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an der Universität zu Köln**

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**German TV Programmes for China?  
A Political Economy Perspective**

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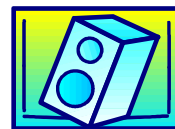
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“TV Programme Exchange between Germany and China”, Cologne, Germany, April  
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**Manfred Kops**

## **German TV Programmes for China? A Political Economy Perspective**

### **1. TV Programmes as Economic Goods**

Like other goods, TV programmes satisfy private needs of the viewers, e.g. the need to be entertained, to be informed, or to be educated. Consequently, there is a private willingness to pay: TV programmes can be sold to “consumers” by subscriptions, either separately (pay per view) or as programme bundles (pay per channel). In addition, TV programmes are a most suitable means to catch the viewers’ attention for advertisements. They therefore are appropriate “carriers” of commercials and sponsoring messages, which are sold to advertising companies. In both forms TV programmes can generate private revenues and profits. And they did: During the last centuries, at least until the end of the last decade, in most of the industrialized countries of the Western world the turn-arounds and profits from TV programmes grew much stronger than the economies in general. And now in developing countries, including Asia and China, broadcasters belong to the fastest growing industries.

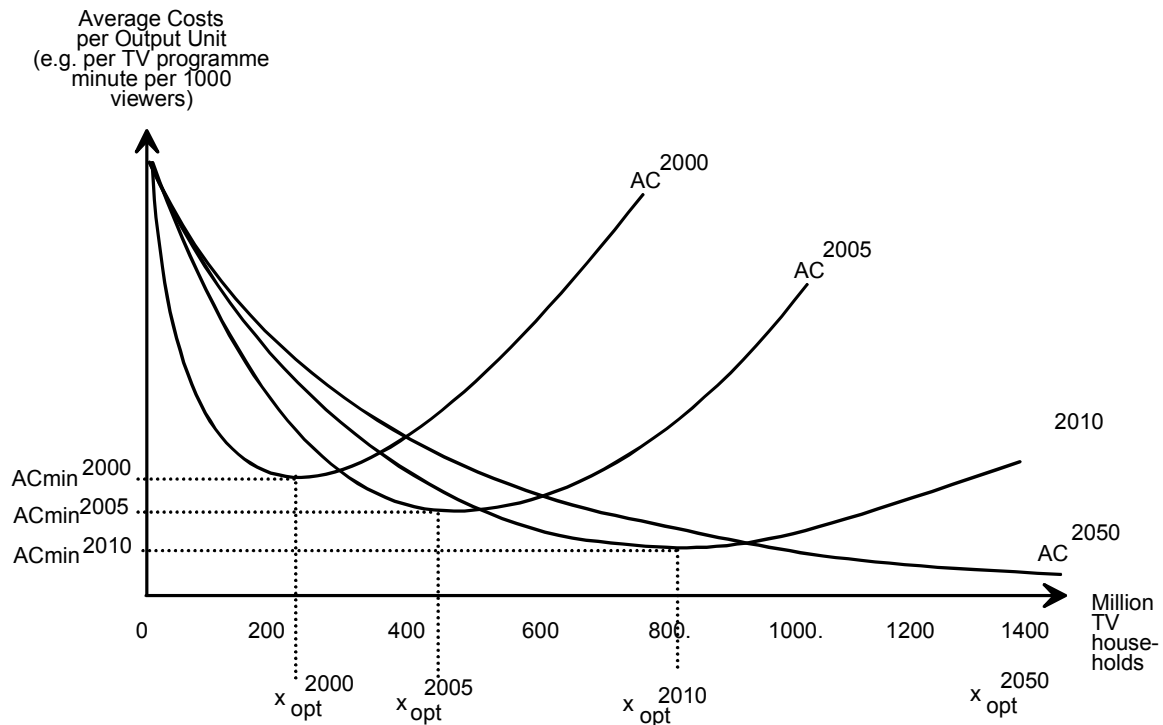
TV programmes have the economic peculiarity that the costs to produce the first copy are high, but that the repeated use of this first copy is costless. Economists call this “non-rivalness of consumption”. For programme producers and broadcasters this property includes the risk that high first copy costs cannot be refinanced if the audience of a programme is too small; and it includes the chance of high profits, once a programme has passed the break even number of viewers. From this point onwards additional revenues can be rendered without additional (production) costs – one of the few constellations which in German is called “Schlaraffenland” (“fools paradise”). Although in practice it is not really a perfect fools paradise, as there are variable costs for marketing and distributing the programmes, it still is a very comfortable constellation, especially if the potential audiences beyond the break even point are large.

Figure 1 illustrates how the expansion of the broadcasting markets increases outputs, decreases average costs, and reduces the number of broadcasters. For the year 2000 it supposes that the optimal output size for a certain TV programme, let us say for a daily soap, is 220 million households. For this output the average costs per unit are minimal. If by means of an increasing international programme exchange, especially driven by the political opening of nations and by new broadcasting technologies (first and foremost by the digitalisation) the average costs can be reduced and if there are enough viewers outside of North America that like this daily soap, the optimal output size raises (to about 430 million households in 2005, and 800 million households in 2010); if we assume perfect non-rivalness of consumption, and perfect homogeneousness (i.e. no cultural discount), the average costs even fall continuously; and the minimal costs then will be reached in the maximal world wide output: Everybody in the world will watch the same daily soap at the cheapest price possible (in figure 1



fortunately not before the year 2050). And only one US company will remain in business as the producer and broadcaster of daily soaps.

Figure 1:  
Increasing Outputs, Decreasing Average Costs, and Concentration  
as Results of the Digitalisation and Globalisation of Broadcasting



Of course this model simplifies the complex and complicated reality of producing and selling TV programmes. But it can illustrate the high potentials for broadcasters to gain additional revenues without additional production costs, simply by expanding programme markets. This becomes most obvious for German TV programmes that already have been refinanced on the domestic markets and then successfully are exported to China. Because of the huge number of Chinese TV households, German programmes could render enormous additional profits, even if its audience shares in China were small. No wonder that German programme traders permanently suffer from high blood pressure when they look at the EXCEL-sheets by which they calculate the expectable revenues from programme trades with China. Chinese programme traders probably do not become as breathless when they calculate the possible revenues from programme sales to Germany. But taken into account that here again additional revenues can be rendered with no additional production costs, and that Germany maybe is only one part of the much larger European or even Western World market, a TV programme exchange also should be attractive from the Chinese point of view.



