

Building Public Value: the BBC's new philosophy

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Building Public Value published in June 2004, is one of the most radical documents the BBC has ever issued, even if it stops some way short of real transformation. It contains much self-criticism and many promises of reform. It emerged in the context of a debate over BBC Charter renewal that was, for the first time, not dominated by the BBC itself, and in the midst of a technological shift of unprecedented significance.

Since the June publication, steady flows of statements and activity have confirmed that the BBC is contemplating dramatic change, whether imposed or self-imposed. All this is to be applauded, and it would be churlish to fail to do so. The attempt to “build public value” should also be welcomed, provided we do not fall into the trap of imagining that this concept provides a new and robust definition of public service broadcasting.

The language of the document is urgent and direct. The BBC “must apply the test of public value to everything it does – its services, its commercial activities, its scope and scale”. It “should be as small as its mission allows” (a curiously permissive formulation). The BBC needs to be “more open” and “responsive”, and “significantly shift” operations “out of London”.

The BBC, we are told, must begin “with the premise that the licence payer is right” and treat complaints “with the respect and seriousness they deserve” (suggesting that doesn’t happen now). There will “shortly” be yet another “new system for dealing with complaints”, including “a new Head of Complaints reporting directly to the Board of Governors”.

The Governors, we are told, need “to hold the BBC effectively to account. Historically the BBC has resisted criticism. The new era calls for a new BBC”. “The prominence and appeal of serious current affairs and analysis on BBC television – including on BBC One” will be restored. “Derivative programmes and ideas” will be “eliminated” from the schedules. “The benefits of any existing or proposed new service should outweigh any disbenefits” – a modest though nonetheless welcome commitment.

New services – for which, I thought, we had been told by Greg Dyke there were no plans – must meet a public value test. The same, of course, was said about past new services, which somehow survived even if they failed to meet the stated criteria.

The Governors will set a “Service Licence” for existing services – strange they never had them in the past, but no less welcome for the future. Performance will now be measured in terms of reach, quality, impact and value for money – so let’s note that, collectively, all the BBC’s digital channels (and BBC2 combined) increase BBC1’s reach by just 5%, at a cost of £800m a year.

Any future in-house provision of services will need to be justified – even so, “it is certain that the BBC will wish to retain extensive in-house operations in many areas”. This somewhat undermines the subsequent pledge that the licence fee will be invested in the best ideas, whether they come from inside or outside. The BBC now says it will always exceed the independent production quota that it failed to meet for three years in a row. Independents are promised a level commissioning playing field – even though all the commissioners are BBC employees tasked with maintaining substantial in-house production.

Twenty different ways of measuring public value are proposed, under such headings as value to the individual, citizen value and economic value. Some of these are rather similar to the “purposes and characteristics” of public service television as put forward by Ofcom’s first stage public service television review earlier this year, and suffer from the same defects.

Not only is their presumed social value open to question, but they are extremely hard to measure in economic terms, and are as likely to be found in commercial broadcasting as in licence-funded broadcasting. They are far from useful as indicators of what public money to spend and how to spend it. With unconscious irony, the BBC proposes research into public willingness to pay as one means of measuring value – but utterly opposes actual willingness to pay as a method of financing the BBC.

And throughout the document we find a continuing thread of denial and delusion. From the start, “Building Public Value” offers us the fantasy that the BBC was allegedly founded on the principles of universality, fairness and equity, and accountability. In fact, the BBC was set up by radio manufacturers to sell hardware. Even when it was nationalised, the notion of universality was remote. For decades, even radio was not a nationally available service, and both television and colour television were separately funded because they lacked universal reach and take-up.

There was minimal accountability, except to the government of the day, and although neutrality was seen as a virtue (even if often unattainable), fairness and equity barely registered. The key watchwords in the early BBC were social improvement, power and control. Choice was bitterly opposed. Whoever wrote this section of the document is either a budding satirist or a failed historian.

Hostility towards subscription emerges early on. Pay-TV is depicted as deliberately excluding viewers, and removing programmes and sports events previously available free-to-air. In fact, pay-TV would gladly have included the entire population, if it had been willing to subscribe: but nobody who did not want to pay was forced to do so.

As for sport, for decades the duopoly of BBC and ITV had impoverished sport and treated it with contempt. Pay-TV forced all broadcasters to recognize the true worth of sport, thereby transforming its finances. It also provided the necessary space in the schedule so long denied by the duopoly.

A tiny number of hours of sport moved from free to pay, but vastly more hours came to replace them, as the old duopolists came to terms with viewer preferences. As for actual programmes that switched from free to pay, the only example I can recall is repeats of Beverly Hills 90210 – scarcely the most devastating loss.

