NOTES AND COMMUNICATIONS MEDIA & ECONOMICS:
UNEASY BEDFELLOWS?

BY

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1 INTRODUCTION

Discussions in and about the media tend to stir up emotions. This is hardly surprising as the media have become an intrinsic part of everyday life. People spend a great deal of their time consuming various media. One could even claim that the media play a key-role in developing social cohesion and in shaping people's perspectives on policies and perception of, for instance, how safe the country is they live in. Nevertheless, however valuable and rewarding (or frustrating) such passionate debates may be, the time has come for a more down-to-earth approach that draws on economics. The papers delivered at this year's Annual Meeting of The Royal Netherlands Economic Association (the Preadviezen) deal with media and economics (Dolfsma and Nahuis, 2005). This paper summarizes the contributions and tries to trace the links between them.2

1.1 The Difference between Information and Ordinary Goods

From the point of view of economics, the products that the media produce – information, content, and advertisements – are called information goods. Information goods differ from regular goods in four important ways. First, the production costs are characterised by high fixed costs and low variable costs. Variable costs of content (without considering distribution) are in many cases (close to) zero, making the goods non-rival. Second, controlling access to information goods (excludability) is problematic. For example, a radio signal can be received and consumed for free by anyone who has a radio receiver. Content is also, thirdly, an experience good: it is difficult to assess the content before purchasing it which means that consumers of information...
run the risk of being disappointed *ex post*. Consumers can also choose not to
consume such an information good in the first place. There are mechanisms
that mitigate the problems this characteristic causes, such as reputation of the
producer. A brand name such as that of *The Economist* is an example. Prod-
uct reviews and word of mouth information transmission are further ways of
mitigating the problem. Finally, consuming information can generate negative
or positive externalities. Think of the violence thought to be induced by web-
sites, films or television programmes as examples of information induced neg-
ative externalities and news or the contribution of documentary programs to
the proper functioning of a democracy as examples of a positive externality.
It is these specific peculiarities of information goods that make the informa-
tion market potentially vulnerable to market failures.

1.2 *The Economics of Media Markets*

The contribution by van Dijk and Waagmeester provides an overview of pos-
sible market failures in media markets. Their starting point is that media
markets’ main trade is in information. Content and advertisement are the
two key types of information traded. The particular properties of informa-
tion as a trade good, as described above and elaborated upon at length in
the *Preadvies* themselves, can be the cause for media markets to fail. As
externalities are not confined to information goods and the remedies to cure
failing markets are the same for both information and standard markets, we
will turn our attention to other characteristics of information goods that can
cause media markets to fail.

High fixed costs and – suppose for the sake of the discussion – zero mar-
ginal production costs by definition introduce inefficiencies. Charging a posi-
tive market price is inefficient as marginal costs no long equal marginal price.
A price equal to the marginal cost of zero, however, makes it impossible for
firms to recoup the fixed costs. There is no reason to expect such a market
to attain an optimal situation; information goods will be under-produced, if
at all. Price discrimination could partially solve this problem: consumers or
groups of consumers would be charged different prices for the same goods,
depending on their willingness to pay. However, this is not easy in a market
where it is easy and cheap for consumers to copy all kinds of information:
possibilities for arbitrage are rife. Legal protection under Intellectual Property
Right law is discussed in light of this issue. Another route is product differen-
tiation, or ‘versioning’, which involves producing (slightly) different versions
of the good to meet the needs of different audiences. This is why the film
companies try to exploit different ‘windows’: a film is first shown in the cin-
ema, then it is brought out on DVD or video and sold or rented and finally
it is broadcast. Versioning allows producers, in some cases, to run down the
demand curve, and may be combined with price discrimination. Versioning is
useful in the case of durable information products such as movies but not so appropriate for short-lived information goods such as the news.