From figure 1 we then can conclude, too, that the TV programme exchange between countries not only is to the benefit of the programme producers and distributors, whose profits are increased, but also to the benefit of the programme viewers. Supposed the competition on the programme markets works, the decrease of the average costs per programme unit (programme minutes per viewer) will also be to the benefit of the audiences: The subscriptions for pay-TV and the prices for commercials *ceteris paribus* will fall, and – depending on the national peculiarities of the regulation – TV programmes can be watched for lower subscriptions and/or with fewer or shorter interruptions for commercials. By expanding the markets thus, like for other goods, also for TV programmes, the costs and prices will fall and the welfare of the customers (viewers) will raise.

From that regard the expansion of TV programme sales between Germany and China, driven by the attempts to raise private profits, not only is legitimate, but it is most deserving:

- it will increase the profits of the Chinese and German programme producers and broadcasters,
- it will reduce the average production costs per unit of programme output, which increases the efficiency and competitiveness of the programme industries of both countries (with positive effects for its national economies and chances for higher employment rates), and
- it also will be to the benefit of the Chinese and German TV viewers, as it reduces the programme subscriptions and the amount of programme interruptions by commercials.

Ergo it is a double “win-win-constellation”, firstly between TV-suppliers and consumers and secondly between Germans and Chinese. This conclusion is in line with the economists’ mainstream thinking since Adam Smith noted that under certain conditions the maximisation of private profits also maximises social welfare. And they also are in line with David Ricardo’s proof that the international trade of goods is to the benefit of all trading nations, even if they are less efficient in the production of all traded goods (“comparative advantages” in contrast to “absolute advantages”). The market here is considered as the superior allocation mechanism, as the best suited mechanism to discover which goods customers prefer, and as the best suited mechanism to discover the most efficient way to provide the preferred goods. The tool kit which has been developed by economists for other industries, e.g. for production techniques, for advertising and marketing and for management, then can be applied to the broadcasting industry.

Also the World Trade Organisation, WTO, looks at the media this way. It protects and promotes international free trade, also for services, and also for the audiovisual sector. Although the WTO’s “General Agreement on Trade in Services” still makes considerable exceptions for audiovisual products, this sector in the long run also shall be forced to follow the market rules of free international trade; and there are strong voices to enforce this soon. With Chinas WTO entry this also would affect the Chinese TV programme industry.



## 2. TV Programmes as “Non-Marketable” Goods? Implications for National Broadcasting Orders

The positive evaluation of the allocation of TV programmes according to the market rules assumes that TV programmes are marketable economic goods. If we take a closer look at the economic peculiarities of TV programmes, this becomes doubtful. At least certain types of programmes or programme content do not possess the attributes economic theory requests for perfect markets. As a consequence the market may fail for such programmes, or – in other words – the output generated by the market may deviate from the social optimum. It may generate (high) private profits, but less social welfare.

The most important forms of market failures that could apply to TV programmes – or better: to certain types of TV programmes – are non-excludability, non-rivalness of consumption, externalities, and information asymmetries:

- *Non-excludability* is the lacking potential of the providers to restrict the consumption or usage of a good to those who pay for them. In this case there will be no private provision as it is not possible to raise private revenues. Without encoding, also broadcasting signals are non-excludable goods. By selling air time for commercials, as a complement of the programmes, a private provision of the programmes becomes possible; but the excluded goods then are the air times for commercials, and the customers are the advertising companies, not the viewers. The programmes then fit the preferences of these customers, not the preferences of the viewers. This becomes most obvious from programmes for poor people (who cannot buy the advertised products) or for old people (who cannot sufficiently be persuaded by commercials): Although the viewers may have a willingness to pay for such programmes, they will not be provided by advertisement financed broadcasters). Besides these most obvious forms of discrepancies between supply and demand there are other discrepancies that are less obvious but maybe more negative. Advertisement financed programmes e.g. focus on content that promotes consumption (and they ignore content that criticises or reduces consumption). And also the style of these programmes deviates from the viewers' preferences: As these programmes try to catch attention, they tend to be loud, shrill, fast, short, superficial, spectacular, indiscrete etc. With the new technologies (especially the digitalisation) encoding and decoding become easier, allowing private companies to exclude non-payers and to shift from the indirect financing by commercials to the direct financing by pay TV. However, in several countries such a shift causes objections with regard to the distributive effects, as in these countries there is a common opinion, that certain programmes, especially programmes that are to the benefit of poor and under-privileged people (e. g. educational programmes) and programmes that contribute to public communication (e. g. news and political debates) should be available to anybody, also and foremost to poor citizens that are not able to pay for them.



- *Non-rivalness of consumption* was already mentioned as a peculiarity of the media. It explains the high potentials for private media companies to make huge profits with (world wide) mainstream programmes, but it also is a central reason for market failure: As the costs per unit continuously fall with the size of the output (see the function for the year 2050 in figure 1), costs are sub-additive, in the extreme case there are “natural monopolies” which result in high incentives for concentration. In addition, and independently from the degree of media concentration, there also are incentives for each of the (many or few) broadcasters to focus on mainstream content: As programmes for large audiences per unit cost less (and generate higher profits) than programmes for minorities, mainstream content crowds out minority content. Missing diversity (“more of the same”) and reduced chances of (e. g. racial, religious, ethnical or regional) minorities to get access to the media and to participate in public communication are the consequences. This reduces the scope and deepness of the public discourse, the societies’ chances to properly adapt to an altering environment, and the willingness of minorities, to accept and put into practice common decisions. In the long run this reduces the flexibility, capability, and coherence within the nation states, and with regard to the important discourse between the nations, it also reduces the flexibility, capability, and coherence of the world society.
- *Positive externalities* which are not gratified and *negative externalities* which are not sanctioned by the market are another reason for market failure. As the market only considers the internal effects for the involved decision makers, it provides too many programmes with negative externalities (e. g. programmes that separate or that jeopardize peace, freedom and democratic values) and too little programmes with positive externalities (e. g. programmes that integrate or that foster peace, freedom and democratic values).
- *Asymmetric distribution of information* between providers and users of the media is another possible market failure. If the viewers and listeners cannot evaluate the quality of a programme (e. g. the actuality, fairness and correctness of a political report, of the news, or of a consumer advice), adverse selection takes place: Good (and more expensive) programmes are crowded out by bad programmes.