Another fantasy is that the BBC will shoulder “much of the responsibility for creating a digital Britain”. The digitisation process has actually been driven by a multi-billion pound investment from Sky, cable and telecommunications companies. The BBC has spent most of its own time and effort on supporting a third – and arguably unnecessary – digital TV platform, digital terrestrial, largely because it sees the optimum chance for retaining audience share in a future environment where it has six out of thirty channels, rather than six out of three hundred.

If the BBC had not spent hundreds of millions of pounds a year for the last several years on barely-watched additional digital channels, but instead had spent the money giving away satellite dishes, digital penetration in the UK might now be 95%, not 55%.

As for leading the process of analogue switch-off – another proposition itself of dubious worth – one shakes one’s head in disbelief. This is perhaps the most complex and challenging civil engineering project in recent British history, yet an organisation with no relevant skills, and which is notoriously inefficient itself, claims the leadership role. Worse still, it offers to spend money raised through the licence fee to do so.

The document’s attempt at summarising the merits of subscription funding for the BBC contains three sentences, each of them muddle-headed or worse. Subscription, it is claimed, would undermine the principle of universality on which the BBC was founded.

As already noted, it was not founded on any such principle. Only in recent years did near-universal reception of all services become standard, and that was subsequently undermined by the launch of the new digital channels. In any case, subscription funding in no way affects universality of availability. All it does is allow people to opt out: but that is not, in the BBC’s eyes, any kind of virtue.

The next sentence claims subscription would “exclude some” people, “leading to serious welfare losses”. The BBC seems to have this fixation that putting a price on something demonstrates a positive desire to exclude. But people preferring not to subscribe are not being excluded: they are exercising choice.

Letting people decide for themselves whether to spend their income on BBC services or on something else might well add up to welfare gain, not welfare loss. After all, even if viewers are forced to pay the licence fee in order to watch television, they cannot be forced to watch the BBC’s programmes: so any putative welfare gain is a presumption, not a fact.

The third sentence argues that subscription funding is bound to lead to revenue maximisation. The BBC has obviously never heard of The Scott Trust, which requires The Guardian to combine commercial savvy with high editorial standards. Arguably, subscription funding might drive the BBC to widen its range of services, so as to draw in more subscribers, where the licence fee just encourages it to protect audience share.

Later in the document, the BBC attempts a series of false analogies with HBO, the US pay-TV service that generates a significant proportion of the best television available in the US and the UK. The notion that a subscription-funded BBC, charging no more than the current licence fee for its TV services, might end up with only 10% of households subscribing, is a curious comment on the BBC's own view of the value British viewers put on its output.

As it happens, the assumptions from which the BBC projects such an unlikely outcome are wildly wrong: HBO has almost twice as many voluntary subscribers as the BBC has forcible ones.

Although the BBC document stops short of claiming that "public value" can be fully quantified in economic terms, there is a considerable overlap with a lecture given by its former chairman, Gavyn Davies, in Oxford in the same month, to the effect that the case for public service broadcasting is at root economic. Davies is, of course, an economist by training and profession, and I can make no such claim. However, let us see how far the untrained mind can help identify the flaws in his case.

Davies' lecture is entitled Economics and the BBC Charter. He starts from his familiar position that broadcasting is characterised by market failure, over and above the primary presumed source of such failure – namely, spectrum scarcity.

This argument is easily misunderstood. Market failure is not an absolute or a literal concept, but simply the way economists describe a situation in which normal market mechanisms do not function properly or are affected by other factors. Spectrum limitation long constrained the development of a true market in broadcasting, in that public control of a scarce resource was widely deemed necessary. But Davies claims that ending spectrum scarcity will still leave broadcasting in a state of market failure.

The first reason cited by Davies is that broadcasting is a public good: not in the sense that it is good for the public, but – in the language of economists – that any one person's consumption of a broadcast is non-rivalrous in that it does not inhibit any other person's consumption. That this is technically true is, of course, not very helpful, nor is the comparison by Davies with his other examples of public goods, such as street lighting or national defence. After all, street lighting may serve equally and in a non-

rivalrous fashion those homes the same distance from the streetlamps, but those too close or too far from them may feel less than optimally served. Likewise, any actual call on national defence in one location will by definition reduce the resources available in other locations.

Even the most traditional example cited by economists of a public good – a lighthouse – is not necessarily one: these days, lighthouse signals can be digitised and encrypted, such that only subscribing ships can benefit from them. A public good is really one whose consumption cannot be inhibited, rather than one which is currently uninhibited.

