
REVIEWS

Globalisation

Thomas Friedman, The Lexus and the Olive Tree, Harper Collins, 1999

Reviewed by Chris Pattas

The first thing I should say about Thomas Friedman's book is what it is not. It is not a particularly profound or original analysis of globalisation or its many consequences. It is not a learned or theoretical dissertation on the post-cold war period and how it has been fashioned by the various forces of globalisation or how these forces can be shaped for the common good. Indeed it is quite easy to criticise the book for not being any of these things. It is nonetheless a very entertaining and colourful account of how various forces at work in the global economy are interacting with each other both within and between nation states, leading to both untold wealth and opportunity for an increasing number of people throughout the world as well as threats to local norms and cultures. This conflict would be all too familiar from recent events pointing to the backlash to free trade and liberalisation/deregulation from various quarters, such as in rural areas.

Friedman is very good at describing these differing forces for a lay audience not so familiar with international economics, finance, politics or the information economy. The book is essentially pitched at this level, but is no less interesting by being so.

Friedman sees globalisation as the close integration of financial markets (capital), technology and information across national borders that is creating a global free market on an unprecedented scale. Such a system channels capital and resources to where the best opportunities are to be found richly rewarding both investors and recipients alike, but also punishing the losers — those who do not participate in this system or who have made bad investments. To participate nations need to don what Friedman calls the 'golden straitjacket' by adopting liberal economic and political rules focusing on free trade, transparent, consistent and open capital markets and competition laws (including deregulation and privatisation).

An interesting series of contrasts is provided between what he sees as this new dominant international model of globalisation with the previous dominant model of bi-polar cold war rivalry. The cold war period was based on division — the iron curtain rather than the world wide web. During that period, countries, communist and capitalist alike, had a correspondingly greater ability to shield their economies from competition; the prevailing (neo-Keynesian) economic orthodoxy in the West, for example, was on taming rather than unleashing capitalism. Friedman notes in particular the contrast between the closed neo-Keynesian

economy of the post-war period, and the Schumpeterian view of capitalism as a process of 'creative destruction' — the perpetual cycle of destroying the old and less efficient with the new and more efficient, which seems to better characterise this new information or internet age. What's more, thanks to the speed in technological breakthroughs, innovations are taking place faster than ever before leading in turn to a greater and quicker propensity for one's inventions to be made obsolete or commoditised.

Friedman neatly sums up the differing periods with a number of pithy one liners. He notes, for example, that the most frequently asked question during the cold war was 'how big is your missile?', whereas now it is 'how fast is your modem?' Similarly, while the cold war was built on Einstein's mass-energy equation $E = MC^2$, globalisation is more about Moore's Law — the computing power of microchips will double every 18 months¹

According to Friedman, for those wishing to participate in the global market, there is almost unlimited opportunity, however, he goes on to warn that globalisation also threatens to destroy local cultures, norms and practices, including environmental amenity. The human drive for enrichment (symbolised by the advances made to develop the Lexus motor car) comes up against the human need for local identity and community (the olive tree). The future of globalisation will therefore increasingly depend on how well these two forces can be reconciled. There is a very fine balance that needs to be struck in that if countries sacrifice too much of their identity in their drive to please global investors (which Friedman dubs the 'electronic herd') there will likely be a serious backlash and rejection of globalisation, with consequent reductions in national wealth. If countries, however, ignore the rules of the golden straightjacket (to which the herd subscribes) they also face economic isolationism and a reduction in economic welfare.

None of this is of course particularly new, although Friedman's rather colourful expressions and lucid exposition together with countless anecdotes and analogies makes for more interesting reading — even for the more informed reader. Of more significance is whether the book presents any clear guide on how to reach this elusive balance. While Friedman is optimistic that the free market will be able to self-correct the worst excesses of globalisation (using the US as some kind of beacon to get this balance right!), he does not offer any clear path to how this conflict between the Lexus and the olive tree can be best managed.

Apart from examining this Lexus/olive tree dilemma which is of course the book's central theme, I was also interested in Friedman's treatment of how prevailing economic orthodoxies have changed from the more protected approach during the cold war to the more open economies of today. My view is that while it makes for a nice dramatic touch, the apparent emphasis on the ending of the cold

¹ There are a number of other complimentary 'laws' predicting exponential increases in the carrying capacity and speed of communications networks caused by advances in digital compression technologies).

war, and particularly the Berlin Wall analogy, as a critical factor in the opening up of the various economies is somewhat simplistic.

