

Response to Ofcom review of public service television broadcasting

Submission from Martin Brookes¹

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This submission is concerned principally with the rationale for public service broadcasting as outlined in Ofcom's review. As such it focuses almost exclusively on an annex to the main review, "Phase 1 supporting documents – Volume 1 – The role of television in society."

The submission relates most closely to **Questions 4, 5, 7, 8 and 10** posed in Ofcom's review. Within Ofcom's propositions, the submission is relevant to **Propositions 5, 6, 7 and 10**.

Introduction

The focus of this submission is the contention that Ofcom's review ignores the role of "shared experiences" provided by television broadcasts. The submission does not focus on other aspects of Ofcom's review. This should not be taken as an endorsement or as a criticism of the rest of Ofcom's review. Rather, it is solely a reflection of the particular expertise and interests of this author.

Shared experiences can be valuable. They represent a form of externality not considered in the review. These externalities imply that shared experiences will be under-produced in a free market.

Shared experiences provide a rationale for intervention in the broadcasting market on strict market failure grounds. As such they represent a new economic rationale for public service broadcasting based on the positive impact broadcasting can have on society. This impact arises from the collection of shared experiences and externalities which we can label "social capital". Ofcom should consider this in Phase 2 and in future deliberations on the nature and role of public service broadcasting.

This submission draws heavily on the author's report "Watching alone – social capital and public service broadcasting" (henceforward *Watching alone*) published jointly by the BBC and the Work Foundation in May of this year.²

¹ Martin Brookes is responding to Ofcom's review as an independent economist. He recently wrote "Watching alone – social capital and public service broadcasting" published jointly by the BBC and the Work Foundation. The views expressed in this response are those of the author alone and are not those of the BBC or the Work Foundation. Martin can be contacted at martin.brookes@btopenworld.com or on 07770 946 394.

² This can be downloaded from <http://www.theworkfoundation.com>. An electronic version is attached with this submission.

The arguments presented in *Watching alone* and in this submission are additional to those in Ofcom's review. For Ofcom to present a coherent and comprehensive view of public service broadcasting, these arguments should be incorporated into the next phases of the review. Where the arguments made here are already implicit within Ofcom's review they should be made explicit as they otherwise risk being misunderstood.

The case for market failure in *Watching alone*

At the heart of *Watching alone* is the simple notion that people talk about the programmes they watch and that such conversations are valued. This fact and the consequences which follow do not appear in Ofcom's review.

Ofcom's review provides an exposition of the traditional economic case for public service broadcasting. It integrates this with the non-market social values approach. Different elements of market failure are considered, namely

- Public goods
- Market power
- Externalities
- Merit goods
- Information problems

This is a fairly standard list (tying closely with that on page 13 of *Watching alone*).

Watching alone puts forward a new argument based on interactions between people who "consume" the same programmes. The argument proceeds as follows. When people decide to watch a given programme they do so thinking only of their own well-being. They do not take into account their ability subsequently to talk about that programme with family, friends, colleagues or people whose casual acquaintance they make in ordinary daily life. Yet subsequent conversations about a television programme enhance the pleasure derived by both parties. As such there are external effects whereby an individual's choice of television viewing impacts the well-being of others. This is a classic externality and a textbook case for intervention in a market.

Crucially, someone only benefits from another's television watching if they have watched the same programme and can "share" the experience. This is in contrast to standard externalities applied to public service broadcasting whereby someone benefits from another's viewing regardless of their own behaviour. "Shared experiences" are network externalities as opposed to standard externalities. This has implications for the analysis of shared experiences.

For example, standard externalities are concerned principally with the quality of programming in terms of how (say) this might enhance or detract from an individual viewer's behaviour as a member of society. Network externalities arising from shared experiences might be agnostic about the value of programming *per se*. The externalities arise from discussing the programme subsequently, not necessarily from the content of the programme (though these might be related).

A number of considerations about programmes and shared experiences follow from this. These are discussed in *Watching alone* and are not repeated here. However, two important points are worth stressing.

