Contents

Introduction

This is a book on media economics aimed at scholars, teachers and students in media, cultural and communication studies, as well as anyone interested in how to make sense of rapid change in the media environment. A background in economics is not necessary, but an interest in issues that have an economic dimension is. Many discussions in media and related fields draw upon economic concepts, assumptions and histories while dealing with industry sectors that are, in many ways, at the forefront of structural economic change in post-industrial/advanced capitalist societies.

There is a general agreement that understanding the economic dynamics of media industries and markets is vitally important for the analysis of the media system as a whole. In this book, we do not attempt a comprehensive coverage of all topics covered by media economics. In such a short book, that is completely impractical, and there are already numerous primers which cover mainstream issues in the field very well (for example, Picard, 1989; Albarran 2002, 2010; Alexander *et al.*, 2004; De Vany, 2004; Hoskins *et al.*, 2004; Doyle, 2006, 2013; Mosco, 2009; Hardy, 2014). Here, we have attempted to outline the key elements of the mainstream literature and to complement that literature by pointing to what we believe to be traditions in economics that have been neglected in the field as it is applied to the media.

At regular intervals, we develop case studies to indicate that these different economic paradigms are not just theories but also provide important practical insights that illustrate the utility of considering diverse approaches in economics. These case studies (which appear inside boxed text in the first four chapters) and extended case studies (Chapter 5) address enduring, central topics and substantive issues with which media, communication and cultural studies curricula and students routinely engage. These include basics about supply and demand in media markets; concentration of media ownership; the challenges for media economics of digital platforms; the different ways economic, political and cultural power is exercised through media; contracts and broadcasting property rights; governing media in an age of globalisation; media piracy; and an extended consideration of the future of public service media and the rapid emergence of a post-broadcast television ecology.

Having said that, we offer a distinctive way of organising an introduction to media economics. We do this because what *counts* as an important issue in media economics is strongly influenced by the framework or theoretical tradition being employed. We identify, in Chapters 1 and 2, the two main strands that dominate our understanding of media economics and which contend for overall legitimacy in the field: neoclassical, or mainstream, media economics and critical political economy of the media. These two variants deserve to be treated as the reigning orthodoxies as they produce powerful analyses of the way media works. But they are in many ways so divergent in terms of their objects of analysis, their methodologies and their founding assumptions that a conscientious student, coming at the topic from the disciplines of media, cultural and communication studies, may find that such a divergence makes it difficult to get to grips with media economics. Moreover, neither approach has typically held a particularly charitable view towards the other. Mainstream media economics, like economics more generally, has rarely acknowledged much that is of value in critical approaches to the field, while critical political economy has not only defined itself in opposition to the mainstream approaches, but has at times presented those approaches, and the media economists who use them, as being politically regressive and lacking in an ethic of the common good.

Economics as a field emerged in the context of the European Enlightenment and the Industrial Revolution, with Adam Smith's *The Wealth of Nations* (1991 [1776]) being a key formative text. The divide between what we now know as neoclassical economics, on the one hand, and critical political economy, on the other, can be traced as far back to the different paths followed in the field from the 1850s onwards between the 'marginal revolution', on the one hand, and the work of Karl Marx and the socialist economists, on the other. A broad overview of the differences between the mainstream and critical approaches, which we will elaborate upon in this book, is shown in Table I.1.[1]

Economics as a field is more complex than this dualism captures. The rise of Keynesian macroeconomics (Keynes, 1936) in the wake of the 1930s Great Depression introduced a method that 'wished to save the essentials of the capitalist system but realised that this could only be done within the framework of a strong and systematically interventionist state' (Hobsbawm, 1979, p. 245). There have remained a series of approaches associated with reformist perspectives in political

Table I.1 Differences between mainstream economics and critical political economy

Mainstream economics	Critical political economy
Focus on the individual	Focus on collective entities (e.g. social classes)
Individual rational choice	Socially determined belief systems
Analysis of market exchange	Analysis of circuits of production, distribution and consumption
Study of market equilibrium situations (micro)	Study of socio-historical processes (macro)
Focus on individual choices and mutual benefits of interaction through markets	Focus on power, social conflict and forms of collective agency
Economics as a stand-alone discipline	Political economy as inherently interdisciplinary
Preference for formal models and quantitative methods	Preference for descriptive analysis and qualitative methods
Scholarship as a value-neutral activity (separation of facts and values)	Scholarship as a form of political and ethical engagement (facts and values interconnected)
Markets lead to social harmony	Capitalism based on social conflict

Source: Derived from Stilwell (2002, pp. 155) and Earl and Peng (2012, pp. 458–60).

economy, including institutionalist and post-Keynesian economics, as well as challenges to the hegemony of neoclassical theory from the perspectives of behavioural economics, innovation economics and new institutionalism, which we will consider in this book (Cole *et al.*, 1991; Stilwell, 2002).[2]

Media economics also presents its specific challenges, as the media have many distinctive attributes that challenge traditional microeconomic modelling and theories of supply and demand. These include the social and political objectives attached to media to promote quality, diversity and pluralism, the nature of information goods in the public domain, the cultural contribution of media content and the power associated with concentrated media ownership and media conglomerates, including the capacity to influence politics and public opinion. Ballon (2014) has provided an overview of distinctive features of media economics (Table I.2).

