

SECOND EDITION

The Business of MEDIA

Corporate Media and
the Public Interest

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Media, Markets, and the Public Sphere



This book is an introduction to the business of media. In it, we do three things. First, we sketch out some of the major changes that have occurred in the media industry in recent years. Second, we examine *why* these changes have occurred. Finally, we provide an assessment of these changes. The first of these tasks requires only that we review the public record on the media industry. Although there is certainly room for debate about what aspects of the changing industry ought to be highlighted, most of the basic patterns we discuss are well known and widely recognized by industry insiders and observers. How can we explain these changes? Why are they occurring? How can we judge the significance of these changes? Are they generally positive or negative developments? Should we be concerned or pleased about the direction in which the media business is headed? Those sorts of questions and assessments require that we have a framework from which to examine the media.

Evaluating the changes in the media industry is complex, however, because there are competing and very different frameworks from which to analyze the media business. In part, this is why there is so

much disagreement in evaluations of the media; people are using different standards to judge what they see. The two perspectives we employ in this book can be referred to as the *market model* of media and the *public sphere model* of media. The former, which is the dominant framework within the media industry, is a widely familiar economic perspective that assesses media using the universal currency of business success: profits. We call it the market model because, to varying degrees, assumptions about how “free markets” operate form the core of this perspective. As with other industries, the media are conceptualized as primarily competitors in this marketplace.

The public sphere perspective is a less familiar one, so we take much more space here describing its elements. From this perspective, the media are defined as central elements of a healthy public sphere—the “space” within which ideas, opinions, and views freely circulate. Here, rather than profits, it is the more elusive “public interest” that serves as the yardstick against which media performance is measured.

Both frameworks are useful in better understanding the media. The media, for the most part, are made up of commercial, profit-seeking businesses. Media companies issue stock, compete for larger market share, develop new products, watch costs, look for opportunities to expand, and engage in all the other activities that constitute regular business practice. In various ways, owners, investors, employees, and audiences all experience the consequences of these business decisions. In most cases, media activities can be explained using the basic concepts that make up the market model. The market model, then, is especially useful in understanding why media companies behave the way they do. It is the framework to which most business people refer in explaining their actions.

There are serious limitations to the market model of media, however—businesses cannot be judged by profitability alone. Society has an interest in how industries perform that goes far beyond profits. Labor laws, environmental protections, and antifraud measures, for example, are all ways in which society puts limits on business practices in the name of the public interest—even at the expense of profits. This holds true for the media industry as well. Even the largest and most powerful media conglomerates must operate within a dynamic framework of social and political constraints that, in the name of the public interest, shape how businesses work. In particular, it is widely recognized that a vibrant public sphere is essential to the operation of a healthy democracy. The media play a crucial role in helping to create such a vibrant public sphere.

Understanding and assessing the media business requires us to explore both the underlying economic dynamics of the media industry and the extraeconomic role that is played by media in a democratic society. This chapter introduces the basics of both the market and public sphere models and suggests the value of extending our analytic framework beyond the bottom line to include service to the public interest as a core component in our assessment of the contemporary media industry.

❖ THE MARKET MODEL

The market model suggests that society’s needs can best be met through a relatively unregulated process of exchange based on the dynamics of supply and demand. This model treats the media like all other goods and services. It argues that as long as competitive conditions exist, businesses pursuing profits will meet people’s needs. As a result, advocates of this model generally call for private, unregulated ownership of the media. It is consumers in the marketplace, not government regulators, who will ultimately force companies to behave in a way that best serves the public.

The Advantages of Markets

The market model promotes the use of unregulated markets for the delivery of goods and services. For these markets to function properly, there must be a sufficient number of suppliers of a good: No single supplier or small group of suppliers should be able to artificially influence market dynamics. That would undermine the whole premise of a competitive, market-based economy. Assuming that there is sufficient competition, markets offer a number of overlapping advantages.

Markets Promote Efficiency. Without the cumbersome bureaucracies associated with centralized planning, markets tend to promote efficiency. Because they are constantly trying to increase profits, companies must develop new ways to deliver goods and services at the lowest cost. This encourages efficiency on the part of producers and ensures low prices for consumers.

This efficiency is lost when standardized models are implemented or vast regulatory procedures are established. They are also lost if competition is inadequate, because there is no longer an incentive to reduce

costs. For consumers, uncompetitive markets tend to produce artificially high prices. There is no incentive for producers to keep prices attractive, because consumers have nowhere else to go. As a result, suppliers are able to set prices independent of market forces, gouging captive customers and undermining the basic supply-demand balance that characterizes healthy markets.

Markets Promote Responsiveness. Markets operate on the principle of supply and demand. As a result, they are responsive to what people want. In the marketplace, price serves as the key indicator of supply and demand. When demand goes up, price goes up, until an increase in supply restores equilibrium. The increase in supply materializes because companies, seeing the profits to be made, either enter the market or expand their already existing production to meet the increase in demand. When demand goes down, price drops to allow for the sale of surplus supply. In both cases, producers are responding to consumer demand as a result of basic market dynamics.

Markets Promote Flexibility. Not only do companies in market-based economies respond to what consumers want or do not want, the absence of centralized planning and control allows them to quickly adapt to the new supply-demand balance. Thus companies operating in market-based economies must be flexible in how they are organized and in what they produce so that they can respond to new market conditions. Again, competition is essential here, because flexible response is necessary only if competitors exist to lure customers away from unresponsive producers.