First, there is a link between externalities and social capital. Some economists complain that social capital is assumed out of the ether and often has no basis in the behaviour of individuals. Within *Watching alone* social capital is *defined* as the collection of network externalities arising from shared experiences. This is predicated on the belief (which permeates all social capital writings) that more interaction between people is better for social capital and cohesion than less. Therefore, within *Watching alone* the development of social capital arises out of individual's behaviour.³

Second, the fact of externalities connected with shared experiences is sufficient to assert the theoretical basis for market failure. Television programmes made and broadcast by purely commercial companies can create shared experiences. It might be claimed that the prevalence of shared experiences from such companies shows that the market failure does not exist. This would be to ignore the economics of externalities. A purely commercial company would not value these shared experiences as the benefits accrue to others – to people sharing the experiences but who individually are unwilling to pay for them. That is the nature of externalities. It remains an open question how significant are these externalities but their existence – and therefore the *prima facie* case for market failure and intervention to support broadcasting to produce valuable shared experiences – follows from the economic reasoning.

It is, of course, possible to argue that shared experiences, particularly of programmes that are not relatively high brow, would produce network externalities of only limited value. Such a presumption should be avoided. There is clearly the possibility that these externalities could be substantial – as discussed below, shared experiences have long formed one of the perceived benefits of television watching. It would be strange to accept the importance of externalities from other sources – even though these have never been quantified – but dismiss those from shared experiences.

One might expect the arguments from *Watching alone* to be discussed in Ofcom's review under "externalities". However, the section on externalities in "The role of television in society" discusses the normal narrow range of externalities arising only from relatively "worthy" programming such as news and education. *Watching alone* argues for a broader range of programmes to be considered as creating externalities through shared experiences.

Table 1 highlights the key differences in the view of externalities presented in Ofcom's review and in *Watching alone*. Ofcom's concentration on "worthy" programmes is discussed further below.

³ This link between social capital and network externalities is not new and has been expounded by, *inter alia*, the economist Partha Dasgupta. *Watching alone* contains references.

Table 1: Externalities in Ofcom's review and in *Watching alone*

	Ofcom review	<i>Watching alone</i>
Market failure	Externalities	Network externalities/shared experiences
Relevant type of programme	'Worthy' programmes, e.g. news, education	Popular programmes that attract substantial audiences, e.g. soap operas, comedies
Target audience	Any	Diverse (with subsequent discussion)

There are several key elements in the argument in *Watching alone* which differ from the normal view of public service broadcasting such as expressed in Ofcom's review.

Watching alone:

1. Highlights that a free market will under-produce shared experiences by applying an economic analysis.
2. Shows that shared experiences need not be the basis for building shared values but might simply be just valuable shared experiences.
3. Shows that shared experiences, even without leading to shared values can build trust and, thereby, social capital.

None of this analysis is present in any aspect of Ofcom's review. Subsequent work by Ofcom should take this reasoning into account and explore the importance of and role for shared experiences within the case for public service broadcasting.

Citizens versus consumers

Ofcom's review places considerable emphasis on the distinction between the consumer and citizen, claiming:

"We can think of the consumer-citizen split as being 'what I want to watch' versus 'what I want as many people as possible to watch, and what I want to be widely available'." (Page 3)⁴

While this division might apply at times, the analysis in *Watching alone* would dispute that it always applies. Ofcom's review needs to acknowledge the possibility that I might want other people to watch the same programmes as me because I place value on the subsequent discussions about the programmes. The externalities thereby created – the pool of network externalities as discussed in *Watching alone* – are capable of providing social value. My private actions coincide with those I might choose as a social planner or as "citizen" even though I am acting purely in self-interest as a "consumer". It is the very nature of externalities that they are unintended consequences – private individuals or companies are not thinking about the spillover impacts on others when they make their choices.

⁴ All references unless otherwise stated are from "The role of television in society" and page numbers refer to the pdf version.

It might be claimed that these considerations are covered in Ofcom's notion of "citizenship" and programmes which satisfy our demands as citizens. Ofcom's review states:

"[Public service broadcasting intervention can be seen]...to provide programming that as citizens we want to be widely available for as many people as possible to watch. Such programming secures the wider social objectives of UK citizens by making available TV that has broad support across the UK, but which would be underprovided or not provided at all by an unregulated market." (Main report, paragraph 145, page 72)

However, the review continues:

"The citizen-focused objectives can be seen as those measures needed to make sure television delivers sufficient positive externalities and merit goods, by giving all citizens access to programming of wider social value." (Paragraph 147, page 72)

Ofcom's review again appears to be talking of positive externalities from merit goods only, not the externalities from shared experiences. This impression derives both from the explicit reference to merit goods and to "programming of wider social value."

It is important to reiterate that it is possible to act in the communal interest by acting in self-interest only. By watching an episode of *EastEnders* I am making a choice about how to spend my private leisure time. This is made not with the benefits to society in mind but based on my desire to maximise my own well-being. However, by watching *EastEnders* I am making myself available for conversations with others who have done the same. By watching a documentary on BBC4 I am restricting these possibilities. The merit good that I encounter watching BBC4 might create more or less social value than the network externalities that I facilitate by watching *EastEnders*.