Understanding media through the prism of media economics requires that we broaden the scope of approaches that are considered,

Table I.2 Neoclassical economics assumptions and media economics

Neoclassical economics assumptions	Media economic characteristics
Main objective: efficient production, distribution and consumption of scarce goods	Main objective: besides efficiency, also quality, diversity, pluralism and innovation. Information and opinions not really scarce
Tends to focus on private goods	Information goods have a (semi) public character
Products are homogeneous, i.e., interchangeable	Products are unique
Marginal cost is significant	Marginal cost very low/close to zero
Focus on price competition	Price competition secondary or non-existent
Owners are rational profit maximisers	Owners seek societal and political influence
Policy intervenes based on market failure	Policy intervenes also without invoking market failure, including contribution to public debate, citizenship, societal health/wealth

Source: Ballon (2014, p. 76). Reproduced with permission of Palgrave.

as new developments in media industries and markets are stretching the capacity of the established neoclassical and critical political economy paradigms. The new dynamics of media production and consumption involve developments such as the generalisation of convergent digital media platforms across all media; the growing interest in the socio-economic value of networks; the disruptive implications of digital media technologies on long established media business models; the rise of user-generated media content through YouTube and other social media and the need to reconceptualise the nature of media audiences; and the growth of creative industries policy discourse, with its focus on media and cultural sectors as sources of wealth creation and economic innovation.

It is our contention – and the main reason for adding this book to the already substantial literature on media economics – that there are schools in the rich and deep history and contemporary practice of economics that have rarely, if ever, been applied to the media which may help us in dealing with the 'new realities' in the economics of the media today. In this book we will focus upon institutional economics and evolutionary economics – strands of what in the discipline gets called 'heterodox' economics, which are alternatives to mainstream neoclassicism and critical political economy (Earl and Peng, 2012).

Of course, we are not the only ones making this point. The media economist Steven Wildman, who was chief economist with the United States Federal Communications Commission (FCC) from 2012 to 2014, has made the point that while neoclassical economics is at the cornerstone of mainstream media economics, and is still 'the source of the intuition guiding much, if not most, of today's economic research', it is also the case that 'the neoclassical approach ... [is] no longer the overwhelmingly dominant paradigm it once was' (Wildman, 2006, p. 68). Reviewing the field, Pieter Ballon (2014) has argued that several varieties of heterodox economics are required to supplement the insights that may be provided by the neoclassical paradigm, especially with the advent of new media technologies:

> While the typical static efficiency analysis and its extensions of neoclassical economics can have their application in the media, the field also has much to gain from so-called heterodox economics. Most prominently, an economic approach to the media needs to be informed by information economics, and network economics, institutional economics and evolutionary or innovation economics.
>
> (2014, p. 76)

Institutional and evolutionary economics are treated in Chapters 3 and 4 (and the others Ballon mentions also), but since they are rarely mentioned in media, communication and cultural studies, they need a short introduction here.

Institutional economics – as practised, for example, by Nobel Prize winners such as Douglass North, Oliver Williamson and Elinor Ostrom – emphasises the embedded nature of markets and the importance of institutions to economic growth and development. It is argued that the transactional dynamics which occur in markets cannot be captured with quantitative methods and comparative static equilibrium models alone; they are entangled with the social, cultural, political and technical conditions that make them possible. Understanding the institutional conditions for the formation and maintenance of markets, as well as the governance of firms, connects economics to complementary disciplines in the social sciences and the humanities (history, for example) and reminds us that markets are not totalising blocks of supervening power but are contingent, variable and often fragile. But they are also where most wealth is generated and it is through the mechanisms of which – for better or for worse – we dare say most students who pass through media, communication and cultural studies classrooms will earn a living.