Markets Promote Innovation. In market-based economies, many different producers experiment with new products and services. The incentive of big profits promotes innovation as companies try to develop new products that will capture a larger market share or secure an untapped market segment. This constant experimentation with new products, services, and production processes results in a very dynamic and innovative industry. A lack of competition tends to discourage innovation. For example, in the media industry, lack of competition can lead to an unwillingness to take risks in producing innovative new projects. Instead, imitation of past successes is likely to be the key business strategy employed.

Markets Can Deliver Media Like Any Other Product. All of the features of markets described here are applicable to the media business. Market model advocates argue that, like any other producer of products, if the media industry is left unregulated, it will respond to consumer demand, develop innovative new products, and remain flexible and efficient. If media products are treated like any other products, consumers will be able to enjoy the benefits of market dynamics.

Market Structures and Types of Competition

The benefits of markets, as noted, occur only when there is robust competition. How do we know for sure that sufficient competition exists? One way is to examine the market structure in any given industry.

Market structure refers to the economic characteristics of particular markets, including things such as the level of ownership concentration, the amount of product differentiation, the types of entry barriers facing new competitors, and the extent of vertical and horizontal integration. Two of the key factors in assessing market structure are the number of firms supplying a product and the level of differentiation between products being offered. Exhibit 1.1 shows in simplified form how these two dimensions can be mapped out into different market structures. Of course, this typology is meant only to suggest some key variables to consider. Real-world markets fall along a more complex continuum than we present here. Still, this framework can be helpful when discussing the relationship between media and markets. Multiple firms do not necessarily ensure diversity in products. One or a few firms do not necessarily mean homogenized products.

Exhibit 1.1 Types of Market Structures

Level of Product Diversity	Number of Supplying Firms	
	One or a Few	Many
Low	Homogenized monopoly	Homogenized competition
High	Diverse monopoly	Diverse competition

Homogenized monopolies are the least desirable from a market perspective because they are not competitive and give consumers limited or no choices in products. To keep our example simple, imagine the lone one-screen movie theater in an isolated community and you begin to see the problems with homogenized monopolies. Consumers have no product choice. A single movie is offered each week and they must either take it or leave it—and they have no accessible competing theater to which they can take their business.

Diverse monopolies offer some advantage because they at least give consumers a wider variety of choices, even though there are only one or a few companies owning those options. In this example, perhaps our single-screen theater becomes a multiplex, simultaneously offering half a dozen different movies. From a consumer perspective, this is certainly an improvement, because there are now more choices, but it still presents serious problems. For example, because ownership is concentrated, the theater's owner has no incentive to keep ticket or concession prices low. Without competition, the owner is free to push prices as high as the market will bear—and because there is no alternative, consumers are likely to pay artificially inflated prices.

Homogenized competition presents its own set of problems. Imagine a number of competing theaters all showing mainstream Hollywood action-adventure films and adolescent comedies. The broad appeal of such films may be sufficient to meet the business needs of the competing theaters. Many people may well be satisfied with the limited range of movie fare. But for others, the differences between Vin Diesel and The Rock or Adam Sandler and Mike Myers may be no difference at all. The products being offered may be plentiful and affordable, but—partly because they are aimed at the broad mainstream audience—they do not come close to representing the diversity of movie tastes among the public. Increased volume of media products does not ensure increased diversity in products. This problem was neatly encapsulated in a 1994 song by musician Bruce Springsteen when he lamented that cable television had “57 Channels (and Nothin’ On).”

Finally, *diverse competition* is usually the market ideal. Here, numerous sellers offer a wide range of products from which consumers can choose. A significant number of independently owned theaters might compete with similar theaters and at the same time target audiences spread widely across the range of public tastes and interests. Each would offer something distinctive, but enough overlap with competitors would exist so that consumers would have clear alternatives.

Our theater examples are artificially simple. The real world offers more complexity than is suggested here. However, these examples illustrate basic dynamics that, as we will see, are easy to forget amid the cacophony of contemporary media environments. They also illustrate the point that the market model is capable of addressing issues of diversity—a central concern of the public interest model.

It should be noted that, with a few exceptions, pure competition does not exist in the real world. Pure competition exists only when many different companies offer exactly the same product. (Some commodity markets, such as wheat or soybeans, can be said to exhibit characteristics of pure competition.) At best, markets achieve what is called *monopolistic* competition. That is, many firms offer similar, but not identical, products. (The term can be confusing: each company has a “monopoly” over its particular product, but the products are so similar that they are in direct “competition” with each other.)

Because from a market model competition is widely viewed as the core of a healthy media industry, federal communications regulatory policy has centered on the amount of competition that exists in the industry and on the ability of potential competitors to enter the market. As we will later see, the Hollywood studio system was broken up in the 1940s because it interfered with competition. The original NBC broadcast monopoly was broken up for the same reason. In such cases, government intervention occurred precisely because of belief in the necessity of competition for the commercial media industry.

As we will see, recent changes in regulatory policy have spurred an increase in ownership concentration within the media business. As the large media companies continue to grow, some aspects of the media industry are becoming uncompetitive, undermining the potential benefits of markets. Some critics call for more government intervention to restore competition to the media industry. Others, however, point to burgeoning technological developments as evidence that the media business is becoming more competitive than ever, rejecting the need for more regulation.

