

The future of public service broadcasting and the funding and ownership of the BBC

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Abstract

The BBC has been financed by a hypothecated tax levied on the use of television sets since 1946. For most of the subsequent period, there has been substantial governmental control of both broadcast content and platforms. The economic arguments for different types of intervention in public service broadcasting were discussed in the 1986 Peacock Report, which proposed radical change. This article uses a similar methodology to that of the Peacock Committee and concludes that the case for government support for public service broadcasting has been undermined by technological developments which the Committee anticipated. It is further argued that the BBC should be financed largely by subscription and should adopt a mutual governance structure.

KEYWORDS

BBC, broadcasting policy, club goods, Peacock Committee, television

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1 | INTRODUCTION

A key feature of broadcasting policy in the United Kingdom has involved the finance of a particular broadcaster, the British Broadcasting Corporation (BBC), by a licence fee levied on the use of television sets or other devices for watching live or recorded television programmes. Only one licence fee is needed per household. The BBC, though operating at arm's length, obtains its remit from the government.

While there have been plausible economic arguments offered for this approach, these arguments are open to challenge, especially given changes in technology and global markets for content production, broadcasting, and streaming. The *Report of the Committee on Financing the BBC* (Peacock Committee, 1986) was an important moment in instigating debates about these issues. The Committee was set up under Mrs Thatcher's Conservative government; and Professor Alan Peacock, a distinguished classical liberal economist, was able to articulate an economic case for competition. Since then, the technological innovations that Peacock anticipated have happened in practice, and the question therefore arises as to whether the time has at last come to implement the spirit of the Peacock Report.

Indeed, this article argues that the technological changes have been such that there is a strong economic case for going further than Peacock. It is proposed that public service broadcasting should not be a policy objective in and of itself. In this context, the analogy that Peacock made with the development and state control of the publishing industry is especially helpful.

Conclusions in relation to the funding and ownership of the BBC follow from the analysis of the development of the market for broadcast content. It is proposed that the BBC is financed by subscription (or other sources of revenue as the organisation chooses). Consideration of the economics of corporate governance then lead to a proposal for the BBC to become a subscriber-owned mutual organisation.

The article begins by examining briefly the early decades of broadcasting from the perspective of welfare economics and considers the arguments for different types of government intervention. It then examines how those arguments developed around the time of, and after, the Peacock Report. Following an analysis of how the government should see broadcasting in policy terms, it discusses the appropriate approach to financing and ownership of the BBC.

2 | PUBLIC SERVICE BROADCASTING IN THE PRE-SATELLITE ERA

The concept of 'public service broadcasting' is not well defined. However, there is a general acceptance that it involves forms of broadcasting that are not fully provided by commercial producers and broadcasters but have some public value. For example, Tunstall (2010, p. 146), while accepting that there is a lack of clarity about the definition, suggests that "Advocacy of 'Public Service' involves a rhetoric of non-profit public benefit and public enlightenment". In this context, what was the economic rationale for the UK's particular model of support for public service broadcasting, especially via the BBC?

2.1 | Broadcasting as a public good

It has often been argued that broadcasting in general and public service broadcasting in particular have the quality of public goods. Public goods (Samuelson, 1954) are goods which are not excludable, so it is difficult to stop people who do not pay for them from benefiting from their provision. They are also non-rivalrous, that is, the marginal cost of serving an additional user is close to zero.¹ Public goods are a widely understood category of economic goods and it is accepted that public goods can be under-provided in the market. Given the available technology in the early years of broadcasting, a plausible case could be made that broadcasting had these qualities. The approach of charging a fee to everybody who had a television, regardless of whether they watched BBC programmes,² could be justified by economic reasoning.



If the BBC were funded in this way, a case could then be made for government intervention in the remit of the BBC, its governance, and the content of its programmes, partly on the grounds that the lack of competition and the method of financing meant that price signals could not communicate consumer preferences effectively.

