's scientific inventions, like the Canadarm and 63% who cited the victories of the Canadian Olympic hockey team.

Academic studies provide mixed evidence, at best, regarding the contribution that the Canadian entertainment industries make to Canadians' sense of national identity. Crawford and Curtis (1979) discuss surveys they conducted in Oregon and Ontario. They find support for some value differences between Canadians and Americans but little support for other value differences. Interestingly, they find no difference in orientation toward collectivism, which is frequently argued to be an important value difference between Canadians and Americans. In a similar vein, Sniderman et. al. (1988) studied students at two Canadian universities and two US universities and found no significant differences in the political ideals between Canadian and US students.

There is also some mixed evidence on the role that the media plays in shaping values and attitudes. For example, Sparkes (1977) found no difference in sociopolitical attitudes held by Canadians irrespective of whether they watched US or Canadian TV programs. Payne and Caron (1983) found that social background and interpersonal behaviour are stronger predictors of attitudes and information acquisition than media exposure. Conversely, Barnett and McPhail (1980) find evidence that the more Canadians watch American TV, the less Canadian they feel. Similarly, Baer and Winter (1983) conclude that viewership of American TV news leads to anti-Canadian-government

29 The survey is described in Parkin and Mendelsohn, 2003.

attitudes by Canadians but the viewing of Canadian TV news does not have the same effect. However, Surlin and Berlin (1991) conclude on the basis of an extensive literature review that the evidence on the impact of the US media on attitudes, values, beliefs, and norms of Canadians is inconclusive, although exposure to the US media makes Canadians more knowledgeable about US public affairs.

In short, there is no persuasive and consistent evidence that Canadian-content entertainment programming as a whole contributes substantially to a stronger sense of national identity among Canadians. Nor is there consistent evidence that the consumption of US-made entertainment programs alters attitudes or values of Canadians. It might well be the case that Canadians are relatively secure in their sense of identity given other institutions with which they identify. Indeed, national pride appears to be rooted in accomplishments across a variety of national symbols and national performance in areas such as science, sports, and standards of living.[30] Ironically, Canadian government policies to promote science and technology and to improve the nation's standard of living generally emphasize openness and integration with other countries rather than domestic protectionism. While it is certainly incorrect to characterize all culture policy as protectionist, Canadian content regulations and foreign ownership limitations can be fairly characterized as such.

Production externalities

The existence of production centers or clusters for specific types of entertainment programming suggests substantial external economies of scale or production externalities of the type discussed in Section 4. Geographic clustering is particularly noteworthy in the case of feature films and, to a lesser extent, TV production and book and magazine publishing (Caplan and Cowan, 2004). However, the historical importance of external economies of scale in an industry does not necessarily mean that those economies will continue to be substantial going forward. Acheson and Maule (1990), for example, are skeptical that production externalities are important in "mature" entertainment industries but, given the application of computer technology to the production and distribution of entertainment programming, it is arguably inappropriate to label any entertainment industry as mature.

As noted earlier, Britton, Tremblay, and Smith (2009) identify the roots of new media in computer graphics and creative, specialized services used in motion picture production, advertising, and other programming, especially

30 See Evans, 2013. Collins (1991) goes further in arguing that government cultural policies might actually weaken national political institutions in Canada by discouraging the emergence and growth of multiculturalism.

television productions. They examine the origin and growth of new media concentrations in Vancouver, Toronto, and Montreal. They conclude that each Canadian concentration of new media has a history of film production which, in turn, was encouraged by the assistance that the National Film Board gave to the development of skills such as animation. Indeed, they argue that "cluster learning" occurs primarily through the mobility of skilled and freelance workers. The role of government subsidies varies across the three clusters, being relatively prominent in the case of Montreal and relatively modest in the case of Vancouver. At the provincial government level, a common policy promoting the growth of new media has been support for education and training geared to creating a specialized pool of labour skills. Tax credits extended to firms that initiate co-op programs and internships are cited as being significant in expanding the scale of new media in Quebec. The authors also highlight the cross-border integration of new media activities through both international trade and foreign direct investment.