The problem of non-excludability as described above adds another perspective. A (potential) producer who is unable to generate revenues from his consumers because he cannot exclude those who do not pay and will either have to stop producing or will need to turn to other sources of income. One solution is to ‘sell’ advertisers the attention of those who view, read or listen to information goods. As it is virtually impossible to prevent (some) non-paying consumers from consuming the goods, media firms tend to operate in such so-called two-sided markets. The implications of this are elaborated upon below. Advertisement funding might appear to be an alternative pricing mechanism, but it differs with respect to one key aspect. For advertisers it is the number of viewers or readers (number of “eyeballs”) that are reached that counts and the consumer’s willingness to pay for a program or newspaper is not important. Advertisement income is used to lower the price of the media good for consumers. This means that prices for media goods do not provide the information that they usually do in a market thus giving rise to a suboptimal allocation. A popular television program can, for instance, attract a large audience (lots of “eyeballs”). If an advertiser wants to reach this large audience it will pay for a commercial during the program but the audience will not necessarily be interested in the product advertised, or they may find it over-priced. Advertisers may want to access information about their expected audience but they need the media firm for that purpose, which means that moral hazard problems can arise. This suboptimal allocation of resources is not likely for pay-per-view media. Here the audience pays for the media goods directly; the media firm does not have to sell “eyeballs” to advertisers. Media firms can also try to raise additional income by creating programmes that for instance involve consumers using SMS text messages (the telecom operators pay a commission to the media firms), and they can apply for subsidies from the government to cover initial production costs.

Even if the above problems could be solved, the proper functioning of information markets would not necessarily be guaranteed as consumers are not autonomous when they make decisions. For example, people may not have enough information to make well-founded (consumption) decisions: they might be myopic. Especially when media are discussed, and most particularly when discussed in society at large, this possible myopic behaviour of people causes concerns. This issue is documented in economic literature but a discussion on this matter would take us too far away from the topic addressed here.

2 KEY DEVELOPMENTS

Wider social trends also have an affect on the functioning of media markets and create new challenges. For example, technological developments,
demographic changes (ageing or immigration), and changes in the leisure time available to people are all relevant. It is tempting to argue that recent developments are more radical than previous ones. In some sense they are but the claim that the emergence of internet is more radical than the introduction of television is not so easy to defend. Taken from a media perspective, the kind of influence internet has on the media is not new. Newspapers were the first media in modern times to disseminate information to the masses, radio was the first medium that made instantaneous reporting possible, and television added a visual dimension. Internet encompasses all these modes. For example, a web-log functions as a newspaper but is much cheaper to produce. Television and especially radio on the internet proliferate. As much as existing media find new ways to disseminate their goods on the internet, internet also allows the combination of goods that media offer to be unbundled. It is for this reason that we did not include internet as a separate medium.\textsuperscript{3} Nevertheless, the internet is and will continue to be an important factor in the future of media and media policy.\textsuperscript{4} Digitalisation is the key technological advance that facilitated the development of the web but its advantages are not exclusive to internet. There are several distinct trends that can be distinguished in advances related, directly or more indirectly, to digitalisation:

2.1 The Cost of Producing and Spreading Information Decreases Rapidly

Web-logs illustrate this trend very well; there has been an explosion in the number of these sites. How does this trend alter the perspective on the quality of the products that the media offer, for instance in terms of a measure discussed below, pluriformity? Should web-logs be included in a measure of pluriformity of media? The impact of web-logs on society in the United States of America suggests this is not unimaginable. Another illustration is that computer-generated special effects are can be much cheaper than the traditional methods of creating such features. Van Dijk and Waagmeester argue, based on Waterman (2004), that implications for production costs are not as straightforward as they may seem. Total costs for a movie may not decrease but actually increase. To illustrate, the most recent sequel of The Lords of the Rings, renowned for its use of computer-generated imaging, had production costs exceeding a quarter of a billion euros. In relative terms costs of special effects might have decreased, but this has made it easier to cater the demand for such effects; more of it may be included in a movie. In addition, new, more expensive techniques are used. Overall production costs may thus increase. The

\textsuperscript{3} The definition of media that we use is: agents or activities that produce combinations goods aimed at communication. Goods produced by the media are a platform that allows for the purposeful combination of related goods to cater to a heterogeneous market. The internet actually allows agents to disentangle information bundles.

\textsuperscript{4} Internet is, however, much more than a medium (cf. Soete & Ter Weel 2005).
new special effects may increase demand for the movie, which in turn leads to a higher marginal revenue. In equilibrium, more of these cheaper special effects may be used and the total production costs could rise.

2.2 The Spectrum Scarcity that was Prevalent Until the 1980s has Completely Disappeared

This applies mainly to radio and television in that terrestrial technology is now complemented by digital radio and digital television. In addition transmission is now also available via internet, cable and satellite. Magazines and newspapers have never been restricted in terms of capacity; the only constraint is the amount of shelf-space in the stores and kiosks.

