

Defining Localism from an Economics Perspective

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Introduction

- “Localism” is a catch-all for various concerns about local aspects of broadcasting
 - We need to identify the different kinds of concerns involved with “localism,” so that we can properly analyze and address each one
- It is important to understand why people want localism, to determine what problems it solves
 - Then we can carefully craft solutions to those problems
- The economics literature can provide insight into many aspects of the problem
 - This requires that the public’s concerns about localism be translated into an economic framework

Background note

- Congress and the FCC's adoption of the goal of localism in the early 20th century reflects the historic importance of localism to Americans
- Localism has been considered important in other areas besides broadcasting
 - Examples:
 - Banking – interstate and intrastate branch banking was heavily restricted until the 1990s
 - Retail – communities often resist the introduction of national chains, and attempt to protect local stores
 - Even if there are significant economic benefits to having national chains/networks, communities feel there is a need for localism
 - There seems to be a difference between how people make their economic choice (by shopping at the national chains) and their political choice (by urging for more local stores)

Purpose of Analysis

- Classify the various concerns expressed by the public about the need for more localism
- Identify the specific harms caused by a lack of localism
- Translate the problem into an economic framework
 - To determine if the economics literature can provide some insight into the issues
- Determine why the marketplace might be underproducing localism in a particular area
- Future analysis:
 - Determine in which areas there is insufficient localism
 - Identify the solutions available to fix the problem
 - Examine the trade-offs from using each solution
- *Note: this analysis applies to both TV and radio*

Purpose of Analysis

Important questions to answer:

- What are the specific problems or harms caused by a lack of “localism”?
- What are the economic causes of each problem, using an economic framework for analysis?
- For each area of concern, does the free market satisfy the need for localism? If not, why not?
- What kinds of solutions will solve the problem? Are structural or behavioral rules more effective?
- Do the proposed solutions have any adverse side effects? What trade-offs are associated with implementing them?

Public concerns about Localism

Basic Types of Concerns Expressed about Localism

1. The public needs access to local news of general local interest. This can be either news about:
 - Routine everyday events (politics, traffic, weather, sports)
 - Unusual significant events (school closings, elections, storms)
2. The public should be informed about local emergencies and disasters (evacuations, power outages, chemical spills, EAS).
3. The public should be educated about local institutions and issues of local importance.
4. Local interest groups need a means of discussing their issues and describing their services to the public (community groups, political groups, religious discussions and services).
5. The public should be instructed about good behavior of particular importance to the local community (PSAs against aggressive driving or for conserving water).

Public concerns about Localism (cont)

6. Programming should be edited to avoid offending local sensibilities (editing bad language, preempting risque episodes of network shows).
7. Local communities want programming tailored to suit local tastes (e.g. replacing network show with syndicated show).
8. Stations' programming and viewpoints should reflect the local political views of the area.
9. There should be an outlet for locally-originated programming.
10. Local musicians need a means of getting aired locally.
11. People wanting to work in radio should have a means of entering the radio business.
12. Local business needs to be able to advertise to local audiences.

Examples of "local" programming

- Public affairs programming (regularly scheduled and exceptional)
- Public Service Announcements on local issues (PSAs)
- Local religious programs (Christmas Mass)
- Local talk and call-in shows
- Local news, weather, sports, traffic reports
- Emergency news (floods, tornados)
- Broadcast of local sports events
- Public access and airing locally-produced programs
- Playing local musical artists and groups
- Advertising from local businesses



Basic Taxonomy

Three basic categories of concerns about Localism:

A. Local coverage


- = Information about the community
- Economic definition: Localism is a good, that contains information about, or needed by, the community

B. Tastes of the community

- = What listeners want to hear
- Economic definition: Localism involves providing programming that matches the tastes of the community

C. Local origination

- = Airing local content and hiring local people
- Economic definition: Localism is about utilizing local resources, and providing a local outlet for self-expression