❖ THE PUBLIC SPHERE MODEL

The public sphere model suggests that society's needs cannot be met entirely through the market system. Because the market is based on consumer purchasing power, it behaves quite differently from the

democratic ideal of "one person, one vote." In addition, the public sphere model argues that there are some societal needs that simply cannot be met via the market's supply and demand dynamic. It also contends that because it is vital to a robust democracy, media content cannot be treated as merely another product. Therefore, profitability cannot be the sole indicator of a healthy media industry. Instead, other public interest criteria—such as diversity and substance—are used in the public sphere model to assess the performance of media. From this perspective, government plays a useful and necessary role in ensuring that the media meet the needs of citizens, not just consumers.

The Concept of the Public Sphere

According to the public sphere model, media are more than just profit-making components of large conglomerates. Instead, they are our primary information sources and storytellers. As such, the media have become the core of a crucial democratic site that social theorists refer to as the public sphere.

The concept of the public sphere is associated with the German sociologist Jürgen Habermas, whose classic study *The Structural Transformation of the Public Sphere* described the importance of a vibrant public sphere for democratic societies.⁸ Building on Habermas's work, a growing body of literature has argued that the principal way that mass media can contribute to democratic processes is by helping to cultivate social spaces for ongoing public dialogue.⁹

This model posits an open media system that is widely accessible. It argues that information should circulate freely, without government intervention to restrict the flow of ideas. Ownership and control of media outlets should be broad and diversified, with many owners instead of a few large ones. Ideally, some media channels would be publicly accessible for citizens to use to communicate with each other. If a strong democracy requires citizen participation, that participation is made meaningful by continuing, wide-ranging public discourse, to which the media can contribute immeasurably.

Fundamentally, the public sphere model views people as *citizens* rather than *consumers*. Furthermore, it contends that media should "serve" these citizens, rather than "target" potential consumers. Murdock, for example, suggests three important ways that communication systems are central for the constitution of citizenship.

First, in order for people to exercise their full rights as citizens, they must have access to the information, advice, and analysis that will enable them to know what their personal rights are and allow them to pursue them effectively. Second, they must have access to the broadest possible range of information, interpretation, and debate on areas that involve public political choices, and they must be able to use communications facilities in order to register criticism and propose alternative courses of action. And third, they must be able to recognize themselves and their aspirations in the range of representations on offer within the central communications sectors and be able to contribute to developing and extending these representations.¹⁰

Thus, for participatory democracy to function, citizens must learn how to take part, and they must have access to the resources necessary for meaningful participation. From a public sphere perspective, the potential contribution of media to such a democracy is in the work of creating and sustaining a citizenry that is prepared for participation in public life. It is a task for which markets are ill suited.

The Limits of Markets

Business journalist Robert Kuttner once wrote a book subtitled *The Virtues and Limits of Markets*.¹¹ As we have seen, the market model suggests that by pursuing profits, media firms simultaneously meet the needs of the audience. Thus the virtues of market dynamics will satisfy the public interest. However, the public sphere model of media shows the potential conflict between profit making and serving the public interest and, more generally, the significant limitations of markets.

Markets Are Undemocratic. Markets work by a "one dollar, one vote" mechanism. Thus, despite rhetoric to the contrary, markets are inconsistent with democratic assumptions. In markets, profits are the measure of success and money is the measure of clout. The more money you have, the more influence you have in the marketplace. Success in the marketplace can be translated into more influence on that market (sometimes by changing the rules in your favor), thus perpetuating a cycle whereby the rich tend to get richer and the poor (those who have been unsuccessful in the market) get poorer. This is contradictory to the basic democratic ideal that individuals have inherent and equal worth

that justifies their basic rights ("All men are created equal . . . and are born with certain inalienable rights"). The values of their bank accounts should not enter into the equation. In terms of media, we have historically valued free expression as the core of a broader commitment to democratic deliberation. In this public sphere, citizens are equals, even if they have extremely different consumer power. However, because markets operate on a fundamentally different set of rules, there is good reason to be skeptical of the ability of market-oriented media to satisfy crucial democratic needs.

Markets Reproduce Inequality. Because markets are based on money, they tend to reproduce the inequality that exists in society. Rather than being an even playing field where individuals compete, players enter the market with widely unequal resources. The playing field is tilted in favor of those who already have advantages. An individual who enjoys the privileges of inherited wealth, elite education, or privileged social contacts has distinct advantages in the market. When it comes to media, those parties with significant resources may own or disproportionately influence media content; those with only modest means have little or no influence on what is produced. Media, therefore, may tend to reflect the views and interests of those with wealth and power and neglect the views and interests of others.

Markets Are Amoral. Markets make no judgment about what is bought and sold. They do not distinguish between products that might be good for society versus products that might be harmful. The market is designed to supply whatever there is a demand for. The market does not prevent the production and sale of child pornography, crack cocaine, snuff films, or rocket-propelled grenades. It is society, through its government's regulatory agencies, that must make such judgments. For nearly 250 years, the United States had an efficient market system that dealt in the acquisition and sale of human beings. There was nothing inherent in market theory that guarded against slavery. It took massive government intervention to change those practices.

Markets Do Not Necessarily Meet Social Needs. There are some needs that are distinctly social and unlikely to be met by the privatized market. Early fire protection, for example, used to be a market-based service available only to those who could afford to pay. If you could not afford the services of the private fire departments, you were on your own in

case of a fire. It quickly became apparent, however, that this private market-based solution was no solution at all. In urban areas, fires could spread rapidly, regardless of which homeowners could afford fire protection. Public fire departments were established to address this social problem.

