Journal of Pol. Econ. v. 77, no. 4 pt. 2 July/Aug. 1969

An Economic Analysis of the Concept of Freedom

Thomas Gale Moore

Michigan State University

Implications for paid or free news & for advertising?

Economists, especially of the libertarian variety, often discuss how the market increases personal freedom. Milton Friedman (1962) has ably described this relationship in his book *Capitalism and Freedom*. Paul Samuelson (1963) has recently taken Friedman and others to task for this. He has claimed that "complete freedom is not definable once two wills exist in the same interdependent universe. . . . What is actually called 'freedom' is really a vector of almost infinite components rather than a one-dimensional thing that can be given a simple ordering." While no one claims that complete freedom is possible, it is the intent of this paper to show that freedom can be measured in the same sense that welfare can be measured, and that a discussion of maximizing freedom can be made operational.

Before we do that let us consider why an individual in the United States is considered to be freer than one in Russia. There are many reasons, of course, but one element that I believe we would all agree on is that a citizen of the United States can criticize the government, the president, or his employer with *relative* impunity. In Russia (or any generally considered non-free society) such action will usually have severe repercussions—such as a few years' rest in Siberia. But even in the United States such action can have repercussions. If my employer is a Republican and a great supporter of the president, I may find myself looking for new work. If I work for the government, I may have to try to find employment in private industry. If I happen to be supporting communism I may actually find it difficult to secure a good job. In other words, the exercise of free speech, even in a "free" society, may not be costless. In fact, the essential difference between a citizen here and a citizen in Russia is one of relative cost. In both places I can criticize the government and advocate a different economic system, but the relative costs of this behavior differ significantly.

The thesis, then, of this paper is that freedom can be defined in terms of welfare. A change in the cost of action (or non-action) can be considered

Pete Frueth

to be a movement toward freedom if it increases welfare. We can consider that an individual has the desire to take all sorts of actions, each of which has a cost to himself and possibly to others. If the cost to the individual of performing some action is lowered without affecting the cost to others, then we will consider that a movement toward a freer society. For example, suppose there is a rule that says that speech against the state will be punished by five years in Siberia. Suppose this rule is changed so that such speech results simply in a lower-paying job. If this change in the rule does not lead to externalities such as higher costs for others in society, then it is a movement toward a free society. Much of the problem with the concept of freedom revolves around cases where externalities exist. For example, a person yelling "Fire!" in a crowded theater will levy serious externalities on others, and as a consequence, such action is not guaranteed by the concept of freedom of speech. But most forms of speech do not have these externalities. If one individual lectures another individual on the benefits of communism, LSD, or capitalism, and the other individual freely listens, then are there any externalities? The situation is analogous to a voluntary trade between two individuals. No such externality exists unless a third person is affected. There are two ways that such a speech could adversely affect a third person. First, if such a speech incited the listener or speaker to action and that action inflicted costs on others, it might be argued that the speech itself had external effects. It would also seem plausible to argue that it was solely the action that had the external effect. Alternatively, some people may not be indifferent to statements even if no one acts upon them. Thus I may object to statements in favor of capitalism even if no one is motivated to act in any way by the statements.

It might clarify matters if we consider a model. Assume there is only one action under consideration—for example, freedom of speech about communism. Let the utility function for one individual be given by the following relation:

$$U^1 = f^1(Y^1, Z^1, Z^2, \ldots, Z^m), \tag{1}$$

where Y^1 is the individual's income with given prices, Z^1 is the amount of discussion he carries on about communism, and $Z^2 \cdots Z^m$ is the amount carried on by each of the other $m - 1$ persons. Then the relationship between changes in this individual's welfare and the other variables can be expressed:

$$dU^1 = \frac{\partial f^1}{\partial Y^1} dY^1 + \frac{\partial f^1}{\partial Z^1} dZ^1 + \cdots + \frac{\partial f^1}{\partial Z^m} dZ^m; \tag{2}$$

and for the individual to maximize his welfare with respect to the amount of Z he carries on, we get:

$$\frac{dU^1}{dZ^1} = \frac{\partial f^1}{\partial Y^1}\frac{dY^1}{dZ^1} + \frac{\partial f^1}{\partial Z^1} = 0, \tag{3}$$

or in words, the marginal utility of income will be set equal to the ratio of the marginal utility of speaking to the marginal cost in terms of loss of income as a result of talking.

It might be objected that speaking on communism is not a single-dimensional variable; rather it is a vector of many dimensions relating to what is said, to whom, where, and so on. The analysis will still remain the same even if free speech is considered a vector of many dimensions. By letting Y be a function of all these dimensions, we can still differentiate (1) with respect to the vector Z^1 to get function (3), where dY^1/dZ^1 and $\partial f^1/\partial Z^1$ are vectors of dimension n and $\partial f^1/\partial Y^1$ is a scalar. Basically, the problem is identical to the maximization problem facing a consumer of goods. Most goods are not homogeneous but have many dimensions; yet we treat them in analysis as a single good.[1] In this analysis, then, we will treat each separate aspect of freedom as a single good.

Now given this formulation, we can define maximization of freedom in terms of maximizing total welfare with respect to the cost imposed on doing the act. Let our welfare function be:

$$W = W(U^1, U^2, \ldots, U^m). \tag{4}$$

Then maximization of (4) requires that:

$$dW = \frac{\partial W}{\partial U^1} dU^1 + \frac{\partial W}{\partial U^2} dU^2 + \cdots + \frac{\partial W}{\partial U^m} dU^m = 0.$$

Now maximizing with respect to a change in costs requires:

$$\frac{dW}{dC} = \frac{\partial W}{\partial U^1}\frac{dU^1}{dC} + \cdots + \frac{\partial W}{\partial U^m}\frac{dU^m}{dC} = 0. \tag{5}$$

Let the effect of a change in C on any individual be expressed as follows. Call the income of an individual Y_0 if $Z^1 = 0$, and assume that the costs borne by the individual directly are reflected in lower income, so that his income $Y^1 = Y_0^1 + g^1(C, Z^1)$, where $\partial g^1/\partial Z^1 < 0$ and $\partial g^1/\partial C < 0$. Then for a single individual we have:

$$\frac{dU^1}{dC} = \frac{\partial f^1}{\partial Y^1}\frac{dY^1}{dC} + \frac{\partial f^1}{\partial Z^1}\frac{dZ^1}{dC} + \cdots + \frac{\partial f^1}{\partial Z^m}\frac{dZ^m}{dC} \tag{6}$$

and

$$dY^1 = \frac{\partial g^1}{\partial C} dC + \frac{\partial g^1}{\partial Z^1} dZ^1,$$

so

$$\frac{dY^1}{dC} = \frac{\partial g^1}{\partial C} + \frac{\partial g^1}{\partial Z^1}\frac{dZ^1}{dC}. \tag{7}$$

[1] See Lancaster (1966) and Baumol (1967) for a discussion of methods of handling the multidimensional problem.

Substituting (7) in (6) we find:

$$\frac{dU^1}{dC} = \frac{\partial f^1}{\partial Y^1}\frac{\partial g^1}{\partial C} + \left(\frac{\partial f^1}{\partial Y^1}\frac{\partial g^1}{\partial Z^1} + \frac{\partial f^1}{\partial Z^1}\right)\frac{dZ^1}{dC} + \cdots + \frac{\partial f^1}{\partial Z^m}\frac{dZ^m}{dC}. \tag{8}$$

Note that $dY^1/dZ^1 = \partial g^1/\partial Z^1$ for C held constant. Therefore, the term inside the parentheses in (8) equals zero since it is equal to (3). Now if external effects of Z on individuals are independent of who the other people are, we can write (8) as follows:

$$\frac{dU^1}{dC} = \frac{\partial f^1}{\partial Y^1}\frac{\partial g^1}{\partial C} + \frac{\partial f^1}{\partial Z}\sum_{i=2}^{m}\frac{dZ^i}{dC}, \tag{9}$$

where

$$\frac{\partial f^1}{\partial Z} = \frac{\partial f^1}{\partial Z^2} = \frac{\partial f^1}{\partial Z^3} = \cdots = \frac{\partial f^1}{\partial Z^m}.$$

Now assume that the individual can assign a dollar cost and that he would be indifferent between the options of paying and $\partial f^1/\partial Z$, the loss of utility per unit of Z. Thus we can write:

$$\frac{\partial f^1}{\partial Z} = \frac{\partial f^1}{\partial Y^1}\frac{\partial Y^1}{\partial Z},$$

where $\partial Y^1/\partial Z \lesseqgtr 0$ depending on whether $\partial f^1/\partial Z \lesseqgtr 0$. Now substituting in (9) we can write:

$$\frac{dU^1}{dC} = \frac{\partial f^1}{\partial Y^1}\left(\frac{\partial g^1}{\partial C} + \frac{\partial Y^1}{\partial Z}\sum_{i=2}^{m}\frac{dZ^i}{dC}\right). \tag{10}$$

Thus the net gain or loss from an infinitesimal change in C in terms of the individual's income can be expressed as

$$\frac{dY^1}{dC} = \frac{\partial g^1}{\partial C} + \frac{\partial Y^1}{\partial Z}\sum_{i=2}^{m}\frac{dZ^i}{dC}. \tag{11}$$

Thus, substituting (10) and (11) into (5) we find

$$\frac{dW}{dC} = \sum_{i=1}^{m}\frac{\partial W}{\partial U^i}\frac{\partial f^i}{\partial Y^i}\frac{dY^i}{dC} = 0. \tag{12}$$

Now $\partial W/\partial U^i \cdot \partial f^i/\partial Y^i$ can be considered weights to be attached to the net losses or gains experienced by individuals. Once the weights are assigned, the solution amounts to finding the weighted average gains and losses such that the weighted average gains equal the weighted average losses. Since it is impossible to compare $\partial f^i/\partial Y^i$ with $\partial f^j/\partial Y^j$, $i \neq j$, and since one reasonable, ethical approach is to assign the same weights to each individual, we will then extend the argument for the case when all the weights are made equal.[2] This assumption is not necessary but simplifies

[2] See Little (1957) for a discussion of the necessity to assign weights.

the exposition. Note that by this assumption we are implying that income is distributed optimally. If the reader feels that other weights are appropriate, then the analysis can be easily modified for any assigned weights. Thus we can now say that the sum of the marginal gains should equal the sum of the marginal losses from changing C. Therefore

$$\sum_{i=1}^{m} \frac{\partial g^i}{\partial C} = - \sum_{i=1}^{m} \frac{\partial Y^i}{\partial Z} \sum_{\substack{j=1\\ j \neq i}}^{m} \frac{dZ^j}{dC},$$

where $\partial g^i/\partial C < 0$, $\partial Z^j/dC < 0$, and $\partial Y^i/\partial Z \gtreqless 0$. Now if $\partial Y^i/\partial Z > 0$, then C should be reduced.

It is clear from the above analysis that if $\partial Y^i/\partial Z = 0$, then $C = 0$ would maximize welfare. The whole problem then revolves around the size of $\partial Y^i/\partial Z$ and its sign. In general, $\partial Y^i/\partial Z$ reflects the external gain or loss from the action Z. Part of the problem with the concept of freedom is over the admissible set of externalities. It could be that we include everything that anyone considers relevant. Then if I object to your way of worshipping God, it becomes relevant. It is useful at this point to accept an individualistic ethic (value judgment) that the only relevant externalities will be those which affect an individual's senses or the value of his wealth. Thus most normal forms of religious worship would not affect the value of my wealth nor would they affect my hearing, sight, taste, or touch. Thus by ruling out such externalities, we find that the optimum cost for any normal type of religious practice is zero (above the opportunity costs of the resources involved).

Let us be more specific about the admissible set of externalities. In a sense, everything that an individual is aware of must have come through his senses. Then to say that the externality must affect his senses could be interpreted to include everything. We will restrict it to those externalities which directly impinge on his senses. If he hears about someone doing something he objects to, this will not count. On the other hand, if he is forced to watch what he objects to, that is an admissible externality. Thus, for example, a fervent member of the WCTU would suffer a relevant externality from being forced to witness a drunk on her front step, but would not if she hears about a man drinking in a bar.

It should be emphasized that this is a value judgment that not all readers will wish to accept. If any externality is permitted, then we can put no restrictions on the types of activities which could be taxed. Free speech, freedom of religion, and so on, can only be justified if some restrictions are placed on the admissible set of externalities.

Let us consider the relevance of this value judgment for the subject of speech. If I advocate to another individual LSD, a particular product, or free love, and the individual willingly listens, the net externalities can be considered zero unless the individual is stimulated to action *and* the action has externalities.

Let us work through a simple model. Let $C_i = f^i(n)$ be the cost in money terms to the ith individual from n people doing an activity y. Let n be a function of the number of speeches z made in favor of activity y, so we can write: $n = y(z)$.

Let B_j be the income equivalent gain to the jth speechmaker from speaking in favor of y. Let G_k equal the gain to the kth individual from actually doing action y. Thus if we allow additions of monetary welfare, we get total welfare W as a function of z and the cost of z, C_z:

$$W = \sum_{i=1}^{m} C_i + \sum_{j=1}^{z} B_j + \sum_{k=1}^{n} G_k, \tag{13}$$

where m is the size of the population. So we want to maximize W with respect to C_z, the cost of speaking in favor of y, and C_y, the cost of actually doing y. Now let Δz be the change in number of speeches made due to a change in the cost of making speeches, ΔC_z; let r be the change in number of people acting due to Δz. Now consider a reduction in cost of speaking, ΔC_z. If $\Delta W > 0$, then cost of speaking should be reduced:

$$\Delta W = \sum_{i=1}^{m} \frac{\Delta C_i}{\Delta n} r + \sum_{j=0}^{\Delta z} B_{z-j} + \sum_{k=0}^{r} G_{k+n}. \tag{14}$$

Note that $\Delta C_i/\Delta n$ can be positive if some people gain from the action as well as lose. Now if ΔW is positive, the reduction in C_z should be carried out. Eventually, however, further reductions in C_z would lead to a loss in welfare and hence should not be made. Why should ΔW ever become negative? Well the first term must be negative; if not, then C_z should be lowered toward zero until it is negative, since there are no net externalities from speech. Assume the first term is negative. As C_z is lowered, B_j will fall, since each individual maximizing his well-being will speak until $B_j \geq C_z$ and on the margin $B_z = C_z$. So when $C_z = 0$, $B_z = 0$. The last term is positive and decreasing as n increases, since it seems likely that $G_j > G_{j+1}$ for all j, because those who gain the most are likely to be the first to act. Thus B_j can be made negative if need be by paying for speech, and G_j is declining, so eventually the sum of the last two terms will be negative. Even if the first term rises toward zero, the sum of all the terms should eventually be negative, since eventually r will equal zero, that is, further speeches will not increase the number of doers. That will make the first term and the last term zero, and hence with a negative or zero C_z, implying a negative or zero B_z, ΔW will be negative or zero.

Note that if our activity is voting between two candidates and we presume that a vote transferred from one candidate to another has equal and opposite welfare effects on the two candidates and their supporters, then $C_z \leq 0$. That is, we should impose no costs on speeches and maybe subsidize campaign information if at $C_z = 0$,

$$\sum_{k=0}^{r} G_{n+k} > 0,$$

that is, if there are further benefits to voters from provision of more information. The assumption made above that benefits and losses from voting are exactly offsetting may appear to be extreme. But by our individualistic value judgment of welfare benefits and costs, only those actions count which affect a person physically or affect his wealth. Thus only votes which shift the outcome count. Since a vote that shifts the outcome must reflect a situation where about half the voters are on one side and half on the other, the assumption of offsetting benefits and losses does not appear to be so extreme.

Now if

$$\sum_{i=1}^{m} \frac{\Delta C_i}{\Delta n} < 0,$$

then costs should be imposed on the activity and on speech advocating it. Consider the costs imposed on the activity itself. Let p be the change in number of persons acting due to a change in the cost of the activity. These costs should be reduced as long as the resultant $\Delta W > 0$:

$$\Delta W = \sum_{i=1}^{m} \frac{\Delta C_i}{\Delta n} p + \sum_{k=0}^{p} G_{k+n}. \tag{15}$$

It can be seen that expression (15) requires a $C_y > 0$, since at $C_y = 0$, $G_n = 0$, and as long as

$$\sum_{i=1}^{m} \frac{\Delta C_i}{\Delta n} < 0,$$

then the cost of doing the activity has been lowered too far. Now if we measure ΔC_y so that $p = 1$ we can write

$$\Delta W = \sum_{i=1}^{m} \frac{\Delta C_i}{\Delta n} + G_{n+1} \geq 0. \tag{16}$$

Now if we can approximate function (16), by a continuous function we can say that at the maximum:

$$\Delta W = \sum_{i=1}^{m} \frac{\Delta C_i}{\Delta n} + G_{n+1} = 0, \tag{17}$$

or

$$\sum_{i=1}^{m} \frac{\Delta C_i}{\Delta n} = -G_{n+1}. \tag{18}$$

Assuming therefore C_y is set so that (17) is satisfied, we can substitute (18) in (14) and get:

$$\Delta W = \sum_{j=1}^{r} (G_{n+j} - G_{n+1}) + \sum_{j=1}^{\Delta z} B_{z-j}. \tag{19}$$

Now, since the first term is negative the second term must be positive for $\Delta W \geq 0$. If we accept the convention of measuring ΔC_z so that $\Delta z = 1$, we can write (19) as follows:

$$\Delta W = \sum_{j=1}^{r} (G_{n+j} - G_{n+1}) + B_z \geq 0, \tag{20}$$

and since the marginal individual will speak up to the point that $B_z = C_z$, we can conclude that C_z must be positive. Moreover, an individual or individuals will do z up until, for the marginal individual n or for the marginal act, $G_n = C_y$. Substituting in (20) and rearranging, we get

$$\sum_{j=1}^{r} G_{n+j} + C_z \geq rC_y. \tag{21}$$

We can conclude from (21) that minimization of costs of actions in society may involve imposing costs on speech and that such costs may be greater than the cost of doing if one speech leads to more than one person acting.