Assessment of externalities rationale

In summary, there is some evidence supporting the claim that Canadian entertainment industries convey relatively modest consumption externalities that might, in turn, justify government subsidies on grounds of economic efficiency; however, this conclusion is weakened by available evidence that other political, economic, and social institutions seem more strongly linked to the national identity of Canadians than are entertainment programming or entertainment industry personalities and, therefore, that at least some of the direct and indirect funding that goes to promoting increased Canadian content might be more effectively spent on other public services in pursuit of the policy goal of strengthening Canadian identity. Indeed, survey evidence supports the notion that Canadians have a strong sense of national identity, a fact that further calls into question the practical benefit of relatively large and widespread government subsidies to promote the production and distribution of Canadian content in the policy interest of strengthening Canadian identity.

As for the apparent complementarities that exist between film and television program production and new media activities, it is not clear that government subsidization of the conventional entertainment sector is an efficient way to promote those complementarities. In particular, mobility of educated and trained workers appears to be the main channel through which learning and other production externalities are generated. In this regard, universities and technical colleges would seem to have the major role to play in providing individuals with the basic skills and training needed to be productively employed in contemporary entertainment industries. Government programs subsidizing feature film production, for example, might therefore be more productively reallocated to expanding and improving media skills training and related programs in Canadian universities and colleges. Public funds might also be more productively used to subsidize internships and other on-the-job training programs that would provide students and young workers practical experience, which, in turn, should enhance their mobility in the new media workforce.

Incomplete information

There is very little available evidence bearing upon the practical relevance of the justification for government culture policies based on incomplete information. It is entirely plausible that foreign consumers are less aware of Canadian entertainment programming than are Canadian consumers. It is also plausible that foreign producers of entertainment programming are imperfectly informed about the availability of talented Canadians that might be profitably employed by those producers; however, the magnitude of these imperfections is a speculative matter. In particular, the emergence of the internet as a major mode for distributing entertainment programming provides a relatively low cost means by which new Canadian entertainment programming, as well as relatively unknown Canadian performers and other entertainment industry participants can gain international exposure. There are certainly numerous examples of both programming and entertainers that became internationally successful after being "discovered" on the internet.[31]

The already extensive licensing and minority ownership linkages between Canadian and foreign media companies also diminish the practical relevance of the imperfect information argument for government intervention as applied to the entertainment sector. In this regard, a recent article in the *Wall Street Journal* discusses the success of Canadian programs on a US cable channel that focuses on home and real-estate programming (Johnson, 2013, Nov. 8). The article notes that currently 11 shows on the cable network's weekly lineup have Canadian roots, while three Canadian shows are among its 10 most watched shows. It goes on to discuss the connections between Shaw Media, the producers of the Canadian shows, and the US cable network. Specifically, Shaw operates the HGTV network in Canada and co-produces shows; shares content with HGTV and engages in reciprocal licensing of programming. It credits this relationship with helping promote

31 For a discussion of how YouTube created an arena in which people with little funding are able to compete with large corporations for viewership, see Lavaveshkul (2012) and Weisblott (2012). Perhaps, the most well-known example of how YouTube created international awareness of a local talent is provided by the Korean pop singer (Psy) and his hit song "Gangnam Style". Another example is the discovery on YouTube of the Philippines' singer, Arnel Pineda. He was discovered by the guitarist of Journey doing covers of Journey's songs. He is now the lead singer of the group.

the flow of content across the border. The success of many Canadian performers in the US market, many of whom have become US residents, also provides the basis of informal cross-border network connections that call into question the practical relevance of problems of incomplete information. Furthermore, anecdotal examples can be cited of the commercial boost that successful Canadian performers have given to aspiring Canadian performers. One well-known recent example is the career boost that British Columbia performer Carly Rae Jepsen received from Justin Bieber's tweet lauding her recording *Call Me Maybe*. It is informative that Bieber and his manager signed Jepsen to a recording contract. This underscores the commercial incentives that established Canadian performers have to identify and publicize aspiring performers.