2.3 Excludability has Become Technically and Economically Feasible

The problems and expenses that arise from trying to exclude people from using the terrestrial signal without payment are the key to understand past developments within television and radio. Non-excludability, together with non-rivalry were valid reasons to consider these media to be a public good. Nowadays with digital broadcasts, scrambling and decoding make excludability economically feasible and open up the way for pay-tv. This is rapidly occurring in most European countries.

2.4 More Heterogeneous Demand

Demand has become more heterogeneous as individualism progresses and in Dutch society pillarization along socio-political lines is reducing. This implies that consumers are less (ideologically) predictable and more likely to be aware of or have experience of a wider range of viewpoints. Consumers are becoming less predictable.

3 MEDIA

Technological developments have and still are profoundly affecting the media. Some media particularly daily newspapers appear to be in serious trouble whereas others are flourishing.

Media contribute to the solution of public choice issues in general (cf. Sen 1999). In the developed countries the prospects for most media look bright and as economic development and democratization proceed in the developing countries the media will flourish there as well. Indeed, there appears to

5 This has not changed recently. Indirectly, sales may be affected by web based magazine sales. For books it has been shown that internet shopping leads to a higher distribution of ‘marginal’ titles (cf. Brynjolfsson et al. 2003).
be a two-way causal relationship: media flourish when the economy is in good shape and societies are open, but well functioning media can also contribute to economic development. State ownership of media and poverty are positively related (Djankov et al. 2002). It is not exactly clear if the same holds for state supported but independent media organizations such as the BBC in the United Kingdom, the BRT in Belgium, and the many pillarized broadcasting companies in the Netherlands. Certainly the democratic process is stimulated by free media. Where media are free and independent, people are better informed and politically more active (Leeson 2005). Free media make politicians more accountable (Stiglitz 2002). It is thus obvious that politicians are interested in the media and how they function.

Free media can also help resolve information asymmetries in the economy in a broad sense (Stiglitz 2002). In this way, the media can assist agents to make informed decisions, and not only as citizens casting their votes. This raises the question of whether the media can also influence agents’ preferences. This is an area that economists have only just begun to explore using concepts such as ‘framing’ and ‘reference points’ (cf. Bateman et al. 1997; Kahneman and Tversky 1981; Dolfsma 2004).

Box 1:
ECONOMISTS IN THE MEDIA
Economists tend to take an ambivalent attitude towards the media. As economists, the idea of a market for ideas where they have to compete with others to get their voices heard makes sense. As academics, however, they tend to assume that the importance of what they have to say will be obvious, and obviously recognized. Often, however, they learn to their dismay that this is not the case. The messages they have to offer may be disregarded entirely, or forgotten about when preliminary discussions have ceased and awkward trade-offs have to be made (Klamer and Meehan 1999). The experience one is likely to have when approached by representatives from the media may be disheartening, as Groot and Maassen van de Brink notice. Being hardened experts by now, their advice is not to be disappointed when journalists merely want to pick your brain, want you to act as parrot for their own message, or make a highly biased selection from what you have to offer (and present it as their own). Maybe, as Kalshoven suggests, economists are too self absorbed and simply do not know what interests the broader audience, nor how to deliver a message. If your message is not welcome, or if you are unable to package it properly, perhaps it is best to have others take the honour/do the dirty work. There usually are (some) economists who are better able to mediate between the academic world and society at large. Some write op-eds, some write regular columns in daily newspapers or magazines. In the Netherlands there are the equivalents of Paul Krugman. They do not write for the New York Times, of course, but, being the cradle of newspapers in the world,
the Netherlands offer an astonishing array of them. Newspapers seek their columnists not just to offer facts and analysis, but also for their opinions and their reputation. Sometimes the expertise that is lacking in the editorial team needs to be complemented – while many trained economists have joined the editorial staffs of newspapers and magazines they are relegated to separate desks. As de Kam and Nypels further find, the economists involved do get an hourly fee that is higher than their hourly wage as professor, but intrinsic motivations are likely to be equally important. What can be a better sign of recognition than to see that you have a noticeable influence of public policy or opinion?