Let us summarize the previous section so that the implications of this approach to the concept of freedom are clear. First, by our individualistic value judgment we will count only those externalities that physically affect some individual or affect the value of his wealth. Thus we rule out all externalities such as the loss in welfare that a member of the WCTU feels when I sip a martini. As a general rule we can conclude that if there are external costs, then some sort of cost should be imposed on the activity. If we treat each individual identically and assign equal weights to dollar losses by different individuals, the marginal cost of performing the activity should equal the sum of the marginal externalities for all other people. Thus if we consider that the action is speech, then such speech should only be completely free if it imposes no externalities or offsetting externalities. For most public policy issues and for most voting situations, offsetting externalities can reasonably be inferred. Even if such externalities are not offsetting in some cases, it may not be feasible to tax only those speeches, and so an assumption can be made that in the long run such discussion will have offsetting externalities. On the other hand, there is some speech where it is clear that the externalities are not offsetting, for example, if a man urges others to burn down a school. This type of speech imposes costs on all or most others but does not confer benefits to anyone except the person doing the burning and the person urging the burning.[3] For a maximization of welfare, costs should be imposed both on the doer and on the speaker provided that the speech does lead to some action.

Those familiar with welfare economics will notice that this model is

[3] This is true because of our individualistic welfare assumption.

similar to those used to derive the standard welfare theorems. Many of the qualifications of that analysis also extend to the area of freedom. In particular we might note that the theory of the second best (Lipsey and Lancaster, 1956) may be important in this context. If, for example, the cost of doing something is higher than justified, then actions taken to convince others of this situation should not necessarily be taxed at the level suggested by the above analysis.

Let us extend our model and use it to analyze some currently pressing issues which are related to the concept of freedom. There has been considerable agitation for open housing legislation in many communities. Proponents of the legislation have supported it on the grounds that the freedom of Negroes and other minority groups would be increased if the legislation were enacted so they could buy houses wherever they wished. On the other hand, opponents of the legislation have argued that such legislation would infringe upon the freedom of property owners to sell to whomever they wished. Now first, it is clear that such legislation if enforced will reduce the cost of buying a house in a particular area by a member of a minority group. It is not true to say that he could not have bought a house; there always exists some price at which he could have bought a house in that area, but it was presumably above that at which a white person could have bought it. Now the difference between the price to a white person and the price to a Negro reflects the costs, as seen by the seller, of selling to the Negro. Since Negroes did not buy into the neighborhood at that price, the marginal valuation of a house in that neighborhood must have been smaller than the marginal cost to the seller of having a Negro in his area. Therefore, if we assume that we should count a white dollar as much as a black dollar, such legislation is unwise and would not in general increase welfare. There are two qualifications to this statement that should be considered.

First, the passage of the law might itself lower the costs. The costs before the passage of open housing legislation might cause the seller to be ostracized by his friends and relations. But after the passage of a statute making it illegal to discriminate, he could plead that, while he did not want to make the sale, the law compelled him to. Note that the trouble with this rationale is that it ignores why his friends would have ostracized him if he had made the sale before the passage of open housing. Presumably they would have acted that way only because such a sale was expected to inflict costs on them. These costs will not be reduced by the open housing legislation, and if the original owner had correctly estimated these costs to his friends and neighbors, the open housing legislation can be considered to have shifted the costs to the neighbors directly and in about the same magnitude that was reflected in the original price to a Negro. But note that our value judgment ruled out counting any costs resulting from simply knowing that a black lives down the block. Therefore, the original price to the Negro may reflect costs not permitted by our individualistic ethic, and open housing legislation may be a movement toward a freer society.

Moreover, individuals who face discrimination might be willing to pay something for the right not to be discriminated against. That is, a Negro might be willing to pay more than the reservation price of the white seller provided whites were being asked to pay a similar sum, but a black might be unwilling to pay much more than whites for the same property. Thus the true value to the black might exceed the original price to him provided discrimination was not involved.

Given our definition of freedom, we might apply it to the Bill of Rights to show that we can interpret each provision which has to do with freedom or justice in terms of costs and benefits. Freedom of speech has already been discussed above. Freedom of the press can be defended analogously. People can read what they want to read and ignore what they wish. The only externality arises if such reading leads to some change in behavior of the reader. It is alleged that pornography has such an effect on unstable personalities and therefore is not covered by the provisions of the Constitution. Of course, banning pornography adversely affects those who would like to buy it. It is an empirical question whether pornography has external effects and whether such costs exceed those borne by individuals who wish to read it and are barred. If it does impose externalities, the appropriate response is to tax pornography but not to ban it. All political literature is aimed at leading the reader to take action which will affect other individuals, specifically those in power and those who wish to get into power. If we consider that the benefits to someone of achieving power equal the benefits to the person in power of staying there, then bans on literature advocating one candidate over another have equal and offsetting effects. Since the provision of the information is desired by both the provider and the reader, on balance it is clearly less costly to allow freedom of the press than to deny it.

Freedom of religion can also be explained in economic terms. For most religions there are few discernible externalities. The only issues in freedom of religion arise when there are externalities—usually connected with children. Christian Science offers an excellent example. Since advocates do not believe in the practice of professional medicine, problems arise concerning vaccinations, inoculations, and blood transfusions. Vaccinations and inoculations clearly have externalities for non-Christian Scientists. But most of the controversy has swirled around blood transfusions, especially for children. There seems to be the general feeling that if an adult wishes not to be given a blood transfusion even if it results in his death, that this is his prerogative. But for the parents of a child to refuse permission may mean the child's death. Whether this is an externality or not depends on the relevant unit, the family or the individual. To the extent that we make the decision-making unit the family there is no externality, but if it is considered to be the individual then plainly there exists a real externality.

Freedom of peaceable assembly and petition also exert few externalities on others, and therefore their guarantee in the constitution lowers the cost of some actions to the public while inflicting negligible costs on others. Basically, these provisions increase the flow of information in society by allowing individuals with grievances to express them to the authorities.

The rest of the articles in the Bill of Rights can also be construed in terms of costs and benefits. Article II, for example, deals with the right to keep and bear arms. This amendment has been limited in many jurisdictions by licensing laws and limits on the types of arms allowed. There is an increasingly strong movement to limit the flow of all arms to the public. The reason for the less liberal interpretation of this article than for other articles is that the externalities of guns are more obvious.

Articles III and IV and the last provision of Article V in essence deal with the rights of private property and essentially provide that those rights cannot be arbitrarily taken away without specifically considering each case. In other words, costs cannot be inflicted on individuals by reducing their property rights without specifically weighing the costs and benefits and in general compensating the loser.

Articles V through VIII deal with the adminstration of the law and justice. They each contribute to making individuals feel more secure in their daily life and therefore can be considered to lower the cost of justice in general. There is, of course, some probability that any single individual will be accused falsely of some crime and convicted. These amendments are designed to either reduce the probability of such an occurrence or the cost of such an occurrence when it arises. Thus it lowers the expected cost of justice to innocent individuals. Here again the problem of externalities arises. The cost of justice to innocent individuals could be reduced to zero if and only if no one was prosecuted for any crime. But this would increase the cost of crime and hence lead to higher costs for innocent individuals. The appropriate objective, if costs are to be minimized, is to find that set of rules where, on the margin, the increased cost to innocent individuals of increasing the probability of catching and convicting a malefactor is equal to the increased cost of the crime he would commit if the probability of being convicted is lowered. Thus the varying court interpretations of these amendments have presumably been intended to find this balance. Some argue that the costs to the public of increasing the difficulty in achieving convictions have far exceeded the gains; others argue for the opposite point of view. But in any case, it seems appropriate to consider this in terms of probabilities of certain costs being inflicted on innocent individuals in our society.

In conclusion, we might note that this interpretation of the concept of freedom removes the distinction between property rights and personal

rights. If we are interested in the cost of doing certain actions, it makes little sense to consider a tax on travel abroad as somehow different from legal prohibition from traveling. Whether the cost is higher in one instance or the other depends on the amount of tax and the punishment that is levied for illegal travel. It could easily be that the cost would be higher in the case of the tax than in the case of the legal prohibition.

It is clear that costs should be levied on the activities that impose external costs on others. In actual practice these are usually enforced by a trial and by a judge. But this procedure leads to considerable uncertainty in what the cost will be, since judges and juries will impose different costs in each case. Moreover, the cost of a jail sentence will differ considerably depending on whether it is imposed on a professional man or on an unskilled worker. From the point of view of efficiency, then, it would be preferable to convert, wherever possible, unlawful activity to activity which is taxed. From this viewpoint a tax on foreign travel is clearly preferable to a legal prohibition.

There is one other welfare implication that should be brought out of this analysis. If the objective is to maximize a Bergson welfare function, which is a function not only of the quantities of marketplace goods and services but also a function of the costs of other activities such as free speech, it does not follow that it is always desirable to maximize the economic component of the welfare function. That is, total welfare might be higher when some of the usual marginal conditions are violated in the market sector, if freedom has not been maximized. In other words, we must generalize the theory of the second best to include both market variables and freedom variables. To see this, assume that the social cost of writing about a particular topic is below the optimum as defined above. Then it may improve matters if the cost of printing were raised above marginal cost. In general, since marketplace variables and other variables in the welfare function interact, the subject of maximization is dependent on the variation of all factors in the welfare function simultaneously.

This analysis has shown that it is possible to define freedom meaningfully. The analysis also is fruitful because it has implications for public policy. As a minimum, it suggests the right questions to ask when one is dealing with public policy issues. In addition, since a free competitive market tends to internalize externalities, it suggests that such a market will result in a free society.

References

Baumol, William J. "Calculation of Optimal Product and Retailer Characteristics: The Abstract Product Approach," *J.P.E.*, LXXV, No. 5 (October, 1967), 674–85.

Friedman, Milton. *Capitalism and Freedom*. Chicago: Univ. Chicago Press, 1962.

Lancaster, K. J. "A New Approach to Consumer Theory," *J.P.E.*, LXXIV, No. 2 (April, 1966), 132–57.
Lipsey, R. G., and Lancaster, K. "The General Theory of Second Best," *Rev. Econ. Studies* (October, 1956), 11–32.
Little, I. M. D. *A Critique of Welfare Economics*. 2nd ed. New York: Oxford Univ. Press, 1957.
Meade, J. E. *Trade and Welfare*. New York: Oxford Univ. Press, 1955.
Samuelson, Paul. "Modern Economic Realities and Individualism," *The Collected Scientific Papers of Paul A. Samuelson*, edited by J. E. Stiglitz. Vol. 2. Cambridge, Mass.: M.I.T. Press, 1966.

Miscellany

Writing and Reading in Economics

In the past several months I have spent much time reading manuscripts written by my professional colleagues. Although this activity has taught me some economics, as one might expect, it has not been an unmixed pleasure. At some times, to be frank, it has been rather trying.

What has made it trying is that too much of the writing I have read is clumsy or worse: nearly incomprehensible. Crimes of violence are committed daily against the English language and the helpless reader is too often frustrated in his effort to understand the message. Frustration is what has goaded me into expressing my thoughts on this subject to you. The relief of self-expression is my purpose. If any manuscript benefits, that result will be welcome, but I don't expect it.

I fully recognize, as all economists must, that even the clearest expression of some of our thoughts cannot make them easy to understand. In economics, we deal increasingly with ideas and relationships that are complex and inherently difficult to grasp. For example, we must often use technical words to denote objects or concepts for which no other words exist. When a writer has good reason to use a technical word, however, he does have the duty of explaining its meaning when he first uses it, if he wants to be understood by a non-professional reader.

I do not quarrel with the use of technical words when their use is necessary. Indeed, I see no objection to using them even when, although not necessary, they are convenient and when the author can reasonably assume that his readers will understand them because he and his readers speak the same language. If somebody for whom an article is not intended objects that he cannot understand such words, his objection has no more merit than that of the proverbial English traveler in France who objects that Frenchmen do not speak English.

As far as we economists are concerned, however, when we want to be understood by people who are not specialists, the gain in convenience must be very great to justify our using technical words and we should sales staff, office rent, and other incidental costs associated with the general upkeep of the studio.

A half-hour program budget for a show like The Little People or The Mary Tyler Moore Show, etc., can cost over $150,000 especially if the stars are in a position to demand high salaries. Of this, perhaps $132,000 would account for the direct costs of the show--both above-the-line (creative talent) and below-the-line (film crews and technicians, etc.), with $25,000 to $26,000 in overhead costs. Usually one-third of a total direct budget goes to above-the-line costs--talent, writers, producer, director, etc.

Any series can become very expensive, particularly if a star is at the head of the cast. Jimmy Stewart was paid a reported $35,000 a show for The Jimmy Stewart Show, which played on the NBC Television Network in the 1971-72 season and was cancelled because of poor ratings. Because of this high star salary, many of the half-hour shows in the series cost as much as $180,000, and the series lost a lot of money. Peter Falk, the star of Columbo, a 90-minute detective mini-series on NBC, is reportedly paid $100,000 a show for a maximum of eight shows a year.

Programs that use videotape rather than film are less expensive. Shows like All in the Family, Maude, and Sanford and Son, among others, use studio electronic cameras as distinct from film cameras. This is a growing trend in prime-time television largely because a producer can slash between 30 and 40 percent from the cost of recording a situation comedy if tape is used rather than film. The reason for this is that film is costly and takes time to process and edit. Videotape, on the other hand, is cheaper and needs no processing at all. An electronic camera can be hooked up to a videotape recorder which can give instant replay, thus facilitating the editing process. Film and processing costs for the average half-hour show can run from $4,000 to $8,000, but the tape needed to turn out the same show cost only $250, with a significant additional time saving. A videotape show generally uses fewer technicians, resulting in a further saving on labor costs. Most musical variety shows--Bill Cosby, Carol Burnett, Dean Martin, Flip Wilson--are produced on videotape and generally cost around $150,000 for a one-hour program.

Many series that are included in a network's prime-time schedule at the beginning of a new season fail to last a full season. When this happens, the studio loses money heavily. If a series is renewed for a second or third season, the contract between the network and the producer usually stipulates a cost escalation provision of 5 percent, plus any wage and material cost increases. This escalation is essential to profit since costs invariably exceed the license fee in the initial period.

After a program has gone beyond the limit set for the network sale, the production company can renegotiate the contract. If the series is successful and the network wants to renew, then the production company can begin to make substantial profits. This is particularly true with long-running series like Ironside, The FBI and Mission Impossible.

When a long-running series is cancelled by the network, it then goes "off-network" and becomes a "syndicated" series when it is sold to local stations around the country. In this case, a licensing or exhibition agreement is negotiated between the producer and a local station for a particular geographic market. A flat price is determined for the length of the run based upon past or expected popularity, type and size of the market, expected time of viewing, competition between stations, and economic conditions generally.

In addition, the production company is allowed to sell the series to overseas television companies whle it is still running on the national network. Many popular American prime-time television series are running currently in Britain, Australia, Canada, Western Europe, Asia, and Latin America. This often provides a useful form of additional income and helps defray some or all of the deficit financing by the independent production companies. In fact, an additional \$40,000 to \$50,0000 an episode can be generated by foreign sales of a popular series like Ironside.

It is the promise that a series will become successful in prime-time television, will eventually be sold successfully in syndication, and will also be sold abroad, that attracts program companies to the network in the first place. A series like Ironside, once it has built a popular following on the NBC Television Network, can gross as much as $30 million or more in domestic syndication alone, with a portion of this paid to talent, etc., in the form of profit participations. With additional sales made abroad, it is easy to see that a series like Ironside can generate a handsome profit, even after distribution and other costs. A popular profitable series like this can give a studio the financial backing to generate other program ideas. Generally speaking, a successful series can launch other successful series for the same studio, and this helps explain the success of MCA-Universal, which accounts for roughly 25 percent of the three-network prime-time schedule, making it the General Motors of the television program making business.

Finally, major theatrical movies eventually find their way on to the television networks, and after that they are sold to local stations. In this case, the production company makes a selection of films for the television market, then sells them as a package to a network. The production company negotiates a flat fee with the network for a certain number of telecasts, usually two, within a certain fixed time period, usually two years. A theatrical movie can expect a network licensing fee of between

$600,000 to $800,000 for two-plays. Successful motion pictures, however, sell for much more--the ABC Television Network reportedly paid $3 million for five plays of Love Story, and $2 million for one play of Patton. The NBC Television Network paid a reported $3 million for My Fair Lady. Theatrical movies account for up to 12 hours a week of the three network prime-time schedule--equal to the amount of prime-time programming taken away from the production companies by the prime-time access rule, with a subsequent impact on employment opportunities.