A fuller view of this story is that the forces which led to the various economic reforms in the West, including reduction of protection, deregulation and the strengthening of competition and financial laws, which facilitated an open and free market, had as their genesis the failure of the so-called mixed economy (post-war) model. This failure was particularly evident during the 1970's and early 1980s with the onset of high inflation and recession. This led to reforms both on the macro-economic and micro-economic sides of the economy.

On the macro side it led to reform of the financial sector and exchange rate determination (in Australia this was associated with the Campbell inquiry and its aftermath) and complimentary changes towards a less intrusive macro-economic policy approach, such as by moving away from quantity controls. On the micro side it led to structural reforms in tariffs and related moves to open up the more heavily regulated areas of the economy, such as transport, energy and communications to greater competition. In Australia this process began during the 1980s, but many of these developments had begun in the US in the late 1970s. In fact, the intellectual arguments had all been won and a good deal was already in train before the Berlin Wall came down in 1989 — indeed, these forces for change were themselves just as instrumental in the collapse of the Berlin Wall (and command economies more generally) as they were in freeing-up the managed (mixed) economy of the West.

In my view, it is more accurate to say that the fall of the Berlin Wall (which symbolised the ending of the cold war) coupled with ever more rapid technological change, gave a further impetus to the trends and developments in the US and in other western economies towards a more open and globalised economy.

While the book covers a relatively large area, given its main themes and the lack of robust technical analysis, it is probably a little too long in places and perhaps rather too US-centred. Some readers may also be irritated by the regular name dropping that permeates nearly all of the discussion (Friedman is a renowned foreign affairs correspondent for the New York Times and has made many influential contacts while serving in a number of trouble spots in the Middle East, Asia and Europe) although that also makes the book more interesting and readable.

Notwithstanding these quibbles and the fact that it is more about explaining the problems or issues than setting out solutions to the conflicts that it cleverly describes, I found the book quite interesting and a good (non-technical) introduction into globalisation and its various enabling forces, including the impact of the information economy.

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BROADCASTING REFORM

*Productivity Commission, Broadcasting Report No. 11,
AusInfo, Canberra, 2000*

Reviewed by Carolyn Lidgerwood

When it was announced in early 1999 that the Federal Treasurer had referred all Commonwealth broadcasting legislation to the Productivity Commission (the Commission) for inquiry and report, the reaction of some in the broadcasting industry was somewhat sceptical. This was because the Federal Government had already ensured that the most significant piece of broadcasting legislation since the enactment of the *Broadcasting Services Act* in 1992 (BSA), namely the *Television Broadcasting Services (Digital Conversion) Act* 1998 (the digital legislation) had been enacted by the Parliament. Thus the timing of the reference was likened to an attempt to shut the stable door after the horse had bolted.

By way of background, the digital legislation established the broad scheme for the regulation of terrestrial television into the new 'digital age'. One of the main policies underlying the digital legislation was that each of the existing free to air broadcasters (commercial and national) would be 'loaned' a 7 MHz channel of spectrum, free of charge, to enable the conversion of their existing analog television services to digital mode. The objective of the handover of a 7 MHz channel was to ensure that they could provide digital television services in 'high definition' mode (HDTV). The HDTV policy was reviewed under the digital legislation, and the results of the review were announced in December 1999.

The digital legislation was (and continues to be) nothing if not controversial. While supported by the incumbent television broadcasters, it was attacked as being manifestly inefficient and anticompetitive by aspirant providers of new television and datacasting services and the pay television industry. The fact that some of the key opponents are publishers of major metropolitan and national newspapers ensured extensive media coverage of these issues — as illustrated by the front page headlines 'KPTV: Coming soon to a \$12,000 Television Set Near You' (*The Daily Telegraph*, 22 December 1999) and 'Murdoch Lashes TV's Channel to the Future' (*The Sydney Morning Herald* 22 December 1999).

In that context, it is not surprising that the reference to the Commission was considered by many broadcasting industry experts to be about two years too late. However, it is apparent that the digital legislation provided the Commission, over the course of its review period, with an stark example of how broadcasting legislation has traditionally been developed in Australia.