Evolutionary economics offers a substantial alternative to critical political economy and is based on a model of the effects, bad and good, of living under capitalism that is as dynamically conflictual as its Marxist counterpart – with which, in its devotion to analysing the roots of economic and industrial change, it shares surprising continuities (Catephores, 1994; Rosenberg, 2011). This model is carried in the term 'creative destruction', which has become virtually synonymous with the work of Austrian-American economist Joseph Schumpeter since his major prognostications on the future of *Capitalism, Socialism and Democracy* (1942). The concept of creative destruction captures the degree to which capitalism is 'by nature a form or method of economic change and not only never is but never can be stationary' (Schumpeter, 1942, p. 82). The dynamic interaction between competition, innovation and business entrepreneurship 'incessantly revolutionises the economic structure from within, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism' (Schumpeter, 1942, p. 83). The idea is powerful because it insists that 'accumulation' (progress, wealth creation, technological innovation, etc.) and 'annihilation' (business failure, cycles of boom and bust, environmental degradation, etc.) are mutually constitutive forces.

Heterodox forms of economics do not typically feature at the core of the economics discipline, but they do constitute a fundamental reframing of the neoclassical orthodoxy. They have also provided the foundations for policy-oriented research in areas with clear implications for the media, such as innovation policy, governance structures for public institutions, policies towards media ownership and approaches to support research into new media content and services. For those in media, communication and cultural studies interested in better understanding the dynamics of socio-technical change in what Manuel Castells (1996) has termed 'informational capitalism', it is important to recognise that there is far more 'ferment in the field' in economics than would be assumed from relying upon reference points in the well-staged opposition between neoclassical economics and critical political economy.

Another reason why we argue in this book that media, communication and cultural studies need to revisit media economics in its various forms is that such disciplines have often held a static and one-dimensional account of what economics is. It is wrongly assumed that the field of economics is relatively homogeneous in its scope and methods; economics as represented in undergraduate courses and standard textbook constitutes the leading edges of thought in the discipline; and economic methodologies easily map onto particular political orthodoxies. The latter premise is sometimes stated in terms of neoclassical economics being synonymous with a form of neoliberal politics that is inimical to both understanding the intrinsic value of culture and engaging with what matters in the critical humanities.

Leading figures in media, communication and cultural studies from both political economy and cultural studies have come to question the one-dimensional account of economics that has become something of a critical orthodoxy. The leading cultural studies theorist Lawrence Grossberg observed in *Cultural Studies in the Future Tense* that

> [t]he apparent inability or unwillingness to criticize economics as useful knowledge from anything but a radically external position produces an extreme disconnection between socio-cultural criticism and the world of economics. Too often, the criticism of academic economics is founded on an imaginary summation, which is really a relative ignorance, of economics; in addition, the point from which such criticisms are offered is often not a theorised analysis of real economic complexities, but an imagined position of radical opposition, in which the only possible politics is defined by the moral project of overthrowing capitalism.
>
> (Grossberg, 2010, p. 107)

Nicholas Garnham, one of the founders of the critical political economy of media approach, has also called for a re-evaluation of the contributions of mainstream economics to media, communication and cultural studies. Garnham has expressed concern that the critical tradition has ossified in its understanding of the dynamics of capitalist economies in recent years, arguing that what he refers to as ‘a romantic Marxist rejection of the market *per se*’ has ‘blocked analysis of how actual markets work and with what effects. This has meant that . . . it has not taken the economics in PE [political economy] with the seriousness that it deserves and requires’ (Garnham, 2011, p. 42).

And it is happening as significant ferment in economics is also occurring. About 20% of Nobel Prizes in Economics over the past 20 years have been awarded to scholars outside the neoclassical paradigm. These include, for example, Elinor Ostrom, who did such brilliant work disproving the ‘tragedy of the commons’, showing how human collective action can defeat individualism and statism in the management of natural resources (Ostrom, 1990), and Amartya Sen, whose 'capabilities' approach to human well-being has revolutionised the concerns of development economics. They also include Nobel Prizes awarded to scholars in institutional economics such as Douglass North and Oliver Williamson, and economists who have combined a refinement of neo-Keynesian analytical techniques with interventions into global economic debates as progressive public intellectuals, such as Joseph Stiglitz and Paul Krugman. In short, we need to get a handle on schools in economics which have informed contemporary critiques of the dominant neoclassical paradigm, and the scope of such work goes considerably wider than the neo-Marxist political economy which, as Lawrence Grossberg (2010, p. 106) observes, has constituted the 'more agreeable writings about the economy' for critical scholars in media, communication and cultural studies.