To a large degree, changes in technology turned broadcasting from a public good to a private good according to Samuelson's classification,³ or at the very least to a club good which is non-rivalrous but excludable (Buchanan, 1965). Certainly, by the late 1950s the idea that BBC programmes were excludable was questionable. Once commercial television was permitted, it would have been possible to sell television sets which received only commercial television (by limiting their spectrum) or which received commercial television by cable. Even if it is argued that excludability of broadcast content in the immediate post-war period was not feasible at reasonable cost, there is no doubt that it is today. The public good arguments for licence-fee funding of the BBC, if they were ever valid, are certainly not valid now.

2.2 | Is broadcasting a natural monopoly?

In theory, the current structure of the BBC could also be justified if broadcasting were a natural monopoly. Intervention has been justified on this ground as recently as in Department for Culture, Media and Sport (1999, Annex VIII), drawing on other, more academic, sources. And Helm (2013, p. 29) suggests: "Public service broadcasting arose in the context of a broadcasting monopoly, when the technology provided for only one provider."

Historically, it was argued that monopoly arose because of either or both of economies of scale and spectrum scarcity. However, others have argued that this monopoly was far from natural and that the monopoly arose as a result of political decisions that limited spectrum and, especially in the UK, through an institutional environment which led to the creation of a single broadcaster with state-controlled entry (see Coase, 1947). In other words, the creation of the BBC was the *cause* of the natural monopoly rather than its consequence. In the US, Coase (1959) shows how there could have been a market for spectrum, with competition and freedom of entry, but that this was stifled as an explicit objective of government policy. Quoting Herbert Hoover, Coase (1959, p. 37) makes clear that the US government did not want freedom of entry to the spectrum even if it were possible:

Radio communication is not to be considered as merely a business carried on for private gain, for private advertisement, or for entertainment of the curious. It is a public concern impressed with the public trust and to be considered primarily from the standpoint of public interest in the same extent and upon the basis of the same general principles as our other public utilities.

Hazlett (2017) discusses the history of the US government promotion of an 'unnatural' monopoly in all forms of radio and telecommunications over several decades. The development of competition through the provision of additional television channels and the development of cable television were restricted by regulation and not by the natural monopoly characteristics of broadcasting. That regulation, at least to some extent, was based on paternalistic considerations. In other words, state-controlled broadcasting was an instrument of social policy and paternalistic political control rather than a desirable consequence of a natural monopoly designed to maximise economic welfare.



2.3 | Externalities from broadcasting

A further argument for intervention arises from the belief that regulation or other means are necessary to ensure that quality is maintained. In economic terms, there may be externalities arising from good-quality broadcasting which has educational or other benefits and therefore, it is argued, the state should intervene to ensure that such provision is made. This justification is very similar to that used for intervention in markets for art and culture more generally, as discussed, for example, in Frey (2003, ch. 1).

There were several committees of inquiry into broadcasting policy and the BBC before the 1980s. One of these inquiries, the Crawford Committee of 1926, backed the arguments against developing markets in broadcasting, reflecting the evidence given by J. C. W. Reith (later Lord Reith and the first Director General of the BBC) that broadcasting must be conducted as a public service “with definite standards” (see Peacock Committee, 1986, p. 3).⁴ Thus, socially paternalistic arguments were used to justify intervention that was later justified by economic arguments.

However, an economic analysis would not conclude that the existence of externalities alone would justify the form of intervention in UK broadcasting that currently exists with a licence fee-funded, state-owned broadcaster. Furthermore, if the other arguments for licence-fee funding of the BBC were ever valid, changes in technology had undermined the rationale by the mid-1980s. The Peacock Committee opened up these debates with a sustained economic analysis of the case for different forms of intervention.

3 | THE PEACOCK COMMITTEE: THE ECONOMIC ANALYSIS OF BROADCASTING POLICY

At the time of the Peacock Committee inquiry, there had been an expansion in the number of UK television channels to four; technology was developing that would allow encryption; and separate markets in content and broadcast production could be envisaged.