There are a whole host of services that societies deem important to provide to their citizens—regardless of market forces. State-supported public education, for example, is an attempt to provide citizens with access to a fundamental resource, regardless of their ability to pay. (Even recent calls for more market-oriented school "choice" still depend on government funds for schools.) In the United States, the range of such services—for example, limited public education, the right of an accused to legal counsel, and emergency health care for the indigent—is relatively narrow. In Canadian and European societies, the range of publicly available services, such as national health care, child care, and extensive public higher education, is much broader. Often, these are services for society's most vulnerable and least powerful citizens. Poor people, children, the mentally ill, and the physically disabled are just some of the many people who often are not well served by market structures. In addition, workers, consumers, minorities, and other groups in society depend on the intervention of government to help create a more level economic playing field. In fact, society depends on an extensive infrastructure of nonprofit, nonmarket institutions to meet social needs and to aid and support those whose needs cannot be met in the marketplace.

In many societies, the services provided outside of the commercial marketplace include public broadcasting and other media operations. (The United States has only a limited version of such services.) The rationale for public media is the same as with public education or health care: It is an invaluable resource that should be available to citizens regardless of their ability to pay, and the market does an inadequate job of meeting this need.

Markets Do Not Necessarily Meet Democratic Needs. Market forces and democratic goals may diverge as much as they coincide. Even relatively competitive media industries can, and often do, provide products that ill serve a democratic citizenry. Because of their inexpensive production costs and relative popularity among consumers, market forces might lead to the production of an ever-growing stream of light entertainment, pornography, or "news" about titillating scandals.

Indeed, it might make very good business sense for virtually all major media companies to produce programs, films, books, and other materials that are geared toward grabbing and holding the attention of consumers by shocking or pandering to them. Media companies might also target their products—whether they be news shows or contemporary music—at very narrow demographic groups, with the assumption that different groups have distinct interests and tastes.

In these cases, even if the media market is quite competitive, there is a good chance that what would be classified as market “success” would produce a kind of political and cultural failure. In the first instance, the proliferation of light and titillating entertainment supplants substantive information, educational media, or challenging cultural presentations, all of which are likely to have more value to democratic processes than to corporate media companies. In the second instance, highly targeted media can reinforce existing prejudices, help to widen the gap between different people, or contribute to a fragmented society in which people interact primarily with those in the same demographic group. Again, success in reaching a target audience may stifle meaningful democratic deliberation among equal (but different) citizens.

Both examples illustrate how crude, market-oriented media systems do not allow for any distinction between people’s roles as consumers, which are private and individual, and their roles as citizens, which are public and collective. This is why market-oriented media have a tendency to produce economic benefits and simultaneously create (or at least help to sustain) democratic deficits.

Of course, noting the shortcomings of markets is not an endorsement of a media system that is centrally organized and government run. State media systems may be even more harmful to democratic processes than market-driven systems, providing even less support for vibrant discourse and meaningful free expression. Instead, by exploring the limitations of market-driven media, the public sphere model highlights the civic importance of media. In doing so, it argues that media cannot be treated as just another consumer product.

❖ WHY MEDIA ARE DIFFERENT FROM OTHER INDUSTRIES

One of the core assumptions that underlies the support of a privately owned, commercial media system is the notion that the media industry

is just like other industries and media products are the same as other consumer products. Mark Fowler, Federal Communications Commission (FCC) chair during the Reagan administration, made this argument most famously when he declared that “television is just another appliance. It’s a toaster with pictures.”¹² Supporters of Fowler’s position ask: If we permit the laws of supply and demand to determine the price and availability of toasters, why should we do anything different with the media industries? From this perspective, it appears as if market dynamics will give consumers the media products they desire. Producers, responding to what is popular (or in demand), will supply media that audiences have demonstrated (with their attention, money, or both) that they want. In this scenario, excessive regulation only disrupts these market processes by interfering with industry efforts to satisfy audience wants.

This kind of market model of media is rooted in the assumption that, as Fowler put it, media are simple appliances. This is only half of the argument, however. The market model also assumes that citizens are, most fundamentally, *consumers*, who have a potential interest in purchasing the mass media consumer products that are available. On the face of it, these assumptions—that the media supply goods for consumers—may seem reasonable, even quite obvious. Certainly, an important feature of the media world is consumption. We may buy a CD, book, or magazine in the same shopping trip in which we buy a new item of clothing or household cleanser. In short, we do consume media, many of us to the tune of substantial sums of money.

However, there are three primary reasons the media industry is different from other industries, making the market model analysis inappropriate. First, the central role of advertising in some forms of media creates unique market relationships that must be taken into account when assessing the media. In some respects, the media market is *not* responsive to audiences. Second, and more important, media cannot be considered as merely a product to be used by consumers. Instead, as the public sphere model suggests, media are resources for citizens with important informational, educational, and integrative functions. Third, the unique role that media play in a democracy is reflected in the legal protections the media enjoy in the United States. In the following discussion, we consider each of these in more detail.

Advertising and the Media

One reason the media industry is different from other industries is its unique market situation. Most businesses sell products or services to buyers. The market model is based on this traditional buyer-seller relationship. Media businesses, however, operate in what is called a *dual product* market. They simultaneously sell two completely different types of "products" to two completely different sets of buyers. As Albarran succinctly puts it, "First, they produce the media products (newspapers, TV programs, etc.) that are marketed and sold to consumers. Second, they provide access to consumers (readers, viewers) that is sold to advertisers."¹³

The balance between consumer revenue and advertiser revenue varies by media type. Books, for example, are similar to other products in that the individual consumer provides nearly all the revenue for publishers. Broadcast television and radio, at the other extreme, are free to consumers and rely entirely on advertisers for revenue. Other forms of media have dual revenue streams but usually rely mostly on advertisers. For print media, subscriptions and newsstand sales account for only about one third of newspaper and magazine revenue; advertisers make up the bulk of revenue. As the Internet develops, most sites are following the broadcast model of providing free content that is financed by advertising.

