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ABSTRACT

It is difficult to develop a measure of diversity in broadcast programing, and it is equally difficult to measure the value of a broadcast to its viewer. Similarly, attempts to measure viewer preference functions have resulted in categorizations so vague as to be meaningless. In the face of such ambiguity, attempts by the Federal Communications Commission to regulate the diversity of programing in public television are destined not to satisfy consumers, and they may result in large scale inconvenience to the industry. (EMH)

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THE ECONOMICS OF DIVERSITY IN BROADCASTING

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It is as hard to be against diversity as it is to be against fairness. These are the paramount goals of broadcast regulation in America. I intend to argue that these goals are at best irrelevant and at worst seriously debilitating to the consumer interest. One more unpopular position will not alter the reputation of the dismal science.

What is diversity in broadcast programming? Well, of course, it means different things to different people. As it is used in the academic literature on broadcasting, it usually means the number of different kinds of programs available. If today we have an extra hour of public affairs and an hour less of detective dramas, diversity is said to have increased. This is not a very precise definition. Suppose there were only two possible types of programming: Westerns and public affairs, and two stations, with this schedule for the evening:

		Station 1	Station 2
(i)	9:00	Western	Western
	10:00	Public Affairs	Public Affairs

Is such a schedule more or less diverse than the following one:

		Station 1	Station 2
(ii)	9:00	Western	Public Affairs
	10:00	Public Affairs	Western

Or more or less diverse than:

		Station 1	Station 2
(iii)	9:00	Public Affairs	Public Affairs
	10:00	Public Affairs	Western

These unanswerable questions lead to several observations: First, not all public affairs shows are alike, just as all Westerns are not alike. There may be as much "diversity" within traditional program types as among types. This is most apparent when we think of "public affairs" or "feature film" categories, but for afficiandos of the genre, it is just as true of Westerns. Upstairs, Downstairs is a soap opera. Second, "diversity" clearly is a function of scheduling as well as the gross number of types offered. Third, even if we could agree that one of the above schedules was "more diverse" than another, so what? Is the more diverse schedule better for consumers? Not necessarily. Suppose we had the audience ratings for the three schedules above. They might look something like this:

(Thousands of homes)

		Station 1	Station 2
(i)	9:00	45	55
	10:00	5	3
(ii)	9:00	95	4
	10:00	3	94
(iii)	9:00	5	6
	10:00	2	97

Which schedule makes consumers best off? We would expect total audiences to be much larger for schedule (ii). But only 7 thousand homes are tuning in "valuable" public affairs shows. If public affairs shows are so valuable, perhaps we should undertake policies to increase their audiences, such as forcing stations to adopt schedule (i) with 8 thousand public affairs viewers, or schedule (iii) with 13 thousand. Judging by the literature, a good many observers think we should do just that. This rebarbative thread of paternalism runs through much of the critical writing on television by academics. And an economist can not, on the evidence in the examples, say it is wrong. For it is possible that public affairs, to those who watch it, is worth so much that the benefits exceed the costs imposed on those who do not. Not likely, but possible.

The problem facing an economist in this maze is that no one knows what the programs are actually worth to consumers, and that is the key to economic analysis of the costs and benefits of alternative policies. Asked to judge among the schedules, an economist would ask, how much is each household willing to pay rather than go without program A or B? What do the programs cost to produce? These data, consistently omitted from discussions of diversity, are the desiderata of decision-making in every other field of economic activity.

Data on the economic value of programs to consumers are omitted from the discussion for an excellent reason: since consumers do not pay directly for most programs, no one has any reliable means of ascertaining their value. (This consideration does not prove that consumers <u>should</u>.

pay for programs; that is a different argument.) Nevertheless, faced with absence of data concerning consumer demand schedules, an economist is faced with the difficult problem of trying to see what would happen *if* people could pay, on the assumption that we ought to be interested in that mix of programs which consumers value most, net of production costs. Such a model of the television market would turn on program production costs, the value of individual programs to individual consumers, and the nature of competition. It would have nothing to do with "diversity," *per se*. However, the models of program patterns constructed in the past by economists such as Peter Steiner have emphasized an apparent tendency of competing advertiser-supported broadcasters to produce programs which are too close substitutes, and of monopoly broadcasters to avoid this.[1] These models put enormous emphasis on the "distortions" caused by advertiser support. However, much of the result was due precisely to the assumption criticized above, namely the use of "program types" within which all programs are perfect substitutes. In addition, the Steiner models make highly stylized, unrealistic, assumptions about the structure of viewer preferences.

Steiner-type models were enormously attractive to people trying to understand television markets because they seemed to explain the apparent "sameness" of programming on different networks. Unfortunately, most of the people concerned with this problem probably exaggerate the sameness because they do not *like* the programming. To people who like television programming (which is, of course, most people) the programs may seem very different.

