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Press Release

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PHOENIX CENTER PROVIDES NEW ECONOMIC FRAMEWORK FOR RETRANSMISSION CONSENT

Given Social Contract between the Government and Broadcasters, the "Market" Outcome for the License Fee under the Retransmission Consent Paradigm may not be Socially Efficient.

WASHINGTON, D.C. – With the rising cost of broadcast programming and the high-profile of "blackouts," Retransmission Consent has earned a place at the forefront of the modern communications policy debate. To help policymakers better understand the root causes of the problem, the Phoenix Center issued a new study today entitled *An Economic Framework for Retransmission Consent*. Taking into account the social contract between the government and broadcasters to serve the "public interest" (e.g., provide "local" programming and a "diversity of voices" to as many Americans as possible), the Phoenix Center shows that the "market" outcome for the license fee under the Retransmission Consent paradigm may not be socially efficient.

As the Phoenix Center's new paper explains, broadcast regulation creates a type of positive information externality, and private transactions do not typically account for externalities, meaning the market price for the retransmission fee is theoretically "too high," both relative to the socially-optimal price and the market price of an otherwise-equivalent cable network. This "spread" (which the Center does not quantify) is a consequence of a disharmony between the historical and continuing policy of the broadcast social contract and the "market" approach embodied in the Retransmission Consent regime.

Given the study's findings, the Phoenix Center reviews some of the current policy proposals to modify Retransmission Consent. The Center finds that because it is public policy that has caused the conflict, proposals to move to a less-regulated broadcasting market may be sensible, but it remains to be seen whether or not such legislative fixes sufficiently address the efficiency issue revealed by the Center's theoretical model.

"Since the market failure we identify is a consequence of existing regulations, wiping the slate clean of all of those regulations (Must Carry, Retransmission Consent, and the compulsory Copyright licenses) certainly could prove fruitful," said study co-author and Phoenix Center President Lawrence J. Spiwak. "Yet, however beneficial a "clean slate" approach may be, it is important to see the forest for the trees—i.e., we must remember that root of the market failure

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continues to lie with the social contract created by the substantial government interest in having local commercial broadcast signals carried over the MVPD networks."

"It is the 'localism' and 'diversity' that drives the market failure, and as long as these concepts are relevant and promoted by law and regulation, the 'market' price is arguably not the right price for the broadcast signal," said study co-author and Phoenix Center Chief Economist Dr. George Ford. "If broadcasters are permitted to reduce their obligations for localism, thereby shrinking the unique social value of the programming, then pricing may then be sensibly left to the market."

PHOENIX CENTER POLICY PAPER NO. 47: *An Economic Framework for Retransmission Consent*, may be downloaded free from the Phoenix Center's web page at: http://www.phoenix-center.org/pcpp/PCPP47Final.pdf.

The Phoenix Center is a non-profit 501(c)(3) organization that studies broad public-policy issues related to governance, social and economic conditions, with a particular emphasis on the law and economics of the digital age.

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