

## A Faustian Bargain?

The Oxford Online Dictionary gives two almost diametrically opposed meanings to the word *sanction*:

1. give official permission or approval for;
2. impose a sanction or penalty on.

It turns out this is a perfect word to describe the relationship between government and monopolies.

We hear a lot about fair competition laws in Hong Kong these days. The government is here to protect us by penalizing the bad guys for abusing their monopoly power, right? Many countries have competition laws, and they do have the effect of reducing the most blatant abuses such as collusion. But the worst enemy of a monopoly is a new entrant to the industry who spoils the tranquil life. Monopolies resort to all sorts of crazy ways to keep the competition out—sometimes they even try to improve their efficiency and lower their prices! The only surefire route to stamping out the competition, however, is to rely on the coercive power of the state. All the great monopolies of Hong Kong—utilities, buses, television and radio stations—are backed by some form of official sanction.

Take the radio industry, for example. Besides the government-run station RTHK, there are two firms operating a total of six channels. It is not the case that nobody wants to enter the broadcasting business. When the government plans to issue another license to operate a television station, a flurry of interests emerge from different corners. By all accounts, both Commercial Radio and Metro Radio are fairly profitable operations. It is not the case that nobody tries, either. Citizens Radio continues to make unauthorized broadcasts and has received repeated prosecution by the state. Is it due to limited spectrum that Hong Kong can only support six commercial channels? I looked up the web and found that there are 140 radio stations in Chicago. In San Francisco, with a hilly topography like that of Hong Kong, there are 53 stations. Granted, many of these stations in the United States are very small operations with a narrow audience base. But why can't a metropolitan city such as ours that claims to prize diversity tolerate a few fringe radios in the airwaves?

I am not advocating free entry in the sense that anyone can operate at whatever bandwidth he pleases without paying a license fee. However, an expansion in the number of radio licenses is entirely feasible and desirable. RTHK, our official arbiter of good taste, has a channel dedicated to classical music and fine arts; and that's a wonderful thing. I would have thought a channel devoted to, say, K-pop, might probably be welcome by even more listeners (and advertisers).

The restrictions on entry into the broadcasting business are surely lucrative for the incumbent firms. But the regulator is not shortchanged on its side of the deal either. Precisely because government regulations help protect monopoly rents, monopolies are often prepared to accept regulations which would otherwise be unacceptable on commercial grounds. The obligation to carry “advertising in the public interest” (read: government propaganda) is a case in point. The government gets some airtime for free, and the broadcasters deem it a reasonable price to pay for the monopoly positions conferred upon them. The recent case of Commercial Radio being fined \$60,000 for carrying “political advertisements” is another case in point. The power of the Broadcasting Authority to screen political advertisements for prior approval is

arbitrary and excessive, if not in contravention of basic rights of political expression in Hong Kong. It is hard to see how such restrictions can be acceptable to, say, the print media. Yet, Commercial Radio opted to gladly pay the fine instead of rigorously contesting the ruling in a judicial review. A charitable interpretation is that lawyers in Hong Kong are just too expensive; it is much cheaper to just pay the fine. A more cynical interpretation is that Commercial Radio has no interest in upsetting the cozy relation between regulator and the regulated.

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