TV PRODUCTION INDUSTRY'S REACTION TO PRIME-TIME ACCESS RULE

With the passing of the prime-time access rule, the vast majority of the independent production companies in Hollywood and New York decided that they could not compete for the local station time periods made available by the rule. Although the rule was designed to help stimulate a diversified program production industry, most producers felt right from the start that it would be of no help to them because of the cost factors involved.

Having taken a considerable amount of time to scale down costs sufficiently to be reasonably competitive for the network prime-time entertainment schedule, the Hollywood film production companies were disinclined to scale down further for the prime-time access periods.

While a production company could reasonably expect a license fee ranging from \$90,000 to \$125,000 per half-hour for two-plays for network exhibition, the prime-time access half-hours could not be expected to generate more than \$70,000--and even this is regarded as a high figure. In addiition, production companies felt that costs could possibly increase, rather than decrease, for prime-time access television because:

1. Instead of supplying one negative to one network, prime-time access demanded the striking of multiple negatives so that a number of different stations in widely separated markets could

be serviced.

2. Instead of having one salesman approaching the networks with program ideas, the production companies would have to employ a sales staff to tour 150 separate network affiliates in the top-50 markets.

Both of these additional problems could be potentially time-consuming and expensive. When they were added to the cost factor, the majority of production companies with film facilities decided to concentrate on the three-network prime-time hours remaining.

One of the first of the major production companies to make a good faith effort to service the prime-time access period was Metromedia Producers Corporation, a subsidiary of the Metromedia company that owns and operates six television stations, five of which are independent. MPC developed two cost-cutting measures in an attempt to program for the prime-time access period with Dusty's Trail, a show being sold for the 1973-74 season:

1. The series was shot on 16mm color film as distinct from 35mm film.

2. Contracts with the above-the-line talent, writers, producer and director took account of the fact that the series was to be placed into first-run syndication. Consequently, lower fees were negotiated.

These two major economies reduced the weekly show budget to $77,350. If it had been a network show, using the same talent, same writers, producer, director, etc., the show would have cost in the region of $100,000 per week or more. The half-hour pilot cost of Dusty's Trail was $190,000, and this cost will be slowly written off over the run of the entire series. By selling the program in domestic syndication and abroad, Metromedia hope to cover the costs of production and distribution. Then, if the series runs in prime-time access for a period of three years or more, the company will sell the program to local stations for stripping, with subsequent financial benefits. In addition, if the series is renewed for a second season, the incremental increases in contract could well put it into a first-run profit position. By the middle of September, 1973, Dusty's Trail had been sold in 103 markets to gross $65,000 per episode from domestic syndication. MPC, however, had failed to sell the series in five of the top-50 markets--Washington, D.C., Indianpolis, Hartford, Memphis, and San Antonio--and these markets, if sold, would have brought in additional revenue amounting to $5,000 per episode, which would have made the series almost viable in first-run syndication. Foreign sales are expected to generate a further $20,000 per episode worldwide, so MPC claim that they can break even in first-run syndication plus foreign sales, and make money if the series is renewed into season two.

Most of Metromedia's competitors disagree, however, saying that they cannot negotiate actors and other contracts down. In addition, they claim that a series like Dusty's Trail will lose out in the long-run to imported filmed series that have already played on a foreign network, usually in Britain or Canada, or to the game shows. Both of these are highly priced competitively., selling for far less than a program like Dusty's Trail. Finally, the independent program companies say that there is only room in the current prime-time access schedule for a couple of domestically produced filmed series like Dusty's Trail, and that over competition in this area would only result in a general loss of production capacity in Hollywood to further benefit either foreign production or the game shows.

Viacom, the former CBS syndication arm that was spun-off because of the rule, is the only other American company to make a film series for the 73-74 prime-time access season. The series, Ozzie's Girls, done in conjunction with Filmways, was first offered to the ABC Television Network, and went into prime-time access after ABC had turned it down.

The overall weight of Hollywood opinion is probably heavily weighted aginst the prime-time access rule--on economic grounds. They do not believe that they can produce "quality" television for less than $100,000 per half-hour, and they are certainly not price competitive with imported filmed dramas and game shows.

IMPACT OF THE RULE ON HOLLYWOOD EMPLOYMENT

One of the major complaints against the rule from the Hollywood production centers is that it has led to a serious decrease in employment opportunities among the Hollywood craft unions. An equal decline in employment opportunities has been caused by the up to 12 hours of theatrical movies that are shown in network prime-time every week.

The main problem is accurately measuring the impact of the rule on employment opportunities. To do this properly some account must be taken of increased employment opportunities among the first-run syndicated programs, mostly game shows and foreign imports, and also the locally produced programs.

As we have seen, local programming amounts to roughly one half-hour per station in the top-50 markets--a total of 150 half-hours, since there are three affiliates in each of the top-50 markets. Some of these locally produced half-hours are more expensive, and account for more labor than other half-hours. Also, some of the local programming half-hours were in existence before the rule was introduced and were simply moved into prime-time access from different parts of the day. Taking these factors into consideration, it is safe to say that the average half-hour of locally produced programming costs $500 a week to produce. It is stressed that this is an average cost--many of the half-hours cost less, particularly in small markets where a current affairs talk show format is developed, using a couple of guests in a two-camera studio. This means that the total amount of money spent each week on these 150 locally produced half-hours comes to around $75,000—a far smaller budget than the average Hollywood producedhalf-hour, or the average network produced public affairs or documentary programs.

It is a little more difficult to assess the overall costs of the first-run syndicated material being offered in prime-time access since it is such a mixed bag of domestically produced game shows, taped variety shows, overseas dramatic shows, and a large miscellaneous category.

Since foreign shows have no impact on domestic employment, they can be given a zero value. Once these foreign produced programs are excluded, there remain something like 26 domestically produced prime-time access shows that appear in ten or more markets. Some of these domestically produced programs are stripped game shows so it is difficult to come up with an average cost for each half-hour, but the average is probably less than $30,000 per show per week. So if we multiply $30,000 by 26, we come up with a total of $780,000 a week--roughly equal to seven Hollywood produced prime-time half-hours that play on the networks.

So the total weekly monetary value of the prime-time access shows, both locally produced and first-run syndication, amounts to fewer than eight Hollywood produced half-hours.

The prime-time access rule reduced the network schedule by a total of 12 hours per week, ten of which were produced in Hollywood. Consequently, the program production industry lost 20 half-hours per week, each half-hour costing an average of a little more than $100,000, for a total weekly loss of $2 million. Even if we take account of such things as star salaries, it is safe to conclude that the probable total work lost in Hollywood exceeds that gained by local and first-run syndicated programming.

PRIME-TIME ACCESS RESULTS

1. The major Hollywood production houses--MCA-Universal, Warner Brothers, Columbia-Screen Gems, MGM, 20th Century Fox, and Paramount--are strongly opposed to the rule. Although these companies want to weaken network program control, they want to accomplish this by prohibiting the networks from making prime-time programming and from using their production facilities generally. In addition, the major Hollywood production companies would like changes in the contractual agreements that tie a television series to a certain network for a period of up to seven years.

2. The prime-time access rule has resulted in a serious loss of original prime-time television programming to the independent Hollywood production centers. This has had a subsequent impact on work opportunities.

3. The vast majority of independent production companies outside of the big six mentioned above, are also against the prime-time access rule because their primary business goal is to make network-calibre programming, not first-run syndication programming.

4. Program ownership has been diversified somewhat by the prime-time access rule, although not as much as was expected. In fact, there is a danger that the competitive positions of the big production houses have been strengthened by the rule vis-a-vis the smaller companies. The smaller companies do not have the financial power to withstand a reduction in the amount of network prime-time programming. Some production companies are enjoying a new lease of life, but these companies were in existence before the rule, and will probably survive if it were to be abolished. Of the production companies filing comments in the prime-time access rule with the FCC, only ten filed in favor of the rule, while 100 filed against.

SECTION VI: THE SYNDICATION BUSINESS

INTRODUCTION

The economics of the American syndication business--either film or tape--depend on a sale to one of the networks' five owned and operated station groups. Without a sale to a network O & O group, worth between $20,000 and $30,000 per episode, it is very difficult to make money with a syndicated series.

As a result of this economic fact of life, the fate of the first-run syndication business depends, indirectly, on the networks, since there is assumed to be some degree of network relationship to the owned and operated statinn groups.

The first-run and off-network syndication business is fairly competitive, with about 15 competing firms accounting for about 85 percent of the market for television series syndication. The largest firm accounts for less than 10 percent of the total market, so it can be said that the syndication business, while oligopolistic, is far less so than the broadcasting industry.

THE PRICING MECHANISM

The price of a syndicated series is subject to the marketplace. A series is sold on a station by station basis, usually moving from the larger markets down to the smaller ones. Price depends upon size of the market, time period, expected popularity, and what is being offered by competing syndicators. Generally speaking, however, syndication companies attempt to get $1,000 for each percentage point of television households covered by a particular station. Thus, a series sold to a network affiliate in New York City might be expected to sell at $10,000 per episode for two plays, since New York accounts for roughly 10 percent of the nation's television households. This explains why any group of network owned and operated stations can be expected to generate betweeen $20,000 and $30,000 for two plays of each episode because, as groups, they account for more than 20 percent of the television households, but less than 30 percent.

The top-50 markets, those markets subject to the prime-time access rule, account for roughly 70 percent of the television households, so if a prime-time access show is sold to network affiliates in all top-50 markets, the gross receipts can be expected to be around $70,000 for each of 26 episodes to be played twice by each station, subject, of course, to other competitive conditions.

Unfortunately, the prime-time access rule has tended to depress these prices somewhat because of the upsurge in production of game shows, which have low budgets, and of foreign series, which come into the U.S. at a competitive advantage, since the vast majority of them have already covered costs of production by being played on networks in

Britain, Canada, Australia, etc.

Finally, if a syndication firm is selling a prime-time access program and two affiliated stations in a given market have already turned it down, the price to the third affiliate generally weakens. If the third affiliate is not interested, then the independent station is offered the show--always assuming that the market has an independent station. Independent stations are seldom asked to pay as high a price as a network affiliate.

BARTER SHOWS

This general pricing mechanism is altered somewhat, in the case of the prime-time access rule, by a number of barter shows that are offered in syndication. A barter show is an arrangement betwee a producer and a station under which some organization, usually a national advertiser, guarantees to underwrite the cost of production in exchange for the right to a certain portion of the commercial advertising time available during the telecast of the show. In return for accepting the program free of charge, on condition that the national advertiser's messages are carried, the broadcaster has the right to sell the remainder of the commercial positions.

Barter deals vary from program to program, but one of the more popular bartered programs, Hee Haw, a one-hour prime-time access program, has four presold commercial minutes when it is offered to stations. Another four minutes can be sold locally, plus station breaks. The budget of Hee Haw is $125,000 per hour for two-plays. Production costs were higher when it was on the CBS Television Network.

Now it is produced in Nashville, Tennessee, with considerable savings both on labor and general studio costs. In addition, the stars of the show agreed to take pay cuts in order to keep the show going after cancellation from CBS, due to poor demographics and the prime-time access rule. The producers of the show, Yongestreet Productions, sell each minute of advertising at an average of $25,000 a minute to raise a total of $100,000 for the first play, and another $100,000 for the second. Yongestreet, after having a very difficult first-year of first-run syndication because the show was difficult to give away and even more difficult to sell to sponsors, are now making money by generating gross receipts of $200,000 per show for production costs of $125,000. The show budget does not reflect sales and other overheads, but Hee Haw is making a profit. Two other shows that were cancelled by the network for the first year of prime-time access, The Lawrence Welk Show, formerly on ABC, and Wild Kingdom, formerly on NBC, are both successful in syndication as barter programs.

Other barter shows, however, have not been so successful because advertisers have found that the cost per thousand homes viewing is generally higher than what the networks charge, or what they can get if the advertiser goes into the major markets and buys spot positions. Of the major advertising agencies, Ogilvy and Mather pulled out of barter shows because of "poor economics," and Bristol-Myers stopped production of The Young Doctor Kildare, made on tape in Hollywood by MGM, after only one season because the show did not get adequate clearances and ratings, thus making it an expensive buy for the sponsor.

For television stations, there is very little risk in accepting a barter show. The station recives a free program and all it has to do is sell the available commercial positions locally. Barter shows will probably continue in the prime-time access periods, but they will be few in number, and will tend to have had a previous network track record like Hee Haw, Lawrence Welk and Wild Kingdom.

IMPORTED FILM SERIES

Of the top-41 prime-time access shows programmed in the 1972-73 season, at least 12 were directly produced abroad, and several more partly produced abroad. Most important among these programs are Wildlife Theatre, Circus, Police Surgeon, Wonderful World of Kreskin, George Kirby, Safari to Adventure, Animal World, UFO, Beat the Clock, Doctor in the House, Thrillseekers, Evil Touch, The Protectors, Black Beauty The Adventurer, and Kenny Rogers.

These shows come into the United States because at least part of the production costs have already been written off by a first-run showing in the country of origin. The British made shows UFO, The Protectors, Doctor in the House, etc., have already been seen on one of the British networks, usually the commercial network, before they arrived in this country. In that sense, they have a significant competitive advantage since American off-network programming is not allowed to be sold in prime-time access, while British off-network programming is.

This invasion of foreign material is likely to be further stimulated by the prime-time access rule, and a number of British producers have announced plans to further expand sales to the United States, thanks principally to the prime-time access rule. Because these series have generally earned most or all of the costs of production in Britain or elsewhere, whatever is earned in the United States, after allowing for distribution and sales costs, becomes profit.

OFF-NETWORK SYNDICATION PRICES

Although off-network programming is not allowed to be programmed by network affiliates in the top-50 markets in prime-time access, the rule has helped, rather than hindred, the prices being paid by stations for off-network programming. The reason for this is quite simple: The prime-time access rule has reduced the amount of network prime-time and thus the amount of network-calibre entertainment programming. Because less network type programming is being made, less of it is being offered in syndication. Result: Higher syndication prices are being paid for what is offered.

Off-network programming is being snapped up by the independent commercial stations, generally to be programmed against first-run syndication programming in the prime-time access periods. Because the independent stations are not subject to the prime-time access rule, they can program off-network material any time they wish. In addition, off-network material is being bought, at record prices, by network affiliates for programming in late night periods, generally at 11:30 p.m., and also in the late afternoon--in the time periods immediately preceding the local evening news.

According to local station managers, both network affiliates and independents, syndication prices for off-network series such as Mission Impossible, Mod Squad, The FBI, Ironside, and Adam-12, have more than doubled since the prime-time access rule was introduced. This has been of some benefit to the production houses, of course, but they say that they would rather be involved in new television production.

Sales of off-network series are either handled by the studio producing the series, or by a syndication firm concentrating on sales of off-network or first-run syndication series. The gross revenues are generally split three ways--up to a third going to the syndication company to cover sales and distribution costs, plus profit to them; a third going to the creative talent in the form of residuals, etc; and a third going to the studio to cover profit and studio overhead. The networks still have profit participations in a few series that are still running on the network, but these are being phased out under the section of the prime-time access rule that drove the networks out of the syndication business.

PRIME-TIME ACCESS RESULTS

1. The prime-time access rule could well result in a long-term shortage of well produced, off-network, syndicated programming, with audience appeal. Because the amount of network prime-time television has been reduced, Hollywood production houses are producing less, thus, forcing up off-network syndication prices. In this respect, what the Hollywood producers have lost in

prime-time is being partly made up by exceptionally high profits generated by off-network syndication. This again strengthens the competitive position of the larger production houses, and weakens the smaller producers. The prime-time access rule, however, was designed to help the smaller companies.

2. The rule has led to a great increase in the amount of foreign made programming. This trend is likely to continue since the prime-time access rule helps foreign networks at the expense of the domestically produced programming.

SECTION VII: PRIME-TIME ACCESS RULE OPTIONS

Although public interest in the prime-time access rule is difficult to identify, there has been considerable press criticism of the programming in the 7:30 to 8 p.m. time period. Audience ratings tend to show a general trend away from the network affiliates to the independent stations during prime-time access, although too much importance should not be attached to this because the trend could change as viewers become familiar with the prime-time access programming. The rule, however, is still the subject of a great deal of controversy, and very few believe that it should remain in its present form, largely because of the number of waiver requests submitted to the FCC. Consequently, the following nine options are offered for consideration:

1. Complete repeal of rule, Sec. 73.658(k), eliminating both "network" and "off-network" program restrictions. Section 73.658 (j) of the rule dealing with network syndication and financial interests in independent television program production would remain in force because it has been successful.
2. Repeal of the network and off-network program feed restrictions, except for a small amount of time each week. This time would be reserved for material which is not network or off-network (a period such as 1 1/2 hours a week, of which 1 hour must be after 7:30). Primary purpose: To stimulate local programming efforts (although the rule would not say so).

3. Replace the rule with a pre-emption rule: This would say that top-50 market affiliates must pre-empt the network in prime-time for a given number of hours a year (or per quarter). This could be accompanied by a requirement that the time be used for locally produced programming.

4. Compromise Proposal: This would let the networks back in for part of the time, such as two or possibly three additional half hours a week(starting at 7:30 instead of 8), without a corresponding cutback on other nights; and also allowing off-network syndicated material to be used for some of the time, such as one hour (or more).

