

# **Comparative Aspects of Media Economics and its Development in Europe and in the U. S. A.**

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During the past three decades, I have often been asked to define the term “media economics” and the parameters of the field of study. Although it is widely agreed that the field involves economic theory to explain the workings of media industries and firms, I believe it goes much further to investigate and explain how the economic, financial and regulatory forces influence the operations of media markets and their effects on society. The media economics field also involves inquiry that focuses on how economic factors produce the kinds of media systems found in societies, determine the ways in which media operate, affect the choices of content, and reveal their implication on culture, politics, and society. Those who embrace the field understand that financial and economic concerns are central to understanding communications systems and firms and in the formulation of public policies regarding communications (Picard, 2003: 301).

As an academic field, media economics has always been an orphan. Its theoretical bases, general perspectives, and application have been influenced by the questions of the day in the locations in which it developed, the disciplines from which it arose, and by the academic departments in which it found a home. There is no widely agreed upon place for research and education on media economics to be housed in a university. It is found in journalism training, broadcasting institutes, media studies programs, economics and political science departments, and social science and business schools. The decision of its placements appears to be based more on where it first appeared rather than sober deliberation. This is not a weakness, however, but reveals the vibrancy and scope of the topic and the range of perspectives and methods involved in its study.

Part of the difficulty in drawing parameters around the field of inquiry is that there really is no such thing as media economics. Rather there is the application of economic perspectives to 1) explaining media structures and economic forces on media and how they are affected by the environment surrounding them and 2) employing that knowledge in attempts to achieve business and policy outcomes. By its very nature the first activity requires studies of descriptive, empirical and theoretical bases. The second requires a qualitative and normative approach that tends to be primarily descriptive and grounded in normative theories. Neither approach is inherently superior to the other but their results must be applied in different manners.

There are three dominant traditions observable in how media economics is studied and employed: a *theoretical tradition*, an *applied tradition*, and a *critical tradition*. The *theoretical tradition* is concerned with producer and consumer choices and other economic factors affecting media. It tends to be based in classical and neo-classical economics. The approach tends to be used to explain the underlying forces that affect media firms and market activities and to theoretically establish optimal outcomes involving regulatory and policy options. The *applied tradition* is concerned with media market structures, trends and changes, as well as cost structures and revenue in firms. This approach is used to help company decision-making and to provide evidence for choices in policy bodies. The *critical tradition* is based on normative outcome preferences and factors that inhibit or would promote those outcomes (Picard, 2005).

The theoretical and applied traditions have used both *microeconomic* and *macroeconomic* approaches, whereas the critical tradition takes a broader view that considers the overall effects of the economic, political and social bases of the communications systems and the constraints that are placed upon the systems. Each of the approaches contributes evidence and explanation analyzing and understanding media and the environment in which they operate.

## 1. The Atlantic Divide in the Development of the Field

Although scattered inquiry involving economic issues of media appeared on both sides of the Atlantic earlier, consistent and specifically focused study did not appear until the 1970s. Contacts between researchers on both sides were rapidly established because the number of researchers in the field was initially small. From the beginning of that interchange of ideas, differences in the approaches to media economics were evident and were clearly influenced by the contexts in which the scholars carried out their inquiry.

U. S. researchers came from a highly commercialized media environment in which the state was not a participant, and in which economic and regulatory intervention was more limited. Changes to media markets and their environments were well underway. The stability that had previously been evident in media markets was eroding and a decline was underway in the number of competing newspapers (all of which were commercial, politically independent papers). Simultaneously, cable television that offered more than redistributed over-the-air channels was developing and spreading and changing competition in video markets.

European scholars as a whole worked within split media systems in which print was commercial but broadcasting was primarily state-created and protected. Government intervention in the economics of commercial industries overall was far more significant in Europe than across the Atlantic and support for those policies created opportunities to use the state mechanism to deal with media matters. At the time, economic difficulties were altering the structure of the European newspaper industry, particularly newspapers owned by or linked to political parties in the multiparty

democracies. In a number of countries efforts were being made to liberalize broadcast policy, primarily involving radio, to introduce commercial broadcasting.

The divide in contexts and existing media policy was of an oceanic scale and the contextual differences led researchers to ask questions and frame initial research in different ways as organized study of media economics began. U. S. scholars sought to determine why competition could not be sustained in the commercial newspaper industry and how and whether cable services could be economically viable as commercial entities. Their European counterparts asked questions about how democracy could function when political newspapers failed and whether social benefits would be produced by expanding choice in radio and television and how such a change would affect incumbent public service channels.

