

Submission to the Inquiry into the competitive neutrality of the national broadcasters

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The concept of competitive neutrality – irrelevant for public goods

Free-to air (FTA) broadcasting is the economist's classic example of a public good, because it fully meets the two defining characteristics of goods that cannot be supplied in private markets.

Specifically:

It is *non-rival* – my listening to or watching FTA broadcasting does not deprive others of their ability to enjoy the same benefits.¹

It is *non-excludable* – I cannot be shut out of the service if I don't pay.²

Because market mechanisms don't work for such "pure" public goods, they cannot be provided in normal markets involving direct exchanges between buyers and sellers. Indirect and non-market methods have to be used to fund FTA broadcasting.

One means, used by the commercial media, is through advertising.

Advertising operates as a consumption tax. In Australia around \$15 billion a year is spent on media advertising. (Precise figures are unavailable because, in contrast to the budgetary figures for the ABC and SBS the commercial media's finances are shrouded in secrecy.)³ Based on household consumption expenditure of \$1 000 billion a year,⁴ this \$15 billion is essentially a sales tax of 1.5 per cent. Around 30 per cent of advertising is goes to FTA broadcasting (24 per cent TV, 7 per cent radio). That comes to \$4 to \$5 billion annually, or about three times the funding for public broadcasting.⁵

Although advertising revenue is not collected by the Australian Taxation Office, it is in effect a "privatized tax". In practice it is unavoidable: it is probably easier to evade taxes collected by the ATO than it is to avoid the advertising component of one's daily shopping.

And like all consumption taxes it is regressive.

The other means used to fund FTA broadcasting is through official taxation collected by the ATO. Annual appropriation for the ABC and SBS is \$1.4 billion, budgeted to be reduced in real terms.

Because Commonwealth taxes, on the whole, are progressive, funding for the public broadcasters is more equitably distributed than funding for commercial broadcasters.

Neither the commercial media nor the government broadcasters are in anything that could be called a "competitive market". In neither case does one have a choice whether or not to purchase FTA

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1. The same applies to digital media at most times except at rare times of extreme congestion.
 2. Although Britain's retention of TV licenses does partially get around this limitation.
 3. Although the Department's discussion paper provided some data from CEASA, their source documents, "Advertising Expenditure in the Main Media", are essentially unavailable, being sold at the prohibitive price of \$6500, in contrast to the free availability of data for the ABC and SBS. Even the National Library does not carry up-to-date copies.
 4. ABS National Accounts. HFCE in 2016-17 was \$997 billion.
 5. These figures do not include small amounts paid for community radio – a small market, subject to "free rider" limitations.

broadcasting: it is provided whether people want it or not, and people are charged for it whether they want it or not. There is no interactive relationship between suppliers and consumers, a relationship that is essential in defining competitive markets. So any reference to “competitive neutrality” – a concept relevant only to competitive markets – is meaningless.

Commercial and public broadcasting – different functions

The notion that they may be competing for each other’s “market” is based on the premise that there is one media market.

Because commercial media is funded by advertisements, its programming is bound to be directed to audiences who are most responsive to advertising. At first sight it may be assumed that the best targets for advertising are those with highest incomes, but in reality the most rewarding targets are younger people who have not yet settled on brand loyalty. Older, wealthier people are much harder to budge.

Also advertising works on simplified, short messages used to entice people to make quick decisions – what behavioural economists call “fast thinking”, rather than calculated, deliberative consideration.⁶ Programming tends to follow the same pattern.

To quote from *Governomics: Can we afford small government?*,⁷ which I co-authored with Miriam Lyons:

Broadcast advertising is generally targeted at those with disposable and discretionary income, and is most effectively directed at people who are yet to establish brand loyalty. The customer of free-to-air commercial broadcasting is the advertising agency. This means the interests of the viewer or listener are served only as a by-product. In the words of Harvard Law Professor Yochai Benkler:

... advertiser-supported media need to achieve the largest audience possible, not the most engaged or satisfied audience possible. This leads such media to focus on lowest-common denominator programming and materials that have broad second-best appeal, rather than trying to tailor their programming to the true first-best preferences of well-defined segments of the audience. Second, issues of genuine public concern and potential political contention are toned down and structured as a performance between iconic representations of large bodies of opinion, in order to avoid alienating too much of the audience.⁸

Commercial media, funded by advertising, leaves many needs unmet.

Public broadcasting, free of the constraints necessarily imposed by the commercial interests of advertisers, meets many of those needs – patient investigative journalism, education, argument, programs aimed at those with interests outside the mainstream (and therefore neglected by advertisers), programs that question the economic system which supports advertising.