Individual consumers are aware of the first of these two markets. We are used to paying for newspapers, cable television, CDs, magazines, and other items. Here, we are in the traditional consumer role of buying a product for ourselves. However, it is less obvious that in the second media market, *we* are the products being sold; advertisers are buying our attention. As a result, the value of audiences goes well beyond the direct revenues they provide to media companies. Instead, audiences are important because they can be sold to advertisers. In essence, then, media content is often a kind of bait, intended to lure the audiences that are the valuable commodities for sale. The result is a market in which media companies need audiences but receive most of their revenue from advertisers, who may be interested in only very specific segments of the public.

This unique dual-product market status has significant implications when we assess the claim that unregulated markets respond to and satisfy the needs of consumers. In reality, to varying degrees, the consumers that media companies are responding to are advertisers, not the people who read, watch, or listen to the media. So, for example,

some television programs with relatively low ratings are renewed, and more popular shows are canceled. If television networks simply responded to what *viewers* watched, this would never happen. It does happen, however, because the networks are really responding to advertisers, not viewers. If a program with modest ratings reaches a demographic group that is especially attractive to advertisers, it may be renewed in favor of a program with higher overall ratings but with demographics that are less appealing to advertisers. Higher income viewers, for example, are more appealing than lower income viewers because they are more likely to be able to afford the advertisers' products. Advertisers also have a strong preference for younger audiences and are relatively uninterested in consumers over the age of 50. Unlike a democratic "one person, one vote" dynamic, markets are explicitly tilted in favor of those with more money who are likely to spend it and, increasingly in recent years, geared toward the preferences of young people, whom advertisers see as valuable and potentially brand-loyal consumers.

Thus, even if we accept the claim that markets are responsive to buyers, we see that in the media marketplace these "buyers" are often advertisers, not the general public. This certainly challenges the belief that the unregulated marketplace adequately responds to the public's needs.

Media as Citizen Resources

The media industry differs from other industries in a second important respect. Because the media produce cultural and political goods that have different purposes from many other goods, the public sphere model conceptualizes media as citizen resources, not simple consumer products. Media can, and sometimes do, help provide citizens with what they need to be active participants in social and political life. In contemporary society, the media are central to processes of deliberation, education, and social integration.

Media are the primary suppliers of information to citizens, both about current events and long-standing issues. They inform for both individual decision making and, equally important, public deliberation. The health of our political discourse depends to a large degree on the quality of the information that the media circulate. Whether it be news about war or televised presidential debates, citizens rely primarily on media for information they need to actively participate in public life.

Media do more than simply inform citizens; they are also, in varying ways, informal educators. Media, often in entertainment formats, can provide us with a window onto our history, the experiences of others, and the views of people with whom we may never come into contact. In more formal ways, media can be educational, bringing learning opportunities to children and adults, probing complex intellectual or spiritual questions, and giving us the background and context to understand the contemporary world. (Indeed, even those who are most critical of the media—those who cry for censorship of what they consider to be inappropriate or offensive content—assume a powerful educational role for the media but fear that media “teach” the “wrong” lessons.)

In addition to their informational and educational functions, the media have the potential to promote social integration by bringing people together across geographic or social boundaries. In doing so, they can help constitute a shared identity based on the common reference points or beliefs that bind citizens to the society they collectively inhabit. Especially in a large, highly differentiated country such as the United States, media can enrich public life by promoting the notion that public dialogue matters and by providing spaces where people can both see parts of their own experience and be exposed to ideas, experiences, and cultures that they do not encounter in their day-to-day lives.

Because the media are important contributors to these educative, deliberative, and integrative processes, conceptualizing media simply through the language of consumption is inadequate. Instead, by focusing on the ways in which media are linked to the question of citizenship, we can see that the market model is far too narrow, because it neglects the cultural and political significance of the media. By insisting on analysis of the “rational” individual—what individual consumers, in the aggregate, “choose”—the market model obscures the social meaning of media. In the end, the fundamentally democratic role of the media is undermined if we conceptualize our relationship to media in terms of mere consumption.

The Unique Legal Status of Media

Because democracy and the ideal of free expression have long been linked in the political culture of the United States, the media industry

continues to occupy a distinctive place in the American imagination. As part of a larger commitment to free speech and free expression, Americans generally consider a “free press” to be an essential requirement of a democratic society. Belief in the value of free expression is more than a cultural tradition, however; it is codified in law.

The media industry is different from other industries because it enjoys special legal protection. The First Amendment to the Constitution states that “Congress shall make no law . . . abridging the freedom of speech, or of the press.” The First Amendment gives the press a special status, protected from government regulation, because of its important role in informing the citizenry. Of course, such protections do not give members of the press license to violate the law. If news organizations engage in unlawful activities (e.g., theft) in their reporting, they can be prosecuted. News outlets that knowingly publish false and harmful information can be sued for libel. In fact, some corporations now view libel suits as a potentially expensive threat they can deploy when they want to try to intimidate investigative reporters. Even so, criminal and libel laws do not permit the government to prevent publication—to engage in “prior restraint”—of any specific material, even if reporters may face legal action later.