Unfair competition

A critical argument for government protection of the domestic entertainment sector, as noted above, is that popular entertainment programming is very expensive to produce, which puts producers located in small countries at a competitive disadvantage. Dramatic programs made for television, as well as feature films, are especially characterized by large, upfront, and indivisible expenditures that must therefore be recovered by sales to large audiences (Hoskins and McFadyen, 1991). To be sure, the costs of producing and distributing entertainment programming have declined substantially with the emergence and growth of computer technologies, and online costs continue to decline dramatically.[32] In this regard, Britton, Tremblay and Smith (2009) identify how new media firms in Canada can be small and operate locally while still being profitable.[33] Nevertheless, the large salaries demanded by "star" entertainers whose participation frequently underlies the commercial success of "blockbuster" programs perpetuate the absolutely large cost of major feature films and made-for-TV dramas.

It is demonstrably possible for producers located in relatively small countries to succeed in producing popular made-for-TV programs. For example, British exports of talent shows and reality TV shows have been hugely successful in recent years.[34] Canadian producers have also had substantial commercial success exporting English-language TV programs,

32 Bill Gates has been quoted as saying that putting an hour of video online cost US$400 in the late 1990s, while today it costs around two cents (*Economist*, June 29, 2013).

33 See Winter (2013) for a more general discussion of how commercially profitable, albeit relatively low-cost, TV programming can be created.

34 British musicians also account for around 13% of global sales of music albums (*Economist*, 2013, November 9).

particularly to US networks.[35] The previously cited article in the *Economist* (2013, Nov. 9) argues that government policies have contributed to the success of domestic producers, for example, by requiring the BBC and large privately owned broadcasters to buy at least 25% of their shows from independent producers. This latter observation would seem to argue for the value of domestic content requirements as a basis for a successful made-for-TV production sector.[36] However, the fact that British broadcasters apparently buy more than 25% of their shows from independent producers suggests that the regulation is not a binding one and that other factors are more important contributors to the international success of British-made TV programs.

There is less controversy surrounding the impact of digital technology on optimal firm size in the case of book publishing. Sheffield (2009), among others, acknowledges that new media and improvements in digital printing technology have led to a resurgence of micropublishing and self-publishing opportunities. Also, printing and distribution are now more affordable and accessible to independent producers.

To the extent that extensive direct and indirect government subsidies promote increased output of popular entertainment programming, it would be unsurprising to observe some commercially successful programs being produced in smaller countries. However, the resources used to produce mass entertainment programming could be used to produce other types of programming, especially specialized programs that might well attract larger audiences in the aggregate. There is some evidence from the experience of the magazine industry that supports the relevance of this assertion. Specifically, Huhmann and Saqib (2007) examine the effects of opening up the Canadian magazine advertising industry to foreign competition with the passage of Bill C-55. They look at circulation and revenue data for English-language magazines in Canada relative to French-language magazines under the presumption that French-language magazines are much less likely than their English-language counterparts to be affected by competition from magazines published in the United States. They found that the market share of "mainstream" incumbent English-language magazines declined after the implementation of Bill C-55 relative to the market share of French-language magazines; however, specialized English-language magazines gained market share.[37] Furthermore, although circulation dropped for most large English-language

35 See, for example, Levine, 2009.

36 Scott (2000) argues in a similar manner that French cinema would have declined severely in the absence of government policy intervention including TV broadcasting quotas; however, he also highlights inefficiencies perpetuated by protectionist government policies.

37 Increased production specialization subsequent to reductions in trade barriers is a shared experience of many Canadian industries (see Baldwin and Gu, 2004).

magazines, this did not necessarily translate into lower advertising rates. It seems reasonable to assume that resources released by a contraction of large, established English-language magazines made it cheaper for specialized magazines to commence publication and to expand. Huhmann and Saqib also credit government subsidies to the Canadian publishing industry for reducing the private financial risk of starting new magazines aimed at smaller, special-interest target markets and language minorities.

In summary, the argument that Canadian entertainment industries need subsidies and protection to compete against foreign producers is obviously simplistic. A more nuanced argument would acknowledge that specific Canadian producers are likely to benefit from subsidies and protectionism, while others might do better commercially if market forces were allowed freer reign.[38] Accordingly, less protection of Canadian entertainment industries will not necessarily result in less Canadian entertainment, but different, more specialized, entertainment. Furthermore, the entertainment industry overall is likely to be more efficient if the levels of both domestic and foreign competition were intensified, although the nature of the output produced might well be much different under a more competitive regime compared to the current regime. In short, the likelihood that specific Canadian entertainment producers would become commercially non-viable in the absence of current Canadian-content requirements and other subsidies is not a satisfactory public policy argument for maintaining those requirements.