Although it did not use the economic terminology and did not explicitly refer to the economic theory of market failures, the German Constitutional Court (“Bundesverfassungsgericht”) in its jurisdiction has persistently emphasised these deficiencies. For a long time commercial broadcasters were not at all permitted in Germany, and when the Constitutional Court permitted them in 1984, it concluded that the programmes of the commercial broadcasters, due to the economic logic, would have a lower quality and a smaller impact on the public communication than the existing public service programmes. It only allowed commercial broadcasters as it assumed that the public communication *instead* of the new commercial programmes would keep on functioning, as a vital public service broadcasting was guaranteed by German law.



For broadcasting programmes the German Constitutional Court thus has been pessimistic about the capabilities of the market. In contrast to the subsidiarity principle, usually favoured by German market economists, it did not regard the market as the first choice, but it preferred a non-market provision in the first place. To Chinese economists this may sound familiar, although the Constitutional Court's first option, in contrast to China, was not the state, but "public service broadcasting" – a hybrid mixture between state, market, and voluntary sector that is hard to explain (I will try it anyway in chapter 4, below).

Other voices were less sceptical. E. g. there were expectations that the permission of commercial broadcasters would generate new, innovative formats of TV programmes, maybe even new programme contents, and that the viewers and listeners' programme preferences would be considered more intensively. Others have expected that the economic power of commercial broadcasters would increase the quality of the programmes. It is hard to determine if these hopes have fulfilled, and there are contrasting judgments in the literature. The same is true for the broadcasters' own statements on this issue, which have to be noticed with care, as vested interests, public relations policy, and political lobbying are involved in such judgements. So the dispute about the existence and importance of market failures for broadcasting programmes still goes on in Germany. But it is sound to say that the debate has lost much of the enthusiasm about the capability of the market, which could be observed before the first commercial broadcasters were permitted. It also does not have the enthusiasm that might be appropriate for other countries (especially for the transformation countries that only now have started to gain experiences with the markets capabilities and deficiencies). The actual general debate about the globalisation of the world economy confirms that.

The German "dual order" of commercial and public service broadcasters has unveiled, this is one of the few uncontroversial results of the academic and political debate, that the relevance of market failures highly varies with the content of the programmes. Programmes with hidden quality attributes and asymmetrically distributed information (e. g. non-fiction, especially political reports and news), for instance, are less marketable than inspection goods (e. g. sports, fiction). And programmes with strong externalities (non-fiction, e. g. news, political reports, attitude shaping political magazines, but also life style magazines), which contribute more to the public communication, are less marketable than programmes with mainly internal ("private") contents (fiction, music, sports). This result fits with the expectations connected with the implementation of the German dual order that the commercial broadcasters would concentrate on marketable (and profitable) programmes, and that public service broadcasters would concentrate on non-marketable programmes serving the public interest.

However, as this public service function depends on high audiences, in Germany also public service broadcasters are allowed and requested by the jurisdiction to combine non-marketable (minority) programmes with marketable (mainstream) programmes. The "core set" ("Grundversorgung") of the public service broadcasters in Germany therefore includes a broad mixture of pro-

grammes with information, education and entertainment. Despite of (or because of) this broad definition of the legitimate set of programmes of public service broadcasters it is difficult to draw a line between those mainstream programmes that legitimately can be provided (so to say as a “transportation means” for its public mission) and programmes which could be left to commercial broadcasters without weakening the public service broadcasters’ obligations for public communication. Commercial broadcasters of course answer this question differently from public service broadcasters; and the German Constitutional Court, in the past the most influential institution for the national broadcasting order, has answered it differently from the European Commission. For the future, this promises thrilling debates about the scope of the public service broadcasters’ mission, but also about the distribution of jurisdictional competences in a unified Europe and in a globalised world economy.

### **3. TV Programmes as “Non-Marketable” Goods? Implications for Supra-National Broadcasting Orders**

The last remarks illustrate that the quality and quantity of market failure in the media does not only affect the design of the national media orders, but also are relevant on the supra-national and international level. Some of the market failures that exist on national markets could be even more essential on international markets. If for instance in the course of globalisation the media markets enlarge spatially, the costs per output unit will further diminish, the optimal output size of media companies will further increase, and the number of persisting media companies will further go down (figure 1 has illustrated this already). Higher concentration and a stronger economic, journalistic and political power of the (fewer) companies would be the consequences for the international media markets. In his book “Rich Media, Poor Democracy”, Robert McChesney has criticised this perspective (which partly has come true already), and he has warned that these global media companies possess a high political power which is not controlled by public institutions.

Also the reduced diversity of media content, which already was mentioned as a problem of domestic media markets, could increase in the course of globalisation. Programmes for minorities, e. g. for small countries, or for small cultural, ethical, or religious communities, would be crowded out further; and programmes for “majorities”, e. g. for large language communities and for large nations, would dominate further, especially for nations that possess large domestic markets, allowing them to dump their programmes on foreign markets.

In spite of the chances and advantages of a free trade of TV programmes, described at the beginning of my paper, these reasons underpin the objections against a further commercialisation and globalisation of the media on the supra-national and international level. There are concerns, for instance, against the WTO’s attempts to include the audiovisual sector, especially broadcasting programmes, into the GATS. They mainly stem from non-governmental and non-market organisations of the civil society. The UNESCO, for instance, is preparing a



“Convention on the Protection of the Diversity of Cultural Contents and Artistic Expressions”,<sup>1</sup> as a counterweight against the WTO regime. Broadcasting programmes (and other audiovisual goods and services) there are not considered as economic goods, but as parts and forms of national, regional, and local cultures. This would allow WTO members to exclude certain audiovisual services from the GATS, and to regulate its production and distribution by national law. With the World Summit on the Information Society (WSIS), which for the first time took place in 2003 (in Geneva, Switzerland), and which will take place again this year (in November 2005 in Tunis), these voices have created a platform to articulate its views. It will be interesting to observe to what extent it can combat the world wide globalisation, commercialisation, and concentration of the media, which at present takes place in most parts of the world as a consequence of changing cost structures (especially as a result of the digitalisation).

In the course of the GATS negotiations the member states of the WTO have to reveal its positions. For once they have to decide about the allocation between goods (ruled by the General Agreement on Tariffs and Trade, GATT), and services (ruled by the GATS); and within the services they have to decide about the allocation of the specific services into a “Service Sectoral Classification List”. The latter is important as some classes (like telecommunication services) are more liberalized than others (like audiovisual services). On the base of this classification list all member states can request and offer measures for liberalisation. At present there are negotiations that aim to fit the “initial requests” from 2002 with the “initial-offers” from 2003.