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3.1 Television

Television is currently the quintessential medium. It attracts attention from audiences, politicians, and academics alike. People discuss the content of specific programs, but also hotly debate television’s role in society. Economists tend to translate the character of such discussions as welfare economics. However, welfare economics is not the topic of choice of a large group of economists. The term ‘television’ was first coined in 1900 to refer to a method to transmit visual information. It was first put into practice in 1926, and has since proved to be able to arouse a variety of opinions and emotions. In 1948, the first television broadcast in the Netherlands went on air and some 400 television sets in the Eindhoven region were able to receive the signal although ‘officially’ the first broadcast was in 1951. The government expressed concerns that technology was encroaching on people’s leisure time. They were worried that this new technology would become a master or even a tyrant alienating people from each other and themselves. Television would have to be controlled and could not simply be left in the hands of private parties, it was held at least in the Netherlands. Television may offer ways to educate and civilize the people, but could just as easily be used to demean them, or so it was perceived. Allowing the profit motive to play a role would be a certain way of the latter to ensue.

When television first started it was entrusted to broadcasting organizations based on the pillars or segments of Dutch society (Lijphart 1968) in the same way radio had always been (Hoefnagel). As a result of considerations mentioned above the Netherlands ended up with one of the most complicated broadcasting systems in the world. The elites within the pillars made sure that only programs or topics they considered appropriate were aired (Dolfsma 2004). Only when television had diffused widely and drew all of the attention, for instance, could radio experiment a little with products for which there was a huge demand yet were considered inappropriate such as pop music.

At present the Dutch broadcasting system is considered to be one of the most competitive in the world, at least according to the British newspaper
The Economist. The pillarized broadcasters are still an important part of the system and draw their income from fees from members, tax revenues from the government and advertisement income. A new policy has been [2005] drafted to 'modernize' the system, but Hoefnagel comments that economic arguments should play a more important role while van der Ploeg criticizes the lack of commonsense economic logic in the newly proposed policy as well.

The incentives introduced in the proposal seem to be at odds with the public goals one would associate with a system to produce television, as well as the more specific goals included in the draft proposal. In this latter regard, researchers such as van der Ploeg have asked, how can public broadcasters offer high-quality products tailored to a small niche market while at the same time catering to a large audience to generate resources? Dommering remarks on how policy has remained relatively unchanged since the 1930s and that bold decisions are shied away from.

Economies of scale necessary to produce television of high-quality by journalists or producers of television programs who can operate independently will be difficult to attain. Van der Ploeg holds that, due to technological developments, television products can be considered less and less as public goods. The newly proposed policy will not necessarily jeopardize the variety of programs offered as much as the quality. It is especially quality in a journalistic and cultural sense that van der Ploeg worries about. Assuming such qualities are covered by the term ‘accuracy’ that Mullainathan & Shleifer (forthcoming) use, van der Ploeg either does not believe that there is enough interest (of sufficient size to reach minimum efficient scales) in such topics within the Dutch viewing population, or that market forces may not be trusted to offer quality at all. Indeed, as broadcasters become more dependent on the number of members they will have to compete (Hotelling 1929) in the center of the preference spectrum.

Van Cuilenburg concludes that the unprecedented liberalization of the Dutch television market has resulted in greater variety but that there has been considerable crowding in the middle of the spectrum. This raises the question of whether it is the task of a government to make ensure that its people are able to access a varied offering of media products?

The television market may be assessed using a number of measures. Diversity, the heterogeneity of content offered by the media, which is one of these measures, can be further analyzed in terms of pluriformity and plurality. Plurality refers primarily to the number of media, such as broadcasters or titles, while pluriformity refers to the heterogeneity of the content. Plurality is related to such measures as the Herfindahl–Hirschman Index and other concentration ratios. The Dutch television market is dominated by three main players who share the nine national general interest channels: the combined public broadcasters, the RTL group, and the SBS group. Recently, even a
tenth channel started: Talpa. The radio market is much more competitive, needless to say. The two measures of plurality and pluriformity are related but they do not necessarily coincide. A monopolized market can still offer a heterogeneous range of media products. Economic competition and journalistic competition are different; the two need not coincide. Van Cuilenburg argues that pluriformity is not necessarily a good thing: the pluriformity offered might represent what is demanded by the market, but may exclude minority voices. Most media markets are not so good at catering for minority voices; they are better at representing majority views. Public broadcasters tend to be a little more open to minorities and more representative than private ones are.