5. Allowing the three networks to use prime-time access for:

(1) children's programming, fact or fiction (but not regularly scheduled animated material) e.g., Wonderful World of Disney, the Children's Television Workshop's program idea for ABC, and Lassie, would be allowed;

(2) minority affairs programs, factual or fictional programs directed toward Blacks, Spanish-speaking persons, American Indians, or Orientals;

(3) documentaries, e.g., National Geographic.

This option could also include a provision for an hour or so of off-network syndicated material.

6. A combination of 4 and 5: Under this option, the networks would be permitted to program an additional half-hour on some nights, but only on condition that some of this time (e.g., one out of two half-hours) be used for children's minority affairs, and documentary programming.

7. Seasonal Rule: The networks would be allowed to program all four prime-time hours from September 1 through April 30. During the period May 1 through August 31, the networks would be limited to programming 2 hours of prime-time per night. The other two hours per night during this "access period" season would not be filled with network programs, off-network programs, or feature films (as currently restricted).

This approach is designed to deal with the "re-run" as well as the prime-time problem. It could not be finally adopted at this time, but the necessary further FCC rulemaking could be completed probably in time for the 1974-75 season.

8. Modified 21-hour Rule: The basic structure of the rule would be retained, with changes: (1) a modified "21-hours-a-week" concept, under which the networks could program 3 1/2 hours on two nights each week (possibly two week-nights only), and cut back to 2 1/2 hours on two other nights in the same week, to be announced well in advance of each season; and (2) allowing off-network material for an hour or possibly more each week.

9. Retain the rule, with the following modifications:

   (a) Change to take care of time zone differences.

   (b) Permitting a limited amount of off-network material.

   (c) Exempting from the rule UHF top-50 market affiliates (this would apply in a few two-V one U situations where the UHF is at a competitive disadvantage, plus the 3-UHF Wilkes-Barre-Scranton market, where cable is a strong competitive factor).

   (d) Extending the "off-network" program restriction to independent VHF stations in the top-50 markets.

   (e) With the exception of regularly scheduled local news or public affairs series, no station may schedule multiple exposure of the same program series or multiple showing of theatrical or made-for-television features in access period time within the same week. This would allow greater opportunities for more prime-time access programs, and would eliminate stripping of game shows without reducing the overall number of different game shows produced for prime-time access.

APPENDIX I

Partial list of people interviewed in connection with the study:

From the Networks and their Owned Stations:

ABC:

Mr. Jim Duffy, President, ABC TV Network.

Mr. Fred Pierce, Vice President, Corporate Planning.

Mr. Robert Kaufman, Vice President.

Mr. Gene Cowen, Vice President.

Mr. Mike Eisner, Vice President.

Mr. Dick O'Leary, President, ABC Owned Television Stations Division.

Mr. Squire Rushnell, Vice President, ABC Owned Stations Group.

CBS:

Dr. Frank Stanton, former President and Vice Chairman.

Mr. John Schneider, President, CBS Broadcast Group.

Mr. Robert Wood, President, CBS Television Network.

Dr. David Blank, Vice President, Economics and Research, CBS, and members of his staff.

Mr. Richard Jencks, Vice President, CBS.

Mr. Sarge Carleton, CBS, Washington, D.C.

Mr. Oscar Katz, Vice President, CBS.

Mr. James Rosenfield, Vice President, Eastern Sales, CBS Television Network.

Mr. Tom Miller, President, CBS Owned Television Stations Division.

NBC:

Mr. Don Durgin, former NBC Television Network President.

Mr. Tom Ervin, Executive Vice President, NBC.

Mr. Larry White, Vice President, Programming.

Mr. Mike Weinblutt, Vice President, NBC Sales.

Mr. Corrie Dunham, Vice President, NBC Legal Services.

Mr. Herminio Traviasis, Vice President, Broadcast Standards, NBC.

Mr. Sidney Eiges, Vice President, NBC.

Mr. Don Carswell, Vice President, NBC Business Affairs.

Mr. Bill Dannhauser, Director, NBC Business Affairs.

From the television stations:

Mr. Donald McGannon, Chairman and President of Group W, New York City.

Mr. Marvin L. Shapiro, President, Group W, Station Group.

Mr. James Yergin, Vice President, Research, Group W.

Mr. Bill Osterhaus, formerly General Manager and Vice President, KPIX, San Francisco.

Mr. William Jackson, formerly Program Manager, KPIX, San Francisco.

Mr. Lovell Dyett, host of program on WBZ, Boston, and a professor at MIT.

Mr. William Carpenter, General Manager, WTTG, Washington, D.C., and members of his staff.

Mr. Stanley A. Rudick, Vice President and Program Director, WTTG, Washington, D.C.

Mr. Glenn Potter, General Sales Manager, WTTG, Washington, D.C.

Mr. Mark Evans, Attorney and Vice President, Metromedia Broadcasting.

Mr. Kent Replogle, Vice President, Metromedia Television Stations.

Mr. Larry Israel, President, The Washington Post Company.

Mr. Joel Chaseman, President, Post-Newsweek Stations.

Mr. Dan Gold, formerly General Manager, WTOP, Washington, D.C. and now Senior Vice President for the Post-Newsweek Stations.

Mr. Ray Hubbard, Vice President of Programming for Post-Newsweek Stations.

Mr. Tom Shannon, General Sales Manager, WTOP, Washington, D.C.

Mr. Ken Smith, Vice President and Station Manager, WTIC, Hartford, Connecticut.

Mr. John Thompson, President, Washington Star Broadcasting Co.

Mr. William Branch, General Sales Manager, WMAL, Washington, D.C.

Ms. Thursa D. Crittenden, Manager, Minority Affairs, WMAL, Washington, D.C.

Mr. Robert Glaser, formerly General Manager, WOR, New York, now President, RKO General Television Division.

Mr. Ward Quaal, President, WGN Broadcasting, Chicago.

Mr. Sheldon Cooper, Vice President, Manager of Programming for WGN Group stations, WGN, Chicago.

Mr. Odin Ramsland, General Manager, KDAL, Duluth, Minnesota.

Mr. Harry Francis, Vice President, Meredith Corporation, with television stations in five markets.

Mr. Roger Rice, General Manager and Vice President, KTVU, Oakland/San Francisco, and President of the Independent Television Companies Association.

Mr. George Koehler, General Manager, Triangle Broadcasting, Philadelphia.

Mr. Sherman K. Headley, General Manager, WCCO, Minneapolis.

Mr. Louis Read, President, WDSU, New Orleans.

Mr. Jerry E. Romig, Vice President, WDSU, New Orleans.

Mr. Doug Elleson, General Manager, WVUE, New Orleans.

Mr. John M. Rivers, President, WCSC, Charleston, South Carolina.

Mr. Virgil Evans, Vice President, WCSC, Charleston, South Carolina.

Mr. Charles Whitehurst, General Manager, WFMY, Greensboro, North Carolina.

Mr. Robert Olson, Assistant Manager, WTVT, Tampa, Florida.

Mr. John Small, Program Director, WLWI, Indianapolis.

Ms. Mimi Cazana, WRTV, Indianapolis.

Mr. Dwight Smith, WISH News, Indianapolis.

Mr. Kelly Atherton, Vice President and General Manager, WFIE, Evansville, Indiana.

Mr. John Spiros, News Producer, WJBK, Detroit.

Mr. Jim Alexander, Co-ordinator of Community Affairs, KMGH, Denver, Colorado.

Mr. Milton Grant, Vice President and General Manger of WDCA, Washington, D.C.

Mr. Jack Petrik, Vice President and General Manager, KDNL, St. Louis.

Mr. Herman Pease, Manager of WTV, Buffalo, New York.

Mr. Jim Terrell, General Manager, KTVT, Dallas, Texas.

Mr. David Baltimore, General Manager, WBRE, Wilkes-Barre, Pennsylvania.

From the Program Production Industry:

Mr. Sidney Sheinberg, President, MCA-Universal.

Mr. Taft Schreiber, Vice President, MCA-Universal.

Mr. Albert Dorskind, Vice President, MCA-Universal.

Mr. Elliot Witt, Vice President and Treasurer, MCA-Universal.

Mr. Frank Reel, President, Metromedia Producers Corporation.

Mr. James Aubrey, President, MGM.

Mr. Douglas Netter, Executive Vice President, MGM.

Mr. Paul Pickard, Vice President, MGM Television.

Mr. Emmett Lavery, Executive Vice President, Paramount Television.

Mr. John Mitchell, President, Screen Gems.

Mr. Arthur M. Frankel, Vice President, Screen Gems.

Mr. Edward S. Masket, Vice President, Screen Gems.

Mr. Benson Begun, Associate General Counsel, Screen Gems.

Mr. William Self, President, 20th Century Fox Television.

Mr. Gerald Leider, President, Warner Brothers Television.

Mr. Spencer Harrison, Executive Vice President, Warner Brothers.

Mr. Ed. Bleier, Vice President, Warner Brothers Television.

Mr. Aaron Spelling and Mr. Len Goldberg of Spelling Productions, producers of Mod Squad and The Rookies.

Mr. Jack Webb, Producer of Emergency, Adam-12, and other television programs.

Mr. Jackie Cooper, actor and producer.

Mr. Bud Yorkin, Executive Producer of Sanford and Son, and founding partner of Tandem Productions.

Mr. Lee Rich, Executive Producer of The Waltons.

Mr. Gene Roddenberry, Producer of Star Trek.

Mr. Norman Felton, Producer of Dr. Kildare.

Mr. Duke Vincent, Producer, The Little People.

Mr. Paul Keyes, Executive Producer, Laugh-In.

Mr. Joseph R. Barbera, President, Hanna-Barbera Productions, Inc., a division of Taft Broadcasting Company.

Mr. Samuel T. Johnston, Executive Vice President, Hanna-Barbera Productions Inc., a division of Taft Broadcasting Company.

Mr. Alan Courtney, President of Yongestreet Productions, producers of Hee Haw.

Mr. Johnny Mann of Stand Up and Cheer, a prime-time access program

Mr. Burt Rosen, Partner and founder member, Winters-Rosen Productions.

Mr. Robert Montgomery, actor and producer.

Mr. Chuck Barris, of Chuck Barris Productions, producers of game shows, and members of his staff.

Mr. Ralph Baruch, President, Viacom.

From the Program Production Industry Unions:

Mr. John W. Gilbert, attorney for the AFL Film Council in Hollywood.

Mr. Art Arthur, of the Film and Television Co--ordinating Committee.

Mr. H. O'Neil Shanks, Executive Secretary of the Screen Actors Guild, and Secretary of the Film Council.

Mr. John Dales, Executive Secretary of the Screen Actors Guild.

Mr. Chester Migden, Associate Executive Secretary of the Screen Actors Guild.

Mr. John W. Lehners, President, Hollywood Film Council, also of The Motion Picture Film Editors Union.

Ms. Kathy Nolan, actress, member of Screen Actors Guild, Hollywood.

Mr. Robert Doqui, actor, member of Screen Actors Guild, Hollywood.

Mr. Robert Hooks, actor, members of Screen Actors Guild, Hollywood.

From Program Syndication Companies:

Mr. Dan Goodman, Executive Vice President, Brut Productions Inc.

Mr. Fletcher C. Waller, Vice President, General Mills Fun Group, Minneapolis.

Mr. Lou Friedland, Vice President, MCA-Universal.

Mr. Keith Godfrey, Vice President, MCA-Universal.

Mr. Ken Joseph, Executive Vice President, Metromedia Producers Corporation.

Mr. Pierre Weiss, Vice President, Metromedia Producers Corporation.

Mr. Jack Rhodes, President, Jack Rhodes Productions, a production and syndication company, a subsidiary of Taft Broadcasting, and members of his staff.

Mr. Sandy Frank, President, Sandy Frank Film Syndication, Inc. New York City.

Mr. Maury Shields, Executive Vice President, Sandy Frank Film Syndication, In

Mr. Peter Robeck, Chairman, Time-Life Films.

Mr. John R. Vrba, Associate Managing Director, Time-Life Films.

Mr. Don Hine, Manager of Sales, Time-Life Films.

Mr. Wynn Nathan, Director of Sales and Marketing, Time-Life Films.

Mr. Graham White, Account Executive, 20th Century Fox Television.

Mr. Willard Block, former President, Viacom Enterprises.

Mr. Ronald Lightstone, Associate General Counsel, Viacom International Inc.

Mr. John P. Ballinger, President, Vidistrib, Los Angeles, program syndicators

Mr. Bill Jenkins, Sales Manager, Vidistrib, Los Angeles, program syndicators.

From the Advertising Agencies:

Dr. Seymour Banks, Vice President, Leo Burnett Inc., Chicago.

Mr. Dick Peterson, Campbell-Ewald Advertising Agency, Detroit, Michigan.

Mr. Peter Bardach, Vice President, Foote, Cone and Belding Advertising Agency.

Mr. Archa Knowlton, Director, Media Services, General Foods.

Mr. Al Fields, Vice President, Health Tex Inc.

Mr. Howard Eaton, Vice President, Ogilvy and Mather Advertising Agency, New York City.

From the Motion Picture Association:

Mr. William H. Fineshriber, Vice President, Television, Motion Picture Association of America, New York City.

Mr. Michael Linden, Director of Research, Motion Picture Association of America, New York City.

From the National Association of Broadcasters:

Mr. John Dimling, Vice President of Research, National Association of Broadcasters.

Mr. Ron Irion, Director of Broadcast Management, National Association of Broadcasters.

Mr. Stockton Helffrich, Director, National Association of Broadcasters Code Authority.

Mr. Jerome Lansner, Assistant Director, NAB Code Authority.

From the U.S. Justice Department:

Mr. Bernard Hollander, Chief, Judgment Section, Anti-Trust Division, Justice Department, and members of his staff.

Mr. Harry Sklarsky.

Mr. Lewis Gold.

From Broadcasting Industry Research Organizations:

Mr. Herb Jacobs, Broadcasting Consultant, New York City.

Mr. Murray Gross, Vice President, Television Bureau of Advertising, New York C

Mr. Roy Danish, Television Information Office, New York.

Mr. E.A. Schillmoeller, Director of Statistical Research, Media Research Division, A.C. Nielsen Company, Chicago.

From the Trade Press:

Mr. Al Preiss, Editor-Publisher, Telefilm International Magazine, Hollywood, California.

Mr. Dick Doan, TV Guide, New York.

Mr. E.A. Minsker, Editor and Publisher, Knowledge Industry Publications, White Plains, New York.

Mr. Les Brown, formerly with Variety, now with The New York Times.

Mr. Lee Weston, Assistant to the Publisher, Newsweek, New York City.

From the Independent Television Companies Association:

Mr. Herman Land, Executive Director, and others.

Attorneys

Mr. Ashbrook Bryant, former Chief, Office of Network Study, FCC.

Mr. Frank Nolan, former Deputy Chief, Office of Network Study, FCC.

Mr. Henry Geller, former General Counsel, FCC, now with The Rand Corporation.

Mr. Kenneth Cox, former FCC Commissioner, Haley, Bader, and Potts, Washington, D.C.

Mr. Michael Bader, Haley, Bader and Potts, Washington, D.C.

Mr. John Lane, Hedrick and Lane, Washington, D.C.

Mr. Ramsey L. Woodworth, Hedrick and Lane, Washington, D.C.

Ms. Margot Polivy, Renouf, McKenna, and Polivy, Washington, D.C.

Ms. Katrina Renouf, Renouf, McKenna, and Polivy, Washington, D.C.

Mr. Erwin Krasnow, Kirkland, Ellis, and Rowe, Washington, D.C.

Mr. James A. McKenna, Jr., McKenna, Wilkinson, and Kittner, Washington, D.C.

Mr. Arthur Scheiner, Wilner, Scheiner, and Greeley, Washington, D.C.

Mr. Robert Hadl, Wilner, Scheiner, and Greeley, Washington, D.C.

Mr. Robert Cahill, Farrow, Cahill, Kaswell, Segura, and Rader, Washington, D.C.

Mr. Thomas J. Dougherty, Metromedia, Inc., Washington, D.C.

APPENDIX IIA

1972-73 Season (thru June 30, 1973)

Prime Time

		Film/Tape	ABC Production	ABC Facilities
Sunday				
8:00-9:00	FBI	F	No	No
9:00-11:00	ABC Sunday Movie	F	No 1/	No
Monday				
8:00-9:00	Rookies	F	No	No
9:00-11:00 2/	NFL Football	--------Live Sports--------		
9:00-11:00 3/	Monday Night Movie	F	No	No
Tuesday				
8:00-8:30	Temperatures Rising	F	No	No
8:30-10:00	Movie of the Week	F	4/	No
10:00-11:00	Marcus Welby	F	No	No
Wednesday				
8:00-8:30	Paul Lynde	F	No	No
8:30-10:00	Wednesday Movie of Week	F	4/	No
10:00-11:00 2/	Julie Andrews	T	No	Yes
10:00-11:00 3/	Owen Marshall	F	No	No

1/ One theatrical feature was produced by ABC.
2/ Fourth Quarter 1972
3/ First and Second Quarters 1973
4/ ABC produced 19 made-for television feature films for the 1972-73 Season, which were shown in the Movie of the Week and Wednesday Movie of Week programs.