The Committee was established by then Home Secretary, Leon Brittan, in 1985 and it reported to his successor, Douglas Hurd, in 1986. It went back to first principles and examined the relationship between consumer preferences, market provision, and the underlying reasons for government intervention in industries such as broadcasting.

The Committee started from the premise that consumer preferences should dictate broadcasting policy and content. However, it rejected the idea that there should be no government intervention in promoting particular types of broadcast content. The Committee's Report made direct analogies with government support for arts and culture (Peacock Committee, 1986, p. 127). It argued that programming which promoted knowledge, culture, criticism and experiment would be suitable for (as the Committee put it) “public patronage”. The key feature of public support should be that it would be of a positive kind and transparent and given to programme makers (1986, p. 128).

The Peacock Committee (1986, pp. 130–6) proposed that the then current institutional structure surrounding broadcasting should be allowed to evolve into a subscription model with explicit support through a grant-giving body for particular types of programming.⁵ If this approach had been adopted it would have allowed a wide range of broadcasters to bid for subsidies. The focus of policy would have moved away from supporting institutions to supporting content. The contestability of government support for public service broadcasting could have



happened immediately, but the implementation of Peacock's recommendations in relation to subscription for the BBC presupposed changes in technology that would lead to multichannel competition and encryption.

Upon the Peacock Committee report being presented to Parliament by Douglas Hurd, Hurd (1986) suggested that he favoured the model of competition Peacock proposed. Specifically, he said:

In the longer term, perhaps through the provision of a national cable grid, a genuinely competitive market in television services could be brought about ... There would be scope for greater diversity of programmes and a wider choice for consumers, who would have much greater freedom than is now possible to decide which programme services they would like and at what price. Special arrangements are envisaged to ensure that public service programmes are available which, though needed, the market might not produce unaided.

The report divided opinion. For example, Gerald Kaufmann MP suggested that the proposals to turn the BBC into a subscription service would turn it into a provider of the broadcasting equivalent of junk food (Kaufmann, 1986).⁶

4 | THE RETREAT FROM PEACOCK

The Peacock Committee's expectations in relation to the development of technology have been realised. But, despite some promise of reform in the 2005 Charter Review process and some references to different approaches to support for public service broadcasting in occasional parliamentary reports, the Peacock approach seems to have declined in influence.

4.1 | Peacock's final fling

Perhaps the point at which a government came closest to significant policy change in the direction of implementing Peacock was at the time of the 2005 BBC Charter Review.⁷ There was significant discussion of alternative approaches to funding public service broadcasting, including those along the lines Peacock proposed, at that time. The Burns Report, published in 2005, commissioned by the Labour government, recommended, for example, that some of the licence fee could be distributed to other broadcasters (Department for Culture, Media and Sport, 2005a). This was discussed in the House of Lords Select Committee Report of the same year, though rejected. Interestingly, academics Mark Armstrong and Martin Cave, in their evidence to the House of Lords Select Committee, expressed the view that public service broadcasting could be financed by subscription (House of Lords, 2005, para. 129).

The government, however, decided to defer reform, stating in their final review document (Department for Culture, Media and Sport, 2005b, pp. 105–6):

We do not believe that decisions about the wider Government response can or should be made now. However, they will need to be made at some point during the next ten years. We therefore propose a review, to take place towards the end of the [digital]

*switchover process, of whether there is a case for public funding, including licence fee income, to be distributed more widely to recipients beyond the BBC. In the period running up to the review, we would welcome more detailed work from Ofcom on the possible form of a Public Service Publisher.*⁸

4.2 | Smouldering embers of Peacock

The ideas in the Peacock report have been echoed occasionally elsewhere. For example, it was recognised in a House of Lords Communications Committee report published in 2009 (House of Lords, 2009, para. 11) that the context for public service broadcasting policy has changed and that, implicitly, policy should move on from a consideration of institutions to a policy focused on broadcast content:

Nevertheless the interpretation of public service broadcasting as content that the market does not sufficiently provide is gaining increasing support. It implies a focus on defining the core elements of public service provision that should, as a matter of public policy, continue to be supported. Such elements might include, for example, national and regional news, current affairs programmes, the arts, children's programming, programmes dealing with religion and other beliefs and UK content.