Increased competition during the 1990s has sharpened this picture. These two sub-currents that determine the pluriformity profile can both be measured. Pluriformity can be measured in terms of topic, format or genre etc. Using program categories as indicator and Theil’s relative diversity measure it seems that public and private broadcasters do not differ much. Public broadcasters pay more attention to news coverage, while private broadcasters spend more on foreign sit-coms, human interest programs and movies. The public broadcasters are somewhat more diverse in what they offer than the private ones (0.93 compared to 0.75).

Another way of judging what media firms offer their customers is the freedom of choice available: irrespective of the variety of different products, how big is the supply of media products in comparison to demand? The measure for ‘media profusion’, or the extent to which supply exceeds demand, shows the enormous choice available to the Dutch audience. For every 1½ hours of watching television during prime time – which is the average – some 45 hours of television is on offer. The performance of a media such as television increases when diversity and freedom of choice increase. An overall measure of the performance of a particular media can thus be obtained by using the following formula:

\[ \text{Media performance} = \text{Profusion} \times \text{Diversity} \]

Table 1 shows that media performance in the Netherlands has clearly increased over the last 15 years. Dutch viewers have an astonishing amount of choice which is currently still increasing. Again, public broadcasters do better than private ones. The doubling of supply of television products between 1990, when liberalization of the market had just set in, and today far exceeds

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6 For a country of barely 16 million inhabitants, the total number of television channels available in the Netherlands – national and regional, general and special interest – currently is an astonishing 151.

7 Theil’s relative entropy measure gives an indication of diversity: 

\[ D = \left( -\sum p_i \log p_i \right) / \log n \cdot p_i \]

is the proportion of program category i, and n is the number of categories; 0 (homogeneity) \( \leq D \leq 1 \) (heterogeneity).

8 Profusion = \( Q_s / Q_d \), where \( Q_s \) = supply of media products to the market, and \( Q_d \) is demand; 0 \( \leq \) Profusion.
### Table 1 Dutch Television Market 1990–2004: Profusion, Diversity and Performance (18–24 O’clock)

<table>
<thead>
<tr>
<th>Year</th>
<th>Channels (#)</th>
<th>Hours of Broadcast</th>
<th>Hours Watched</th>
<th>Profusion (Theil)</th>
<th>Diversity System</th>
<th>Performance Entire System</th>
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<tr>
<td>1990</td>
<td>3</td>
<td>5731</td>
<td>423</td>
<td>13.5</td>
<td>0.78</td>
<td>10.5</td>
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<tr>
<td>1990</td>
<td>4</td>
<td>7687</td>
<td>423</td>
<td>18.2</td>
<td>0.76</td>
<td>13.9</td>
</tr>
<tr>
<td>1995</td>
<td>7</td>
<td>10754</td>
<td>464</td>
<td>23.2</td>
<td>0.68</td>
<td>15.9</td>
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<tr>
<td>2000</td>
<td>9</td>
<td>16291</td>
<td>484</td>
<td>33.7</td>
<td>0.67</td>
<td>22.4</td>
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<tr>
<td>2004</td>
<td>9</td>
<td>16422</td>
<td>561</td>
<td>29.3</td>
<td>0.86</td>
<td>25.3</td>
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Index 1990 = 100

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<td>1990</td>
<td>75</td>
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<td>100</td>
<td>110</td>
<td>128</td>
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<td>1990</td>
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<td>212</td>
<td>114</td>
<td>185</td>
<td>87</td>
<td>162</td>
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<tr>
<td>2004</td>
<td>225</td>
<td>214</td>
<td>133</td>
<td>161</td>
<td>113</td>
<td>183</td>
</tr>
</tbody>
</table>

* Without the recently (1989) established private television channel RTL4.

Source: *van Cuilenburg* (in Dolfsma and Nahuis 2005).

The number of extra hours that people actually watch television. The number of viewing hours only increased by a third. Pressure on the players in the field to be more efficient and find ways of tapping new markets has thus increased substantially. *Van Cuilenburg* concludes that liberalization has not increased diversity or the quality of television programs, but especially the sheer number of them and thus the freedom of choice. This has caused the doubling of the media performance measures between 1990 and today; a development for which the private broadcasters alone are to be thanked.

