Bankrolling Big Bird

Is there still an economic case for government-supported broadcasting?

By Jessie Romero

There are no casual Fridays for Joe O'Connor: He wears a suit and tie to work every day. O'Connor is the president and general manager of WFAE, a public radio station serving Charlotte, N.C., and the surrounding region, and he never knows when a potential supporter might be dropping by. Like most public radio stations, WFAE depends heavily on listener contributions and corporate underwriting; together they make up about 90 percent of its revenue.

WFAE also receives funding from the federal government through the Corporation for Public Broadcasting (CPB), which was created by the Public Broadcasting Act of 1967. The act declared that public telecommunications were "appropriate and important" concerns of the federal government because they furthered the "general welfare" by responding to the interests of people in every region of the country, providing diverse programming, and serving as a "source of alternative telecommunications."

In economic terms, the act treated noncommercial broadcasting as a "public good." Public goods have two key characteristics: They are nonexcludable, so that it's impossible, or prohibitively expensive, to prevent a person from using them; and they are nonrivalrous, meaning that one person's consumption doesn't diminish the amount of the good available for someone else. That creates the potential for "free riding," or consumers using the good without paying for it. In that case, it's possible the private sector won't produce an efficient amount of the good, and the government might need to step in to provide it.

Radio and television met the criteria of a public good when they were first introduced: Once someone owned a radio or television, there was no way to prevent them from listening or watching, and one person's consumption of a broadcast didn't detract from the ability of others to consume it. The private sector nonetheless produced a large amount of programming because broadcasters could generate revenue by charging companies for commercials. Still, it wasn't long into the history of either medium before critics charged that the reliance on advertising had led the private sector to produce too much of the wrong thing. By the 1960s, there were increasing calls for federal support of noncommercial broadcasting.

At the time, it was relatively easy to argue that tax dollars were necessary to meet the goals of diversity and public service. But today, with hundreds of cable channels, a YouTube video for every obscure interest, and community organization via social media, the argument is more difficult to make. In addition, some observers believe that public broadcasters could produce the same content without government support, given the large share of revenue currently provided by the private sector. Even "Sesame Street," for nearly five decades public television's flagship show, now airs first on the subscription network HBO. If Big Bird can survive without government funding, can the rest of public media?

President Lyndon Johnson signed the Public Broadcasting Act on Nov. 7, 1967.

PHOTOGRAPHY: LBJ LIBRARY PHOTO BY YOICHI OKAMOTO

Daytime Dramas

Although the number of radio stations in the United States grew quickly in the years after World War I, initially few people viewed radio broadcasting as a way to make money. Many stations were operated by nonprofit entities such as churches and schools; others, run by businesses such as department stores or newspapers, were primarily a means to generate publicity for their owners. Even when radio manufacturer RCA formed the National Broadcasting Company (NBC) in 1926, its goal was not to make money from broadcasting; rather, it hoped its programming would encourage more people to buy radios.

As more and more people did buy them — by the mid-1930s, more than 60 percent of U.S. households owned a radio — more broadcasters took to the airwaves, leading Congress to pass legislation in 1927 and 1934 intended to help distribute the available frequencies. These laws effectively favored large networks by reserving high-powered stations for their affiliates.

The "golden age" of radio in the 1930s and 1940s was dominated by NBC and the Columbia Broadcasting System (CBS), which got its start in 1927. (The American Broadcasting Company, or ABC, was created in 1943 when antitrust laws forced NBC to divest one of its two networks.) By this time, the commercial potential of radio had become clear and networks made money by selling sponsorships to advertisers, who then had significant control over the programming. Many soap manufacturers, for example, wrote and produced their own daytime serials with little involvement from the networks. Critics complained that advertisers were degrading the content; soap operas, according to a 1946 article in *Fortune* magazine, were "mere bait to persuade the housewife to listen to the commercial announcement." Those housewives wrote to the Federal Communications Commission (FCC) about the "abysmally low" quality of the programs: "[T]he great bulk of women [are] capable of absorbing better stuff than they're getting," wrote one daytime listener. "[T]hey would welcome programs that would enable them to grasp world affairs better."