In the European context, the critical approach—routed in political economy, political sociology, and cultural studies—played a stronger role in the development of the media economics field, but the theoretical and applied approaches were also evident. Conversely, the applied approach took the strongest position in U. S. media economics studies, but the theoretical and critical approaches were also represented.

Although the contextual divide between the European and U. S. media environments were wide in the 1970s, that divide is no longer on an oceanic scale. Nevertheless, differences are still evident depending upon the countries, universities, and scholars compared.

Today, newspapers and magazines on both sides of the Atlantic are primarily commercial operations. Commercial broadcasting plays a significant role in both locations, although public service broadcasting remains the dominant player in most European nations. Cable and satellite services are equally available and highly commercialized. Internet services are similar on both continents, but Internet services of public service broadcasters have a stronger role in a number of European nations.

The economic forces faced by media on both sides of the Atlantic are similar today, particularly the competitive effects of the dramatic rise of commercial entrants in broadcasting/cable/satellite. Across different types of media we see fragmenting audiences, increasing dependence on advertising and consumer payments, and the development of media product portfolios designed to overcome declining returns per individual unit of media, to spread costs, and to reduce risks.

Media on the European side of the Atlantic remain primarily domestic enterprises and do not economically benefit from exports to the same degree as their American counterparts. Although political rhetoric and policy continue to support the creation of a common market for European media firms, that market has not developed significantly because of impediments of language, domestic content demands, national cultural policies, and domestic ownership preferences in broadcast licensing. Even in print media, where the least state control is exercised, trade in print media is highly limited. Research has shown that only about four percent of consumer magazine circulation in the EU crosses a national border; trade in newspapers is even more limited with less than one percent of circulation crossing a border.

## 2. Intellectual Origins and Loci of Studies

Although it is tempting to assert wide differences between media economics study in the U.S. and Europe, the distinctions are not as strong as some may believe. The literature of media economics on both continents has been one of the most internationalized among academic disciplines from its inception, and the primary differences result from the focus and emphasis given to various avenues of inquiry.

The theoretical tradition was primarily influenced by classical and neo-classical scholars from both sides of the Atlantic who addressed issues of media. Notable contributions were made by persons such as Ronald Coase, P.O Steiner, and George Stigler.

The applied tradition was built upon the base of the theoretical tradition and produced a long stream of descriptive studies using industrial organization and institutional theory on both sides of the Atlantic. Much of the U.S. work in the 1970s, for example, was inspired by Nordic studies and studies commissioned by the Commission of the European Communities on the growth and causes of newspaper mortality and concentration, and a good deal of research was influenced at an early stage by European media scholars such as Nadine Toussaint Desmoulins, Karl Erik Gustafsson, Alfonso Nieto, Anthony Smith, and Axel Zerdick. Economists and media scholars such as Alan Albarran, Sylvia Chan-Olmsted, Benjamin Compaine, Douglas Gomery, Stephen Lacy, Barry Litman, Lester Turow, David Waterman, and myself have conducted a good deal of research from the applied perspective to explain developments in media. Many of us, however, have then used that information in policy and regulatory debates and proceedings because we see it as enlightening debates and choices rather than as an end in itself.

Regulatory changes in the United States affecting broadcasting and television induced many economic and policy researchers to focus on media economics. Their approach differed from the normative approach of many European scholars because regulatory processes in the U.S. specifically require the use of applied economic analyses. This promoted studies by government, industry, and academic economists, attracting attention of researchers such as Jack Beebe, Willard Manning, Eli Noam, Bruce Owen, Kent Webb, and Steven Wildman.

The critical tradition was influenced by political economy and political sociology concerns that linked economics to social and political outcomes from Marxist and non-Marxist perspectives, sometimes producing strange bedfellows. The U.S. academic environment has produced and supported a well-established and long-standing tradition based on the critical tradition, with works by Robert Babe, Ben Bagdikian, Vincent Mosco, Janet Wasko, John McManus, Robert McChesney, Herbert Schiller, and Michael Schudson whose work using sociological, political economy and media studies perspectives on the influence of media economics is well-regarded globally. Their work was not in isolation and heavily influenced by Europeans such as Gerd G. Kopper, Nicholas Garnham, Peter Humphreys, Armand Mattelart, and Graham Murdock.