How sustainable, in an economic sense, is this situation? And, from a societal perspective, does the ever increasing offer of media goods increasingly subvert common forums or points of reference? Perhaps discussions such as these will soon be irrelevant as technology develops and access to television becomes regulated through conditional, pay-per-view, which means that the media goods are no longer public goods. *Dommering* is firmly of this opinion.

### 3.2 Radio

Capacity for radio transmission has increased dramatically. The ‘new’ capacity is accessed via the cable or the internet. However, most people listen to the radio where this capacity is not available, for example in the car or at work (on construction sites). Many people may never bother to connect their radio set to the cable. So if broadcasters want to reach a larger audience, being able to reach those who receive the signal with an antenna is crucial. After considerable discussion, the available frequencies where (re-)allocated in 2003...
by means of an auction. Maasland, Onderstal and Rutten analyze the chosen allocation mechanism and discuss possible alternatives.

A long discussion preceded the actual decision on the allocation mechanism that was used – indeed, politically, the process leading up to the decision about how to allocate frequencies was a messy one. The government proposed auctioning radio frequencies in the light of the auction of the GSM-frequencies for the 3rd generation of mobile telecom applications. The vested interests of incumbent radio stations delayed the decision as long as possible. When the decision to auction the frequencies seemed to be finding support the radio stations lobbied intensively against it. They even called upon their listeners to make frequent phone calls to politicians and to send them emails and with success. What was intended as an auction turned into a ‘beauty contest’. Moreover, in contrast to initial plans, firms were allowed to obtain two nation-wide slots, creating more room for incumbent parties in the radio market to maneuver strategically and prevent new entry.

Maasland et al. argue that this was an unfortunate result of the political process. A process organized along the lines of a ‘beauty contest’ introduces many subjective elements. For example, contenders were required to submit a business plan and a draft broadcasting schedule for evaluation along with their financial bid. Judging these two requirements adds a subjective element to the decision. Many stations were displeased with the outcome of the process. Some took the government to court, while others, who might have suffered from a winner’s curse, tried to deviate from the broadcasting schedule and mission that they had first proposed.

A look at other types of auctions shows that different (unpolluted) auction would have been a better allocation mechanism. To secure pluriformity of what is offered on the radio it is likely to be sufficient to set minimum requirements. Under these conditions, an auction involving several rounds would be more likely to meet the demands postulated and would have avoided some of the negative effects that occurred. For a discussion on the details of the auction we refer to Maasland et al. It can be indisputably concluded that the debate on what public interests are at stake should be dealt with separately from the issue of how to organize the allocation itself. It seems that the government’s lack of economic expertise concerning allocation procedures (auctions) made it vulnerable to pressure from the actors in the field.

3.3 Newspapers

Newspapers that are free of charge are becoming increasingly wide-spread. Some newspapers have become available on smaller ‘Berliner’ format – more easily read while traveling. Do these developments or experiments constitute a desperate attempt by publishers to extend the life-cycle of a product that is nearing the end of its natural life? Or is there a healthy future ahead...
for publishers who can adapt and cater to a changing demand-landscape? Studies have shown that the amount of time spent reading has dropped while the topics people are interested in have mushroomed. New technologies have helped publishers to cater niche markets and people willing to spend money on media products even if they consume them less intensively. The range of topics covered in newspapers has increased as the number of sections and supplements have especially in their Friday and Saturday issues. For a long time the proliferation of newspapers has been artificially suppressed by governments. Newspapers and their staffs were heavily taxed and the freedom of the press was limited. In fact it can be said that it was not the declaration of freedom of speech and press in the Dutch constitution of 1848 that allowed newspapers to flourish but the abolition of taxes. Much like any other ordinary product, according to Pfann, interference by the government is not to be welcomed. Despite increasing concentration ratios and a decreasing number of editorially independent newspapers (see also van Caienburg), the editorial foci of newspapers reveal a diverse range of approaches. Moreover, newspapers have been subject to increased competition from the other media, especially over the last few decades. Kalshoven claims that the quality of economic news offered has increased, at least on the pages explicitly devoted to economics. Other journalists might need extra economic training or the economists among the editors could be called on to contribute to or advise on subjects. What Kalshoven finds more worrying is the fact that journalists tend to process information that is easily available, mostly from publicly listed firms, which often does not get much further than the PR departments. Small and medium sized enterprises for instance are thus largely neglected.