Even if the production of feature films and made-for-TV programs creates larger consumption and production externalities than does the production of more specialized entertainment programming, Canadian content requirements are not necessarily the most efficient way to encourage increased production of mainstream entertainment programming. Specifically, as will be discussed below, content regulations are an opaque and undemocratic way to redistribute income in order to finance increased production of Canadian content, primarily drama. The final section of this report provides conclusions and some additional policy recommendations.

38 Redistribution impacts may also be experienced by the general population. For example, Scott (2000) argues that French government policies to subsidize the feature film industry redistribute income from poorer to wealthier households.

6 Costs of Government Intervention

Direct costs

The various government policies and regulations discussed earlier impose both direct and indirect costs on the Canadian economy. The direct costs are relatively straightforward to define. They encompass the economic value of the inputs, primarily labour, used by government departments and agencies to develop and administer the funding programs and regulations focused on the entertainment sector. As a practical matter, it is impossible to identify the direct costs of government administration of culture policies. A fairly rough minimum estimate of the government's administrative costs might be equated to the internal budget of Canadian Heritage plus the portion of the CRTC's budget associated with the Canadian broadcasting program activity. For the 2013-2014 budget period, Canadian Heritage's internal expenditures were approximately $608 million. For that same budget year, planned expenditures by the CRTC for broadcasting-related activities were $17.5 million (CRTC, 2012). To these costs should be added the administration expenditures of private-sector organizations associated with participating in government funding programs and complying with government regulations. More specifically, costs are related to legal, accounting, and other inputs required to apply for funding programs, to participate in regulatory proceedings, and so forth.

Indirect costs

The indirect costs are more varied and much more difficult to measure. One possible indirect cost can arise if the resources used to produce and distribute Canadian-made entertainment programming could be more productively used in other sectors of the economy. Since the purpose of government subsidies and regulations is to encourage more production of Canadian entertainment programming than would otherwise be the case, productive resources will be drawn away from other production activities where they are presumably worth more commercially, at the margin, to producers in those activities than they are to those producing entertainment programming.

The consequence is that the value of private sector output produced outside the entertainment industries might be reduced by the expansion of the entertainment sector.[39] One can also expect companies involved in the entertainment industry to use resources to lobby the government for laws and regulations that benefit them financially. Those resources might also be used more efficiently in other sectors of the economy, so that lobbying and other rent-seeking behaviour encouraged by government intervention in the entertainment sector can lead to less output being produced in the overall Canadian economy.

A second source of indirect costs to the Canadian economy takes the form of more limited consumer choice as a consequence of Canadian-content regulations. Defenders of Canadian-content regulations have argued that they impose no significant limits on consumer choice, since Canadians enjoy substantial access to foreign entertainment programming in any case. This argument ignores the potential relevance of differences in consumers' intensities of demand for foreign and domestic programming. To elaborate, imagine that a modest number of Canadians would much prefer to watch a US-originated sports network rather than a domestic sports network, while their preference to watch a movie channel originating in the United States is only slightly stronger than their preference for a domestic movie channel. If Canadian broadcast distributors carry the US-originated movie channel rather than the US-originated sports channel, the number of their Canadian subscribers might remain unchanged; however, the viewing satisfaction of those subscribers might be substantially lower than it would be if both US networks were available.

While Canada is relatively open to foreign entertainment programming, particularly since Canadian-content requirements currently do not apply to web-based services, it is patronizing and contradictory to argue that existing content regulations have no significant impact on Canadians' consumption of entertainment product, while also arguing that the regulations are needed to protect Canadian producers of entertainment programming. The proliferation of US-registered satellite receivers operating in Canada, which provoked the government to outlaw such receivers, is *prima facie* evidence that many Canadian consumers preferred access to a broader range of content that did not originate in Canada.