Even if we could agree what constitutes a public good (as opposed to a public service), should we accept the conclusion Davies draws from the ubiquitous nature of broadcasting, which is that it should be supplied for free, or – in his seductive phrase – free at the point of use? This, of course, does not follow at all.

The marginal cost of producing an extra copy of a newspaper is virtually zero, yet unsold copies of newspapers with a cover price are not given away. At the end of the day, newsagents wrap them up and return them to the publishers, who pulp them rather than hand them out.

Likewise, empty cinema seats are not offered to freeloaders, just because the cash demand for them has been exhausted and they would otherwise go to waste. This is because both newspapers and cinemas offer valuable content, whose providers seek commensurate reward, for which the price mechanism is the natural means of establishing the level of demand.

Yet Davies argues that, where “the marginal cost of supplying the good to successive individuals is effectively zero...the price charged for the service should also be zero”. Anything else, he argues, would be regarded as sub-optimal “by anyone who has studied welfare economics”. Perhaps when Davies has destroyed enough creative businesses by this kind of logic consumers may question the merits of such welfare economics. All kinds of goods involve zero or near-zero marginal cost of supply – including the spare capacity in my refrigerator: it does not follow that access should be freely provided.

In any case, Davies is not arguing that, because broadcasting is a public good, it should be free of charge – rather that it should be free at the point of use. Davies thinks he is thereby creating a distinction between licence fee funding and subscription: but it is a distinction without a difference. It is compulsory to pay the licence fee before watching any television: thereafter, all free-to-air services available for reception can be viewed without limit. Equally, once a subscription has been paid, any amount of the service can be watched.

“Free at the point of use” has become a favourite BBC mantra: but it is one designed to mislead. It is only because the licence fee has become detached from specific BBC services – whereas subscriptions are visibly additional payments to watch additional services – that the BBC has got away with this piece of rhetorical trickery. Indeed, later in his lecture, Davies asserts that any charge for receiving broadcast services is sub-optimal, because it excludes potential viewers, and any collection mechanism a waste of money. This would seemingly sink the licence fee, too. Neither a case for the BBC nor a case for the licence fee flows from the public good argument.

Davies’ second indicator of market failure is the presence of externalities, whereby certain impacts – negative and positive – over and above the mere fact of consumption are a feature of broadcasting. This may well be an accurate description of broadcasting, but it tells us nothing about what to do as a result. The degree, the nature, the cost, the source and the measurement of corrective intervention cannot be deduced by the presence of externalities – least of all intervention in the shape of a BBC, a licence fee and a £4 billion a year public service broadcasting bill.

Curiously, economists seem to love the externalities argument, despite the absence of any quantifiable measures. Another former Goldman Sachs economist, Martin Brookes, has recently published a pamphlet – funded naturally by the BBC – arguing that “social capital” can be both destroyed and created by broadcasting. The loss of “social capital” derives primarily from the “excessive fragmentation of the broadcasting market”, which undermines the “glue which binds society together”.

A moment’s reflection might have led the author to realise that television audiences, whether attracted by private broadcasters or

public ones, have no intrinsic social value relating to their size; that there is no means of judging which broadcasters to fund, and by how much, in order to increase “social capital”; that the BBC’s activities, by definition, increase audience fragmentation; and that the logical conclusion is to shut down the BBC. That this Aladdin-style attempt to exchange new lamps for old ones in trying to justify public service broadcasting is solemnly quoted as an authority by the very people who commissioned it – the BBC – should come as no surprise.

The third indicator of market failure cited by Gavyn Davies is broadcasting’s tendency to scale, given the minimal cost of acquiring additional viewers once a service has been launched. Davies sees this as leading to the creation of dangerous private monopolies.

This argument flies in the face of experience. The ending of spectrum scarcity and the collapse of barriers to entry have allowed hundreds of new broadcast services to join the market, decimating the audience share of the old incumbents. ITV has certainly consolidated in ownership in the last dozen years, but in the meantime has lost more than half its audience. Sky has become a dominant platform operator, but its programme service audience share has collapsed, and it has recently suffered the humiliation of admitting the failure of its much-vaunted music channels whilst conceding that Sky One viewers were fleeing the service like lemmings.

Davies spends much time comparing the revenues of Sky and the BBC, as if their relative size mattered. Yet those revenues are derived from completely different sources, and are applied to very different purposes. There is little overlap between the programme types funded by Sky and the BBC, and even the BBC’s recent foray into platform management has not turned it into Sky’s direct competitor. That Sky is often accused of abusing its dominant position in signal distribution should not obscure legitimate concerns about the BBC’s own dominant position in programme production and distribution. Nor should Sky’s size be a factor in determining whether, how and to what extent to fund the BBC.