A government Green Paper (Department of Media, Culture and Sport, 2015, p. 14) used similar reasoning to the House of Lords (2009). Interestingly, though, it slipped seamlessly from describing broadcast content as a merit good that would be under-provided in a market to suggesting that the BBC itself should be specifically supported as an institution.

Despite the government saying in 2005 that decisions would have to be taken within the following ten years, the various successor governments in fact beat a retreat from Peacock. No serious reform proposals have come from within government and, arguably, we have moved away from approaches that would lead to competition for public service broadcasting funds and retained an approach that focuses on specific institutions.

At the same time, an arbitrary definition of public service broadcasting seems to have been adopted. For example, the definition used by the Office of Communications (Ofcom, 2017) suggests that public service broadcasting should reflect and strengthen UK cultural identity through original programming at UK, national, and regional levels, on occasion bringing audiences together for shared experiences, and that it should be original new UK content rather than repeats or acquisitions. This definition appears contrived and somewhat nationalistic, and does not accord with the relevant legislation.

The arbitrary nature of Ofcom's defined characteristics of public service broadcasting is reflected in Ofcom's reporting on public service broadcasting. For example, Ofcom's report on Public Service Broadcasting in the Digital Age (Ofcom, 2018, p. 1) states:

Public service broadcasting has so far held up well to greater global competition. Reach, though falling, remains high. The most popular programmes, dramas like The Night Manager and Broadchurch, and entertainment shows like The Great British Bake Off and Gogglebox, compare well to the best in the world.



It is not clear that the particular programmes cited meet the criteria for public service broadcasting suggested by Peacock or that they could not be provided commercially. In citing these examples, Ofcom seems to be defining public service broadcasting simply as that content which is shown by those broadcasters that are defined by Parliament and Ofcom as public service broadcasters in the UK. This is the opposite of the approach proposed by Peacock.

5 | PUBLIC SERVICE BROADCASTING: BEYOND PEACOCK?

Peacock produced a cogent analysis of the purpose of policy in relation to public service broadcasting from which governments have retreated. However, 35 years on from Peacock, a legitimate question can be raised as to whether the justification for public service broadcasting proposed by Peacock is itself outdated.

5.1 | Globalisation, streaming, and the production of quality content

The globalisation of broadcasting weakens the case for support for at least some types of public service broadcasting. Because broadcasting and streaming have a very low marginal cost, expanding the scope of the market and segmenting it, both geographically and in terms of the time of viewing, will make a broader range of content profitable.⁹ It may be the case that people do not watch as much educational content as others think desirable, but this cannot easily be solved by simply subsidising the creation of more content. Indeed, this was an argument for subsidy that Peacock rejected. The *Discovery Channel*, *Quest*, *Yesterday* and *EWTN*, amongst many other conventional channels (some free to air, others available cheaply by subscription) and a whole host of on-demand video platforms, show the kind of material that most contributors to debates on broadcasting policy would in the past have classified as public service broadcasting.

A further argument against the Peacock Committee approach in the modern era is that it is increasingly difficult to define 'broadcasting'. There has been a huge shift in the number of people receiving content via streaming as opposed to via aerial. By 2014 the proportion of US households that receive television programming only via aerial (6 per cent) was approximately equal to the proportion that received content only via the internet (5 per cent). Furthermore, by 2014, 46 per cent of US television-user households watched video on laptop, notebook, or netbook (up from 38 per cent in 2013); 43 per cent watched video on a smartphone (up from 33 per cent in 2013); 35 per cent watched video on a tablet (up from 26 per cent in 2013); and 34 per cent watched video on a desktop computer (up from 30 per cent in 2013) (Booth & Davies, 2016, pp. 4–5).