Recent work on the general theory of monopolistic competition has a special application to television.[2] It can be demonstrated that monopolistic competitors (that is, firms which are small relative to the market but which produce products which are not perfect substitutes for one another) tend systematically to underproduce a certain kind of product. These "excluded" products tend to be minority taste products -- that is, products desired relatively intensely by relatively small groups of consumers. These special interest products would be underproduced in any event; in television, when we speak of programs, this means that even a common carrier multi-channel cable-pay TV system would not produce all the programs that should be produced, although it may come close. It can also be demonstrated that under reasonable assumptions, advertiser-supported, limited channel broadcasters do even worse at producing such programs. All this under quite general assumptions about consumer demand and cost of production conditions, and without recourse to program types.

The word "should" in the preceding paragraph warrants explanation. I am using the word in the context of what is called welfare economics. That group of programs "should" be produced which maximizes the economic value of programs to consumers, net of production costs. Economic value is measured by willingness to pay. This is a value judgment which is difficult for some non-economists to accept. I will not try to defend it here, beyond saying that it is the criterion used to allocate virtually every other resource in the economy, including religion, and it is difficult to imagine why Walter Cronkite should be exempted when James Reston, Billy Graham, and the Pope are not.

The programs against which a competitive system of broadcasting is biased have analogies in other fields. The magazine industry provides a good example. If you want to know what additional programs would be on a pay-TV system with elastic channel supply, look at those magazines which depend to a significant extent on subscribers rather than advertisers for their revenues. These are not all by any means the same sorts of periodicals to which viewers of public television might subscribe, although some of them are.

We have, I think, pretty well disposed of the notion that diversity has any clear meaning or any relationship to economic satisfaction of consumer wants. There remains the task of seeing whether diversity has any relationship to such noble values as freedom of expression.

If diversity can not be identified with the economic interest of viewers, perhaps its value lies in the marketplace of ideas. I have argued elsewhere that this also is a misconception.[3] Whatever one's measure of program diversity, it is clear that a totalitarian state might if it wished produce as much or more diversity than a free one. (To do so might make it more benevolent, but not less despotic.) An utterly free, even anarchistic, society might in principle produce little program diversity if people's tastes happened to be similar. Diversity of programming has nothing to do with freedom of expression. Diversity in the <u>sources</u> of programming, or diversity of <u>control</u> over access to the media does have a clear relationship to freedom, but this is not what we commonly mean by program diversity.

How is it that so irrelevant a goal has for so long dominated our public policy toward broadcasting? The sins committed in the name of diversity! We protect broadcasters' profits from increased competition so that they can continue (!) to produce diverse public interest programming. We inflict cheap game shows on the public in the name of diversity through the prime time access rule. We deny the public access to three or four additional network-quality signals in the name of localism, a thinly disguised diversity argument. We waste millions on public television in the name of program diversity. Few of the critics of television who promote and applaud these policies are really interested in diversity. They are simply interested in more of their kind of programming or worse, more of the kind of programming they think other people "ought" to see.

The well-established FCC policy in favor of localism was, I said, a thinly disguised diversity policy. The problem with the localism policy is that it reduces the number of channels available, thereby imposing substantial costs on consumers, without in return eliciting a significant quantity (or quality) of locally produced programming.[4] The structure of demand for television happens to be such that geographically specialized programming is not of much interest to viewers, except for local news. There is nothing preordained about this, and it is not true of either radio or newspaper demand. Nevertheless, in television it is a very costly policy. It is silly at this point to worry much about it, given the enormous difficulty of changing the spectrum allocation scheme. The most that can be done is to avoid compounding the error by such idiocies as the prime time access rule. If in the future we begin to move toward multi-channel distribution systems, significant local programming may well begin to appear, most probably supported by local advertisers seeking to reach audiences in geographical areas much smaller than present TV markets. In such an environment, local interest programming is but one of the "minority taste" programs presently barred to consumers by the inelasticity of channels and the rules against pay television.

FOOTNOTES

1. For a summary of this literature, see Chapter 3 of Owen, Beebe and Manning, Television Economics (1974).

2. Michael Spence and Bruce Owen, "TV Programming, Monopolistic Competition, and Welfare," Quarterly Journal of Economics (forthcoming).

3. See Chapter 1 of Owen, Economics and Freedom of Expression: Media Structure and the First Amendment (1975).

4. I have in mind here the Dumont alternative. See Noll, Peck and McGowan, Economic Aspects of Television Regulation (1973), chapter 4.

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ABSTRACT

There are fundamental problems with the notion of "diversity." There do not appear to be good reasons to support the notion that diversity, conventionally measured, is a desirable economic goal or a desirable First Amendment goal. Much of the paper is devoted to an analysis of this issue.

Recent work on the economics of television markets suggests that there are problems due to "biases" introduced by the very nature of competition in product space, but that these biases are exacerbated by government policies restricting entry and curtailing pay television. The "biases" are against programs which are expensive and programs which are demanded by relatively small groups who would be willing to pay a lot for them.