The final source of market failure cited by Davies is informational deficiencies, which, he claims, lead to sub-optimal levels of demand for quality products. This is the most puzzling of his

arguments. Television viewers enjoy access to masses of information, through dedicated publications, listing particulars in all newspapers and many magazines, electronic programme guides, programme trailers and paid-for advertising. There is overwhelming evidence of audiences consistently following their favourite programmes (proof that viewing is far from random), and considerable evidence of word of mouth drawing viewers to a successful new product – such as *The Office*.

Of course, audiences do not have perfect knowledge, any more than consumers of other products might have imperfect or unequal knowledge.

It does not follow that *Big Brother*, *Auntie*, *nanny* or any other higher authority needs to substitute its judgement for that of consumers in deciding resource allocation.

The only conclusion we can draw from all this is the opposite of that reached by Gavyn Davies – namely, that many viewers deliberately avoid what he regards as quality products, mostly because they have so much more choice than in the past. The days are long gone when *Panorama* and *World In Action* could claim a joint 100% viewing share by virtue of being transmitted opposite each other on the only two channels available.

It is hard to see what is left, in the digital age, of the market failure justification for public service broadcasting. Indeed, the aspects of market failure cited by Davies probably apply to scores of areas of commerce, where not for a moment would he advocate intervention on the scale he seeks in broadcasting.

Undeterred and seemingly unaware that he has destroyed the case for the licence fee in denouncing any charge for a natural public good like broadcasting, Davies goes on to try and justify the licence fee as economically beneficial.

He does this by citing research demonstrating that, when asked, nearly three quarters of a survey sample valued the BBC at or above the cost of the licence fee, and only one quarter below: research, incidentally, that largely replicates a survey done by the London Business School 14 years ago. This he took, not only as vindication of the licence fee, but proof of economic efficiency.

Thus for a quarter of the population to be forced to subsidise the majority who would actually be prepared to pay more than the licence fee for the BBC's services is calculated by him as generating £2 billion a year of consumer surplus – which would all be lost, he asserts in another brilliant non-sequitur, if the BBC were closed down: not something that supporters of subscription funding have ever urged.

Conversely, he claims, there would be a drop of £0.5 billion a year in what he calls “national welfare” if the BBC switched to a subscription system that allowed those who valued its services above the level of the licence fee to pay that value, and allowed those who preferred not to pay a price they thought too high the freedom to opt out.

In the hope that he might win some political support for an argument so tendentious in economic terms, he calls subscription “privatising the BBC's revenue stream” – a piece of name calling which is entirely without logic, as public ownership and subscription funding are perfectly compatible.

The BBC document makes similar logic jumps. Replicating the Davies argument, it assumes that subscription leads inexorably to income maximisation, and then adds its own logic twist: that subscription would automatically lead to dismantling of the BBC. Between them Davies and the BBC manage to utilize most of the familiar sleights of rhetorical hand: false dichotomies, suppressed premises, non sequiturs and syllogisms. The net effect, frankly, is *reductio ad absurdum*.

To give his argument a better chance, Davies attributes market failure not to the broadcasting market as such – which he clearly would find hard to persuade us is failing – but to what he calls, in his own words deliberately provocatively, the “Reithian services” market. Almost by definition – though he does not bother to define them – these are BBC-style services, and he borrows Lord Reith's name to suggest that they somehow have some larger social purpose despite the fact that the great majority of BBC One's television budget is spent on entertainment indistinguishable from that supplied by the market. All that Davies succeeds in provoking by such speciousness is simply greater scepticism about his argument as a whole.

What Davies excludes from his lecture is any mention of consumer preference, let alone the large fines and prison sentences threatening those too poor to pay a licence fee but still desirous of watching some television. Davies seemingly attaches no economic value to choice, which tells you a good deal about what kind of economist he is. Command economies no doubt throw up all kinds of “national welfare” by these standards.

Davies further fudges the argument by insisting on wrapping up all BBC services in one package, despite the fact that broadcasting is not a single product, but thousands of different ones, of which almost nobody is a consumer of all. A subscription mechanism would at least allow the BBC to offer differentiated packages to different groups of viewers, and even to different TV sets in the same house.

For most people, this would seem easily the most efficient way of allowing the BBC to judge what services to provide and how much to spend on them. As it is, the Davies view of the world has to assume that the BBC is at all times exactly the right size to correct what he deems to be market failure, however vaguely defined, and is always delivering the right products. Another word accordingly missing from the Davies vocabulary is accountability – especially the kind that would naturally flow from a subscription mechanism.