In contrast to the print media, broadcasters have not traditionally enjoyed such broad First Amendment rights. Because they use the public airwaves and rely on a government licensing system to allocate space and direct traffic on the limited electromagnetic spectrum, the courts have permitted government regulation of television and radio. The rationale for such regulations is that they serve the public interest, which broadcast law has historically identified as a central obligation of broadcasters who are granted licenses. Even here, however, the courts have concluded that broadcasters have substantial First Amendment rights. Government cannot define the specific content of broadcasts, although laws can require the presence of certain types of programs (e.g., children’s or public affairs programs) intended to serve the public interest. Even though politicians routinely criticize television executives for broadcasting excessive sex and violence, government officials do not introduce legislation that regulates television content, because such a law would almost certainly be invalidated by the courts as a violation of the First Amendment. As we will see, debates about regulation of media almost always acknowledge the cultural and legal significance of the First Amendment rights of the media.

❖ THE TRADITION OF CIVIC RESPONSIBILITY

Although the principal players in the media industry have always been profit oriented, it has long been recognized that profit seeking must be balanced by recognition of the civic role of news, public affairs, and, to a lesser extent, entertainment media. Until recently, this broad public purpose of media was widely, if not universally, accepted.

The civic responsibility of the media has been most firmly recognized in the print media. As the code of ethics for the Society of Professional Journalists notes,

Public enlightenment is the forerunner of justice and the foundation of democracy. The duty of the journalist is to further those ends by seeking truth and providing a fair and comprehensive account of events and issues. Conscientious journalists from all media and specialties strive to serve the public with thoroughness and honesty.¹⁴

Similarly, the Statement of Principles of the American Society of Newspaper Editors says,

The First Amendment, protecting freedom of expression from abridgment by any law, guarantees to the people through their press a constitutional right, and thereby places on newspaper people a particular responsibility. . . . The primary purpose of gathering and distributing news and opinion is to serve the general welfare by informing the people and enabling them to make judgments on the issues of the time. . . . The American press was made free not just to inform or just to serve as a forum for debate but also to bring an independent scrutiny to bear on the forces of power in the society, including the conduct of official power at all levels of government.¹⁵

Thus newspapers and many magazines have long touted the special responsibility of the press to inform and educate citizens.

Broadcasters, too, recognize their role in serving the public. The Radio-Television News Directors Association's Code of Ethics and Professional Conduct begins with the observation that "Professional electronic journalists should operate as trustees of the public, seek the truth, report it fairly and with integrity and independence, and

stand accountable for their actions."¹⁶ Because broadcasters transmit signals through the public airwaves, all forms of broadcasting have been viewed, at least in part, as a public service. In fact, regulations on radio and television stations in the United States obligate them to serve the "public interest, convenience, and necessity,"¹⁷ although, as we will see, the specific meaning of this kind of public service has long been contested.

Other media forms, too, have been closely associated with the American ideals of free speech. Films and music, for example, have been widely recognized as providing a forum for the expression of a wide range of stories, concerns, and emotions. In this sense, they also can be understood as providing a type of public service.

Profit seeking and public service are not either-or propositions. Instead, the civic responsibilities of media have historically been met within the framework of commercial business. This has always included incidents and trends that have put the pursuit of profits above the public interest; still, there is a strong history of attempting to balance the two. However, as the media industry grew and consolidated in the 1980s and 1990s, that delicate balance shifted even further in favor of pursuing greater profits over concern for public service. Even though it has been marginalized in recent years by a growing concern for profits within the media industry, the public service role of the media is still recognized and invoked, especially by the professional associations that represent the journalists who work for the major media.

❖ THE PUBLIC INTEREST

If the media industry is different, in important respects, from other industries, the underlying conceptual reason is that media outlets have a distinctive relationship with the public. Rather than simply supplying consumer goods in a free market context, media in a democratic society are expected to serve the public interest. It is no small task, however, to define what *public interest* means or how our mass media can serve in this capacity. In fact, critics often find it easier to identify what is *not* in the public interest—too much violence in television or news that is too focused on crime, for example—than to explain what serving the public interest entails.

Market enthusiasts, on the other hand, can point to a straightforward definition of the public interest by inverting the term: The public

interest becomes what the public is interested in. From this perspective, those media that are popular, by definition, serve the public interest. However, by defining the public interest as what is sufficiently popular (and profitable), the strict market model effectively dismisses the broader cultural and political significance of media. Narcotics and prostitution have proven to be enduringly popular among some segments of the public, but simply because the public is interested in such things, can we really say they are in the public interest?

If we take seriously the idea that media are more than simply a vast and profitable industry, that they are important components of a democratic society, we need to pay attention to what it means for media to serve the public interest. To be sure, there are no easy answers. Seventy years of broadcast regulation has demonstrated the dynamic nature of defining the public interest. Instead of identifying a timeless and rigid set of guidelines, which would not be likely to withstand changing cultural norms or the emergence of new technologies, what we need is a framework with which to define the parameters of what it means for media to serve the public interest.

Promoting Diversity, Avoiding Homogeneity

Media serve the public interest to the extent that they portray the diversity of experiences and ideas in a given society. Only through exposure to a wide range of perspectives can citizens begin to truly understand their society and make informed decisions. Mainstream ideas and the views of those in power have a variety of avenues through which they can be expressed, including that of the major media. The media, however, must serve the public interest by regularly including ideas that are outside the boundaries of the established consensus. In this way, media become a place where old ideas can be scrutinized and where new ideas can emerge and be debated. With a focus on diversity that welcomes disagreement and dissent, media can make a significant contribution to democratic public life.