Analysis by Major Category

- Local Coverage
- Tastes
- Local Origination

Local coverage

- Defining local coverage = information provided about the community, or of special interest to members of the community
- Economic definition: For these issues “localism” can be considered a good that contains information about the community
 - This good is of lesser value to other communities

Local coverage

Reasons why marketplace may generate inadequate production of local news and coverage:

- Market structure causes
 - Single price – station revenues depend on number of listeners, not value to each listener
 - So “price discrimination” is not possible, which can reduce the production of valuable programming
 - Programs that are particularly valuable to a small part of the community, or are very valuable to everyone on an irregular basis, will be socially desirable (benefits > costs for society), but not produced
 - Scale economies in content production and broadcasting
 - Adding local content is costly and may lower profits, so there is an incentive to use national programming

Local coverage

Reasons why marketplace may generate inadequate production of local news and coverage (cont.):

- Externality = Full benefits and costs to society are not incorporated in the market transaction, leading to under/over production of the good
 - E.g., some people learn about event from others who heard it on the radio = “free riders”
 - E.g., Emergency news – people don’t choose radio stations on basis of ability to broadcast information about disasters
 - E.g., Merit good = good that government deems is underproduced, because consumers undervalue it
 - E.g., PSAs against drug abuse
 - E.g., information about community events and institutions that people should be aware of (elections, charities, public services)

Local coverage

- Distinctions that are important for analysis:
 - News valuable to most of the population (weather) vs. news of interest to particular groups only (rezoning in a neighborhood)
 - Routine news of interest on everyday basis (traffic, sports, weather) vs. unusual or emergency news (hurricane, election)
 - Information that people want and seek out (sports) vs. information that people should get but don't seek out (teenage smoking)

Tastes

- Defining Tastes = what local consumers want to hear, which may differ from consumers elsewhere
- Economic definition: For issues involving tastes, “localism” is how well the product attributes match the interests of the local community

Tastes

- Reasons why marketplace may generate inadequate matching of programming to local tastes:
 - Cost of tailoring to local tastes
 - The benefit to the community of tailoring may not affect profitability as much as the additional costs of tailoring shows
 - Especially if number of listeners doesn't increase much with tailoring
 - The cost of tailoring includes both:
 - The fixed costs of producing another program
 - The opportunity cost of not being able to use the (nationally) most popular program, if a local program is substituted
 - Market structure causes
 - Competitive market can reduce diversity, including paying attention to local issues

Local origination

- Defining local origination = putting more local content on the air, and hiring more local people to work in broadcasting
- Economic definition: Local origination can be defined as the utilization of local inputs for broadcasting
 - Including content and broadcast production
- Use of local resources can encourage the development of local capabilities and artistic talent, and improve local jobs and growth
 - The extent to which this should be promoted through local content requirements is controversial (as with the infant industry argument), because:
 - Benefits are uncertain
 - Restrictions can reduce efficiency, raise costs, and lower quality

Local origination

- Reasons why marketplace may generate inadequate use of local resources (reasons are likely to be similar to those of local coverage):
 - Lower cost of use of network programming:
 - Reduced fixed costs
 - Benefit of being able to choose most popular program
 - Lower local interest in local programming
 - Ratings might be lower for local program than for network program



Further Analysis

Is Localism Underproduced?

- Note that in some areas, the free market probably produces sufficient localism
 - E.g., there are stations that specialize in providing local news, weather and sports
- Economic theory suggests that in certain areas of broadcasting, there could be less localism than is desirable

Tradeoffs involved

- Need to recognize the trade-offs involved with implementing each proposed solution
- Examples:
 - Requiring more local coverage:
 - May be more costly
 - May lower quality
 - Difficult for government or stations to know what information a community “needs”
 - May be ineffective if it fails to attract listeners
 - Requiring tailoring to local tastes:
 - May increase costs
 - Difficult to define what local tastes are
 - Requiring more local origination:
 - May be more costly
 - May lower quality of programming