In the UK, 18–34-year-olds watch seven times as much Netflix and YouTube as BBC1 content and spend more time watching Netflix and YouTube than all other public service channels put together. The average time spent by all adults watching Netflix and YouTube is greater than the amount of time spent watching BBC1 (Ofcom, 2019, p. 19). Furthermore, most non-broadcast content is now watched on a television set (Ofcom, 2019, p. 21). This makes it increasingly difficult to justify requiring people to pay for a television licence if they are not watching broadcast content. Interestingly, amongst young people the proportion of shared viewing of content is increasing dramatically and, in general, the length of viewing sessions is increasing (Ofcom, 2019, p. 22). This seems to undermine the argument that we need a 'national broadcaster' to bring people together (an argument frequently used by the BBC).



Indeed, in many ways, broadcasting is becoming more like printing and publishing, an analogy which will be developed below.

5.2 | Untangling instruments and targets

An extension of Peacock's reasoning would involve seeing broadcasting as a means to an end and not an end in itself. Broadcasting and related activities form ways in which policy ends in the field of culture, education, and other areas can be achieved. Arguably, changes in technology mean that policy in relation to public service broadcasting *as such* is no longer necessary. If this is accepted, from the perspective of economic analysis the policy targets should lie in the field of education and culture: broadcasting would then be regarded as an instrument to achieve the necessary targets.¹⁰ To maintain the policy focus on broadcasting *as such* would be to confuse the instrument with the target. Those working in the field of education and culture should choose the correct instruments to achieve their desired targets. If we have a policy that promotes government-supported public service broadcasting as a matter of principle, then one possible policy instrument which might achieve particular objectives in areas such as education and culture becomes the target itself. As a result, its efficacy relative to other instruments is never properly evaluated.

Following this reasoning, in the modern era broadcasting should be regarded as a policy instrument that might be used to serve ends in other areas of policy, in the same way that hospitals are an instrument or means of achieving goals in health policy but are not a policy end in themselves.

This way of thinking is not simply theoretical. Various organisations sponsor the publication of books, other information sources, museums, the production of videos, the development of websites, and so on, for educational purposes. In the same way, they could also sponsor the development of content for broadcasting and streaming.¹¹ The Arts Council could give grants to producers and broadcasters to promote its objectives. The distinction between a performance in a theatre (subsidised by the Arts Council) and a niche television programme broadcast by the BBC or any other channel and subject to an entirely different policy framework is an artificial one.

This reasoning would take policy beyond Peacock. Rather than following Peacock and making funding for public-service broadcasting contestable, it is proposed here that there would be no policy in relation to, or specific funds for, public service broadcasting at all. The financing of broadcasting could, however, come from a range of government departments or agencies that wanted to achieve their policy objectives through the instrument of financing or subsidy of broadcast or streamed content.

6 | FUNDING THE BBC

If there is to be a widely distributed model for funding the development of broadcasting content which does not focus on specific channels of communication or, indeed, relate directly and explicitly to broadcasting itself, the question of the funding and ownership of the BBC arises. The Peacock Committee (1986, pp. 135–6) also made that link and argued in favour of subscription when the technology allowed. Peacock's conclusion was made clear by Douglas Hurd in Parliament: "The committee believes that this will take time, but in a few years, in preparation



for this, payment for BBC services should be made through subscription, leading to the end of the licence fee system” (Hurd, 1986).

6.1 | Welfare economics and the case for subscription

Peacock regarded the biggest obstacle to the use of a subscription model for funding the BBC as being technical. Possible sources of market failure that might prevent subscription from being appropriate were also discussed by the Peacock Committee (1986, pp. 29, 30). The possibility of free-riding with non-payers consuming the BBC's services can now easily be overcome by technology. However, Peacock also discussed the fact that many broadcasting services can be provided at zero marginal cost, and thus some people who value the service might not receive it if the service has to be priced to cover average costs (which, by definition, will be above marginal costs if marginal costs are zero). However, subscription can deal with this problem at least up to a point by using different pricing rules for different people who perceive a low marginal benefit from the service (e.g. showing programmes with time delay at a much cheaper subscription or providing cheaper subscriptions to students or other groups with high price elasticity of demand). Indeed, subscription is a common way of providing a club good, which broadcasting has now clearly become.