Therefore, the consumption externality can provide social externalities. At the recent SMF/Ofcom conference⁵ Ed Richards of Ofcom talked about social externalities as stemming from consumer as citizen. My watching of the news makes me a better citizen, for example. The implicit message is that "social externalities" stem only from relatively worthy programmes. The analysis in *Watching alone* disputes this.

Relatedly, it is worth noting that the analysis in *Watching alone* disputes the idea that consumer market failures will disappear in a multichannel world. Indeed, as noted below, such market failures will worsen in such a world.

The four purposes of public service broadcasting are said in "The role of television in society" to flow from the "enduring market failures" of (traditional) externalities and merit goods. However, the fourth purpose of "supporting a tolerant and inclusive society" suddenly asserts the value of "water cooler" television. This is somewhat different from standard externalities and merit goods. It is not clear what reasoning leads to this inclusion.

Until this moment there has been virtually no mention of shared experiences or indeed values outside of the non-market social values approach to public service

⁵ Public service broadcasting and citizenship, 20 May 2004.

broadcasting. The exception to this is the reference on page 12 “to programmes which help us understand our own culture and community.” That is a far narrower class of programmes than those which might provide water cooler moments but is the implied limits of the market failure.

This is too narrow a focus. Water cooler moments are formed by shared experiences and necessarily involve externalities, as such, warranting attention in the Ofcom review.⁶ It could be possible to assert a positive role for water cooler television if one followed the reasoning in *Watching alone*. It would remain an open question whether a free market in broadcasting would produce enough valuable such moments but it is not sensible to ignore the issue completely.

One might assert that only programming designed to improve tolerance and inclusion could be socially valuable but this implicitly creates a hard barrier between consumer and citizen. Such a barrier is not constructive to a more comprehensive view of the potential value of public service broadcasting. It also assumes the evidence which, so far as can be ascertained, has not been considered.

Shared values are distinct from shared experiences. Shared values can come from shared experiences – arguably many of any given society’s shared values and sense of identity are borne of such experiences – but such experiences need not produce shared values. Shared experiences may simply be the result of sharing enjoyment of a programme and have no greater depth or significance. The experiences are nonetheless shared and, as such, involve externalities. Alternatively, shared experiences can increase trust, which improves the functioning of an economy but does not necessarily boost shared values.

A brief history of shared experiences

In one sense the analysis in *Watching alone* is not new. Commentators and academics have long noted the shared experiences provided by television and other broadcast media. Indeed, Ofcom’s review states:

“[Television] can also provide the social glue or cohesion, that comes from large audiences talking about common interests, or experiencing together key national events.” (Page 6)⁷

⁶ It is worth briefly addressing the question of whether water-cooler moments and other shared experiences involve externalities that can be “internalised” in the language of economics, thereby removing the market failure. This seems possible within a limited environment such as an office where the “network” is fairly limited. However, the most valuable shared experiences may involve people with little prior familiarity and perhaps no reference point. It seems fanciful to suppose that the externalities that arise here can easily be internalised. In the absence of evidence to the contrary, it seems reasonable to suppose that the market failures remain.

⁷ Language can become a barrier in this field. A sociologist or policy maker might talk about “social capital”, a broadcaster about “shared experiences” and an economist about “network externalities”. Within the framework used in *Watching alone*, the three are interchangeable (subject to the proviso that different shared experiences can lead to different amounts of social capital). Through this submission we have used “shared experiences” most commonly, in part because network externalities are relatively unfamiliar even to many economists and also to distinguish these externalities from the standard type considered in Ofcom’s review. But the submission would be unaltered in all material respects if the terminology were changed.

The novelty in *Watching alone* which is absent from Ofcom's review is taking an economics based approach and showing how shared experiences involve a market failure. Shared experiences appear in many analyses of broadcasting. Until now they have always been excluded from discussions of market failure. This needs to be rectified.

Providing shared experiences is frequently referred to as an important part of the history of broadcasting. Yet Ofcom only alludes to shared experiences through shared values. This is a relatively high-handed and high-brow view of the role of shared experiences. It also ignores the market and economics perspective highlighted in *Watching alone*.

Academic studies of the role of television sometimes take a "uses and gratifications" approach. This commonly identifies the social role of television as being of value to viewers. Indeed, a large number of studies from within sociology and cultural studies stress the value of shared experiences.