		Film/Tape	ABC Production	ABC Facilities
Thursday				
8:00-9:00	Mod Squad	F	5/	No
9:00-10:00 6/	The Men	F	No	No
9:00-10:00 7/	Kung Fu	F	No	No
10:00-11:00 6/	Owen Marshall	---------See Above---------		
10:00-11:00 7/	Streets of San Francisco	F	No	No
Friday				
8:00-8:30	Brady Bunch	F	No	No
8:30-9:00	Partridge Family	F	No	No
9:00-9:30	Room 222	F	No	No
9:30-10:00	Odd Couple	F	No	No
10:00-11:00	Love, American Style	F	No	No
Saturday				
8:00-9:00 6/	Alias Smith & Jones	F	No	No
8:00-8:30 7/	Here We Go Again	F	No	No
8:30-9:00 7/	One Touch of Grace	T	No	Yes
9:00-10:00 6/	Streets of San Francisco	---------See Above---------		
9:00-10:00 7/	Julie Andrews	---------See Above---------		
10:00-11:00 6/	Six the Sense	F	No	No
10:00-11:00 7/	The Men	---------See Above---------		

5/ ABC (Spelling) cost-plus production
6/ Fourth Quarter 1972
7/ First and Second Quarters 1973

APPENDIX IIA

		Film/Tape	ABC Production	ABC Facilities
	Monday - Friday Daytime			
11:30-12:00	Bewitched	F	No	No
12:00-12:30	Password	T	No	Yes
12:30-1:00	Split Second	T	No	Yes
1:00-1:30	All My Children	T	No	Yes
1:30-2:00	Let's Make A Deal	T	No	Yes
2:00-2:30	Newlywed Game	T	No	Yes
2:30-3:00	Dating Game	T	No	Yes
3:00-3:30	General Hospital	T	No	Yes
3:30-4:00	One Life to Live	T	Yes	Yes
4:00-4:30	Love, American Style	F	No	Yes
			No	No
	Monday - Friday Late Night			
11:30-1:00 8/	Dick Cavett	T	No	Yes
11:30-1:00 9/	Wide World of Entertainment	F and T 10/	10/	10/
	Weekend Children - Saturday			
8:00-8:30	H. R. Pufnstuf	F	No	No
8:30-9:00	Jackson 5	F	No	No
9:00-9:30	Osmonds	F	No	No
9:30-10:30	Saturday Super Star Movie	F	No	No
10:30-11:00	Brady Kids	F	No	No
11:00-11:30	Bewitched	F	No	No
11:30-12:00	Kid Power	F	No	No
12:00-12:30	Funky Phantom	F	No	No
12:30-1:00	Lidsville	T	No	No
1:00-1:30	Monkees	F	No	No
1:30-2:00	American Bandstand	T	No	Yes

8/ Fourth Quarter 1972

9/ First and Second Quarters 1973

10/ Wide World of Entertainment was both film and tape production. The film programs did not use ABC facilities. The Dick Cavett and Jack Paar programs, on tape, did use ABC facilities (although some Cavett shows have been done at other facilities). Of the other tape programs, some used ABC facilities and some did not. ABC produced 11 Wide World of Entertainment programs for the 1972-73 Season.

		Film/Tape	ABC Production	ABC Facilities
	Weekend Children - Sunday			
10:00-11:00	Curiousity Shop	T 11/	Yes	Yes
11:00-11:30	Bullwinkle	F	No	No
11:30-12:00	Make A Wish	F	Yes 12/	Yes 12/

11/ Curiousity Shop includes both film and tape components, some of which are not produced at ABC facilities.

12/ Make A Wish is produced by ABC News. Some filming on location does not use ABC facilities.

1972/73 PRIME-TIME SERIES

SERIES - PRODUCER	USED CBS FACILITIES	FILM OR TAPE
GUNSMOKE - Columbia Broadcasting System, Inc.	YES	FILM
HERE'S LUCY - Lucille Ball Productions, Inc.	NO	FILM
THE DORIS DAY SHOW - Arwin Productions, Inc.	YES	FILM
THE NEW BILL COSBY SHOW - Jemmin, Inc.	YES*	TAPE
MEDICAL CENTER - Metro Goldwyn Mayer, Inc.	NO	FILM
MAUDE - Tandem, Inc.	YES*	TAPE
HAWAII 5-0 - Leonard Freeman Productions, Inc.	YES	FILM
THE CAROL BURNETT SHOW - Punkin Productions, Inc.	YES *	TAPE
THE SONNY & CHER COMEDY HOUR - Yosh Productions, Inc.	YES *	TAPE
DAN AUGUST - Q-M Productions	NO	FILM
CANNON - Q-M Productions	NO	FILM
THE WALTONS - Lorimar, Inc.	NO	FILM

*Some production done at non-CBS facilities.

APPENDIX IIB

SERIES - PRODUCER	USED CBS FACILITIES	FILM OR TAPE
MISSION IMPOSSIBLE - Paramount Television, A Division of Paramount Pictures Corporation, Inc.	NO	FILM
ALL IN THE FAMILY - Tandem, Inc.	YES*	TAPE
BRIDGET LOVES BERNIE - Screen Gems, A Division of Columbia Pictures, Inc.	NO	FILM
THE MARY TYLER MOORE SHOW - MTM Enterprises, Inc.	YES	FILM
THE BOB NEWHART SHOW - MTM Enterprises, Inc.	YES	FILM
ANNA & THE KING - Twentieth Century Fox Television	NO	FILM
THE NEW DICK VAN DYKE SHOW - Cave Creek Enterprises, Inc.	NO	FILM
M*A*S*H - Twentieth Century Fox Television	NO	FILM
THE SANDY DUNCAN SHOW - Paramount Television, A Division of Paramount Pictures Corporation, Inc.	NO	FILM

*Some production done at non-CBS facilities.

SERIES - PRODUCER	USED CBS FACILITIES	FILM OR TAPE
MANNIX - Paramount Television, A Division of Paramount Pictures Corporation, Inc.	NO	FILM
BARNABY JONES - Q-M Productions	NO	FILM
NEW CBS TUESDAY MOVIES (See Note 1)	NO	FILM (MADE FOR T.V.)
CBS THURSDAY NIGHT MOVIES	NO	FILM (THEATRICAL)
CBS FRIDAY NIGHT MOVIES	NO	FILM (THEATRICAL)

Note 1

Approximately fifty (50) percent of the Made-For-T.V. Movies which were telecast in the NEW CBS TUESDAY MOVIES time period (90 minutes) were produced utilizing CBS facilities. For approximately two-thirds (2/3) of these, CBS was the Producer.

CBS STUDIO FACILITIES (STUDIO CENTER AND TELEVISION CITY) USED IN 1972 AND 1973 TO DATE BY PRODUCERS OF PROGRAMS NOT LICENSED FOR BROADCAST OVER THE CBS TELEVISION NETWORK

Production Name or Type	Producer	Tape or Film	Where Telecast
WOW - Series	Blye/Beard Productions	Tape	ABC
Show of the Month (3 shows) American Telephone Co.	Wolper Productions	Tape	Syndication
It's Your Bet - Series	M/P Productions	Tape	Syndication
Zenith 25th Anniversary - Special	Teram Productions	Tape	ABC
Bill Russell - Series	Woody Fraser Productions	Tape	Syndication
Treasure Hunt - Pilot	Chuck Barris Productions	Tape	Syndication
Democratic Telethon	Democratic Telethon, Inc.	Tape	ABC or NBC
3 Shows	Pacific Telephone & Telegraph	Tape	Closed Circuit
Pilot	Pasetta Productions	Tape	Syndication
Pilot	Stu Phelps Productions	Tape	Syndication
Peter Hurkos - Pilot	Golden Age	Tape	Syndication
Recording of Mormon Tabernacle Choir	Bonneville International	Tape	Syndication

Production Name or Type	Producer	Tape or Film	Where Telecast
Perry Como - Special	Roncom Productions	Tape	CBS (Advertiser Supplied)
Price Is Right - Series	Price Productions	Tape	Syndication
Miracles - Series	Production Associates	Tape	Syndication
Insight - Series	Paulist Fathers	Tape	Syndication
Bobby Goldsboro - Series	Show Biz	Tape	Syndication
It Is Written - Series	Adventist Recording/ TV Center	Tape	Syndication
Kate Smith - Special	Kreschner Enterprises	Tape	Syndication
Shari Lewis - Pilot	Andard Productions	Tape	Syndication
Adams Family - Pilot	Viacom	Tape	Syndication
Weekend World	London Weekend T.V.	Tape	British Broadcasting
Onward People	Bonneville International Corporation	Tape	Syndication
Mel Torme - Special	Visit Us Productions	Tape	Syndication
Operation Hang Ten - Pilot	Viacom	Film	ABC
Diana Riggs - Series	Talent Associates, Inc.	Film	NBC
Barbara Eden - Pilot	Danny Arnold and Associates	Film	ABC (Scheduled for December 1973 Production

8/73

Entertainment Programs Presented By The NBC Television Network During The 1972-1973 Season (September 9, 1972 - May 31, 1973)*

Prime Time

Program	Total Broadcast Hours**	Tape (T) or Film (F)	Produced or Owned by NBC	NBC Facilities Used
Laugh-In	24	T	No	Yes
Monday Movie	66	F	No	No
Bonanza***	16	F	Yes	No
Bold Ones	16	F	No	No
Tuesday Movie	24	F	No	No
Adam 12	12	F	No	No
Weds. Mystery Movie	33	F	No	No
Search	23	F	No	No
Flip Wilson	24	T	No	Yes
Ironside	24	F	No	No
Dean Martin	28	T	Yes	Yes
Sanford & Son	12	T	No	Yes
Little People	12	F	No	No
Circle of Fear (Ghost Story)	22	F	No	No
Banyon	15	F	No	No
Bobby Darin	13	T	No	Yes
Emergency	22	F	No	No
Saturday Movie	70	F	No	No
Walt Disney	20	F	No	No
Sun. Mystery Movie	33-1/2	F	No	No
Night Gallery	7-1/2	F	No	No
America	13	F	No	No
Escape	2	F	No	No

* Excludes each program produced by NBC News and NBC Sports

** Excludes rerun

*** Cancelled in January, 1973

Special Programs Shown in Prime Time*

Program	Total Broadcast Hours	Tape (T) or Film (F)	Produced or Owned By NBC	NBC Facilities Used
Three Cheers for the Redskins	1	F	No	No
Make Mine Red, White and Blue	1	T	No	Yes
Ozzie's Girls	1/2	F	No	No
Liza With A Z	2	F	No	No
Bob Hope Specials	6	T	**	Yes
Bob Hope Xmas Special	1-1/2	F	**	No
Bell System Family Theater Specials	6	T/F	No	No (excep 1 hou
How To Handle A Woman	1	T	No	Yes
Clerow Wilson	1/2	F	No	No
Snoopy's Ice Follies	1	T/F	No	In Part
Hallmark Hall of Fame Specials	7	T/F	No	No
West Side Story	3	F	No	No
Winnie the Pooh Specials	1	F	No	No
Timex Specials	5-1/2	T	No	No (except 1 hour
Little Drummer Boy	1/2	F	No	No
Tennessee Ernie Ford Special	1	T	No	No
Bing Crosby Xmas Special	1	T	No	Yes
In Search of the Ancient Astronauts	1	F	No	No
Jack Benny Special	1	T	No	Yes
Return to Peyton Place	1/2	T	No	Yes
Incredible Flight of the Snow Geese	1	F	No	No
NBC Follies	1	T	Yes	Yes
Country Music Hit Parade	1	T	No	No

* Excludes live coverage of special events, such as Miss America Pageant, Rose Bowl Parade, Academy Awards, etc.

** NBC owns partial stock interest in production company.

Special Programs Shown
in Prime Time (con't.)

Program	Total Broadcast Hours	Tape (T) or Film (F)	Produced or Owned By NBC	NBC Facilities Used
Peter Pan*	2	T	Yes	Yes
Arnold Palmer Keep U.S. Beautiful	1	T	No	Yes
Elvis Presley Special	1-1/2	T	No	No
Wizard of Oz	2	F	No	No
Upon This Rock	1	F	No	No
Going Up of David Lov	1-1/2	F	No	No
Saga of Sonora	1	T	No	No
Weird Harold Special	1	F	No	No
The American Experience	1	F	No	No

Weekday Daytime (10 AM - 6 PM)**

Program	Total Broadcast Hours	Tape (T) or Film (F)	Produced or Owned By NBC	NBC Facilities Used
Dinah's Place		T	No	No
Concentration***		T	Yes	Yes
Baffle***		T	No	Yes
Sale of the Century***		T	No	Yes
Hollywood Squares		T	No	Yes
Jeopardy		T	No	Yes
Who, What or Where Game		T	No	Yes
Three on a Match		T	No	Yes
Days of our Lives		T	No	Yes
The Doctors		T	No	Yes
Another World		T	No	Yes
Return to Peyton Place		T	No	Yes
Somerset		T	No	Yes

* Originally produced and broadcast in December, 1960.

** Total broadcast hours will not be indicated. Unless preempted, each program runs 1/2 hour, 5 days a week.

*** Concentration cancelled and replaced with Baffle in March 1973. Sale of the Century cancelled July 1973.

Weekend Daytime (8 AM - 6 PM)*

Program	Total Broadcast Hours	Tape (T) or Film (F)	Produced or Owned by NBC	NBC Facilities Used
The Houndcats		F	No	No
Woman Holiday		F	No	No
The Jetsons		F	No	No
Pink Panther		F	No	No
Underdog		F	No	No
The Barkleys		F	No	No
Sealab 2020		F	No	No
Runaround		T	No	Yes
Around the World In 80 Days		F	No	No
Talking With A Giant		T	Yes	Yes

Late Night

The Tonight Show		T	Yes	Yes
Midnight Special		T	No	Yes

---

* Total broadcast hours will not be indicated. Unless preempted, each program runs 1/2 hour, 1 day a week.

Analysis of access-period entertainment programming other than movies (syndicated plus network in 1970, syndicated including off-network in 1971, made for syndication only in 1972) by type, place or production and percentage of syndicated which is "network-derived" (1971-72 and 1972-73)

	1970		1971		1972	
Type	No. of ½ hrs.	% of Total ent.time	No.of ½ hrs.	% of Total ent.time	No. of ½ hrs.	% of Total ent.time
Game	170	11.1	294	22.8	672	48.6
Drama	712	46.3	357	27.7	228	16.5
Variety	265	17.2	225	17.5	255	18.4
Nature/ Travel	36	2.3	81	6.3	98	7.1
Comedy	334	21.7	242	18.8	24	1.7
Cartoon	--	--	2	0.2	59	4.3
Misc.	20	1.3	86	6.7	47	3.4
Total	1,537	99.9	1,287	100.0	1,383	100.0
Place of production 1/						
U.S.	1,497	97.4	1,089	84.6	987	71.4
U.S. and foreign	38	2.5	135	10.5	115	8.3
Wholly foreign	2	0.1	63	4.9	281	20.3
Amount "network derived" 2/			924	71.8	841	60.9

1/ The increase in foreign production of dramatic material is particularly striking, being one-half hour (0.1%) in 1970, 17 half-hours wholly and 56 partly foreign in 1971 (20.5% total), and 169 half-hours wholly and 6 partly foreign in 1972, 77% total.

2/ This does not include material which is "off-foreign network". The grea bulk of the material in both years was continuations or revivals of U.S. net work series under the same name and with no substantial change. A small amo (40 half-hours in 1971, 144 half-hours in 1972) was "based on", or an "offsho of an earlier network series or individual network show.

APPENDIX III

Broadcast Bureau Analysis

of

Access-period Programming

on affiliated stations

(weeks in fall 1970, fall 1972 and fall 1973)

On the following six pages, there is analyzed the "access period" programming of affiliated stations in 46 of the top 50 markets, for weeks in November 1970, November 1972 and October 1973, using ARB rating data for the first two and TV Guide for the third. The analysis is of the number of station half-hours devoted to programs of various types and from various general sources, in markets grouped according to size (top 3 (New York, Los Angeles, Chicago), 2nd 7, third 15 and 4th 21). Pages 3 through 6 also contain a breakdown by times and days of the week. Page 2 contains a further analysis concerning the game show category--a weighting of the number of game show station half-hours in each market group by the average "potential audience" (sets) of stations in the markets in that group, to arrive at the number of "potential audience half-hours", as well as station half-hours, devoted to game shows, and the percentage which this represents of total "potential audience half hours" on affiliated stations in the 46 markets.

Analysis of Access-Period time use by affiliated stations in top 50 markets, October-November 1970, 1971 and 1972 1/

General type of material	1970 No. of 1/2 hrs.	1970 % of Total (2,100 1/2 hrs.)	1971 No. of 1/2 hrs.	1971 % of Total (2,100 1/2 hrs.)	1972 No. of 1/2 hrs.	1972 % of Total (2,100 1/2 hrs.)
Network news	130	6.2	122	5.8	95	4.5
Local news	327	15.6	377	18.0	393	18.7
Total news	457	21.8	499	23.8	488	23.2
Other local 2/	44	2.1	167	7.9	135	6.4
Movies	62	3.0	147	7.0	94	4.5
Entertainment (other than movies)						
Network (1970)	1,137	54.1	--	--	--	--
Off-network (1970 and 1971)	268	12.8	475	22.6	--	--
Made for syndication 3/	132	6.3	812	38.7	1,383	65.9
Total ent. (non-movie)	1,537	73.2	1,287	61.3	1,383	65.9
Grand Total	2,100	100.0	2,100	100.0	2,100	100.0

1/ The Joint Appendix does not give all of the basic data underlying these figures, and there may be some question as to their accuracy. Other parties may dispute them in reply comments; if this is not done, the staff will check them at least to some extent. One definite possibility is that the figures do not take into account preemptions by stations of regularly scheduled material on one or more occasions during a rating period.