I would like to suggest that a good part of the perception of differences in European and American scholarship seems to result from the academic homes of that research. We need to recognize that there are long-standing differences in the traditional position and roles of communication and media studies programs in Europe vis-à-vis those of the journalism and mass communication programs in the United States. Although journalism studies related to the content skills and operations of media have been in place for nearly a century in U. S. universities, those activities were not integrated in most European universities until the last quarter of the twentieth century.

The twentieth century tradition of practical education in U. S. universities encouraged the development of media management courses, particularly after the Second World War. This training primarily concentrated on tactical issues of management such as how to supervise employees in a newsroom, how to operate a radio station advertising sales operation, and how to program television programs. That education originally was not strongly grounded in management or economic theory, but it created a scholarly context in which the subsequent development of media economics scholarship emerged. Consequently, the context focused the attention of media economics researchers on applying theory to solve specific company and industry issues.

During the same time frame, European education in media was guided by a less industry-oriented and practical approach. It applied sociological, psychological, political science, political economy, and cultural studies perspectives that created a theoretically strong media studies perspective. Education generally emphasized analytical rather than practical skills and promoted deep investigation into the processes of media and their effects on society. The approach was subsequently adopted in the U. S. by a wide range of scholars and became the basis for non-industry oriented media studies programs that were instituted in departments of sociology and communication studies.

As media industries became more commercialized across the West, business schools in both the U. S. and Europe began supporting research from the perspectives of business economics to help provide managerial economics knowledge for media management training. Although those schools embraced the applied tradition, its practice was much more theoretically based than the applied media economics research found in journalism and mass communications programs.

Today, I do not believe that we can assert a simple European-American divide in terms of the type of media economics scholarship. Both Europeans and Americans undertake excellent scholarship from the theoretical, applied and critical perspective. There are, however, differences in the scholarly cultures of universities and departments in various nations that support or value certain approaches and perspectives over others. Clearly, however, the preponderance of the research in the U. S. is oriented toward applied research, whereas critical approaches are more prevalent in many parts of Europe although less so than in the past. This is partly due to increasing demands by the European Commission and national regulatory bodies for empirical data and research.

In many German universities there remains a strong preference for media economics research using political economy and political sociological approaches. In other German universities, however, more applied approaches are being used to support programs in media management. In French universities, strong attachments to sociological approaches remain but a good deal of research from scholars in economics and business institutions is more akin to the applied tradition. The mentioned range of approaches is also evident in U. K. universities where basic applied media economics research exists alongside that influenced by political economy and cultural studies perspectives.

Much of the change that I perceive in European institutions results from policies that have upgraded polytechnics to universities and from the effects of the Bologna process. Together, these are altering the structure of higher education to create a tiered education system much more like that of the United States, in which lower levels of education concentrate on preparing students for employment, but higher levels of education concentrate on developing more analytical and critical abilities. It is also creating different categories of universities in which the types of education offered and research undertaken are valued differently.

Without going into a wholesale historical review of the political and economic forces that brought European context closer to that of the Americans, I would like to suggest that the traditional emphasis of European scholars in employing knowledge to critically assess media economics and to promote policy outcomes different from that in the U. S. has not been highly effective in the past two decades. The critical approach seems to have done little more than create an intellectually compelling body of criticism about media performance and what should or ought to be done. Outside of a few pyrrhic victories, it seems to have had less of an impact on policy outcomes.

Although the Council of Europe and the European Parliament, and many national parliaments often embrace the rhetoric of the critical tradition, the policies implemented by the European Commission and national parliaments have primarily taken on industrial policy preferences to promote the interests of media businesses, especially those of large European firms, and their approaches rely heavily upon the market and economically based competition policy to form the primary basis for media policy. With the exception of the critical rhetoric and the maintenance of stronger public service broadcasting, the overall outcome in the media environment is not considerably different in many European nations from that in the United States.

### 3. Textbooks and Courses in Media Economics

If one considers the textbooks and courses of study of media economics on both sides of the Atlantic, differences in scholarship are not dramatically different once one discounts material designed to domesticate them. The first textbook to specifically deal with media economics appeared in France in 1978 and took an industrial economics approach to analyzing the media industries and markets (Toussaint 1978) as did a Spanish-language text in 1985 (López 1985).