After World War II, radio's content did change, but not necessarily to world affairs. Instead, television's growing popularity led many radio stations to turn to music, in particular the new "Top 40" format, which featured tightly scripted playlists, frequent station promotion, and lots of commercials. (By most accounts, Top 40 was the brainchild of Omaha, Neb., station owner Todd Storz, who noticed restaurant patrons playing the same jukebox songs over and over.) By the early 1960s, the leading station in almost every major market was devoted to Top 40. In retrospect, Top 40 radio is widely credited with popularizing black recording artists and bringing rock and roll to the mainstream, but at the time, critics believed it was creating a "mass culture" with degraded cultural standards.

A Vast Wasteland

As television became more popular, NBC and CBS were able to translate their radio broadcasting expertise to the new medium; along with relative newcomer ABC, the networks dominated television until the 1980s. Initially, the networks enlisted advertisers to sponsor entire programs, as they had in radio. But in part to gain more control over their programming, and in part because sponsorship costs were much higher than in radio, the networks moved to a "magazine" advertising format in which multiple advertisers could buy short slots of time. And buy they did; during the 1950s, spending on TV advertising increased from about $10 million to $1 billion.

The competition to attract advertisers helped determine the content. "In an ad-based system, advertisers are buying audiences," says Amanda Lotz, a media studies professor at the University of Michigan. "The network has an incentive to create audiences of exactly the kind of people that advertisers want to reach, not necessarily to be informative or high-minded."

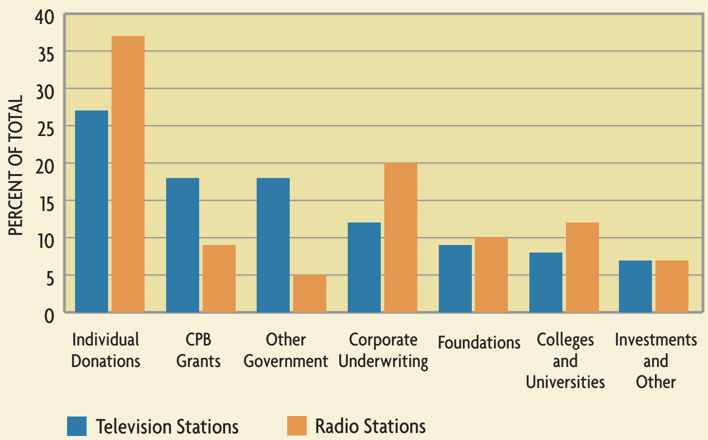
Newton Minow, who was named chair of the FCC in 1961, put it more bluntly. Just a few months after his appointment, he gave a speech to the National Association of Broadcasters castigating the group's members. He famously described the current slate of television offerings as a "vast wasteland":

> ...a procession of game shows, formula comedies about totally unbelievable families, blood and thunder, mayhem, violence, sadism, murder, western bad men, western good men, private eyes, gangsters, more violence, and cartoons. And endlessly, commercials — many screaming, cajoling, and offending. And most of all, boredom.

Economist Jora Minasian, then at the State University of New York at Buffalo, wrote about advertiser-supported television in a 1964 article in the *Journal of Law and Economics*. In Minasian's view, the reliance on advertising had created a less-than-optimal output of programs with little choice or diversity. Although the marginal cost of an additional viewer was zero, networks still had to decide how to allocate their scarce resources; because they had to appeal to advertisers, they allocated them to programs that would attract the largest audience possible. Viewers with less popular tastes lost out. "The fundamental character of commercial broadcasting ... is that the nature and thus the value of the programs (the cost of the scarce resources in alternative uses) are determined by the productivity of advertisements," he wrote.

Minasian argued that subscription television, which had been the subject of considerable public debate since the 1950s, would lead to programming that many viewers would find more valuable. The advertising system made it impossible for viewers to express a preference for shows other than what was already being broadcast. But pay TV would allow "individuals, by concentrating their dollar votes, to overcome the 'unpopularity' of their tastes." (Broadcasters opposed subscription television for fear it would siphon off the best programming and talent and urged their viewers to contact Congress in support of "free" television. "There are lots of us old folks living on pensions that would have to part with our television sets if we were compelled to pay to use them," wrote one elderly couple.)