In the context of a large and complex media system, diversity has several meanings. At the most general level, a healthy public sphere is nourished by a media system that provides a diverse menu of media fare. Citizens should have a wide range of options in both content and format. Television systems, for example, should provide different kinds of programming and provide viewers with choices among substantively different alternatives. Book publishers and music labels

should offer a wide range of types of books and music, giving citizens choices that include the traditional and the innovative, the currently popular and the less known.

On a more specific level, the public interest is enhanced by a media system that presents a diversity of views and stories, giving citizens a window on their world that is multicultural and offers many different perspectives. Diversity in this sense refers not only to differences in race, class, and gender but also to substantive political or ideological differences. It does little to enhance diversity to have more women and minorities as political commentators if, for example, all they do is repeat well-worn assumptions that had previously come from white men. Citizens should have access, among the diverse media fare, both to people and views that they find similar and to people and views that are very different from their own. In addition, a vibrant public sphere is nurtured not only by media products that are considered "serious" but also by media that give citizens pure diversion and the opportunity for enjoyment. A diverse media system offers media that are serious, challenging, and issue oriented; media that are fun and entertaining; and much that is both informative and entertaining at the same time.

Until recently, advocates of a public interest approach focused almost exclusively on the importance of news media for public life. That was because the information provided in the news was so obviously a central requirement for an active citizenry. However, it is a mistake to see news as the only media form that contributes to democracy. Other types of media play important roles as well. Internet Web sites, talk radio programs, and television talk shows all facilitate public dialogue about current issues. Books can contribute to and spur public discussion. Even films and music can participate in and stimulate public debate about significant ideas and issues.

Media do not have to be explicitly "informational" to engage with public issues. We encounter public life through the stories we hear, tell, and experience. Today, it is our media, both new and old, that are our preeminent storytellers. As a result, forms of media that we classify as entertainment can play an important role in public life through the stories that they circulate.

The flip side of diversity is homogeneity. As we will see later, market forces tend to promote homogeneous media products, as firms attempt to reach broad mainstream audiences. The "formula" system behind many Hollywood movies and the standardized formats

adopted by most local news broadcasts are just two examples of homogenized media. However, this homogenization strategy tends to squelch media that are offbeat or idiosyncratic because they do not have a broad appeal. In effect, it helps undermine diversity. Serving the public interest requires a media system that is innovative and diverse in both substance and style. From the profit-oriented market model perspective, this kind of approach is risky. From a public interest-oriented public sphere perspective, this kind of approach is essential.

Substance and Innovation Without Elitism

The media also serve the public interest to the extent that they provide citizens with substantive information and innovative entertainment. A diverse array of formulaic “fluff”—or many different versions of “reality television”—is no diversity at all. The public sphere model acknowledges that what people *want* may not always be the same as what they *need*. Media need to serve as spaces within which citizens may be informed, engaged, challenged, and entertained. In the course of providing such substance and innovation, media must avoid propagating elitism.

Media must be willing to devote the space, time, and resources to informing the public about substantive issues, providing a wide range of perspectives. They must find new and engaging ways to communicate this information. In doing so, they must directly speak to the apathy and cynicism of many Americans. For example, in national elections, roughly half of all eligible voters stay away from the polls. The nonparticipation rate is even higher for state and local elections. Still, most media stick to well-worn horse race-style election coverage, tracking daily assessments of who is winning, inadvertently contributing to the alienation many people feel from political life. Media that truly served the public interest would use such events to substantively examine the challenges facing our democracy. Who are these nonvoters? Why have they stayed away from the polls? What do these nonvoters think about the political process? Why do they so often see the choice of candidates as no choice at all? Why do other democracies have much higher voter turnout? Can we learn something from these other democracies? Seriously and regularly addressing such questions would be a step toward including the views of many who are now left out of an election process—as entertainment aimed primarily at “likely voters.” It would also begin to spark more debate and discussion about

how to revitalize our democracy and make it more inclusive. That would be a key element of substantive election coverage.

In entertainment media, innovation and risk taking—including promoting fresh perspectives, developing new formats, and welcoming controversy—are part of what it means to serve the public interest. Because such efforts can be financially risky, market-driven media are loath to regularly take such an approach. In addition, mainstream media advocates point to the millions of people who pack movie theaters, buy CDs, and watch television shows as evidence that they are already giving the people what they want. In fact, market enthusiasts have effectively painted public interest advocates as elitists who think they know the public’s interests better than the public does.

Public sphere advocates need to take such charges seriously, in part because some critiques of commercial media *can* be elitist. The potential danger in the market model is that only what is widely popular may be considered valuable—important contributions that are out of the mainstream may be left out. The potential danger in the public sphere model is that only what is approved by the elite may be considered valuable—important contributions that are broadly popular may be left out. For example, according to Ien Ang, public service broadcasting in Britain was long considered to be a benevolent, but paternalistic, effort to promote and preserve the “best” of British culture.¹⁸ There is certainly value in nurturing aspects of culture that are not widely popular, but such efforts must avoid paternalism by focusing on inclusive diversity rather than on the promotion of more rarefied definitions of “quality” media.