The member states` positions in these negotiations depend on its national views about the relative capabilities of markets and free trade, and on the perceived character of the media as mainly economic or cultural goods. Additionally, or maybe even predominantly, these positions are determined by the states` differing chances to make profit with a commercial audiovisual industry. Therefore it is not astonishing that states with a well established audiovisual industry and with a sufficiently large domestic market, like the USA and Japan, attempt to classify certain services that presently are classified as (less liberalized) audiovisual services (e. g. audio streams) as (more liberalized) telecommunication services. And it does not astonish, too, that – within the audiovisual services – these countries try to eliminate the existing exceptions from free trade (the so called “carve out”). States with small domestic markets which possess no domestic audiovisual industries, on the other hand, usually try to preserve its autonomous national audiovisual policy. These states therefore prefer a broader definition of the audiovisual sector, and they rather want to expand the number and strength of the exceptions for the audiovisual sector.

In addition, the states` positions in the WTO negotiations are determined by the effects, the commercialisation and globalisation of the mass media would have for their citizens and for their societies as a whole. If the (main stream content) of

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<sup>1</sup> See [http://portal.unesco.org/culture/en/ev.php-URL\\_ID=11281&URL\\_DO=DO\\_TOPIC&URL\\_SECTION=201.html](http://portal.unesco.org/culture/en/ev.php-URL_ID=11281&URL_DO=DO_TOPIC&URL_SECTION=201.html)

the globalised mass media corresponds with the citizens' opinions and attitudes (and thus confirms and reinforces them), the states will evaluate the disadvantages (costs) of the globalisation as small. The USA, for instance, are not bothered by the American dominance of the international film industry, as these films – to say it economic terms – fit with the “consumer preferences” of its citizens. A (benevolent) American government that aims to maximise the welfare of the American citizens, therefore will promote the globalisation (and under these conditions even an authoritarian government that tries to maximize the welfare of the ruling politicians would favour a globalised media supply which were in line with the citizens social, cultural, and political attitudes and thus would stabilize the existing political system.

In contrast, the disadvantages (the costs) of the globalisation are high, if the citizens' attitudes (in economic terms again: the consumers' preferences) deviate considerably from the main stream supply of a globalised commercial media industry. With regard to cultural attributes, media economists traditionally have labelled this as “cultural discount”. However, to what extend the (globalized) supply differs from the citizens' demands not only depends on cultural peculiarities but also on social and political attributes. If in a country the political attitudes of the citizens, for instance, are in contrast with the political attitudes presented by a globalized mainstream media industry, a rapid and maybe uncontrollable social and political transformation could be induced. Even benevolent governments could consider these effects as high costs for the society, not to talk about authoritarian governments, for which the influences of foreign mass media could be the cause of a peaceful or violent revolution.

Figure 2 illustrates this. It distinguishes between states for which an increased commercialisation of the audiovisual sector would generate

- a) high or low benefits of a further globalisation of the media (due to additional market revenues), on the horizontal axis; and
- b) high or low costs of a further globalisation of the media (due to a deviation and modification of the citizens' cultural, social, or political attitudes (in economic terms: the preferences of the consumers of the audiovisual services), on the vertical axis.

States that benefit from high additional revenues from the audiovisual industry and are not affected by high discrepancies between demand and (globalised) supply will clearly prefer the globalisation of the audiovisual sector, and they will support the WTO regime (in figure 2 the USA is taken as an example). States that raise no or only small additional revenues and are considerably affected in its cultural identity, will combat the WTO regime (in figure 2 Malaysia is taken as an example).

An interesting case is France: Although it probably could substantially benefit from a globalisation of the audiovisual sector, as there is a large Francophile and French speaking-community and as France possesses a considerable audiovisual (film) industry, it always has opposed against the WTO's attempts to liberalize the audiovisual sector. This indicates that in France the possible costs of a glob-



alisation of the audiovisual sector are perceived as high, maybe because of the assumed alteration of the (cultural) preferences that were induced by an internationalisation (Americanisation) of the audiovisual products, especially of movies and broadcasting programmes.

Figure 2:

The Position of States as Supporters or Opponents of the Globalisation of the Audiovisual Sector as Determined by the Related National Costs and Benefits

		benefits of a globalisation of the AV-sector due to increased market revenues	
		low	high
costs of a globalisation of the AV-sector due to increased cultural, social, and political discrepancies between supply and demand	low	undetermined action  (The Netherlands?)	supporting commercialisation of the audiovisual sector  (USA, Japan)
	high	combatting commercialisation of the audiovisual sector  (France, Malaysia)	undetermined action  (Germany, China)

The German position is rather ambivalent. There are many German media companies that definitely would benefit from a liberalisation of the audiovisual sector, e.g. in the music industry, but also in the broadcasting business, where they could raise additional market revenues. These companies consequently plead for a liberalisation, and they support the WTO regime. On the other hand there are strong voices from civil society organisations that resist against a commercialisation of the audiovisual sector, like the Heinrich-Böll-Stiftung, the German Section of UNESCO, or the "Deutscher Kulturrat" (German Culture Board). The German public service broadcasters share these concerns. Hence, for Germany a clear national position hardly can be identified at present. But it also might not be necessary, really, as the European states anyway are not involved into the GATS negotiations directly, but the European commission decides commonly for all European states. However, as unanimity is requested for all contracts that affect the cultural and lingual diversity of the European Community, at present the national interests of the member states are guaranteed.

It would be interesting, but probably also difficult, to allocate China into this typology. With regard to the gigantic domestic markets one could assume at first





glance that China, similarly to the USA, India, or Japan, would favour a further globalisation of the audiovisual sector. However, one should realize two facts: Firstly, this would only affect the viewers and listeners of Chinese audiovisual products that live abroad. This still is a large community, but it is much smaller than the Chinese living in their home country. Secondly, and maybe even more importantly, a full liberalisation not only would open the world markets for Chinese programmes, but also the Chinese markets for programmes from abroad, especially from the USA. One can assume that the “costs of a globalisation of the AV-sector due to increased cultural, social, and political discrepancies between supply and demand”, which were connected with such programme imports, are perceived high in China, especially if possible influences on the political ideology and the political system are taken into account.

China therefore, like any country, has to weight up the advantages and disadvantages of opening its media markets, and it is an open question which factors will dominate and pivot the future politics. For a political economist it is most interesting to observe this process of qualifying and preferably quantifying the national costs and benefits that are related with the opening of China's media markets. It is understandable that no clear position can be expected as long as this complicated process continues.