What the book covers

This short book begins with an overview of the main strands of media economics. Chapter 1 deals with mainstream media economics, as it has been shaped by neoclassical theories. It identifies elements of the media that generate divergences from textbook microeconomics, including the diverse nature of media products, advertiser financing of commercial media, tendencies towards ownership concentration, the social shaping of consumer behaviour, the complexities of creative production and the role played by governments in regulating media as public goods. We argue that while such features of media make economic modelling along neoclassical lines more complex than it may be for other industries, this does not negate the validity of the approach in more general terms, and this is illustrated with a discussion of competition in changing digital media markets. But the question of realism is not the only line of critique of neoclassical approaches. More substantive issues arise in considering the methodological foundations of the neoclassical approach and its core propositions of methodological individualism, rational choice theory and equilibrium modelling, and how these in turn relate to a relatively 'closed' approach to applying analytical insights derived from other disciplines. These points are discussed in detail, but it is also noted that there may be differences here between mainstream economics as it appears in textbooks, or in relatively peripheral fields in the discipline such as media economics, and the debates that are taking place at the leading edges of the discipline, where many of the critiques of the neoclassical model are acknowledged.

Chapter 2 discusses the critical political economy approach to media, which is perhaps the best known among those in media, communication and cultural studies. We draw attention to the extent to which this is a diverse and dynamic field, albeit one with some core propositions around: the importance of understanding historical processes of social change; a sense of the mutually constitutive relationship between economic, social and cultural institutions, relations and practices; a moral philosophy oriented towards critiquing the industrial structures and social relations of capitalism; and a commitment to linking intellectual work with progressive social movements. We identify a tension in the field between a desire for inclusiveness of diverse research paradigms within the political economy 'tent' – Winseck (2011) identifies institutional, evolutionary and elements of neoclassical economics as being broadly cognate with political economy – and a contrary view among leading practitioners that political economy is defined in opposition to other research traditions. One site through which such debates were (at times acrimoniously) played out was around audience studies, between the 'active audience' strands of cultural studies and the critiques of such accounts as 'cultural populism'. More recently, some critical political economists have sought to distance the paradigm from various new directions in media industries research, including creative industries approaches and media production studies. We argue that a key to understanding critical political economy is through questions concerning power, and particularly the relationship between economic, political and cultural power.

Chapters 3 and 4 outline the core features of institutional and evolutionary economics respectively. As we assume that these will be the approaches least familiar to most of our readers, we take time to provide detailed expositions of core points before extending into application of these ideas into ways of understanding contemporary media. In the case of institutional economics in Chapter 3, we note that there is both 'old' and 'new' institutional economics, as well as institutional approaches in the social sciences generally, and sociology in particular, with which there are both family resemblances and ongoing differences: the continuing influence of Max Weber's work is relevant in this regard. We apply institutional economics to an understanding of contracts in the creative industries, the nature of broadcast media property and global media policy.

In the case of evolutionary economics, as discussed in Chapter 4, we note its influence in related fields such as information and innovation economics. We consider its significance in generating models of the relation of media and creative industries to the economy as a whole, an understanding of media and cultural markets as complex signalling devices and the relationship between market and non-market (household) production, whose co-evolutionary dynamics have given rise, for example, to the phenomenon of 'social network markets'. Further structural change in the economy has been reshaping our thinking about the relationship between commodities and 'gifts', and the issue of media piracy in the context of complex relations between intellectual property and innovation, where there is little consensus among economists about legal and policy implications.

Chapter 5 concludes the book with two detailed case studies that aim to bring together insights from the different fields of economics discussed in this book. The first is that of public service media (PSM). We argue that while the neoclassical approach, based on market failure, continues to have policy relevance, it does suffer from the absence of an institutional and historical perspective. The critical political economy approach, we propose, has come to be overly normative in its analysis of PSM, losing sight of the similarities in practice – as distinct from in theory – between PSMs and their commercial counterparts, as well as excessive claims about the uniqueness of PSMs. To take one example, the claim that PSMs are the sole providers of quality and diverse media content is increasingly untenable in a multichannel and convergent media environment. It is proposed that the new institutional economics (NIE) provide important insights into PSM in practice that warrant further consideration, but that an understanding of the pros and cons of new performance metrics being applied to PSM by policy-makers, such as public value tests, also need to be informed by insights from innovation economics.

The second case study is that of the changing ecology of television, whose distinctive features are most apparent in the US context. We argue that there is indeed Schumpeterian 'gales of creative destruction' descending upon the traditional media industries, driven by the emergent digital players such as Google, Apple, Amazon and Netflix. They are not only providing different platforms from which to view television – which is in turn setting off policy debates worldwide about whether governments are obliged to protect incumbent broadcasters – but also transforming the business models of television itself, using data analytics to drive production decisions as well as content distribution

Index

Note: The letter '*n*' following locators refers to notes.