The first English language textbook applied basic economic principles to media companies and markets and discussed the existing research on the topic (Picard 1989). Two more significant textbook contributions from the U. S. appeared in the 1990s and took a distinct industrial economics approach in analyzing media industries separately (Alexander, Owers and Carveth 1993 and Albarran 1996). In 1993 a volume specifically exploring economic forces and choices involved broadcast and other video media (Owen and Wildman 1993) and was based on theoretical and applied economics. The first British textbook on the subject appeared in 2002 and blended both traditional economics and political economy perspectives (Doyle 2002).

The first German-language textbook appears to have been published in the early 1990s (Bruck 1993), exploring print media from the economic and political economy standpoints; a later volume similarly focused on broadcast media (Beck 2002). In 1996, an extensive contribution explored media economics from a variety of economic, political and sociological perspectives (Heinrich 1994). A specific effort to develop and view media economy as a media theory appeared just after the turn of the century (Kiefer 2001).

The transformation of the former state and party media in central and eastern European states brought significant interest on media economics and textbooks emerged that explored the structure of the industries and their workings of media markets in attempts to explain the challenges and developments that were appearing (Kowalski; Gálik 2001; Vartanova). A proliferation of textbooks in the 1990s and early 2000s expanded the text literature dramatically so that most major nations in North America and Europe had domestic publications for use in coursework. For the most part, these books provided content similar to that found in the French, German, and American textbooks.

Viewed as a whole, textbooks are more remarkable for their similarities rather than for their differences. They provide basic understanding of economic principles relevant to media operations, they discuss and analyze industries through the perspectives of industrial and institutional economics, they explore the roles of audiences and advertisers as consumers, and they deal with issues of competition and concentration and of regulation and policy. Differences exist in emphases given to certain topics, the illustrative examples introduced, and the implications raised, but general approaches and overall content are relatively similar. Textbooks, however, are not the only material used in education and research and it is in other media economics literature—journal articles, treatises, and focused investigations—that the European preferences for critical political, sociological and cultural approaches and American preferences for applied approaches are more evident.

How media economics is taught is also important in order to understanding the field. Courses take a variety of forms that reflect a greater diversity than apparent in the primary textbooks and are more akin to the differences reflected in the general media economics literature. Common titles include:

- media economics
- economic aspects of media
- media economics and policy
- media economics and government regulation
- political economy of media
- economics of television
- economics of film
- cultural industry economics
- media economics and management
- media businesses
- the new economy and the media
- media economics and new technology
- economics of media and entertainment

The courses thus emphasize widely varying aspects or interests depending upon the institutions at which they are offered, the expertise of the faculty, and the dominant research paradigms embraced.

We must recognize, however, that a variety of issues related to media economics are also taught in media and communications courses involving law, ethics, philosophy, media criticism, and media effects as well as in a variety of other academic departments. In these courses, economics tend to be incidental and are approached as one of a number of factors creating outcomes that are the focus of the course involved.

#### 4. Summary

What can we say about our chosen field of inquiry? Clearly, there are divergent approaches to investigating and explaining economic factors, but we must recognize that each makes different types of contributions to the field. The differences in approaches, however, result not because scholars are European or American, but because of the scholarly traditions of the researchers involved, the institutions with which they are affiliated, and where and how media economics is integrated into the curriculum. There are as many differences among European media economic scholars as there are among European and American scholars—and the opposite also stands true for American scholars.

Regardless of those differences, we share a common interest in the workings and manifestations of economic forces and on the outcomes they produce. We work in a vibrant and compelling field whose explanations of media phenomena add understanding to why and how the media environment in which we exist is produced and how it affects a variety of social, political and cultural concerns of engaged individuals.

The media economics field is growing dramatically. When focused work in the field started three decades ago, fewer than a dozen persons worldwide were regularly engaged in research. It was ages before the Internet, before mobile telephones, before CDs and DVDs, and before cable and satellite television, and even before color tele-



vision in some nations. The development of those technologies and the changes they have brought to media markets have spurred research and interest in media economics. Today there are hundreds of researchers worldwide—many are former students of some of us—who are investigating questions in the field. We represent many languages and cultures, but we share a similar interest in where the economic changes in media are taking us and society. It is an intriguing field of inquiry that has much understanding to offer to contemporary debates about media and whose influence is growing stronger with every passing year.

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# **Media Economics in Europe**

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