The surprise is not that research highlights such a social aspect of the dominant leisure activity in modern society. Rather, the surprise is that this social aspect has received no attention from economists and regulators interested in the market failure elements of broadcasting.

The importance of shared experiences does not belong at any particular point on the political spectrum. Appreciation of the role of shared experiences can found across the range of social commentators, from Marxist to neo-conservative. For example, the academic cultural commentator on the media, John Fiske, adopts a Marxist framework for analysing media. Some time ago John Fiske wrote:

"We may have concentrated much of our leisure and entertainment into the home ... but we attend large schools and universities, many of us work in large organisations, and most belong to or attend some sort of club or social organisation. And we live in neighbourhoods or communities. And in all of these social organisations we talk. Much of this talk is about the mass media and its cultural commodities and much of it is performing a similar cultural function to those commodities – that is, it is representing aspects of our social experience in such a way as to make that experience meaningful and pleasurable to us."⁸

John Fiske uses language similar to that from the social capital literature:

" [Television] is a form of 'social cement' ... which binds together characters and narrative strands in soap operas, binds viewers to each other as they gossip about the show, and establishes an active relationship between viewer and programme."⁹

Research showing the role of discussions about popular discourse extends back several decades. Such studies concern themselves with how viewers relate to the plotlines and characters, as well as the role of individual circumstances in framing and shaping such relations. It appears that the value of the shared experiences themselves is invariably not considered within cultural studies. Certainly, it appears

⁸ *Television culture* (1987), Methuen & Co

⁹ *Television culture*

that no analysis of the overall social value of shared experiences has been undertaken.

To some extent this must be the fault of economists working on broadcasting. It is important that Ofcom begin the process of addressing this fault.

In contrast to John Fiske, John Hood is a US political and cultural commentator with a long history among the American conservative right. Taking a more prosaic and specific case than Fiske, Hood recently wrote:

"*American Idol* has become a cultural force in our country, generating the kind of 'water-cooler talk' that used to derive from other shared experiences."¹⁰

Therefore, one can find instances of commentators writing about shared experiences across the political and ideological spectrum. Perhaps the only place this is absent is from mainstream economics. However, the omission is carried over into Ofcom's review.

Some public service broadcasters have formal obligations to create shared experiences including, *inter alia*, in Canada, New Zealand and South Africa. In such cases the role of shared experiences is the desire for shared values. Given these roles of shared experiences elsewhere one might expect Ofcom to include their consideration in its review. However, Ofcom should broaden out the study to the value *per se* of shared experiences and their under-production in a purely commercial setting.

Impact of increased fragmentation

Ofcom's review states that standard market failure arguments for public service broadcasting are waning:

"...as we move into the multichannel environment with effectively regulated conditional access systems, most direct consumer market failures will be addressed or much reduced in importance." (Page 15)

At the recent SMF/Ofcom conference, Ed Richards of Ofcom went further, stating:

"It is indisputable that traditional consumer market failures are reducing very markedly."

Without commenting on the validity of this for the market failures considered in Ofcom's review, it is important to note that the opposite is true of the market failures associated with shared experiences. As explained in *Watching alone*, these market failures increase not decrease in a multichannel environment. This results in a greater potential role for public service broadcasting to create the right number and quality of shared experiences.

Furthermore, as *Watching alone* explains, the coordination problems associated with shared experiences would make it more difficult to rebuild a substantial public

¹⁰ "An open letter to an idol", 16 May 2004, Carolina Journal Online, available at http://www.carolinajournal.com/jhdailyjournal/display_jhdailyjournal.html?id=1545

service broadcasting capacity which provided valuable shared experiences than to sustain existing such capacity.

Implications for Ofcom's review

Watching alone articulates a form of externalities, network externalities, as market failures. These market failures increase rather than decrease with the growth of digital channels, in contrast to many standard market failures. Partly as a consequence of this, the division between citizen and consumer within Ofcom's review is not as hard a divide as indicated.

The arguments in *Watching alone* are new and it is understandable that Ofcom should not have considered them to date.

There are several implications for Ofcom's review of public service broadcasting:

- Ofcom should consider the value of shared experiences and the associated market failure in subsequent phases of its review of public service television
- Ofcom should develop new indicators of the impact of programmes on the pool of shared experiences and on social capital
- Ofcom should re-examine the citizen-consumer split in the light of the arguments here about the nature of externalities
- Ofcom might wish to consider whether public service broadcasting might include a formal obligation to create and explain the value of shared experiences