No matter how China and other countries will act in future decisions about the WTO regime in general and in further GATS negotiations in particular, it is obvious that all states will highly be affected by the way, the media – and the international public communication – will be organised. A lot of money, also a lot of jobs are connected with the media industry, and there is a high impact of the media for the public communication, also for the political communication within the single nations and between them. Therefore it is worth to carefully examine the legal and factual processes of decision making about the international communication policy and about other policies that affect the states' competences for the media, like competition policy or cultural policy. It needs instruments and institutions which prevent that the large countries that mainly profit from a further globalisation of the media dominate these decision making processes, and that the small countries whose national identities are threatened most by this globalisation cannot influence it at all. Also this will be an important topic for the next “World Summit on the Information Society” in Tunis this year.

One also should bear in mind that because of the “mainstream” orientation of the commercial media exactly those nations dominate the content of globalised commercial media that profit most from the globalisation: nations with large populations, nations with large language communities, and politically influential nations. Contents about these nations find larger audiences than contents about small nations, about nations with small language communities, and politically unimportant nations. The latter would be crowded out of the international media, and its problems and concerns would be crowded out of a commercialised international public communication. This were a bad alliance between the nations' political interests and the media companies' commercial interests, to the disadvantage of the international public.



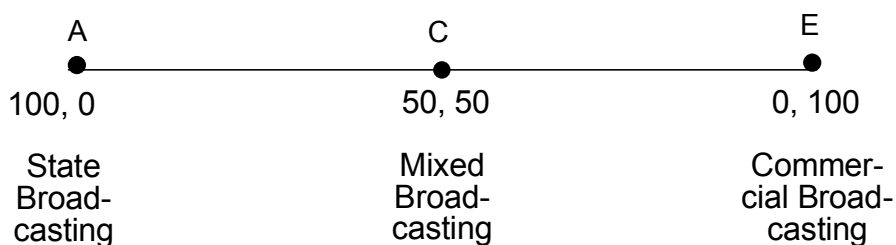
#### 4. TV Programmes as “Non-Marketable” Goods?

##### The German Model of a Non-Governmental and Non-Commercial Provision

For an economist it is common to conclude that goods which the market fails to provide or for which the provision deviates from the public interest are provided by the state. This is the usual paradigm of economists, mentioned already as a form of the “subsidiarity principle”. In this paradigm, the state is the only alternative to the market, and the market is the only alternative to the state. For many branches, like the transportation sector, the health and care sector, and the educational sector, this paradigm by and large fits with the reality in Germany.

With regard to our subject this either would mean commercial broadcasters or state broadcasters as pure organisational forms, or it could mean “mixed” broadcasters that combine the decentral and horizontal steering of the market (and consequently market revenues) with the central and vertical steering of the state (and state revenues). Figure 3 shows these options as a one-dimensional space, ranging from pure commercial broadcasters on the one (right) side (E, with 0 % state revenues, and 100 % market revenues) via several “mixed” broadcasters (e.g. C with 50 % market revenues and 50 % state revenues) to pure state broadcasters on the other (left) side (A, with 100 % state revenues, and 0 % market revenues).

Figure 3:  
State Broadcasting and Commercial Broadcasting



From this point of view one would conclude that state broadcasters should provide TV programmes with high market failures and commercial broadcasters should provide TV programmes with low or with no market failures. The term “dual broadcasting order”, which I already mentioned, indicates this interpretation.

In fact, it is different. The German broadcasting order does not at all correspond to such a bi-sectoral structure. State broadcasting in Germany does not exist. The state in Germany is regarded as a bad provider of broadcasting programmes (and of the media in general). This common attitude partly dates back to the bad experiences with the propaganda broadcasting during the Nazi-regime, but it also is confirmed by more recent experiences in our own and in other countries. As broadcasting programmes – to say it in the words of our Constitutional Court – not only are medium but also factor of the public opinion, the state



permanently feels seduced to abuse broadcasting for political interventions. And when it gets close, politicians usually cannot resist this seduction.

In Germany the state for these reasons is obliged to keep in distance from broadcasters. There are politically independent boards, both for the regulation of private broadcasters and for the public control of public service broadcasters. Although the state sometimes tries to influence also these boards, there usually are sufficient checks and balances to prevent this. Especially the awareness of the socially relevant groups of society – of the civil society – is regarded and included as a watchdog for the political independence of broadcasting. The control boards of public service broadcasters consequently recruit from representatives of civil society organisations, like churches, labour unions, consumer organisations, leisure groups, and local authorities. Also the states' parliaments send off a (limited) number of members. As a result the public service broadcasters are controlled neither by the market nor by the state, but by a hybrid mixture of non- or low-commercial and non- or low-governmental bodies.

In the bi-sectoral paradigm this mixture cannot be located. It cannot be positioned anywhere on the axis of figure 3, as it is constituted by a third institution which exists besides the market and the state: the so called voluntary sector. Although many activities, like family life or religious, social and cultural activities, mainly belong to this sector (which also with regard to its economic product in many countries is equally important as the market and the state), most economic textbooks ignore this sector totally (in contrast to sociological textbooks which usually deal in greater detail with it). It is based on intrinsic, non-profit motives of the actors being organized by means of non-market and non-governmental (but collective) rules of decision making. Important fields of this sector include the activities within families and neighbourhoods, collective religious activities, and the voluntary activities within charities, educational, cultural and leisure organisations. As far as these activities are not purely private but also have public effects, these elements of the voluntary sector also are called the civil society.

Also broadcasters run by citizens that voluntarily provide resources in kind or in cash have to be allocated to the voluntary sector in this sense of a non-governmental non-profit sector (see figure 4). They are based on the citizens' believe that there are certain values or contents, i. e. of political, religious, cultural, or educational kind, that should be communicated to the public, and on the intrinsic motive to promote this communication by voluntarily contributions in kind (like editorial or organisational assistance) or in cash (donations).

Experiences in all countries have shown, however, that such "pure" voluntary broadcasters are not able to provide high quality programmes of a sufficiently wide range, not even in countries in which the citizens realize and highly appreciate the benefits of independent broadcasters. Instead they rely on revenues from the market and/or from the state. Hence they combine elements of the voluntary sector with elements of the state (e.g. the state's power to enforce public revenues) and with elements of the market. This makes public service broadcasting, as I already have called it, a "hybrid" or "mixed" system.