Most disturbingly, we already know that Davies does not really believe any of this. In 1999, a panel he chaired recommended that the BBC’s new digital services should not be funded out of the general licence fee. It was only fair, he argued, that those who wanted access to new digital BBC services should pay a separate digital fee. He publicly advocated this as good economics and equitable social policy.

Yet he then spent nearly four years as BBC chairman supporting a system that forced all licence fee payers to fund the BBC’s digital services, even though for most of that time a majority of those paying could not physically receive a digital signal. No doubt a significant proportion of those who place a higher value on the BBC than the licence fee are the lucky beneficiaries of this iniquitous piece of regressive redistribution.

Davies’ solution to the problem of the people who believe that the licence fee is poor value is not to relieve them of the obligation to

pay it (and thereby forego the services it funds) but to re-shape BBC output to meet their needs: anything rather than leave their money in their pockets to spend as they wish on broadcasting services of their choice – or pay nothing, and solely consume genuinely free-to-air channels.

All this stems from his conviction that somehow the BBC's output has a social value whose measure is not captured by cost and price mechanisms. This justifies for him the high degree of compulsion, and the disproportionate costs of enforcement and evasion involved in the licence fee – not to mention the social misery inflicted on hundreds of thousands of disadvantaged people dragged every year through the courts for non-payment.

And here lies the greatest paradox. It is precisely because the so-called public value – over and above the commodity value – of broadcasting cannot be quantified in monetary terms that it is virtually impossible for anyone – the BBC, Ofcom, Parliament, Davies – to judge how much needs to be spent on public subsidy. Yet the BBC's intensifying efforts to measure that elusive public value show how age-old assumptions about the virtues of public service broadcasting have withered away.

If all broadcasting has potential non-monetary “public value”, including commercial broadcasting, how are we ever to know how much public money – if any – to spend on it? How will we know if we are spending enough? Or too much? And how would we know that giving that money to the BBC is a better way of increasing this “public value” than giving it to anyone else?

If the government decided to replace News 24 with Sky News, publicly funded so as to eliminate the need for advertisements or subscriptions, how much public value would be lost – or gained? There would certainly be a large cash saving.

What is surprising is that Davies does not recommend a BFC – a British Food Corporation (perhaps run by the BBC). After all, if every British family were required to pay, say, £10 a head to a central provider to fund the distribution of appropriate food packages to every household, it could certainly be argued that there would be a significant chance of better balanced diets and reductions in obesity, heart disease and other ailments. The main beneficiaries would be the poorest, whose ability to supplement

the BFC supply with unhealthy snacks and fast food would be limited by the lost cash compulsorily collected in their own best interests.

Central purchasing and distribution would surely allow immense savings not obtainable by consumers themselves, thereby delivering excellent value for money as well as improved public health. And why stop at food?

How about a British Newspaper Corporation – a BNC, as another subsidiary of the BBC? Surely a very modest increase in the licence fee could fund a quality publication, unsullied by advertisements but carrying utterly objective news, whose doorstep delivery to every licence payer could help – at low unit costs – reduce the information deficit from which our democracy suffers.

Somehow, I detect little pressure for the creation of a BFC or a BNC. The difference with the BBC, of course, is that it already exists. It attracts strong support, for practical, sentimental, cultural, political and intellectual reasons. It has made – and in many ways continues to make – a powerful and distinctive contribution to our society. Yet its original rationale and its funding mechanism are relics from a bygone age. So the BBC casts around for a new rationale, and clings to its funding mechanism like a drowning man to a leaking life-vest, just as it clung to the virtues of monopoly for years after ITV was brought into being over its fierce resistance.

Consumer choice and state provision are at root in conflict. As the technological reasons for not switching to subscription disappear, along with the technological reasons for having just one broadcaster, or at best a handful, that latent conflict emerges all the more clearly. We should welcome all the BBC's efforts to raise its game, to differentiate itself from commercial suppliers, to strive for quality and originality, to make itself more open, more efficient, more responsive and more co-operative, and to seek as many ways as possible of demonstrating its value. But equally, we should recognize that none of this verbiage is an acceptable substitute for the real choice, real accountability, real transparency and real value-for-money tests that subscription offers.

In an age when even Labour governments are seeking ways of offering choice in education and choice in health, the BBC has yet

to embrace true consumer sovereignty. For all its high-flown language, pledges of reformation and lofty ambition, “Building Public Value” is at best a detour and at worst an obstacle on the journey to understanding how public service broadcasting that might make sense in the digital age.