2/ The Joint Appendix lists separately "black interest" programs locally originated (as can be gathered from their titles). These have been included in the "local" figures above. There were none in 1970, 3 half-hours (0.1% of total access time) in 1971, and 5 half-hours (0.2%) in 1972. While we have not checked this, it appears at least possible that it is an understatement.

3/ As discussed below, a great deal of the "made for syndication" material is continuations or revivals of former, or current daytime, network shows.

Source: Compiled by FCC staff from Joint Appendix of MCA, Warner Bros., Columbia Screen Gems, etc., in FCC Docket No. 19622, consideration of the operation of, and possible changes in the prime-time access rule, Section 73.658(k) of the Commission's Rules.

ANALYSIS OF ACCESS-PERIOD PROGRAMMING ON AFFILIATED STATIONS IN 46 OF THE TOP 50 MARKETS, WEEKS IN NOVEMBER 1970, NOVEMBER 1972 and OCTOBER 1973

(by type and station half-hours)

Network, Off-Network and Other Syndicated Programs (not including local feature films or network news)

Other Programs (network and local news, local movies and locally produced programs)

Total Station 1/2-hrs.		Game Shows	Drama		Nature-Travel		Comedy		Variety		Cartoon	Misc.	Net Movies	Total Net Non-News	Total Off-Net 1/	Total Other Synd.	Net News	Local News	Local Movie	Local Sport	Local Other
3 largest mkts.			US	For.	US	For.	US	For.	US	For.											
124	1970	3	32	-	6	-	15	-	12	-	-	1	3	71	-	1	37	7	5		3
124	1972	15	4	15	4	3	-	-	3	9	6	-	-	-	3	56	30	23	9		3
124	1973	17	-	16	8	-	5	-	3	-	1	2	-	-	3	49	30	27	8		7

Average potential audience per station 1/2 hour, 1973: 2.55 million. Total potential audience 1/2 hours 316.2 million

Next 7 Markets

292	1970	29	81	-	11	-	41	-	28	-	-	17	6	158	26	9	26	36	9	2	6
292	1972	88	11	25	11	2	-	3	10	10	10	9	-	1	5	175	30	28	11	4	40
291	1973	104	-	21	13	-	11	1	20	1	4	2	-	1	7	164	21	42	8	6	42

Average potential audience per station 1/2 hour, 1973: 0.94 million. Total potential audience 1/2 hours, 273.54 million

Next 15 Markets

640	1970	39	188	-	26	-	87	-	68	-	-	11	12	346	46	39	40	141	18	-	10
639	1972	189	19	46	25	4	6	8	45	19	13	10	-	7	12	365	31	161	26	4	33
640	1973	197	2	34	45	2	16	3	59	2	7	16	-	-	17	366	31	166	19	5	36

Average potential audience per station 1/2 hour, 1973: 0.45 million. Total potential audience 1/2 hours, 288.0 million

21 Other Markets

878	1970	76	271	-	37	-	160	-	91	-	-	37	17	468	138	83	29	106	32	4	18
878	1972	350	26	69	34	10	6	4	83	18	18	43	-	7	21	633	27	113	34	8	35
878	1973	370	8	46	60	1	34	2	91	7	8	30	-	2	27	628	25	131	21	7	37

Average potential audience per station 1/2 hour, 1973: 0.27 million. Total potential audience 1/2 hours, 237.06 million

ANALYSIS OF ACCESS TIME DEVOTED TO GAME SHOWS
Weeks in 1970, 1972,1973, by Size of Market Group

Percentage of Station half-hours and percentage of potential audience half hours

Market Group	Total Access Station 1/2 hrs.	Total Access Station 1/2 hrs. Game Shows	Percent Game Shows of Station 1/2 hrs.	Total 1973 Potential Sets 1/2 hrs. (million)	Total Potential Sets 1/2 hrs. Game Shows (million)	Percent Game Shows Potential Sets 1/2 hrs.
Top 3 mkts.						
1970	124	3	2.4	316.2	7.66	2.4
1972	124	15	12.1	316.2	38.25	12.1
1973	124	17	13.7	316.2	43.35	13.7
Next 7 mkts.						
1970	292	29	9.9	274.48	27.26	9.9
1971	292	88	30.1	274.48	82.72	30.1
1972	291	104	35.1	273.54	97.76	35.1
Next 15 mkts.						
1970	640	39	6.1	288.00	17.55	6.1
1972	639	189	29.6	287.55	85.05	29.6
1973	640	197	30.8	288.00	88.65	30.8
21 Other mkts.						
1970	878	76	8.7	237.06	20.52	8.7
1972	878	350	39.9	237.06	94.50	39.9
1973	878	370	42.1	237.06	99.90	42.1
Total 46 mkts.						
1970	1,934	147	7.6	1,152.74	72.99	6.3
1972	1,933	642	33.2	1,151.80	300.52	26.1
1973	1,933	688	35.6	1,152.29	329.66	28.6

ANALYSIS OF ACCESS PERIOD PROGRAMMING ON NETWORK OUTLET STATIONS IN 46 MAJOR MARKETS, WEEKS IN FALL 1970, FALL 1972 and FALL 1973 (by number of half-hours)

I. Three Largest Markets (New York, Los Angeles, Chicago)

			Network, Off-Network and Other Syndicated Programs (not including local feature films or network news)																Other Progr (network and local new, loc movies and locally produced programs)				
		Total 1/2 hrs	Game Shows	Drama US	Drama For	Nature-Travel US	Nature-Travel For	Comedy US	Comedy For	Variety US	Variety For	Cartoon	Misc	Net Movies	Total Net Non-News	Total Off-Net	Total Other 1/Synd.	Net News	Local News	Local Movie	Local Sport	Local Other
M-F	1970	44													-	-	-	35	5	4		
7-7:30	1972	44													-	-	-	30	10	4		
	1973	44													-	-	-	30	10	4		
Sat.	1970	9	-	-	-	-	-						1		-	-	1	2	2	1		3
7-7:30	1972	9	1	1	2	-	1						-		-	-	5	-	4	-		-
	1973	9	-	-	3	-	-						1		-	-	4	-	3	-		2
Total M-Sat.	1970	53	-	-	-	-	-						1		-	-	-	37	7	5		3
7-7:30	1972	53	1	1	2	-	1						-		-	-	5	30	14	4		-
	1973	53	-	-	3	-	-						1		-	-	4	30	13	4		5
M-F	1970	44	-	20	-	3	-	15	-	6	-	-	-	-	44	-	-	-	-	-		-
7:30-8	1972	44	10	3	6	1	1	-	-	3	6	5	-	-	-	-	35	-	5	4		-
	1973	44	13	-	5	4	-	3	-	3	-	1	1	-	-	-	30	-	10	4		-
Sat. 7:30-8 and Sun. 1 hr.	1970	27	3	12	-	3	-	-	-	6	-	-	-	3	27	-	-	-	-	-		-
	1972	27	4	-	7	3	1	-	-	-	3	1	-	-	-	3	16	-	4	1		3
	1973	27	4	-	8	4	-	2	-	-	-	-	-	-	-	3	15	-	4	-		5
Total, M-S 7:30-8 & 1 hr. Sun.	1970	71	3	32	-	6	-	15	-	12	-	-	-	3	71	-	-	-	-	-		-
	1972	71	14	3	13	4	2	-	-	3	9	6	-	-	-	3	51	-	9	5		3
	1973	71	17	-	13	8	-	5	-	3	-	1	1	-	-	3	45	-	14	4		5
Total M-F	1970	88	-	20	-	3	-	15	-	6	-	-	-	-	44	-	-	35	5	4		-
	1972	88	10	3	6	1	1	-	-	3	6	5	-	-	-	-	35	30	15	8		-
	1973	88	13	-	5	4	-	3	-	3	-	1	1	-	-	-	30	30	20	8		-
Total Sat.-Sun.	1970	36	3	12	-	3	-	-	-	6	-	-	1	3	27	-	1	2	2	1		3
	1972	36	5	1	9	3	2	-	-	-	3	1	-	-	-	3	21	-	8	1		3
	1973	36	4	-	11	4	-	2	-	-	-	-	1	-	-	3	19	-	7	-		7
Grand Total	1970	124	3	32	-	6	-	15	-	12	-	-	1	3	71	-	1	37	7	5		3
	1972	124	15	4	15	4	3	-	-	3	9	6	-	-	-	3	56	30	23	9		3
	1973	124	17	-	16	8	-	5	-	3	-	1	2	-	-	3	49	30	27	8		7

1/ All "Wild Kingdom" for which the Commission granted waiver.

II Fourth through tenth markets (Philadelphia, San Francisco, Detroit, Boston, Cleveland, Washington, Pittsburgh

Network, Off-Network and other Syndicated Programs (not including local feature films or network news) | Total Net non-news | Total off-net 2/ | Total other synd | Other Programs (includi... locally produced progr...

		Total 1/2 hrs	Game Shows	Drama US	Drama For	Nature-Travel US	Nature-Travel For	Comedy US	Comedy For	Variety US	Variety For	Cartoon	Misc.	Net Movies	Total Net non-news	Total off-net 2/	Total other synd	Net News	Local News	Local Movie	Local Sport	Ot
M-F	1970	104	20	5	-	-	-	5	-	-	-	-	14		-	24	20	25	30	4	1	
7-7:30	1972	104	45	-	-	5	-	-	-	-	-	-	-		-	-	50	30	20	4	-	
	1973	104	45	-	-	2	-	-	-	-	-	-	-		-	-	47	20	30	4	-	
Sat.	1970	21	2	3	-	-	-	1	-	1	-	-	2		-	2	7	1	5	1	1	
7-7:30	1972	21	3	-	4	-	1	-	-	3	-	1	1		-	-	14	-	2	-	-	
	1973	21	2	-	4	-	-	1	-	5	-	-	-		-	-	12	1	4	-	-	
Total	1970	125	22	8	-	-	-	6	-	1	-	-	16		-	26	27	26	35	5	2	
M-Sat.	1972	125	48	-	4	5	1	-	-	3	10	1	1		-	-	64	30	22	4	-	
7-7:30	1973	125	47	-	4	2	-	1	-	5	1	-	-		-	-	59	21	34	4	-	
M-F	1970	104	-	48	-	7	-	35	-	13	-	-	1	-	103	-	1	-	-	-	-	
7:30-8	1972	104	35	7	9	1	-	-	3	2	10	8	6	-	1	1	79	-	-	4	4	1
	1973	104	49	-	4	6	-	9	1	4	1	3	2	-	1	1	77	-	-	4	5	1
Sat. 7:30-8 & 1 hr	1970	63	7	25	-	4	-	-	-	14	-	-	-	6	55	-	1	-	1	4	-	
Sun.	1972	63	5	4	12	5	1	-	-	5	-	1	2	-	-	4	32	-	6	3	-	1
	1973	62 1/	8	-	13	5	-	1	-	6	-	1	-	-	-	5	29	-	8	-	1	1
Total M-Sat. 7:30-8 & 1 hr Sun.	1970	167	7	73	-	11	-	35	-	27	-	-	1	6	158	-	2	-	1	4	-	
	1972	167	40	11	21	6	1	-	3	7	10	9	8	-	1	5	111	-	6	7	4	3
	1973	166	57	-	17	11	-	10	1	10	1	4	2	-	1	6	106	-	8	4	6	3
Total	1970	208	20	53	-	7	-	40	-	13	-	-	15	-	103	24	21	25	30	4	1	
M-F	1972	208	80	7	9	6	-	-	3	2	10	8	6	-	1	1	129	30	20	8	4	1
	1973	208	94	-	4	8	-	9	1	4	1	3	2	-	1	1	124	20	30	8	5	1
Total Sat.-Sun.	1970	84	9	28	-	4	-	1	-	15	-	-	2	6	55	2	8	1	6	5	1	
	1972	84	8	4	16	5	2	-	-	8	-	2	3	-	-	4	46	-	8	3	-	2
	1973	83 1/	10	-	17	5	-	2	-	11	-	1	-	-	-	6	40	1	12	-	1	2
Grand	1970	292	29	81	-	11	-	41	-	28	-	-	17	6	158	26	9	26	36	9	2	
Total	1972	292	88	11	25	11	2	-	3	10	10	10	9	-	1	5	175	30	28	11	4	40
	1973	291	104	-	21	13	-	11	1	20	1	4	2	-	1	7	164	21	42	8	6	42

1/ For 1963, Sat. 7:30 half-hours do not include one-half hour in Philadelphia not specified in TV Guide.

2/ For 1972 and 1973, all off-network is Wild Kingdom or National Geographic.

			(not including local feature films or network news)													Total			Other Programs(including locally produced programs)				
						Nature-										Net	Total	Total					
		Total	Game	Drama		Travel		Comedy		Variety		Car-		Net		non-	off-	other	Net	Local			
		1/2 hrs	Shows	US-	For	US-	For	US	For	US-	For	toon	Misc.	Movies		news	net 2/	synd	News	News	Movie	Sport	Other
	1970	228	24	20	-	4	-	11	-	2	-	-	9	-		6	35	29	35	115	4	-	4
30	1972	228	66	3	11	4	-	2	-	4	1	-	1			2	1	89	30	100	3	-	3
	1973	228	75	-	3	3	1	1	-	3	-	1	-			-	-	87	30	105	2	1	3
	1970	46	2	10	-	-	-	4	-	2	-	-	1			3	7	9	5	17	2	-	3
30	1972	46	4	-	4	3	-	1	-	9	-	1	1			1	1	21	1	16	4	1	1
	1973	46	1	-	1	3	-	1	-	16	-	1	2			-	1	24	1	15	2	-	3
1	1970	274	26	30	-	4	-	15	-	4	-	-	10			9	42	38	40	132	6	-	7
t.	1972	274	70	3	15	7	-	3	-	13	1	1	2			3	2	110	31	116	7	1	4
30	1973	274	76	-	4	6	1	2	-	19	-	2	2			-	1	111	31	120	4	1	6
	1970	228	-	101	-	16	-	72	-	33	-	-	-	-		219	2	1	-	-	6	-	-
-8	1972	228	102	11	12	5	1	2	6	12	16	10	6	-		3	3	177	-	24	9	2	10
	1973	228	109	-	9	18	-	10	1	19	1	4	9	-		-	6	174	-	29	7	4	8
:30-	1970	138	13	57	-	16	-	-	-	31	-	-	1	12		118	2	-	-	9	6	-	3
hr	1972	137	17	5	19	13	3	1	2	20	2	2	2	-		1	7	78	-	21	10	1	19
	1973	138	12	2	21	21	1	4	2	21	1	1	5	-		-	10	81	-	17	8	-	22
1 t.	1970	366	13	158	-	22	-	72	-	64	-	-	1	12		337	4	1	-	9	12	-	3
-8	1972	365	119	16	31	18	4	3	8	32	18	12	8	-		4	10	255	-	45	19	3	29
hr	1973	366	121	2	30	39	1	14	3	40	2	5	14	-		-	16	255	-	46	15	4	30
1	1970	456	24	121	-	20	-	83	-	35	-	-	9	-		225	37	30	35	115	10	-	4
	1972	456	168	14	23	9	1	4	6	6	17	10	7	-		5	4	266	30	124	12	2	13
	1973	456	184	-	12	21	1	11	1	22	1	5	9	-		-	6	261	30	134	9	5	11
1 .-	1970	184	15	67	-	6	-	4	-	33	-	-	2	12		121	9	9	5	26	8	-	6
1.	1972	183	21	5	23	16	3	2	2	29	2	3	3	-		2	8	99	1	37	14	2	20
	1973	184	13	2	22	24	1	5	2	37	1	2	7	-		-	11	105	1	32	10	-	25
1	1970	640	39	188	-	26	-	87	-	68	-	-	11	12		346	46	39	40	141	18	-	10
1	1972	639	189	19	46	25	4	6	8	45	19	13	10	-		7	12	365	31	161	26	4	33
	1973	640	197	2	34	45	2	16	3	59	2	7	16	-		-	17	366	31	166	19	5	36

1/Includes 4 affiliated stations in the Hartford-New Haven market, one of which did not operate late Sunday evening, 19[illegible]

2/ For 1972 and 1973, all off-network is Wild Kingdom or National Geographic.