Figure 4:  
Voluntary Broadcasting, Commercial Broadcasting, and State Broadcasting

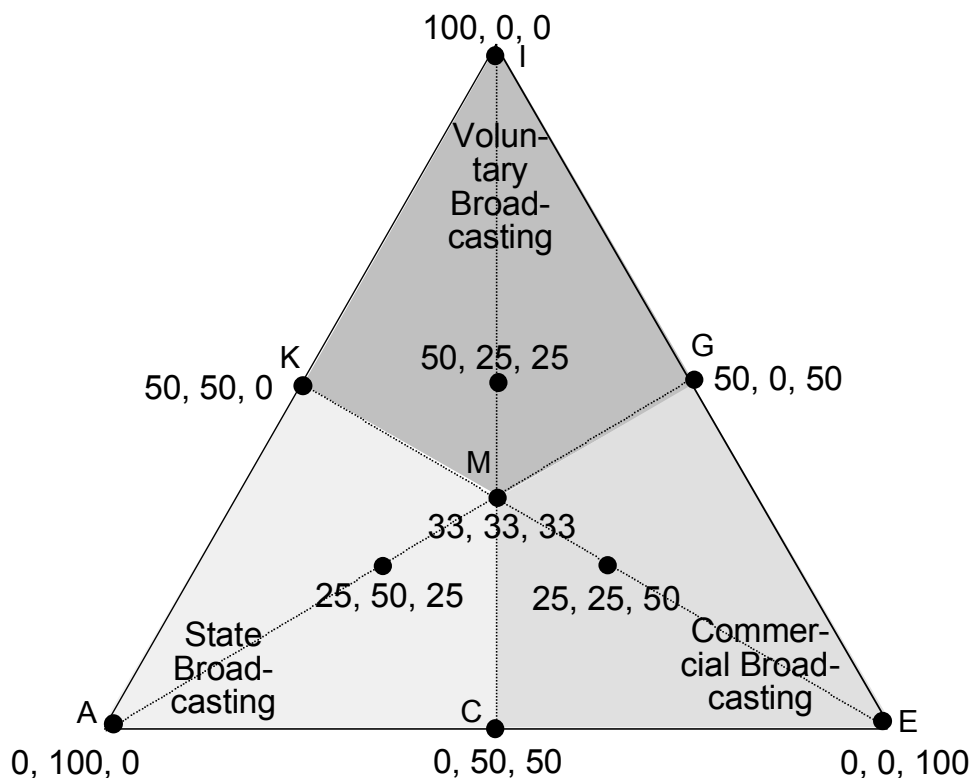
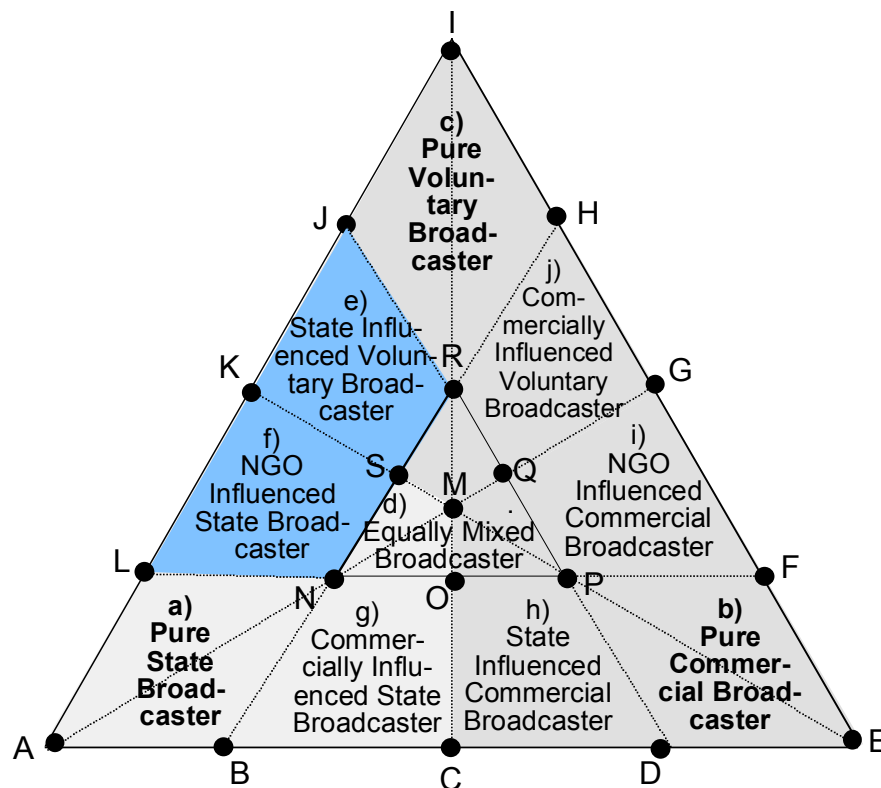


Figure 5 illustrates this. There public service broadcasting is located in the area JRNL (the blue area). In this area there is an influence (with regard to the financial incentives: revenue shares) of both the market and the state; but this influence remains minor (in figure 3: less than 50 % of the overall influence/revenues) compared to “pure commercial broadcasters” (area EDPF) and compared to “pure state broadcasters” (area ALNB). Public service broadcasting in this definition primarily is located inside the voluntary sector, or – in other words – inside the civil society.

The members of the civil society are the natural allies of public service broadcasters. They pursue the same targets to organize a society by non-governmental non-profit rules as the voluntary sector does. And on the other hand they need public service broadcasters as capable stake holders of the civil societies’ targets. This constitutes a reciprocal responsibility: Public service broadcasting has to provide its voice for the civil society, especially when the institutions of civil society are threatened, and the institutions of civil society have to support public service broadcasting – including a benevolent critical control if public service broadcasters disregard its mission, e. g. by serving state interests or by commercialising themselves.

Figure 5:  
Public Service Broadcasting As a Hybrid System,  
Combining Elements of the Voluntary, the State, and the Commercial Sector



The location of public service broadcasting inside the civil society, as shown in figure 5, illustrates that it is endangered by two sides: by its market partners that pursue own commercial interests, and by the state that tries to settle and secure its power by means of the mass media. Thus there is the twofold risk that the public service elements are crowded out either by characteristics of state power (and state control) or market power (and market control). From this regard public service broadcasters have to seek the near of the market and the state in order to gain the resources necessary for its mission, but at the same time they have to keep a sufficient distance from both poles – a task equally complicated as Odysseus' passage between Skylla and Charybdis.