3.4 Magazines

Hakfoort discusses the Dutch market for popular magazines (excluding scientific journals and professional magazines). The consumer magazine market is very dynamic. In the 1990s, 400 – 500 new magazines where introduced yearly, while at the same time some 150 magazines disappeared from the market. The market, however, seems to have stabilized and in 2004 only about 50 magazines were introduced. The turbulent developments in the 1990s are likely to be related to the long economic boom and the emergence of cost reducing desktop-publishing technology. The fact that the amount of time spent reading is still declining could also be one of the reasons the market has stabilized. Hakfoort focuses on competition issues in the consumer magazine market. He argues that one of the possible entry barriers to the market is access to distribution channels. This is supported by the fact that the vast range of magazines on offer is produced by a small number of publishers that have access to distribution channels.
To find out whether publishers indeed have market power, traditional measures – like the price cost mark-up – are not useful, however, Hakfoort argues. Why is that? The magazine market and most other media markets are so-called two-sided markets. Two-sided markets can be characterized as “markets in which one or several platforms enable interactions between end-users, and try to get the two (or multiple) sides ‘on board’ by appropriately charging each side” (Rochet and Tirole 2004). To launch a new magazine, a publisher needs advertisers as well as readers. If a publisher contacts potential advertisers the first thing they will ask is: what is the (expected) size of your readership or audience? However, it is not possible to set prices for and sell subscriptions without knowing the revenues from advertisements as this determines the price of the magazine as well. Higher advertisement income will allow for a lower price charged to consumers, but may alienate the readership too. How is this related to the question of measuring market power? To see this consider the extreme example of a free newspaper the Metro, which is distributed at train stations for instance. Consider a competition authority trying to estimate market power. They might calculate the price mark-up for consumers and see that it is zero. Based on traditional thinking about competition and market power, two conclusions could be drawn: Metro follows a strategy of predatory pricing against the incumbent newspapers. As soon as it has established a position in the market, or when competitors have had to exit the market, Metro is then expected to start charging a price to cover costs and possibly to recoup losses sustained. The other conclusion could be that the market is extremely competitive and soon Metro and possibly other newspapers as well will go bankrupt. Neither of these conclusions are necessarily valid. The competition authority should have taken the other side of the market into account as well. How much market power do the newspapers have on the advertisement side?

Box 2:

THE MEDIA IN ECONOMICS

Where the attention of consumers of media products tends to focus on a limited number of people, issues or outlets, a similar trend is visible within the economics discipline as well. Are processes associated with the workings of the media entering the discipline? According to Van Dalen and Klamer the answer to this question is yes. This situation may be easily explained and need not necessarily be a bad thing. Most articles published are not noticed at all – there are simply too many of them. Time to read is limited, and you’d like to read something that you believe relevant. Even a small quality difference between
articles might thus result in highly skewed distribution of attention for them (Rosen 1981). The need to have common points of reference in discussions might even explain why an absence of differences in quality of a good offered can lead to a highly skewed distribution of attention (Adler 1985). The result of an efficient global communication of ideas might actually be an increased cluttering of economists in subfields that do not interact with each other. Within such subfields there are different ways of establishing reputations and institutions to galvanize them. Lists of economists who are most cited internationally or nationally are among these. Economists who can establish a link, creating a structural hole between a subfield with a more central field, can easily end up being reputed, at least in the cluster. May they have chosen the easy way out from the more central field where they may not have been top dogs? Will the cluster survive when the linking pins disappear from the scene? This is difficult to say.

A FOCUS ON CONTENT, MEDIA, OR BOTH?

In the previous section we discussed the four key media. In the first section, however, we argued that a media-economic view takes the goods that are being traded – information or content – as a starting point. This seems at odds with the focus on the distribution channel – the medium.