The Commission's Report is an important addition to the source material on Australian broadcasting regulation. The wide terms of reference provided the Commission with a significant challenge, yet the end result is a comprehensive analysis of the current state of broadcasting in Australia, together with some constructive ideas for the future development of Australian broadcasting law and

policy. Regardless of whether the reader accepts the recommendations (or indeed, the appropriateness of the Commission reviewing broadcasting legislation at all), the Report provides an excellent overview of the regulatory scheme for the those new to broadcasting, as well as a valuable reference source for broadcasting specialists. Its most significant messages can be summarised as follows:

- broadcasting policy must be reformed quickly to deal with convergence;
- spectrum should be priced and allocated as a scarce resource. The Commission's preferred way of doing this is to split broadcasting service licence into 'spectrum licences' and 'content licences';
- significant changes need to be made to the scheme for digital television conversion. These changes include a firm date for the end of the analog simulcast period, and HDTV ceasing to be mandated;
- diversity of sources of information and opinion is most likely to be served by diversity of ownership of media companies, and by competition. The Commission considers that significant reforms are needed in relation to restrictions on the entry of new television stations, the foreign investment rules, and advertising and the 'anti-siphoning' rules;
- cross-media mergers should be regulated under the *Trade Practices Act*, through a media specific public interest test;
- current quotas for Australian and New Zealand program content will not work in the 'digital age'. The Commission considers that a new 'convergent' audiovisual policy is required;
- a new licence category for indigenous broadcasting should be introduced; and
- the administration of broadcasting policy should be more accountable and transparent. The Commission recommends an increase in the number of the licence conditions and giving the ABA powers to issue 'directions for action' to broadcasters in breach of licence conditions and codes of practice. It also finds that the ABA decision making processes should be improved.

Given that the background for the Commission's inquiry is the *Competition Principles Agreement*, there are not many surprises among these key messages, except for the recommendation that additional powers be given to the ABA to enforce licence conditions and codes of practice. Unlike the other recommendations, this is not the kind of recommendation the Commission would usually be expected to make, especially given that the introduction of the BSA was intended to be based on principles of industry self-regulation. Perhaps this recommendation was influenced by the co-occurrence of the ABA's resource-intensive public hearing into Radio 2UE with the writing of the Report.

The balance of the Report is divided into 6 parts, titled 'The Need for Change', 'Australian Broadcasting Industries', 'Opening Up the Spectrum', 'Diversity, Concentration and Competition' and 'Program Content and Standards'. While each of these sections is linked by the key themes of the inquiry, including the adequacy of the existing regulatory framework to deal with convergence issues, readers will find that each also stands alone. Given the volume of material

contained in the Report (which runs to well over 500 pages, including annexures), this review focuses on three key chapters, namely chapter 3 (convergence), chapter 6 (managing the spectrum), and chapter 7 (digital conversion).

Convergence is a central theme of the Report, and the Commission's discussion is both comprehensive and timely. The Commission identifies areas of potential convergence as being in media products and markets, in media platforms, in corporate structures and in media regulation and policy. The Report summarises the different meanings attributed to 'convergence', with the meaning accepted in the glossary of the Report describes convergence as 'the blurring of boundaries between types of service and their means of delivery, and between types of data as text, audio and video'.

The submissions on convergence that are quoted in the Report appear to focus on government policy responding to new technologies — instead of a policy and regulatory framework being developed in a way which would encourage the development of new technologies. The Commission appears to support the latter approach by endorsing regulation which remains as far as possible technologically and competitively neutral. As the original intention of the BSA was to be technologically neutral (before it was amended at the twelfth hour in relation to satellite broadcasting) this will explain any feelings of *déjà vu* among readers.

An important finding by the Commission is that broadcasting markets will ultimately converge. While television, newspapers and radio have traditionally been regarded as operating in different markets because these media forms currently offer distinct services (for example, see *Market Definition Issues in Commercial Broadcast Radio*, Trade Practices Commission, June 1994), the Commission observes that technological change may blur such distinctions. The Commission notes that in a fully converged media system, all media services will be in competition. This must be a key consideration for future considerations of cross media policy.

Chapter 6 of the Report contains recommendations that should be implemented if the Federal Government decides to proceed towards 'convergent' communications regulation. The Commission's view is that the current regulatory scheme for licensing spectrum in the broadcasting services bands does not encourage the efficient use of broadcasting spectrum. This conclusion is based on an analysis of how the spectrum is planned by the ABA, and the view that there is little incentive for broadcasters to use spectrum as efficiently as they could, given that the amount of licence fees paid by commercial radio and television licensees are not related to the amount of spectrum used. The Commission recommends that licences granting access to spectrum should be separated from content related licences that grant permission to broadcast. The Commission's view is that this would create the preconditions for a more efficient use of the spectrum.