Lotz notes that it's a matter of debate whether or not television in the 1960s was actually a vast wasteland. And viewers did have a few noncommercial options in the 1960s. In 1952, the FCC had set aside 242 channels on the UHF band for educational television, and by the mid-1960s, there were about 180 such stations operating



SOURCES: Corporation for Public Broadcasting, "Public Broadcasting Revenue Fiscal Year 2015"

or under construction nationwide. There were also some educational radio stations, since the FCC had reserved a portion of the new FM spectrum for educational radio in 1945. But these television and radio stations had limited reach and struggled to find consistent sources of funding.

Support for NPR Comes from…

In 1965, President Lyndon Johnson endorsed the formation of a Carnegie Corporation-sponsored commission that would consider how to strengthen noncommercial television. The commission's final report, released in early 1967, advocated a government-funded nonprofit corporation that could help create new educational stations and expand existing ones. Later that year, Johnson signed the legislation creating the CPB, which, at the last minute, also included provisions for radio.

The CPB is funded through congressional appropriations. In recent years, it has received around $450 million annually; the current request, for fiscal year 2020, is for $445 million, about 0.01 percent of the federal budget. (The corporation also receives funding from the Department of Education, about $18 million in 2016, for specific education projects.) Nearly all of the CPB's appropriation, 89 percent, is redistributed to public broadcasters and producers. Most of that money goes to television and radio stations via "community service grants." Stations can use these grants toward any activities that help them "expand the quality and scope of services" or to purchase content from the Public Broadcasting System (PBS), National Public Radio (NPR), or other content producers. The corporation also gives grants to help stations and other nonprofits develop and produce content. Another 6 percent goes toward system support, such as technological upgrades, and 5 percent toward CPB overhead.

Within two years of opening its doors in 1968, the CPB helped establish PBS and NPR. Although the acronyms PBS and NPR often are synonymous with the name of the local public TV or radio station, the organizations do not actually own or operate any stations themselves. Instead, they distribute content to their member stations, who must meet certain criteria to apply for membership and then pay annual dues and syndication fees. Currently, there are more than 365 public television stations and 1,000 public radio stations in the United States, the vast majority of which belong to PBS or NPR.

By statute, the CPB distributes a larger share of its grant money to television stations, which have higher production costs than radio. On average, television stations get 18 percent of their revenue from the CPB and 18 percent from other federal, state, and local grants. CPB grants make up 9 percent of radio stations' budgets, with another 5 percent from other government sources.

Listener contributions and corporate underwriting account for nearly 60 percent from radio stations' revenue, versus 39 percent of television stations' revenue. The remainder comes from colleges, foundations, and other organizations. (See chart.) For both radio and television stations, there is significant regional variation in their funding; stations in rural areas, or that serve primarily minority audiences, may rely on the CPB for up to half of their budgets.

NPR itself receives less than 1 percent of its operating budget from the federal government, although it does receive taxpayer dollars indirectly through its member stations' dues and program fees, which account for 40 percent of its revenue. Member fees also are the largest source of cash revenue — 32 percent — for PBS. The next largest source for PBS is royalties on online video. (PBS' annual financial statements also include the "imputed value of donated broadcast rights" as a major source of revenue.) Unlike NPR, PBS does receive some funding directly from the CPB in the form of an annual $26 million grant for content development.

Who Needs PBS When There's YouTube?

The CPB has been a target for budget cuts almost since it was established; President Richard Nixon proposed cutting its funding in 1969, just two years after the Public Broadcasting Act was signed, and it has been a topic of discussion in many Congresses since then. One argument is political; those who believe public television and radio have a liberal bias don't believe taxpayers' dollars should go to support it. In a 2017 *Washington Post* editorial, Howard Husock, a vice president at the Manhattan Institute and a member of the CPB's board, wrote, "If public broadcasters continue to receive federal support, they must start appealing to more than just blue-state America." Public broadcasters also have faced criticism that their programming is targeted toward whites, particularly those with advanced degrees and high incomes. In their appeals to potential corporate underwriters, for example, PBS and NPR note that, among other characteristics, their audience members are more likely than the average American to have more than $250,000 in investments, to be in a top management position, or to take more than three vacations per year.