Indeed, WRR (2005) and Nahuis et al. (2005) argue that an analysis of the media should start out from the relevant markets. The question is whether the medium is the correct proxy for the relevant market. This is pertinent as internet and wireless technology lead to a convergence of media. Are you watching television, making a phone call or using the internet when you see the best goals of a football match on your mobile phone? The internet offers magazines, television, radio as well as newspapers. Another argument for a focus on the product and the market, rather than the medium, is that market failures are in most cases related to the product and its market. Whatever organization has produced the goods is irrelevant. One simple example is the externalities related to the consumption of information. Well-informed citizens are argued to be important for a well-functioning democracy. It is obvious that it is not important how citizens are informed – by means of television, newspaper or the internet – but only that they informed. Finally, van Rees and van Eijck (2003) show – by examining time-use data – that consumers in some cases first choose what they want to consume (for instance news) and subsequently which medium to use. Against this background Hoefnagel argues that an analysis of the media markets had better started by analyzing content or functions, such as the market for news, the market for amusement and so on. This, however, does not imply that policy making can be restricted to the level of content. If an

9 Such time-use data offers a complicated scene, however, and is not easily interpretable.
analysis of content markets leads to the insight that public provision of some
ccontent would be welfare enhancing it could still be decided of course that
policy is to be designed for a specific medium. As television is still the most
important source of information, it is not surprising that public interference
is most prominent with respect to this particular medium. Hoefnagel does not
argue that this is necessarily ineffective but he argues that policy should start
with an analysis of where markets fail and what public intervention aims at. His
review of the history of media policy shows, however, that policy makers are
almost exclusively focused on the (minor) issue of suggesting marginal changes
to the organisational aspects of the Dutch public service broadcaster. In his
view, the result of this persistent focus on aspects of implementation rather
then on developing a clear view on what public intervention should aim for
leads to an ‘accumulation of compromises’. In this case the sum of the parts
is less than the whole.

5 LESSONS AND CHALLENGES

What general lessons can be drawn from the Preadviezen? And what questions
remain unanswered yet?

5.1 Lessons

Both from the papers on the public broadcasting service and from the allo-
cation of commercial radio frequencies it is clear that the government is pre-
occupied with details rather than the key questions: What public interests
should be served by policy? And subsequently: What is the most effective way
to get these interests served? Maasland et al. argue convincingly that the gov-
ernment should first have formulated its goals clearly and only then should it
have had the experts work out the best way to reach them. In reality, discus-
sion about mere details has bogged down debates on what the public goals
should be. Similarly, the discussion about the redesign of the Public Service
Broadcasting (PSB) system in 2005 first involved a detailed discussion about
individual television programs and the budgetary consequences for particular
players, and only later looked at the whole organisation and not even in a
structured way. We suggest that there should be a discussion about why one
would opt for a PSB in the first place. Such a discussion could still be staged.
The first lesson, thus, is: policy makers try to guide developments in the media
but seem to lack direction.

A second lesson is closely related to the first: the vested interests of players
in the media influence policy making substantially. This lesson is not unique for
the media, of course. Lobbying takes place on daily basis in policy making.
However, the ability of the media to influence the public opinion is unique.
Indeed, the media is in control of the media and may set the agenda. There
is thus all the more reason for the government to be well prepared when it wants to change policy.

From all the papers included in the *Preadvice* it is clear that economists can make a significant contribution to the public debate. Offering common-sense reasoning, using basic insights from their own field, economists can calm tempers and suggest useful distinctions to clarify the debate. However, economists often enter the debate too late or are absent or excluded from debates where they potentially could play a useful role. Economists often enter the debate when political compromises have already gelled. If the compromise is at odds with basic economic insights, economists should put forward criticism. However, delicate political compromises are difficult to challenge again.

A final lesson: *Economists are not overly influential in the media.* Newspapers often ask economists to write for the economics pages. However, economists are seldom asked to apply their expertise to cover newstopics as social security, taxation and international policy even when relevant economically. It seems logical to conclude that public debates, policy formation and media reporting could benefit if economic insights were drawn on more often than is currently the case.

5.2 *Remaining Questions*

A set of contributions on media and economics offers insights and answers, but also gives rise to further questions. Some of the most important questions that remain, according to us, are:

- How does the explosion of information available to people in society affect the extent to which they are informed?
- What is the impact of media consumption on people’s preferences and happiness?
- How can competition be measured in two-sided markets?
- What effect would a ‘free’ fully advertisement supported newspaper delivered at home have on the daily national newspapers?
- How should an auction for Dutch radio frequencies be designed if the government redesigns the structure and content of five public radio channels?
- Does high-quality public service broadcasting induce high-quality commercial broadcasting, or is the opposite true?

REFERENCES


