

*Theorizing Market Failure  
in the Media Sector*

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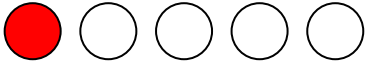




*The End of a Fallacious Paradigm?*

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# Executive Summary

- The theory of market failure is lacking validity
- Political debate is lacking scientific foundation
- Some media markets are on the verge of failure
- Media goods are special goods, partly private / partly public
- Excludability is non-intrinsic property, defined by institutions and technology
- Media market structures give way to paradigm failure

# Agenda

- Intro: Eclectic body of research 
- Argument: The End of Failure? 
- Methodology: Theory, but where is empirics? 
- Concept: PG Theory Valid for Media? 
- [Empirical Evidence: Media Business]
- Outlook: Where to go from here? 

## Public Goods Definition (*stylized*)

- Non-rival and non-excludable goods, but there are various types and degrees
- The public goods dilemma: socially optimal price = 0, but this discourages private firms to provide PG
- Thus, there is a need for mix of private & public provision
- Market forces do not serve the *perceived* public interest

# Public media goods - Classification

Exclusion

Excludable

Non-Excludable

Consumption

Rival in use

**1. Pure Private Goods**  
(ice cream, bread, *CD as carrier*)

**2. Common property goods**  
(fish in ocean, public grazing lands)

Congestable

**3. Club goods**  
(*Cable TV, Pay TV, toll roads*)

**4. Non-marketable impure public goods** (public parks)

Non-Rival

**5. Marketable Public goods**  
(*hit music CDs, blockbuster movies, satellite signals, private provision*)

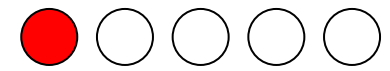
**6. Non-marketable pure public goods** (Defense, lighthouse, broadcast program, *public provision*)

- ➔ The “degree of publicness” is crucial
- ➔ Publicness is dependent on intrinsic and extrinsic properties

# Causes for Market Failure – Not only PG

- Public goods and externalities: No property rights defined
- Sub-optimal market structures (monopoly power)
- Imperfect information (quality uncertainty, information asymmetry)
- Non-rationality of consumers (addictive behavior, satisficing, intransitive preferences)

➔ **But: Also non-market failures**



# Taking PG theory into 21st Century

- Blurred boundaries between public & private
- Various modes of regulation: The Hollowing out of the State
- Free market libertarians vs. interventionists: who takes the paradigmatic lead?
- Positive vs. normative theory: What is good about public goods?

# Ideology clashes

Information economics  
Theory of network effects  
Game Theory

Agency,  
Information,  
Coordination

Samuelson, P.A. (1954) *The Pure Theory of Public Expenditure*  
Bator, F.M. (1958) *The Anatomy of Market Failure*  
Musgrave, R., Peacock, A. T. (1958) *Classics in the Theory of Public Finance*  
Stiglitz, J. E. (1984) *Markets, Market Failures and Development*

MIT-Harvard axis

Paradigmatic clashes

Chicago School

Theory

Applications

Smith, A. (1776) *An Inquiry ...*  
Marshall, A. (1890) *Principles ...*

Buchanan, J. M. (1965) *An economic theory of clubs*  
Coase, R. H. (1966) *The Economics of Broadcasting*  
Coase, R.H. (1974) *The Lighthouse in Economics*  
Demsetz, T. (1988) *The Exchange & Enforcement of Property Rights*  
Cowen, T. (1988) *The Theory of Market Failure*

Noam, E. (2004) *Market Failure in the Media Sector*  
Hoskins et al. (2004) *Media Economics*  
Bunduchi et al. (2004) *Between public and private. The nature of today's standards*  
Davis, P. A. (1985) *Clio and the Economics of Qwerty*



# The End of Market Failure Theory?

- The sea of knowledge remains large and confused
- Eclectic intellectual body and architecture
- Economic calculus overshadowed by vested political interest
- Fallacious political doctrine?

⇒ The paradigm is challenged but should we abandon it?  
⇒ What about the theory of public goods?

# Research Design & Methodology

- Present research: Concept stage
- Theoretical in nature, exploratory in approach
- Design: Literature review and case study (casuistic)
- Methodology restrictions:
  - Where is the model? (constructs, instantiation)
  - Validity: more cases; precise data sources
  - Real world does meet the theory ideal (Nirvana fallacy)

# Media: Synoptic comparison

**Excludable?**

**Yes                      No**

**Yes**  
**Rival?**

<b>Private Goods</b>	<b>Common Property</b>
<b>Marketable Public Goods</b>	<b>Non-Marketable PGs</b>

**No**

→ **Degree of rivalness: intrinsic to good**

→ **Degree of excludability: non-intrinsic to good, Defined by:**  
 - Property rights  
 - Devoted resources  
 - Technology

**Dependent on:**  
**Institutional setting**  
**Technology**

**Media as Public Goods**

- 1. Intangibility: But, intellectual goods are genuinely private**
- 2. Content-basedness: marketable PG of maximum degree, But: copyright**
- 3. Information is non-depletable: But, psychological wearout**

***Media management & Media Policy?***

## Results & Conclusion

- Variable degrees of rivalry and excludability
- Not all market failures evidenced
- Media goods have intrinsic properties to consider
- New drivers (e.g., digitization) potentially offset failures
- Different perspectives on failures: bad for society, but good for industry
- Consumer welfare under threat: who looks at the citizen interest in media?