Klontzas, Michael (2013) *Book Review: The Economics of Television in a Digital World: What Economics Tells Us for Future Policy Debates, Patrick Barwise and Robert G. Picard, Reuters Institute for the Study of Journalism, Oxford University.* International Journal of Digital Television, 4 (3). pp. 357-364. ISSN 2040-4182

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Increasing technical capacities in the manipulation, transmission and storage of media content always raised questions of how content delivery should be best organised in institutional and economic terms. Far from emerging spontaneously in a vacuum, technological development is itself driven by public policies, reflecting shifting dominant paradigms, but it does open up new possibilities, engendering a re-evaluation of established arrangements that were often determined by necessity. The history of television broadcasting in the UK is defined by on-going debates over what could or should be made possible, with the 1980s representing a turning point in favour of 'choice' and 'consumer sovereignty' in line with a broader pro-market discourse. The widespread adoption of key technologies since then popularised multichannel television, further supported by wholesale digitalisation and the rise of the internet.

Against this backdrop, *The Economics of Television in a Digital World* re-visits the economic arguments on the likely future shape of television in the UK in light of current and projected developments. The non-expert reader is offered an accessible account of the historical conditions underpinning the broadcasting model in the UK in the 20th century. This serves as a starting point for a re-evaluation of the appropriateness of the current public service broadcasting model. According to Barwise and Picard, the completion of the switchover to all-digital television distribution in the UK signals an evolutionary departure from scarcity economics in television. Scarcity of the electromagnetic spectrum, the technical means required for the distribution of television, was seen as justifying tight regulation in the public interest, and the public service system in broadcasting was established. The abundance of television content distributed by cable, satellite, digital terrestrial television and, ultimately, the internet undermines the proposition that continued state intervention is technically necessary (if it ever was, considering the US model). The range of programmes available to the viewer is further increased through digital video recorders, which simplified television time-shifting considerably compared to their analogue predecessors. Abundance coupled with reliable conditional access systems enable the emergence of Pay-TV, subscription or pay-per-view, which resembles a pure market more closely than licence-fee- or advertising-funded television.

Barwise and Picard indicate that the arguments in favour of a strong, independent, well-funded BBC fall into two categories: economic and non-economic. The latter relate to the social, political and cultural concerns. These are only briefly touched upon as they are beyond the scope of the report. The former highlight the efficiency of the licence fee arrangement and the ability of the BBC to address market failures in a commercial media landscape, but this aspect is played down.

Before conditional access systems were available, non-excludability of free riders made free-to-air television inevitable and a public good whose universal distribution maximised consumers' welfare. Beyond this, the report recognises that licence fee funding provides certain advantages. The economics of television content production, acquisition and distribution are characterised by extreme economies of scale, high risk and spiralling costs, which in turn favour market concentration and diminishing diversity. The licence fee allows the broadcaster to take creative risks, fund the production and acquisition of quality programmes while being less influenced by market pressures, and pursue an accountable public service agenda, thus addressing market failures. The BBC is faced with the challenge of maintaining high audience ratings, demonstrating its continued relevance, while remaining distinct from commercial offerings, which to an extent precludes popular programming decisions that would boost ratings. The report points out that according to Ofcom's research the BBC enjoys public support, which suggests that it probably delivers public value, appreciated by the audience, possibly in the form of positive economic externalities.

The licence-fee-funded model is criticised for breaking the link between consumer demand and supply. According to these arguments, notably expressed by James Murdoch in his oft-quoted 2009 MacTaggart Lecture at the Edinburgh International Film Festival, a strong, uncontested BBC can be complacent, inefficient, failing to respond to what viewers want. Perhaps worse, it can distort the market by driving out competition and innovation. These views echo policies designed to focus the BBC's efforts on delivering public value, without adversely distorting the market when commercial players can provide. They are consistent with the current BBC Royal Charter, partly informed by Barwise's 2004 Independent Review of the BBC's Digital Television Services, and licence fee settlement. They also reflect concerns over the status and funding of European public service broadcasters.

A significantly smaller BBC raises a number of questions about the future of public service provision. Suggestions to introduce contestability in public service funding are not new. Alan Peacock's proposed 'Arts Council of the Air' would distribute funding programme by programme or channel by channel in response to competitive bids. That would force 'applicants to focus on public service criteria and avoids "distorting" the market, by making funds available to all who wish to contest for them' (Barwise & Picard, 2012: 20). Ofcom's ill-fated Public Service Publisher idea, first announced in 2004, was based on similar principles. Discussions around top-slicing of the licence fee to pay for public service provision outside of the BBC and the latest licence fee settlement follow the same pattern. This is not inconsistent with Barwise's earlier proposal for industry levies 'to complement advertising and the licence fee', providing an income stream for public service broadcasting (not necessarily the established public service broadcasters though) (Barwise 2009).

The core argument in *The Economics of Television in a Digital World* is that post-switchover, with universally digitalised television ending spectrum scarcity, and the availability of cost-effective conditional access, it is difficult from an economics perspective to dismiss the possibility of making the transition to market-driven television broadcasting funded entirely by subscriptions and advertising. In that system content providers would respond to demand. There are no technical barriers to enabling consumers to exercise free choice. In the UK, a much smaller BBC or alternative providers of public service content could be part of that eco-system.

Free-to-air, advertising-funded television is primarily concerned with ratings and demographics, and is accountable to investors, even when positive programming regulation is in place. This makes it risk averse with an emphasis on cost-cutting and popular, mainstream programming strategies. It is also vulnerable to fluctuations in its advertising revenue stream and the spiralling costs of programme acquisition. Subscription television, albeit closer to a pure market than licence-fee-funded or advertising-funded television, is not without its failings, as it is typically structured around channels and bundles, obscuring the direct link between demand and individual programmes. In an ideal scenario, programmes would be made available for purchase on a video-on-demand basis. This is where the potential of convergence between television and the internet becomes revolutionary. However, while the technology for this is available, contrary to expectations, at 80% of viewing even in converged homes live linear television still dominates. This is partly because of competition from digital video recorders and partly because linear television represents good value for money, undermining the willingness of audiences to pay for additional content. The report maintains that paradoxically, although convergence has revolutionary potential, it is evolutionary digitalisation that has more immediate impact.

This report considers the implications of digitalisation and convergence for the shape of the television market in the UK. It argues that the establishment of a free market in television broadcasting is now technically possible. To suggest that this alone makes it desirable would amount to technological determinism, which highlights the political and policy-making implications. A subsequent report on whether the UK should take that route is promised. Barwise and Picard choose to focus on the economic arguments, and that is made clear repeatedly, but the economic arguments in favour of a strong BBC are underplayed. The historical role of the BBC in delivering public policies, including digital switchover itself, now written into its Royal Charter, is only mentioned in a short paragraph (p. 21). This makes this first report tell only part of the story.

References

Barwise, P. (2009) ‘New forms of funding for Public Service Broadcasting’, *The Federation of Entertainment Unions*, School of Pharmacy (London), 22 June.