We must also remember that the public sphere approach to media is only elitist if we assume that popular desire is born and not made. We know, however, that popular tastes are shaped—for example, by a media industry that sometimes spends more on advertising and promoting a film than on making it. In fact, a whole range of decisions are made by the powerful media industry elite that greatly influence the range of media to which we are regularly exposed. Before the public ever gets to choose, record companies pick which of their bands will and will not receive support with major promotional campaigns. Book publishers decide, prior to publication, which books are likely to be bestsellers and which have narrower appeal. Television network executives can, in essence, decide the fate of a program by whether it is placed in a popular time slot or relegated to the scheduling equivalent of Siberia. In its own way, then, the commercial media industry—and

the advertisers who support it—impose their own preferences on the public, although the rhetoric of the market often cloaks these routine decisions. Isn't this, too, a form of elitism?

By focusing on the importance of the public interest, public sphere advocates are underscoring the value of extraeconomic goals such as diversity, substance, and innovation. Citizens need both information and entertainment, but on both counts, they need to have the opportunity to see their own experiences reflected and to be challenged by others. In short, when we talk about the public interest, we are identifying the media system as one of the key arenas in which citizens are constituted, are informed, and can deliberate.

❖ CONFLICTING LOGICS

The two approaches we have been exploring—the market and the public sphere models—provide different lenses for seeing and evaluating recent developments in the media industry. The market model frames a great deal of public discourse about the media industry and is the only language with any currency in the media business itself, but whenever critics or citizens complain about the performance of mass media, public sphere concerns are likely to be present.

Exhibit 1.2 summarizes some of the principal differences between these two approaches, demonstrating that the market and public sphere frameworks provide distinct perspectives on fundamental media questions.

One of the most telling differences between these two approaches is their divergent ways of envisioning the audience. The market model views the audience as a market of consumers both of media products and of the goods and services presented in the accompanying advertising. *Diversity*, from this perspective, is primarily a strategy for targeting particular demographic market segments. In the public sphere model, the audience is not conceived as a market, nor are individual members of the audience seen simply as consumers. Instead, the audience is perceived as a public, who, according to Ien Ang, should be “reformed, educated, informed as well as entertained—in short, ‘served’—presumably to enable them to better perform their democratic rights and duties.”¹⁹

The market model view of the audience is certainly the predominant, perhaps the only serious, perspective within the media industry.

Exhibit 1.2 Summary of Media Models

	Market Model	Public Sphere Model
How are media conceptualized?	Private companies selling products	Public resources serving the public
What is the primary purpose of the media?	Generate profits for owners and stockholders	Promote active citizenship via information, education, and social integration
How are audiences addressed?	As consumers	As citizens
What are the media encouraging people to do?	Enjoy themselves, view ads, and buy products	Learn about their world and be active citizens
What is in the public interest?	Whatever is popular	Diverse, substantive, and innovative content, even if not always popular
What is the role of diversity and innovation?	Innovation can be a threat to profitable standardized formulas. Diversity can be a strategy for reaching new niche markets.	Innovation is central to engaging citizens. Diversity is central to media's mission of representing the range of the public's views and tastes.
How is regulation perceived?	Mostly seen as interfering with market processes	Useful tool in protecting the public interest
To whom are media ultimately accountable?	Owners and shareholders	The public and government representatives
How is success measured?	Profits	Serving the public interest

For example, the so-called educational news program *Channel One*, which provides a 12-minute program (including 2 minutes of ads) to more than eight million school children each day, uses the language of the public sphere model in telling school administrators that it is interested in promoting active citizenship. In its promotional material directed at potential advertisers, however, *Channel One* boasts about its unique ability to provide a "direct pipeline" to a highly coveted teen market. In the market model, audiences are valued solely for their potential purchasing power, because what matters most is whether people purchase media products (books, CDs, movie tickets, etc.) and make themselves available to the advertisers who pay for access to our attention (through television, radio, magazines, etc.). As a result, those who lack significant purchasing power, especially the poor, are of little interest to the media industry.

Even in noncommercial media explicitly identified as a nonprofit public service, it can be difficult to escape the market mentality. In recent years, public television in the United States has responded to the growth of cable and satellite television by identifying more aggressive promotion as a key to future success. Although there are crucial differences between public and commercial television, public television still operates squarely within a market framework. The audience, although smaller than its commercial counterparts, is pitched to potential sponsors as an attractive market because it is more upscale than the network audience and has great buying power. Public broadcasters have identified the PBS brand as a potentially valuable commodity and have developed promotional strategies and additional revenue streams based on extending the PBS brand beyond television to records, books, online sites, and so on. This includes developing brand name merchandise, particularly for children, derived from PBS programs.

The media's role in facilitating democracy and encouraging citizenship has always been in tension with its status as a profit-making industry. Mediating between these two has been the government, whose regulations (or lack thereof) have fundamentally shaped the environment within which the media operate. The next chapter reviews this regulatory environment and explores how media policy has changed with the explosion of mass media.

2

The Rise and (De)Regulation of the Media Industry



The media and entertainment industry is among the fastest growing sectors of the American economy, producing an expanding variety of products that are ubiquitous in our everyday lives. The history of media's growth and the interplay between the business of media and the regulation of media are the subjects of this chapter. We can give only a brief sketch of this complex history, but it provides some context for our later discussion of more recent changes. We begin with a case study as one example of the growth of media companies, the evolution of the media industry, and the central role regulators have played at key moments in media history.

❖ THE CHANGING BUSINESS OF MEDIA AND REGULATION: THE CASE OF ABC AND DISNEY²⁰

Since the early 1980s, the business barons from Hollywood and Wall Street have gathered annually for an exclusive media and technology