Sometimes public service broadcasters miss the right passage. There was a close cooperation between a German public service broadcaster and a private telecommunication company, for instance, that jeopardized its editorial independence (or at least the image of its editorial independence), which had to be given up. Also product placements or the sponsorships by companies, whose products are evaluated in its TV programmes, .e. g. in its consumer magazines, do not correspond with the necessary distance between a public service broadcaster and the private sector. In other cases public service broadcasters have cruised too near to the state sector. There are complaints, for instance, that the boards of some public service broadcasters are dominated by those members



that are sent off by the states parliaments.<sup>2</sup> Also the recent decision of the German state parliaments, not to accept the independent commissions' suggestion about an increase of the licence fee indicates that also the distance from the state permanently has to be controlled and eventually to be readjusted.

A special case is the Deutsche Welle. Differently from the broadcasters of the ARD and the ZDF its radio and TV programmes (and telecommunication services) are not broadcast inside Germany, but only abroad. According to § 4 of the Deutsche-Welle-Gesetz, these programmes shall "present Germany as a European grown cultural nation, and as a liberal constitutional state, and for German and other views it shall offer a platform for important themes, namely politics, culture and the economy, with the purpose to promote the understanding and the exchange of cultures and peoples."<sup>3</sup> If we put this text, originally formulated in a diplomatic-style German language, into economic terms, the core mission of the Deutsche Welle is to generate positive external effects, which are to the benefit of the German people. This includes benefits that stem from a more successful German foreign policy, from more successful trades of German companies, or just from better international relations. This mission can neither be financed by subscriptions<sup>4</sup> nor by advertisements.

As the programmes of the Deutsche Welle cannot be received inside Germany, they also should not be financed by the payers of the German receiving licence fee. Therefore – and because of the closeness of the mission of the Deutsche Welle and the states' public relations tasks – the Deutsche Welle is financed by state grants.

This would suggest to consider the Deutsche Welle as a state broadcaster, being located in the lower left corner of the triangle of figure 4. On the other hand also for the Deutsche Welle the principle of programme autonomy has been confirmed and has been accepted, and there are several safeguards that the state does not intervene into the programme decisions by means of the golden

<sup>2</sup> Jobst Ploog, the Intendant of the NDR (one of the regional stations of the ARD), recently has claimed, for instance, that the states parliaments should not be allowed to send off any parliamentarians to the public service broadcasters control boards ("Rundfunkräte"). See the short article about Ploogs suggestion and about politicians reaction to it at: <http://www.abendblatt.de/daten/2005/01/28/392151.html>

<sup>3</sup> Translation by the author. The complete German text of § 4 of the Deutsche-Welle-Gesetz from 16. 12. 1997 (BGBl. I S. 3094), lastly changed by the "Gesetz zur Änderung des Deutsche-Welle-Gesetzes" from 15. 12. 2004 (BGBl. I, S. 3456) is as follows. "Die Angebote der Deutschen Welle sollen Deutschland als europäisch gewachsene Kulturnation und freiheitlich verfassten demokratischen Rechtsstaat verständlich machen. Sie sollen deutschen und anderen Sichtweisen zu wesentlichen Themen vor allem der Politik, Kultur und Wirtschaft sowohl in Europa wie in anderen Kontinenten ein Forum geben mit den Ziel, das Verständnis und den Austausch der Kulturen und Völker zu fördern. Die Deutsche Welle fördert dabei insbesondere die deutsche Sprache."

<sup>4</sup> The new TV Service of the Deutsche Welle, "German TV", has a different purpose: to cover the private demands for German TV Programmes of subscribers in the USA. Therefore it is right that this service is financed by subscriptions.

tie, i. e. by raising or shortening the Deutsche Welle's budget. Considering these qualitative peculiarities, also the Deutsche Welle, although being financed from the state budget, has a considerable distance from the state.<sup>5</sup>

The example illustrates that the classification as a public service broadcaster or as a state broadcaster not only depends on where its resources come from but also on the way how these resources are determined, especially if the givers can intervene into the programme decisions. On the other hand the example also illustrates that not all broadcasters that mainly finance from market revenues are independent from the state. Also here the details must be examined to decide about possible programme interventions the state may have indirectly, e.g. by protecting certain programme or advertising markets.

### **5. TV Programmes as “Non-Marketable” Goods? Some Final Remarks from an International Comparative Perspective**

This remark leads me to a short final look at the international stage. Such an international comparison unveils, firstly, that public service broadcasters in several European countries, e. g. in the United Kingdom and Germany, compared to other broadcasters are located much nearer to the voluntary sector, or to the civil society, further away both from the state and the market pole. In figure 6 this is illustrated by means of the introduced triangle. The dots here do not stand for single broadcasters, but they represent the averages for the sum of all broadcasters in a country (the different sizes of the dots represent the countries differences in per capita revenues from broadcasting) . In Germany for instance, this includes several public service broadcasters (ARD, ZDF, Deutsche Welle, Phoenix, DeutschlandRadio) and several commercial broadcasters, among them RTL, the largest commercial TV broadcaster, located in Cologne. This explains why the dot for the German broadcasting order is located almost in the middle of the triangle. Disaggregated plots would show that the German commercial broadcasters are located much nearer to the market pole, and the public service broadcasters are located much further away from it.