Indirect costs can also potentially arise from Canadian content regulations and foreign ownership restrictions which, in turn, protect inefficient Canadian companies from import competition, as well as from takeovers by more efficient foreign-owned companies. This issue was recently highlighted

39 This consequence ignores the earlier discussed possibility that increased output of Canadian entertainment programming is complementary to broader economic development, say, because of external economies of scale.

by controversy surrounding the rules established for the auction on January 14, 2014 of wireless spectrum in Canada. The rules limit the number of spectrum bands that established wireless carriers can bid for at the auction. The government's rationale for the limit is that it wants to encourage the emergence and growth of rivals to the three established incumbents in order to make the wireless sector more competitive. While the government's assessment of the state of wireless competition in Canada has been criticized, as have the spectrum auction rules, the salient point here is that foreign ownership limitations for telecommunications and broadcasting eliminate the potential for foreign takeovers of incumbent Canadian telecommunications companies and broadcasters to act as a competitive discipline on the behaviour of those incumbents.[40] Furthermore, since both Bell Canada and Rogers hold broadcasting licenses, they are immune to takeover threat, even if foreign ownership restrictions were eliminated for telecommunications.

Finally, government policies to protect Canadian producers and distributors of entertainment programming have been a source of tension in Canada's trade relationships, particularly with the United States. Specific laws and regulations have precipitated complaints from US government trade officials. One notable example is a dispute between Canada and the United States concerning the Canadian government's import exclusion of "split-run" magazines that persisted for almost three decades. It is certainly true that Canada was successful in gaining exemptions for culture industries under the Canada-US Free Trade Agreement, as well as under the World Trade Organization (WTO). It is also true that Canada's volumes of trade and investment with the United States have continued to grow over time, notwithstanding the perpetuation of Canadian policies that are troubling to US officials. Nevertheless, one cannot discount the possibility that the US government might have been more responsive to, among other things, Canadian government concerns about US border security initiatives, as well as US government regulations harming bilateral trade were there less antagonism on the part of US government officials toward Canadian protection of its domestic entertainment industries. While many other countries subsidize and protect their domestic entertainment industries, this phenomenon does not constitute evidence that such policies are in the broad public interest any more than the widespread subsidization and protection of agricultural producers makes such policies economically defensible. Rather, both phenomena illustrate the ability of focused groups with a vested interest to compete successfully in the political arena for special treatment.

40 For a recent discussion and analysis of the spectrum auction rules as well as an evaluation of competition policy surrounding the wireless sector in Canada, see Globerman, 2013.

7 Policy Implications and Conclusions

An interpretation of the relevant literature suggests that consumption and production externalities constitute the most credible economic justification for government intervention into the entertainment sector. Specifically, the externalities provide a possible justification for policies that encourage more production and consumption of Canadian entertainment programming than would likely occur in the marketplace absent any government intervention. Production externalities are associated with apparent complementarities among the skills required for "traditional" entertainment production activity and new media activity. The process by which consumption externalities are generated is much more complex and indirect than in the case of production externalities. As noted above, the pride and sense of identity that Canadians possess as a nation draws upon a range of political, economic, and social institutions, and the international success of Canadian entertainers and entertainment products is a less important direct motivator of national pride and identity than many other national "attributes".

Requisite information is simply unavailable to enable a cost-benefit analysis of the major funding and regulatory initiatives that make up Canadian culture policies, although it is suggestive that Lester's (2013) benefit-cost analysis of the Production Services Tax Credit Program for location shooting of films concludes that Canadians, on average, would be better off if federal and provincial tax credits for foreign location shooting were eliminated.

Whether Canadians would get more "national identity bang for the buck" if some government funding was reallocated away from the production of entertainment programming and towards programs to, say, promote multiculturalism or to fund domestic scientific innovation is also impossible to assess given the current state of knowledge; however, the complex nature of the national identity process makes it very unlikely that the funding criteria currently in place, which largely emphasizes Canadian ownership and the use of Canadian inputs, is efficient. In fact, from the perspective of promoting national identity, funding programs that focus on content that Canadians identify as being relevant to their sense of nationalism and civic commitment are likely to be more efficient at generating the consumption externalities that, in principle, have long been the justification for government culture policies.