IV Twenty-one Markets between 26th (Buffalo) and 50th (Toledo) 1/

			Network, Off-Network and other Syndicated Programs (not including local feature films or network news)													Total Net non-news	Total off-net 2/	Total other synd	Other Programs (including locally produced programs)				
		Total 1/2 hrs	Game Shows	Drama US	Drama For	Nature-Travel US	Nature-Travel For	Comedy US	Comedy For	Variety US	Variety For	Cartoon	Misc.	Net Movies					Net News	Local News	Local Movie	Local Sport	Local Other
	1970	313	52	37	-	3	-	50	-	5	-	-	35	-	3	112	67	25	90	13	1	2
30	1972	313	154	3	4	8	-	1	2	3	3	2	19	-	1	1	197	25	80	7	-	2
	1973	313	167	-	1	9	-	2	1	3	2	1	14	-	-	2	198	25	80	6	-	2
	1970	63	4	14	-	2	-	7	-	6	-	-	2	-	5	15	15	4	12	2	1	9
30	1972	63	3	-	6	2	1	1	-	30	1	1	1	-	-	1	45	2	8	6	-	1
	1973	63	4	2	7	2	-	-	-	29	-	-	3	-	1	2	44	-	12	3	-	1
1	1970	376	156	51	-	5	-	57	-	11	-	-	37	-	8	127	82	29	102	15	2	11
t.	1972	376	157	3	10	10	1	2	2	33	4	3	20	-	-	1	244	27	88	13	-	3
30	1973	376	171	2	8	11	-	2	1	32	2	1	17	-	1	4	242	25	92	9	-	3
	1970	313	-	140	-	21	-	100	-	39	-	-	-	-	294	6	-	-	-	9	1	3
-8	1972	313	180	15	21	4	3	4	1	11	11	13	16	-	5	3	271	-	10	8	4	12
	1973	313	179	2	9	24	-	24	1	16	3	6	10	-	-	9	265	-	15	8	5	11
:30-	1970	189	20	80	-	11	-	3	-	41	-	-	-	17	166	5	1	-	4	8	1	4
hr	1972	189	13	8	38	20	6	-	1	39	3	2	7	--	1	16	120	-	15	13	4	20
	1973	189	20	4	29	25	1	8	-	43	2	1	3	-	11	14	121	-	24	4	2	23
1 t.	1970	502	20	220	-	32	-	103	-	80	-	-	-	17	460	11	1	-	4	17	2	7
-8	1972	502	193	23	59	24	9	4	2	50	14	15	23	-	6	19	391	-	25	21	8	32
hr	1973	502	199	6	38	49	1	32	1	59	5	7	13	-	1	23	386	-	39	12	7	34
1	1970	626	52	177	-	24	-	150	-	44	-	-	35	-	297	118	67	25	90	22	2	5
	1972	626	334	18	25	12	3	5	3	14	14	15	35	-	6	4	468	25	90	15	4	14
	1973	626	346	2	10	33	-	26	2	19	5	7	24	-	-	11	463	25	95	14	5	13
1 .-	1970	252	24	94	-	13	-	10	-	47	-	-	2	17	171	20	16	4	16	10	2	13
	1972	252	16	8	44	22	7	1	1	69	4	3	8	-	1	17	165	2	23	19	4	21
	1973	252	24	6	36	27	1	8	-	72	2	1	6	-	2	16	165	-	36	7	2	24
	1970	878	76	271	-	37	-	160	-	91	-	-	37	17	468	138	83	29	106	32	4	18
	1972	878	350	26	69	34	10	6	4	83	18	18	43	-	7	21	633	27	113	34	3	35
	1973	878	370	8	46	60	1	34	2	91	7	8	30	-	2	27	628	25	131	21	7	37

1/ Excludes Denver, Phoenix, Wilkes/Barre-Scranton and Greenboro-Winston/Salem-High Point. Also, for Grand Rapids -Kalamazoo, excludes UHF ABC affiliate not yet operating in 1970.

2/ For 1972 and 1973, all but one off-network is "Wild Kingdom" or "National Geographic".

APPENDIX IV

TRADE TERMS IN TELEVISION EXHIBITION

Network Sale: A licensing agreement in which the producer-distributor produces a new feature length motion picture, or a new series of separate programs, for a television broadcasting network, such as National Broadcasting Company, Columbia Broadcasting System, or American Broadcasting Company. The network then has the exclusive right to initial telecasts of the program over its network for a fixed time period, usually one year.

Syndication: A method of licensing the television exhibition rights to feature length motion pictures and/or a television program or series on the basis of individual sales, individually negotiated, between the producer-distributor (copyright owner) and a separate independent or affiliated local television station in a particular geographic marketing area.

Off-Network Sales: Licensing or exhibition agreements relating to features and/or television programs or series which have had an initial run or exhibition on a television network, and which thereafter are sold in "syndication."

New Syndication: The licensing by the syndication method of new programs or series that have had no prior network exhibition or exposure.

Pilot Agreements: Agreements under which the producer-distributor produces one of a proposed series of films or programs for telecasting by a network during the contract term. After acceptance of the "pilot" film by the network, the network can ask for the production of additional films in the same series of a similar type, with fixed fees for each separate film in the series and for each repeat showing. Many such agreements provide for annual increments in licensing fees if the series is renewed by the network under the annual options granted for the term of the agreement.

Stripping: Television exhibition pattern usually employed in syndication of an off-network series whereby a separate episode of the same series runs each night of the week in the same general time slot, as contrasted with the customary once-a-week exhibition run the same series had on network television.

Pay or Play Agreement: Television exhibition licensing agreement in which the exhibitor is obligated to pay the license fee specified in the agreement whether the exhibitor chooses to exhibit the licensed films or not.

FORTUNE MAGAZINE - APRIL 1972

The Myths and Realities of Corporate Pricing

Corporate profits may be recovering briskly this year, but resentment and suspicion of profits are rising briskly too. It is by now an article of faith in some sophisticated circles that the U.S. has become a corporate state, in which giant companies increasingly dominate markets and write their own price tickets regardless of demand by practicing "administered" and "target return" pricing. Ask ten campus economists whether prices will fall with demand in industries that are concentrated—that is, dominated by a few large firms—and nine of them will tell you that prices won't fall as much as they would if the industry were competitive. And almost everywhere the putative pricing power of big business is equated with the well-known monopoly power that organized labor exercises over wages.

So the pressure is mounting to police pricing practices and other "abuses" in concentrated industries. Senator George McGovern, for example, is denouncing oligopolies as responsible for most of the nation's inflation, and is sponsoring measures to break up big companies. Meanwhile, the notion that price controls should become a permanent American institution is certainly taken seriously by more and more people. The Price Commission itself, which has adopted the practice of regulating prices by relating them to profit margins of the past three years, seems to be leaning toward a theory of managed prices.

Yet all these passionately cherished attitudes and opinions are based at best on half truths, and perhaps on no truth at all. The portentous fact is that the theory of administered prices is totally unproven, and is growing less and less plausible as more evidence comes in. Always very controversial, it has lately been subjected to an extended counterattack of highly critical analysis.

Some of the best work on the subject is being done by the privately funded Research Program in Competition and Business Policy at the University of California (Los An-

Business is often accused of setting prices by a simple formula: price equals costs plus overhead plus a predetermined profit. But it only seems to be doing so, says Professor J. Fred Weston of U.C.L.A., who spent a good part of two years discussing pricing with top executives. According to Weston's research, large, sophisticated companies necessarily decide on prices the way they do on investment, going through most if not all the agonies shown in this drawing.

geles) Graduate School of Management, under Professor J. Fred Weston. For nearly two years now, Weston and his group have been taking a fresh, empirical approach to subjects like industrial concentration, profits, competition, and prices. Their techniques include asking businessmen themselves how they set prices, and trying to find out why businessmen's formal statements about their price policies are usually so different from their actual practices.

The program, among other things, hopes to come up with a new theory of corporate profitability. "So far," Weston says, "we find that profit rates are not significantly higher in concentrated than in nonconcentrated industries. What we do find is that there is a relationship between efficiency and profits and nothing else." But a vast amount of work, Weston admits, needs to be done. As happens so often in the dismal science, the more economists find out about a subject, the more they realize (if they are honest) how much they still have to learn.

Mr. Means shows the way

The argument about administered prices is now nearly forty years old; one philoprogenitive professor who took sides at the start is preparing to instruct his grandson on the subject. Few controversies in all economic history, indeed, have used up so many eminent brain-hours or so much space in learned journals. Much if not most of the argument has been conducted on a macroeconomic level; that is, it has been concerned with analyzing over-all statistics on industrial concentration and comparing them with figures on prices. And that is exactly what was done by the man who started the argument by coining the phrase "administered price" in the first place. He is Gardiner Means, seventy-five, author (with the late Adolph Berle) of the celebrated book *The Modern Corporation and Private Property*, published in 1932.

Like a lot of economists in that day, Means was looking for reasons why the great depression occurred. He noticed that many prices remained stable or at least sticky, even when demand was falling. Thus demand was depressed still further, and with it production and employment. Means's figures showed that wholesale prices fluctuated less in

Research associate: Varian Ayers Knisely highly concentrated industries than in others; so to distinguish these prices from classic free-market prices, which are assumed to fluctuate with demand, he called them "administered" prices, or prices set by fiat and held constant "for a period of time and a series of transactions."

As an explanation for depression, Means's theory got some devastatingly critical attention over the next few years, but it did not fade away. In the middle 1950's it was revived as a major explanation for cost-push inflation, which Means calls administrative inflation; i.e., the supposed power of big business to raise prices arbitrarily. In 1957 the theory was taken up by Senator Estes Kefauver's antitrust and monopoly subcommittee, whose chief economist was John M. Blair, one of the nation's most energetic and passionate foes of industrial concentration. Ere long, dozens of the nation's eminent economists got into the argument, and many confected novel and often persuasive arguments in behalf of the theory of administered prices. Besides Blair, the advocates included the Johnson Administration's "new economists," such as James Duesenberry, Otto Eckstein, Gardner Ackley, and Charles Schultze, with "independent" savants like Adolph Berle and J. K. Galbraith helping out from time to time.

Why did they wait so long?

The burden of proof, of course, is on the advocates of administered-price theory. They must do more than merely nourish a prejudice, particularly if their thesis is to provide a reliable guide for antitrust and other public policy (to say nothing of serving as a base for a new interpretation of the American economy, such as Galbraith vouchsafed to the world in his book, *The New Industrial State*). In other words, they must offer very convincing evidence they are right. That, it is fair to say, they have not done. In 1941 economists Willard Thorp and Walter Crowder, in a study for the Temporary National Economic Committee, used a sophisticated analysis of price, volume, and concentration to conclude that there was no significant relationship between the level of seller concentration and price behavior and volume. Shortly afterward, Alfred Neal, now president of the Committee for Economic Development, argued that any measure of price inflexibility must consider cost changes, "a matter over which industries have little if any discretion." These and other attacks on Means's theory seemed to dispose of it as a proven cause of depression.

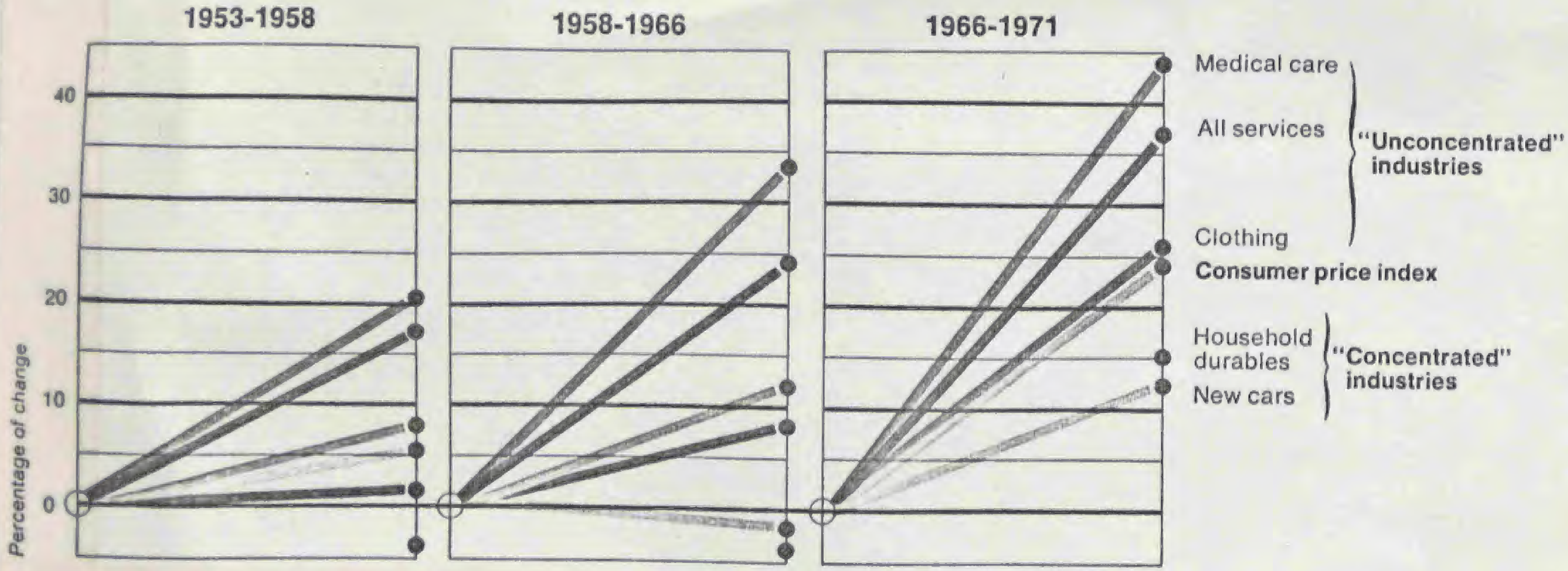
As a major explanation of cost-push inflation, the theory was also subjected to severe criticism. Murray N. Rothbard of the Polytechnic Institute of Brooklyn, for one, simply laughs at the theory of administered prices, and terms it a bogey. "If Big Business is causing inflation by suddenly and wickedly deciding to raise prices," he says, "one wonders why it hadn't done so many years before. Why the wait? If the answer is that now monetary and consumer demand have been increasing, then we find that we are back in a state of affairs determined by demand, and that the law of supply and demand hasn't been repealed after all."

Just two years ago the National Bureau of Economic Research printed a little book calculated to put an end to the argument. It was called *The Behavior of Industrial Prices*, and was written by George J. Stigler, a distinguished economist at the University of Chicago, and James K. Kindahl, of the University of Massachusetts. Stigler and Kindahl correctly observed that, owing to hidden discounts and concessions, a company's quoted prices are often very different from the prices it actually gets. So instead of using official figures compiled by the Bureau of Labor Statistics on sellers' quotations, as Means and others had done, Stigler and Kindahl used prices at which their surveys told them sales were made. These were then matched with figures on industry concentration. The Stigler-Kindahl findings for the period 1957-61 did not differ much from findings made with B.L.S. figures. But the findings for 1961-66 differed considerably, and Stigler and Kindahl at least showed that prices in concentrated industries were not as inflexible as some people thought. What is very important is that Stigler and Kindahl probably understated their case because their surveys did not manage to get at true selling prices. As most business journalists are well aware, companies neither record nor generally talk about all the "under the table" prices and other valuable concessions they make when the market is sluggish.

"Normal" profit isn't so normal

While this macroeconomic analysis of price and concentration was going on, a few economists were beginning to take a microeconomic or close-up view of pricing. Why not ask businessmen themselves just how they really price their products? This bright idea, however, proved not so easy to apply as to state. Classic economic theory says business should set prices to balance supply and demand—i.e., "to clear the market." But in 1939 two economists at Oxford University published a survey of thirty-eight British companies that found most of them tended to price their output pretty much on a stodgy cost-plus basis, almost as if they were accountants, or trying to behave like Gardiner Means's oligopolists.

It remained for Professor I.F. Pearce of the University of Nottingham to clear up the paradox. Pearce had been trained as a cost accountant, and understood why prices are not always what they seem. He pointed out that business almost universally bases prices on a cost figure, which in turn is based on both past cost data and future cost estimates; an economist would call this figure the long-term average cost. In most firms, moreover, a recognized profit margin remains stable over periods long enough to be significant, and is therefore considered normal. "What is less generally known, except to those who practice the art of price fixing," Pearce says, "is how often and for what a variety of reasons 'normal' profit is not in fact charged against any particular sale . . . The informal adjustment of


1953-1958
1958-1966
1966-1971
40
30
20
10
0
Percentage of change
Medical care
All services
Clothing
"Unconcentrated" industries
Consumer price index
Household durables
New cars
"Concentrated" industries

margins, since it is both informal and *ad hoc*, tends to be left out of any general discussion of price fixing routine, *and yet the issue really turns upon it*. Margins charged are highly sensitive to the market under normally competitive conditions, and the 'norm' is simply that figure around which they fluctuate."

To demonstrate what he meant, Pearce made an elaborate study of one medium-sized British manufacturing firm. He sent out questionnaires and conducted formal interviews, and made a record of quoted prices and actual selling prices. He found that a wide variation existed between the margins talked about in interviews and surveys and the margins actually achieved. "Normal" profit margins, in other words, were mere checkpoints in the company's planning process.

Of course, a significant minority of U.S. businesses actually do price on a cost-plus basis—the regulated monopolies like utilities, pipelines, and transportation companies, as well as a lot of military contractors. At first glance, many unregulated companies also seem to price on a cost-plus basis. This is only natural. Since they obviously cannot survive unless they take in more than they spend, the easiest way to think about a price is first to think like an accountant: price equals costs plus overhead plus a fair profit. Cost-plus, furthermore, is a useful ritual, with great public-relations advantages. A smart, prudent businessman would no more publicly brag about charging all the traffic will bear than he would publicly discourse on his wife's intimate charms. Recoiling from branding himself a "profiteer," he admits only to wanting a "fair" return. Ironically, this has made him a sitting duck for economists who accuse him of not striving to maximize his profits because he controls the market, and of changing his prices only when his planned return is threatened.