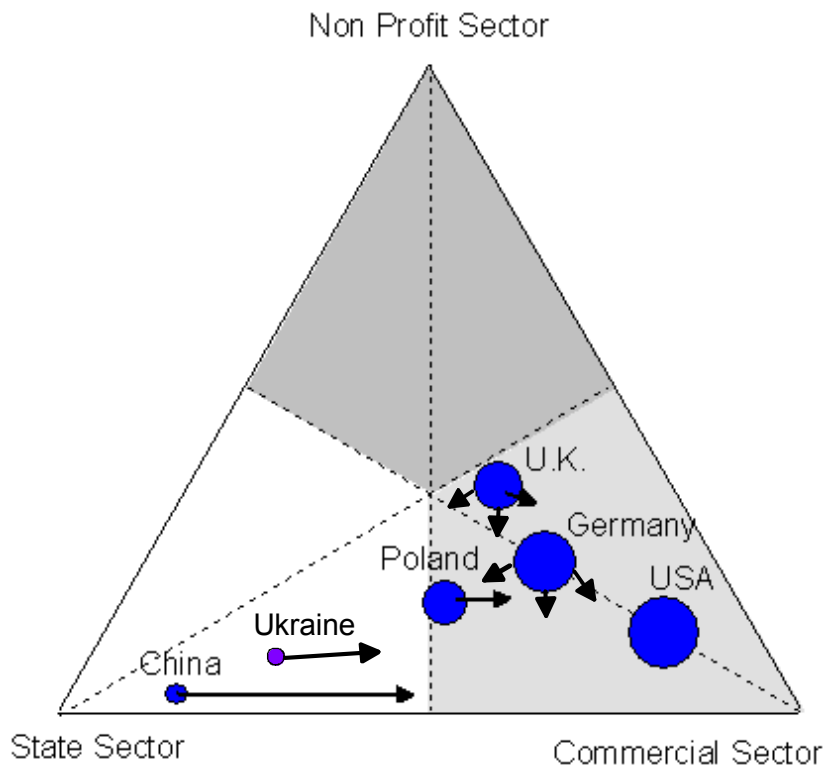
Compared to them the broadcasting orders in other countries either are much more commercialised (the USA as the most prominent example) or the states are more influential (like in the former communist states of Eastern Europe). With the transformation process, the broadcasting orders in these states, however, are on the march away from the state and nearer to the market. And states where this transformation has started sooner, like Poland, have gone further than states like the Ukraine, where this transformation only recently has started.

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<sup>5</sup> Accordingly, in figure 4 it well could be located in sector f or even in sector e. It then would have to be classified as public service broadcaster – in line with the legal position that in Germany has been common for this question during the last years.



Figure 6:  
The International Broadcasting Landscape  
Between the Market, the State and the Voluntary Sector



Also China is on this trip. It is hard to determine, how far it has gone on this path till now, but it seems sure that this process will go on for a while, especially as there will be additional external pressure in this direction since China has joined the WTO. From the German perspective this is an ambivalent change. On the one hand it fits with the German philosophy of the broadcasters' necessity to keep in distance from the state, on the other hand it also raises concerns with regard to the negative scenario of an international media order that is highly globalised, commercialised and concentrated and that cannot sufficiently perform the necessary public communication within and between nations.

If we take the German position as the benchmark, the advice of course would be that neither the state nor the market should dominate. A second advice would be to strengthen the civil societies' influence on the broadcasting order. In the diagram this would mean an upward shift. Of course such advices would be foolish, though. National broadcasting orders never can be optimised without considering a nation's cultural, social, political and economic peculiarities. Especially the social structure, and the citizens' ideologies have to be considered. As the conceptions of a well functioning society differ between the nations, especially about the role of the state, a broadcasting order that is well suited for China, definitely differs from the broadcasting order we consider best for Germany. International comparisons therefore, as usual, cannot render simple answers, but maybe they can clarify and enlarge the set of options from which a state can choose.



## 6. Summary

Broadcasting programmes, like other mass media, serve private interests for information, education, and entertainment. As such they can be sold like other economic goods, either to the viewers and listeners directly (pay TV) or to advertising companies that use the programmes as a media to catch attention and to transport its advertising messages. In this form TV programmes can be provided by the market, and they can generate high profits.

The exchange of TV programmes can raise these profits. Due to the non-rivalness of consumption additional revenues can be generated without additional production costs, especially if large foreign markets can be opened up. At the same time the enlargement of markets and output units diminishes the average costs per unit, and it thus strengthens the media companies' efficiency and competitiveness – to the benefit of the companies and the national economies where they reside, but also to the benefit of the viewers and listeners. From this regard the expansion of markets also increases the public welfare.

However, there are some economic peculiarities of broadcasting programmes, – at least for programmes with certain contents – for which the market fails. 1. subadditivity of costs (due to non-rivalness of consumption), 2. non-excludability, 3. positive and negative externalities, and 4. an asymmetric distribution of information about the programme quality are the most important reasons. They cause 1. concentration and a low diversity of programme contents, 2. discrepancies between the viewers and listeners' programme preferences and the advertising companies' programme preferences, served by commercial broadcasters, 3. a lack of programmes with positive externalities to the benefit of the public, and an excess of programmes with negative externalities to the disadvantage of the public, and 4. an adverse selection of viewers and listeners, crowding out high quality (and expensive) programmes by low quality (and inexpensive) programmes. For these reasons a mere market provision cannot sufficiently fulfil the broad and diverse public communication which is necessary for complex societies that have to adjust to changing environments and that have to find common and integrative solutions. In Germany, this has been recognised, especially by the Constitutional Court, and a dual order has been established, consisting of commercial broadcasters that provide marketable programmes, and public service broadcasters that provide the whole range of marketable and non-marketable programmes.

Because of these market failures, also on the supra-national and international level a too strong commercialisation would be to the disadvantage of the public communication – both for the public and political communication within the nations and between them. The expansion of international programme exchanges and the concentration of the media in the course of globalisation (for broadcasters especially as a consequence of the digitalisation) thus jeopardize the diversity and the nations' chances to participate in the international public communication. At present there are conflicting forces, like the WTO, which promotes the



international free trade of audiovisual services, on the one side, and certain NGOs, like the UNESCO, which combat these attempts, on the other side.

In this dispute large nations with well settled audiovisual industries that profit economically from a further commercialisation of the international broadcasting markets, like the USA, promote the WTO regime; and small nations that would not render profits on these international markets but whose national culture and identity would be jeopardised, resist it. Many countries, Germany and China among them, would be affected both positively and negatively by a further commercialisation and globalisation of the media, making it hard to predict its future policies.

In an international comparison, the national broadcasting system in Germany is less commercialised than in other countries, as public service broadcasting has a strong position here. Also the states' influence on the broadcasters is comparatively low. In contrast, in China the states' influence on broadcasting traditionally has been high. During the last years, a considerable release from the states' control can be observed, though; and after joining the WTO, this process probably will go on for a while. Compared with our German model, this is an ambivalent development, corresponding with the German principle of the broadcasters' necessary distance from the state on the one side, but conflicting with objections against a too strong orientation on commercial purposes on the other.

The German experiences and solutions of course cannot be exported to China. National broadcasting orders never can be optimised without considering a nations cultural, social, political and economic peculiarities. Especially the social structures and the citizens' ideologies have to be considered. As the conceptions of a well functioning society differ between both countries, especially about the role of the state, a broadcasting order that is well suited for China definitely differs from the broadcasting order we consider best for Germany. International comparisons therefore, as usual, cannot render simple answers, but maybe they can clarify and enlarge the set of options from which states can choose.



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