This suggested refocusing of funding criteria might well result in more production of public and community affairs programming, documentaries, multicultural programming, and the like, and less production of commercially oriented feature films and television programming than is currently the case, particularly if Canadian content regulations for broadcasters are eliminated, as will be recommended below. While internationally famous Canadian film and music stars might reinforce Canadians' pride in country, content-based funding rules and broadcast regulations are extremely blunt instruments to promote the emergence of creative and artistic talent. Furthermore, the large commercial rewards that are attainable from success in the feature film and popular music businesses should be sufficient motivation for aspiring Canadian performers to hone their talents. Philips (2013) characterizes the entertainment industry as a growing market for superstars who create value even when working with unexceptional material. He asserts that the superstar performers rather than the companies that hire them capture most of the financial gains from entertainment blockbusters.

Canadian content regulations imposed on over-the-air broadcasters and cable and satellite companies should be viewed as part of a complex redistribution mechanism through which all Canadians, in their roles as consumers of broadcast entertainment programming and advertised products, pay more for those goods than they would in the absence of the relevant regulations. In turn, regulated domestic broadcasters earn larger profits than they otherwise would, since government regulations limit direct competition from broadcast signals originating in the United States, while simultaneous substitution rules enable Canadian broadcasters to charge higher advertising rates than they otherwise could. The *quid pro quo* is that domestic broadcasters are expected to fund Canadian programming from the economic profits created by the market protection they enjoy. Canada's Broadcasting Act requires television services to contribute 5% of their gross annual revenues towards Canadian programming. In 2012, Canadian broadcasters put close to $900 million into programming (Frickert, 2014, Jan. 17).

The economic profits also enable Canadian broadcasters to pay for the domestically produced programming they must carry in order to meet domestic content regulations, even if cheaper or more commercially popular foreign programming would be preferable for the broadcasters and their customers. In short, Canadian content regulations are an instrument to redistribute income from the majority of Canadians to a relatively small subset of Canadians who invest and work in the television and music recording sectors, in order to encourage increased production of domestic output in those sectors.

As noted above, it is not at all obvious that less domestic production of popular television programming and music recordings would harm the economic and social welfare of Canadians. Moreover, the complex domestic content regime imposed on the broadcast sector obscures the redistribution of income that is accomplished by that regime, which makes it impossible, as a practical matter, for Canadians, even those who are interested in broadcasting policies, to assess the benefits and costs of those policies. Direct government grants and even income tax credits are more transparent ways for government to take money from the general population to subsidize the TV programming and popular music industries.[41] The current regulatory regime is arguably also a relatively inefficient way to subsidize those industries, as it requires the existence of a separate broadcast regulatory agency, as well as administrative and legal capabilities within the industry to comply with the content regulations, as well as to participate in ongoing hearings related to the content regime. Indeed, it is questionable whether the current cross-subsidy system can remain viable as more Canadian viewing of television programs takes place over the currently unregulated Internet. In the case of musical recordings, the migration of listeners from conventional radio broadcasters to internet musical services is well underway with a resulting expansion of popular musical genres (Karp, 2013).

It can be further argued that Canadian content regulations will become increasingly costly and impractical to sustain, as viewing of entertainment programming through online distribution becomes increasingly important. In this regard, Miller and Rudniski (2012) assert that while the Internet cannot absorb TV levels of today, a gradual but persistent shifting of traffic from broadcast distribution units to internet delivery appears to be eminently absorbable. Simply put, the bandwidth capacity of the internet will continue to increase, thereby facilitating the growth of the internet as a distribution channel for video programming. This emerging reality is acknowledged even by the regulator. For example, the CRTC's vice-chairman, Peter Menzies, in a relatively recent interview said that access to the internet means the CRTC can no longer define itself as a gatekeeper in a world in which there may be no gates. He further stated that the CRTC has to ask itself how to act as an enabler of Canadian expression rather than as a protector, and that the CRTC cannot and should not tell Canadians what to watch.[42]

As discussed earlier, production externalities may also justify public policy intervention in the interest of economic efficiency; however, such externalities may be most efficiently addressed by public policies that specifically

41 In this regard, Acheson and Maule (1991) argue that direct funding by government agencies such as Telefilm is preferable to using tax incentives to encourage the production of feature films that are more distinctly "Canadian" in content and more attractive to Canadian audiences.