When it's right to charge all you can get

But no mechanical formula can guarantee a profit. Both cost and profit estimates depend on volume estimates; and volume, among many other things, depends on the right price, whether that price maximizes unit profit right away or not. A company with unused capacity and a growing market may well take the classical course of cutting prices and temporarily earning a smaller return on investment than it considers normal. But it may have equally cogent reasons for not cutting prices. The theorists of administered prices have pointed accusing fingers at business' behavior in the recession of 1957-58, when it raised prices somewhat in the face of falling demand. What happened was that costs were increasing faster than demand was falling. According to the theory of pure competition, they should have raised prices. That they did, both small firms and large.

On the other hand, many companies, particularly those with new products, do charge all the traffic will bear, and so they should. It is not going too far to attribute the innovativeness and technical progress of the Western world to this kind of profit maximizing, and the innovative backwardness of the Soviet Union and East Europe to the absence of it. The hope of realizing extraordinary profits on their innovations, at least temporarily, is what drives capitalist corporations into risking money on research. DuPont's strategy for the best part of fifty years was to develop "proprietary" products and to charge all it could get for them as long as the getting was good. So with the giants in data processing, pharmaceuticals, machine tools, and other high technologies. But these proprietary profits inevitably fire up competition, which invades the market with innovations of its own. Thus the story of Western industrial progress is the story of the progressive liquidation of proprietary positions.

The razor blades were too cheap

This is not to say that all or even most businesses are skillful practitioners of the art of pricing. Daniel Nimer, a vice president of a large Chicago company, has made an avocation of studying pricing, and lectures and conducts surveys and seminars on the subject both here and abroad. Nimer believes that business in general is still far too inflexible in its pricing techniques, and too prone to take a merely satisfactory return. The most frequent error, Nimer says, is to fail to charge what the traffic will bear, particularly when marketing a novel product. In 1961, Wilkinson Sword Ltd. brought out its new stainless-steel razor blades at 15.8 cents apiece. Overnight Wilkinson accumulated a staggering backlog of orders, the sort of thing that usually results in delivery delays and an expensive crash expansion program. Had Wilkinson started at 20 cents a blade, Nimer believes, it would have been much better able to fortify its position. Among Nimer's pearls of wisdom: (1) A big backlog is a nearly infallible indication of an underpriced product. (2) Always make decisions today that will help you tomorrow, and remember that it is easier to cut prices tomorrow than to raise them. (3) The key to pricing is to build value into the product and price it accordingly. (4) Above all, pricing is both analytical and intuitive, a scientific art.

Setting a target

The major if not the first case study of U.S. pricing was published in 1958 by the Brookings Institution, in its book *Pricing in Big Business*. The authors were A.D.H. Kaplan (who was then a senior staff economist at Brookings and is now retired), Joel B. Dirlam of Rhode Island University, and Robert F. Lanzillotti of the University of Florida. Using questionnaires, interviews, and memos, the trio analyzed the pricing policies of twenty of the largest U.S. companies, including G.E., G.M., Alcoa, A&P, Sears, Roebuck, and U.S. Steel. Although the actual practices of the companies were predictably hard to describe and even harder to generalize about, the authors did manage to narrow the corporations' *goals* to five. The most typical pricing objectives, the authors decided, were to achieve (1) a target return on investment, (2) stable prices and markups over costs, (3) a specified market share, (4) a competitive position. Another objective, not so frequently cited, was to compete by taking advantage of product differences. The study's conclusion, written by Kaplan, was that many big, powerful companies seem not to be overwhelmingly controlled by the market, yet even they do not dominate the market. They do not have things their own way, with steady prices and rates of return, but are constantly forced to examine and change their policies.

Manifestly this study gives scant comfort to the administered-price theorists. Professor Lanzillotti apparently felt it was too easy on big business. Granted money to do further work on the data, he came up with a more critical interpretation of them in an article in the *American Economic Review* of December, 1958. Since Lanzillotti is now a member of the Price Commission and has been described as knowing "more about prices" than anyone else on that body, his thoughts are worth attending to. Lanzillotti devoted much of his thesis to the prevalence of so-called target-return pricing, which at that time was an almost esoteric concept.

When companies use target-return pricing, he explained, they do not try to maximize short-term profits. Instead they start with a rate of return they consider satisfactory, and then set a price that will allow them to earn that return when their plant utilization is at some "standard" rate—say 80 percent. In other words, they determine standard costs at standard volume and add the margin necessary to return the target rate of profit over the long run.

More and more companies, Lanzillotti argued, are adopting target-return pricing, either for specific products or across the board. He also concluded that the companies have the size to give them market power. Partly because of this power and partly because the companies are vulnerable to criticism and potential antitrust action, all tend to behave more and more like public utilities. Target-return pricing, with some exceptions in specific product lines, implies a policy of stable or rigid pricing.

Many of Lanzillotti's conclusions have already proved vulnerable to microeconomic analysis, most particularly at the hands of J. Fred Weston, who launched U.C.L.A.'s

Research Program in Competition and Business Policy about two years ago. Prior to that, Weston studied finance and economics at the University of Chicago and wrote the three most popular (and profitable) textbooks on business finance. He got into pricing by a side door, having steeped himself in the literature on corporate resource allocation. He spent a considerable part of three years talking about that subject with executives—at first formally, then informally and postprandially. But he soon began to realize that he was also talking about the way prices were made. So he shifted his emphasis from financial to economic questions, and broadened considerably the scope of his work. Like others before him, he discovered that what businessmen formally say about their pricing and what they do about it are often very different. And their action is more consistent with classical theory than their talk.

In a major paper not yet published, Weston proceeds to apply his investigations to the three "popular" and related theories that were at the heart of the administered-price concept: (1) that large corporations generally try to realize a target markup or target return on investment; (2) that their prices tend to be inflexible, uncompetitive, and unresponsive to changes in demand; (3) that contrary to a fundemental postulate of classic economic theory, large, oligopolistic corporations do not maximize profits, but use their market power to achieve planned or target profit levels.

The constraints of the market

The concept of target pricing, Weston's research showed, was an arrant oversimplification of what actually happens in large companies. "The Brookings study," he explains, "focused on talking to top sales and marketing men, who take a target as given. If you talk to top executives, you find they use the target as a screening device, a reference point." Pricing decisions, he found out, cannot be (and are not) made apart from other business decisions; price lists are based on long-run demand curves. In fact, as the drawing on page 84 suggests, all the considerations that go to make investment and other policies also go into pricing, either deliberately or intuitively.

Neither large nor small businesses have price "policies," Weston adds; pricing is too much interwoven with other factors to be formulated independently of them. And most of the people Weston talked to kept emphasizing the constraints of the market. In short, target-return pricing is not what the critics of business think it to be. If anything, it is an interim checkpoint set up by management to specify tentatively the company's potential.

Often, Weston argues, critics of corporate pricing condemn behavior as oligopolistic that does nothing more than follow modern accounting practices. Firms of all sizes use accounting budgets, plans, and controls to formulate performance objectives. Standard volume represents the firms' best judgment of the expected volume of operations, and standard cost is the unit cost at standard volume. And a technique called variance analysis compares management's actual performance with standard performance in order to evaluate and improve the former.

Economic textbooks, says Weston, have failed to keep up with such developments in the art of management, with the result that economists often fail to understand the nature and implications of business planning. In *The New Industrial State*, for example, Galbraith argues that planning by firms, aided by government, is eliminating the market mechanism. Nonsense, says Weston. Planning and control as management uses them do not eliminate the market or its uncertainties. Planning and control are what the market forces you to do. Since they provide a way of judging performance and spotting defects, a device to shorten the reaction time to uncertainty and change, they really increase the market's efficiency.

How Detroit reacts

The administered-price theorists have pointed to the auto industry as the archetype of a disciplined oligopoly whose prices are very rigid. This characterization is largely based on the industry's practice of setting dealers' recommended prices at the beginning of a model year. Actually, the auto companies change those prices, sometimes frequently and substantially, as the year rolls on and specific models demonstrate their popularity or lack of it. The price changes take a wide variety of forms: bonuses for sales exceeding quotas, bonuses for models not doing well, and so on. As Professor Yale Brozen of the University of Chicago analyzes the industry: "Competition in the auto market actually *makes* the retail price. If the retail price is low relative to wholesale prices, the dealers can't live, and the company must give them better margins; if the retail price is high, the dealers tend to get rich, and the company raises wholesale prices and steps up production."

Now that foreign competition has become so powerful, the auto companies find it harder than ever to price arbitrarily. "Take our Vega," a G.M. man says with some feeling. "If anything is the reverse of target-return pricing, that Vega is. We did not *make* its price. We had to *take* a price that was set by our competitors. Then the only way we could make a profit was to bring our costs down."

Summing up the alleged reluctance of large corporations to compete, Weston quotes Professor Martin Bailey of Brookings, who describes the idea as "a theory in search of a phenomenon."

The third allegation dealt with by Weston—i.e., that the large corporation, in formulating its price policies, does not seek to maximize profits—is a tough one to prove either way. "Management's approach to pricing is based upon planned profits," Lanzillotti has contended. "If we are to speak of 'administered' decisions in the large firm, it is perhaps more accurate to speak of administered *profits* rather than administered *prices*." To support his contention, Lanzillotti re-examined profit data on the twenty companies covered in the Brookings book. The data seemed to verify his belief that large firms are able to achieve their target returns on investment.

Weston noticed two major defects in the argument. One was that targets were specified for only seven of the twenty firms. The other was that Lanzillotti defined return on investment as the ratio of income before preferred-stock dividends to stockholders' net worth, including preferred stock, which makes the return look artificially large. But return on investment is normally and more realistically defined as the ratio of income (before interest payments) to total operating assets. On this basis, the figures show a big discrepancy between target and actual returns. And the Lanzillotti table included results for only the years 1947-55. When the figures were extended through 1967, there was an even larger discrepancy.

"We just don't know"

Moreover, the returns above target were consistent with a lot of contradictory theses—with target pricing, with random behavior, and with profit maximization; the returns below target were also consistent with a number of alternative theses. Weston's final conclusion: Studies by Lanzillotti and by others have established neither that large firms are able to "control" or plan profits, nor that they do not want to maximize or optimize profits. Case not proved: additional evidence and analysis needed.

"The third proposition probably cannot be answered anyway," Weston adds. "How do you know if firms are maximizing their profits? In an early draft I made the mistake of thinking that a company earning more than

continued page 125

The Myths and Realities of Corporate Pricing *continued from page 89*

target was maximizing its profits. This isn't necessarily so. We just don't know. We are, however, finding out a lot of positive facts about other related things. It has always been assumed, for example, that there will be collusion in an industry with few firms. But the fact is that we are beginning to get solid evidence that competitive efficiency is an important characteristic of such industries." This finding, Weston points out, is consistent with the work of Professor Brozen, who has analyzed in detail the profitability of hundreds of companies. "Concentrated industries are concentrated because that, apparently, is the efficient way to organize those industries," says Brozen. "Unconcentrated industries are unconcentrated because that, apparently, is the efficient way to organize them."

The big company as cost leader

Standard textbook theory assumes that only "atomistic" industries—i.e., those with many companies and dominated by none—are perfectly competitive in price and highly responsive to changing tastes and technologies. But Weston contends that companies in concentrated industries can and do serve the consumer just as effectively. This view, incidentally, is persuasively set forth in a new book, *In Defense of Industrial Concentration*, by Professor John S. McGee, on leave from the University of Washington. The notion that concentration leads to the end of capitalism, McGee argues, springs from indefensibly narrow definitions of both competition and the aims of the economic system. Economic competition is best understood as an evolutionary process and not as a rigid structure or set of goals. But there is no necessary conflict between concentration and "competitiveness," even when the latter word is used in its narrow sense.

You can't explain the new competition with narrow textbook theory, Weston says. Big companies may be price leaders, but they are also cost leaders. Continually subjected to the efforts of rivals to steal business away, they deal with this uncertainty by reducing costs wherever they can. As Weston sees it, this kind of price leadership does not result in high prices and restricted output, as textbook theory says it should. What it does is to compel companies to try to strike a balance between growing as fast as possible and raising earnings per share as fast as possible.

Are oligopolists more profitable?

Among the other provocative papers financed by the U.C.L.A. program is an unpublished dissertation on the relationship between industrial concentration and prices, by Steven H. Lustgarten, twenty-eight, who now teaches economics at the Baruch College of the City University of New York. His investigations show that during the period 1954–58, prices rose faster in concentrated industries. But the reason seems logical. Firms expanded plant and equipment at an abnormal rate. As production costs increased, prices did too. So Lustgarten could neither confirm nor reject the theory that 1954–58 was a period of profit-push inflation. For the years 1958–63, however, there was no relationship between concentration and price changes. The theory of administered prices, in other words, remained unproven.

A study of concentration and profits was done by Dr. Stanley Ornstein, thirty-three, a consultant to the program. He examined the traditional hypothesis that, as concentration increases, the likelihood of collusion or "weak competitive pressures" also increases, and leads to higher profits in concentrated industries than in others. Not so, says Ornstein. Because stock-market prices represent the discounted value of expected future earnings, Ornstein used stock-market values to represent profitability over the long run. To eliminate false correlations, he also examined individual profit rates of the largest corporations in each industry, 131 companies in all, and subjected them to multiple regression analysis, a mathematical technique that is used to determine the relative influences of several variables.

"From 1947 through 1960," Ornstein observes, "the return on equity dropped from around 15 percent to 8 or 9 percent, and in a continuous trend. Long-term fluctuations like this shouldn't occur if there is collusion or administered bias." Like Brozen, Ornstein finds no connection between high profits and concentration. On the contrary, he finds there is vigorous competition among so-called oligopolists. His conclusion, made after much analysis, was somewhat more cautious: "This study does not disprove the traditional hypothesis [that oligopoly is characterized by high profitability], any more than previous studies proved it. It does show, however, that prior conclusions have gone far beyond those warranted by economic theory."

Remember the New York Yankees

One of the U.C.L.A. program's most distinguished participants is Professor Harold Demsetz, forty-one, on leave from the University of Chicago, where he taught for eight years. Demsetz' interests at present lie mainly in identifying the true sources of corporate efficiency. He maintains that when there is no real barrier to the entry of new competitors, concentration is not an index of monopoly power. Therefore, if a concentrated industry has a high rate of return, monopoly power is not the cause of it. Concentration results from the operation of normal market forces, and from a company's ability to produce a better or cheaper product or both, and to market it efficiently. Some companies are downright lucky, and some outperform others, while some are both lucky and superior performers.

Confirming Demsetz' belief, Professor Michael Granfield, twenty-eight, has tentatively concluded that differences in efficiency may account for most differences in profit levels, and that high profits do not necessarily imply high prices but often quite the opposite—high volume and low prices. One way he accounts for efficiency is by what he calls Team Theory. "The old saw holds that the team outperforms its individual members; it may be right," says Granfield. "Although other companies are constantly hiring executives away from I.B.M., these companies never seem to do as well as I.B.M."

"Many managerial economies are not always evident," Ornstein adds. "The only way to get them is to get the whole team. The New York Yankees were a winning team for years; the technical skills responsible for their record accounted for only about 10 to 20 percent of the answer. What is really involved is managerial skills, and they can't be duplicated. To some extent a successful management is synergistic. By this I mean that there seem to be managerial economies of scale just as there are multi-plant economies of scale. If so, the argument that you can break up big business and not hurt the consumer is wrong."

It may not be long before the program staff develops a formal theory about what really makes enterprises excel, and why the country is better off handling them with a certain amount of care instead of busting them up like freight trains in a classification yard, or subjecting them to permanent price controls.

Stored in the minds of millions

The theory of administered prices, however, is not yet done for. Its new critics will doubtless find the going slow. Before their credo can hope to gain "popular" acceptance, it must first achieve standing in professional economic journals. And it has, for the moment, absolutely no political appeal. Thanks in large part to Ralph Nader, the big corporation is the whipping boy of the day. Indeed, George Stigler glumly predicts that the controversy will continue for another generation or more. "Administered-price theory," he says, "is like the Sacco-Vanzetti case. Whatever the jury's verdict, the defendants' innocence is stored in the minds of millions. So is the 'guilt' of administered prices, and the businessmen who practice them."

The administered-price theorists are not resting on their oars, either. Gardiner Means, who started it all nearly forty years ago, now argues that the recent combination of inflation and recession can be explained *only* by his administered-price thesis. In the June, 1972, issue of the *American Economic Review*, he defines his theory and then tears into the Stigler-Kindahl book, which he says misrepresents his position.

What may be more important in its effect on public opinion, John Blair, he of the Kefauver committee, is publishing a monumental 832-page volume entitled *Economic Concentration—Structure, Behavior and Public Policy*. This opus contains something from almost everybody who has written about concentration, and is complete with dozens of charts, as well as an introduction by Means. The fruit of more than thirty years of fighting big business, the work is larded with quotations and chuck-full of footnotes. Blair's mind is made up, and his book is passionately partisan; but that will probably not prevent it from being given glowing reviews in the popular press.

For all this, there seems no doubt that the case against the theory of administered prices will grow stronger. Groups like Weston's are being organized elsewhere. The University of Rochester, for example, has set up the Center for Research in Government Policy and Business in its Graduate School of Management, and is looking around for private donations.

No matter what such groups find, it will be salutary. For the controversy about administered prices proves, among other things, how little Americans know about the inner workings of the big corporation, the country's most characteristic institution. And if present trends in research are any indication, the more that can be learned, the stronger will be the case for revising wrong notions about corporate behavior. END