While submissions by industry participants to the Commission contended that there was no evidence that broadcasters had been issued with more spectrum than they required, the Commission concludes that this has never been tested in a market in which broadcasters pay for the amount of spectrum they used. This

alone would not justify the implementation of the Commission's recommendation. However, arguments in favour of a convergent regulatory framework would.

This recommendation is likely to be supported by players in other areas of the communications industry where spectrum access is allocated on a competitive basis. The Commission notes that separating the broadcasting licence from the spectrum licence would mean that content conditions could be enforced against the broadcast licence, and technical conditions against the spectrum licence. To some extent this already occurs in the context of the apparatus licences held by broadcasters, so effectively consolidates of the existing licensing system.

The Commission recommends that spectrum for new entrants should be sold competitively, with ongoing licence fees being based on the value of the spectrum rather than advertising revenues. The Commission suggests a range of options for converting licence fees for incumbents over to a 'spectrum based' fee system — concluding that the objective of the broadcasting licence fees legislation should be to charge for use of the broadcasting spectrum. From a personal perspective, implementation of a recommendation which would lead to the drafting of the 1964 licence fees legislation being overhauled is to be encouraged.

The Commission's discussion of the ABA's process for planning and allocating licences outlines the delays caused by the implementation of the existing legislative scheme (which requires the ABA to consider the wide range of planning criteria specified in the BSA, such as the demand for new services in a licence area, demographics and social and economic characteristics in a licence area). The Commission suggests that the ABA develop a series of 'templates' for licence areas with different characteristics, setting out the number of national, community and indigenous services for which spectrum should be reserved. All unreserved broadcasting spectrum would then be made available for commercial broadcasting (or open narrowcasting).

This is an interesting recommendation, and if implemented, could lead to far greater planning efficiency. It would also meet the regulatory objective in section 5 of the BSA that the ABA's powers are used in a manner that will 'produce regulatory arrangements that are stable and predictable'. The current application of section 23 by the ABA has not led to this result, with the difficulty of predicting the ABA's likely planning decisions being exacerbated because they cannot be challenged under the *Administrative Decisions (Judicial Review) Act*.

However, if the 'template' approach is adopted, it must recognise that not all regional licence areas are the same. In particular, 'regional' licence areas which adjoin capital city markets (and hence are served by more services than any other licence areas in Australia) should not be covered by the same template as for regional licence areas which are remote from capital cities, or which do not overlap with other licence areas. The ABA has not accepted this approach under the existing regulatory scheme.

The Commission also recommends that the 'spectrum management' role be handed to the ACA, with the ABA only being responsible for regulation of content licences and other non-technical objectives. This reflects the view of the Commission that the social and cultural objectives of broadcasting should be

pursued independently of the technical planning of the broadcasting services bands. Interestingly, the Report does not discuss amalgamation or consolidation of the two agencies. This was a policy of Senator Alston while in opposition, but has not been aired since.

Chapter 7 provides an excellent introduction to digital television technology and a detailed overview of the legislative framework (although this has recently been amended by the *Broadcasting Services Amendment (Digital Television and Datacasting) Act 2000*). The Commission's key argument is that without a successful switch-over of viewers to digital and a subsequent switch-off of the analog system, the key benefits of digital television will not be realised. As a result, the Commission is critical of those elements of the digital conversion scheme which will not assist the achievement of this objective.

The Commission considers who will drive the switch-over to digital, when analog switch-off will occur, and how the digital switch-over can occur. It concludes that the industry needs clear policy signals and incentives and less restrictive regulation in order to drive the migration to digital. Among the changes the Commission recommends be made to the legislation are the establishment of a firm and final date for analog switch-off, provision for shorter simulcasting periods in areas where that is feasible, HDTV no longer being mandated, a more liberalised approach to datacasting (with removal of the genre restrictions), and a relaxation on the prohibition on multichannelling. However, as noted in the introduction, these recommendations have been made too late to affect the development of the digital conversion scheme. None have been implemented, except for the ABC and SBS being permitted to 'multichannel'.

Had the reference to the Productivity Commission been made in 1997 instead of 1999, it is possible (though a cynic would say unlikely) that digital television regulation in Australia would have been significantly different. It is to be hoped that pessimism about the lack of implementation of the Commission's digital recommendations will not deter readers from immersing themselves in the Report. While some of the recommendations may be controversial and may not be implemented for a whole range of political and practical reasons, it is a detailed and considered Report. The Report should be on the reading list of anyone working in broadcasting or who has an interest in broadcasting, media or communications policy. And who doesn't?

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