Another argument against public broadcasters is that they may no longer be necessary to achieve the diversity specified in the Public Broadcasting Act. The subscription model that Minasian argued would produce more variety is now widespread in both television and music, and the Internet has made it relatively easy and inexpensive to produce content targeted to even the most niche demographic. Instead of just three channels, the average U.S. home with cable has access to nearly 200; music streaming services give listeners access to millions of songs. Even community outreach and information, another of the goals of the CPB, have an outlet through social media such as Facebook and Twitter. And it's likely that private-sector broadcasters would produce at least some of the current public content; HBO struck a deal with Sesame Workshop in 2015 to fund and air new episodes of "Sesame Street," which suggests the network sees profit potential in educational programming. (PBS stations continue to air "Sesame Street" nine months after new episodes are shown on HBO.)

But not everyone has access to the plethora of new media options. About 17 percent of U.S. households rely on over-the-air television; for some it's by choice, but many don't have geographical or financial access to other options. Rural Americans are less likely than others to have cable or satellite television, and roughly one-fifth of them don't have access to Internet at the minimum speeds necessary to download and stream video. In some places, such as the Allegheny Mountain region of West Virginia and Virginia, the public radio station is one of the only sources for news and emergency alerts.

Even when cable and broadband Internet are available, they aren't always affordable. The average cable bill is $103 per month, and broadband Internet can cost another $50. Overall, more than one-quarter of Americans, and 66 percent of those who haven't graduated from high school, don't have broadband Internet at home. Smartphones can help bridge the gap, but, like cable, they're expensive: About 93 percent of adults whose household income is greater than $75,000 per year own a smartphone, versus 64 percent of adults with a household income less than $30,000. Nearly half of those lower-income smartphone owners have let their service lapse at some point for financial reasons.

Access might be especially important when it comes to programming for children. For families with limited television or Internet options — a group that often overlaps with families who lack access to high-quality child care — public television is one of the only sources for educational programming, which research suggests can improve children's school readiness. (Other networks with explicitly educational content include Disney Jr., Nick Jr., and now HBO.) According to the consumer research company Nielsen, PBS stations reach more young children, and especially more young Hispanic and low-income children, than any other children's network.

Do Public Broadcasters Need Public Money?

Assuming the content public broadcasters provide is valuable, could they provide it without public money? Given the corporate underwriting many stations already receive, some observers believe radio and television stations could generate sufficient revenue if they switched to a commercial format. That would require changing FCC rules, which strictly regulate the content of underwriting messages. "Our underwriters can't use any comparative language; they can't say 'I'm the best in town,' " says O'Connor. "They can't say, 'I have the best price.' They can't even mention the price."

Relaxing the rules could attract more advertisers. "We have the ratings that would enable us to sell any kind of message, and maybe we'd generate more revenue." But on the flip side, O'Connor says, "People come to us because we're not commercial. They like not being shouted at. So if we moved to a commercial format, we might not have the ratings anymore."

A 2012 report by the CPB, prepared with the management consulting firm Booz and Co., came to a similar conclusion. According to the report, which examined alternative funding structures, switching to a commercial format could actually produce a net financial loss for public broadcasters by eroding voluntary listener and foundation support.

Could listeners fill the gap if federal funding went away? For stations in large markets, the answer might be "yes." Donations tend to increase when federal funding is threatened, which suggests listeners find the content valuable enough to pay for. But that may not be true for stations in less-populated areas or that serve audiences with lower socioeconomic status. The CPB's 2012 report concluded that, as of 2011, 54 public television stations serving 2.7 million viewers and 76 radio stations with 200,000 listeners would be at high risk of ceasing operations without federal funding; the majority of those stations were in rural areas and in some cases provided the only source of over-the-air broadcasting.

That said, media and technology are constantly evolving, and Americans in every region and every demographic are likely to have more and more options in the coming years. As public broadcasters and other media adapt to the new landscape, policymakers will have to continue to evaluate the necessity of federal spending on broadcasting and whether that spending is achieving the goals for which it was intended. **EF**

Readings

"Alternative Sources of Funding for Public Broadcasting Stations." Corporation for Public Broadcasting, June 20, 2012.

Husock, Howard. "NPR and PBS Don't Need Tax Money Anymore." *Washington Post*, March 26, 2017.

Minasian, Jora R. "Television Pricing and the Theory of Public Goods." *Journal of Law and Economics*, October 1964, vol. 7, pp. 71-80.

Samuelson, Paul. "Aspects of Public Expenditure Theories." *Review of Economics and Statistics*, November 1958, vol. 40, no. 4, pp. 332-338.