42 The interview is reported in Payton, 2013, Sept. 26. Miller and Rudniski (2012) discuss the possibility that internet distribution of entertainment programming might increase the availability of Canadian content.

promote the generation of external economies of scale. In particular, expenditures on education, training, and internship programs to increase the supply of individuals capable of working in a variety of media activities, particularly as media and digital technologies converge, seem preferable to broad funding programs to encourage increased production of entertainment products. An argument might also be made that the funding of experimental media content as is currently carried out under the Canada Media Fund (CMF) is an appropriate focus for government subsidies comparable to government financial support of research and development.

Neither the existence of consumption or production externalities justifies foreign ownership restrictions in broadcasting or other protected cultural sectors, even if those sectors are completely deregulated. Simply put, private-sector producers of entertainment programming can be expected to behave the same way regardless of nationality of ownership. Specifically, they will invest in programming that promises to be profitable, and considerations of national identity and production externalities will not be relevant to those producers. To the extent that Canadian-owned companies are more knowledgeable than foreign-owned competitors about commercially valuable Canadian content or the performance or artistic skills of Canadians, Canadian-owned companies should be more profitable than foreign-owned companies, all other things constant, and the former will certainly not be in any need of protection from the latter. Furthermore, Canadian-owned companies should not be expected to produce unprofitable programming, even if that programming can be expected to make significant contributions to Canadian identity, unless they are subsidized by the government to do so.

To be sure, the traditional economic justification for the CBC and other public broadcasters is that the activities of those broadcasters address a failure of private broadcasting markets to produce and distribute "socially valuable" programming that would not be profitably supported through advertising. The relevance of this argument has been reduced by the emergence and growth of internet broadcasting, which has reduced the cost of producing and distributing programming content, particularly programming that appeals to "minority tastes" or what Chris Anderson (2004) calls the "long tail" of the distribution of entertainment consumption. Nevertheless, the economic case for government support for creating and distributing commercially unprofitable programming that contributes to stronger civic behaviour cannot be dismissed. Furthermore, a public broadcaster such as the CBC might be a more efficient instrument for identifying and distributing such programming than regulated, privately owned commercial entities. The multicultural and multilocational backgrounds of Canadians argue in favour of a national, government-funded broadcaster that can focus on the non-commercial benefits of creating and distributing programming content that links those varied backgrounds to a set of shared civic responsibilities and values.

In summary, it is time for Canadian policymakers to reconsider the major instruments that have long been used to promote the growth of the domestic entertainment industry. This reconsideration should acknowledge that specific instruments transfer resources that could be more productively used elsewhere in the economy to accomplish the putative goals that are used to legitimize those instruments. If there is a valid public policy rationale for government culture policy, it is to address externalities that prevent purely private markets for entertainment products to operate efficiently. This, in turn, obliges policymakers to identify and measure much more precisely than has been done to date the sources and magnitudes of the relevant externalities. It also necessitates a focus on implementing policies that address any externality problems in a cost effective manner.

This is not to say that current levels of direct and indirect funding of Canadian entertainment industries are justified by social benefit-cost criteria. It may well be that much of the current funding cannot be justified, as Lester (2013) concluded for the Production Services Tax Credit (PSTC).[43] Nor is it to say that a greater reliance on market competition will lead to less Canadian entertainment programming, although the new mix of programming would undoubtedly be different from the current mix.

43 Unfortunately, comparable evidence from other funding initiatives is unavailable.

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Founded in 1974, we are an independent Canadian research and educational organization with locations throughout North America and international partners in over 85 countries. Our work is financed by tax-deductible contributions from thousands of individuals, organizations, and foundations. In order to protect its independence, the Institute does not accept grants from government or contracts for research.

Nous envisageons un monde libre et prospère, où chaque personne bénéficie d'un plus grand choix, de marchés concurrentiels et de responsabilités individuelles. Notre mission consiste à mesurer, à étudier et à communiquer l'effet des marchés concurrentiels et des interventions gouvernementales sur le bien-être des individus.

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