The rivers of gold that once funded commercial TV are drying up, but as CEASA and other sources show, there is no shortage of other advertising outlets, specifically on-line outlets. Certainly the commercial TV stations are losing revenue, but there is no logic in any suggestion that because commercial TV is suffering, another medium operating in a completely different space should be made to suffer alongside it.

6. See the work of Kahneman & Tversky and others, summarized in Daniel Kahneman *Thinking Fast and Slow*, Penguin 2011.

7. Ian McAuley and Miriam Lyons, *Governomics: Can we afford small government?*, Melbourne University Press, 2015.

8. Yochai Benkler, *The Wealth of Networks: How Social Production Transforms Markets*, Yale University Press, 2006.

As an analogy, we could imagine the absurdity if the Australian Government, in recognition of the troubles of the ailing Australian car industry, had decided that in order to maintain “competitive neutrality” it would impose punitive tariffs on buses, on the basis that trucks and buses are manufactured using similar technologies.

Choice – who may be seeking to deny choice?

To update an earlier ABC slogan, it costs only 11 cents a day.⁹ Some people pay that 11 cents but don’t use the ABC, but others pay much more than 11 cents – probably around 33 cents a day – to support commercial media that they don’t use. This is a reasonable bargain between different people with different choices, different needs and different interests.

People who live in non-metropolitan Australia are one easily-identified group with special needs, unlikely to be satisfied by commercial media. Less easily identified, but with no lesser rights, are those who are not satisfied with what commercial media have to offer, but who are willing to pay through their taxes programming that is qualitatively different. The high level of trust that people show in the ABC is an indication of the value obtain from their 11 cents, and even though they are paying for commercial media they don’t use, they accept the bargain.

There are parties, however, who want to see that bargain destroyed because non-commercial media which gives voice to alternative views, which helps people understand issues in depth, which promotes critical thinking and scepticism, which takes people behind the spectacle of the immediate news stories, goes against those with an interest in seeing such voices muzzled.

It is not as if there is some “right wing” set of interests defending commercial media against some “left wing” set of interests supporting socialized broadcasting. That’s too crude a construction of politics.

Capitalism is a dynamic force that thrives on diversity, on new ideas, on disruption. Capitalism has never thrived in places where thinking and inquiry are discouraged. Those who frame the conflict in traditional “left”/“right” terms miss the more serious underlying issue.

Rather, the interests trying to muzzle the ABC are from a political fringe which rejects the Enlightenment and its value of reason, science and the search for the truth. The strongest such movements have included fascism, soviet communism, and fundamentalist religious sects.

One such movement, strong in the USA but confined to a fringe in Australia, can be described as climate change denialists.¹⁰ Some of the strongest criticism of the ABC has centred on its presentation of evidence and argument demonstrating the effects of climate change and the need to take remedial action. The climate change denialist movement is a fringe, but because of peculiarities of our electoral system it has been able to exert extraordinary influence.

Other criticisms have been about a supposed “left” bias in the ABC. Independent media, however, should always challenge the spin, casuistry, sophistry and outright lies used by governments. This means that when a “centre-right” government is in office such challenges can be seen as bias, but the ABC is no less independent or critical when a “centre-left” government is in office.

9. One billion dollars over 25 million Australians over 365 days.

10. The most extreme deny the existence of climate change, while others reject evidence that climate change is anthropomorphic. Others, adhering to a Chiliastic world view, believe that climate change doesn’t matter because the world is approaching the “end days”.

The leveraged influence of the political fringe

The present political assault on the ABC and on public broadcasting in general seems to have arisen from the undue influence of politicians holding crucial votes – politicians either within the governing party or in other groupings seen to be on the same side of the political spectrum, even if they are on the extreme tip of that spectrum. As any student of elective politics knows, a determined faction within a government with a weak majority can exercise massive influence, particularly in a “Westminster” type democracy where “crossing the floor” is seen as an act of treachery, where loyalty to Party trumps all other loyalties – to nation, to reason, and to the truth.

The Liberal Party governs in coalition with the National Party, whose values are much more socially conservative than the Australian community in general. The Liberal Party itself is increasingly coming under the influence of political extremists, particularly in its Victorian branch. Declining party membership has left its rank and file increasingly unrepresentative of the wider community – a process with its own destructive dynamic as people with moderate views are dissuaded from joining.

That is not suggest that the Party as a whole is so captured: there is no evidence that the 35 per cent of Australians who vote for it or its parliamentary representatives are attracted to illiberal authoritarianism. But so wedded are our two main parties to the idea of a two-party conflict that they tend to reach to the extremes of their own “side” rather than to a representative middle. As a case in point the process that led to this inquiry seems to have come from a deal with the One Nation Party, as a means of gaining its support for other government legislation. This has been particularly so for the present government with its one-seat majority in the House of Representatives and without a supportive Senate.