If the technical objections to subscription have been largely overcome, what are the advantages from an economic perspective? Weeds (2013, p. 11) points out that there are allocative inefficiencies from the current funding model:

A potentially more significant inefficiency arises when the licence fee coexists with pay TV. In order to subscribe to the pay TV operator's package the consumer must also pay the licence fee, even if she has little or no desire to watch the public channels. This distorts consumer choices regarding pay TV. Suppose that a consumer would purchase the pay TV package on a stand-alone basis. If her incremental willingness to pay for the package on top of the licence fee is too small then she will be excluded from consuming this good: this is a form of allocative inefficiency.

Weeds then comments that price signals inform suppliers as to which products are most highly prized by consumers.

These arguments certainly have greater resonance in an environment in which viewers of content can make active choices. The welfare losses from the licence fee model are greater the greater is the price elasticity of demand for alternatives and this, in turn, will be strongly dependent on the range of available substitutes.

6.2 | Subscription and the current debate

The debate around subscription models was reignited by a question asked by Julian Knight MP of Nicky Morgan, then a Member of Parliament and Secretary of State for Culture, Media and Sport, at a Select Committee hearing on 16 October 2019. She replied:

What I have not seen is any evidence either way that says what a subscription based system would do for the revenue. The licence fee last year raised £3.7 billion for the

BBC, and it has other sources of income as well. I would need to understand what that would do to its income if we were going to change ... undoubtedly the broadcasting sector is changing. I am learning more and more in this job but I think we all know, from streaming services and the way the younger generation consumes services, that it will change. (Morgan, 2019, Q506)

The implication of her response is that she would be less favourable towards ending the licence fee if it reduced revenue to the BBC. This conflicts with a welfare economics perspective which would suggest that the welfare costs of quasi-compulsory funding are greater, the greater is the elasticity of demand for the service which is being funded in this way.

Morgan's comment brought a response from the Chairman of the BBC, David Clementi, who argued against consumer sovereignty under a subscription model. He suggested that the BBC would naturally reflect the tastes of its subscribers if it followed such a model and that they would be predominantly better-off viewers. James Heath, as Director of Policy at the BBC had made similar arguments in an article published on the BBC website in 2014: "Subscription channels are very good at serving specific audiences but the social and cultural value of the BBC comes from its universal availability as well as the range and breadth of our output" (Heath, 2014a). In a further article, Heath (2014b) argued that the BBC provided for shared experiences as the community came together to watch specific events on the BBC.

There are counter-arguments to these points. First, if audiences were to become more fragmented as people watched different content from different providers while the BBC were financed by subscription, that would be a reflection of consumer sovereignty and the desire of different types of viewer to obtain their content from different sources. An argument is made that the BBC should serve a wide audience because it is funded by the licence fee; an argument is also made that we should have the licence fee because the BBC serves a wide audience. But no clear case is made for having a broadcasting institution that serves a wide audience as a matter of policy.¹²

With regard to the question of serving better-off audiences, the work of Vir, Hall, and Foye (2018) and of the BBC itself suggests that, to a large degree, it is the better-off market that the BBC already serves. The question is whether other audiences should pay for the BBC even if they do not feel that the BBC serves them.

Although it is suggested by the BBC (see e.g. BBC, 2018) that its service is popular and reaches all households and tastes, the data quoted by the BBC itself raise legitimate questions. The BBC states that 56 per cent of UK adults think that the BBC is effective at reflecting people like them. However, this figure is much higher (64 per cent) for ABC1s (higher social class and income people) than it is for BAME respondents (48 per cent). BAME individuals watch half as much BBC television and listen to half as much BBC radio as the ABC1 group (BBC, 2018).

Vir, Hall, and Foye (2018) suggest that the BBC, as the main public service broadcaster, struggles to deliver content which is appreciated by wide groups of the population. They conclude:

- The BBC was widely considered to have a white, middle class, south-east bias.
- People from lower socio-economic backgrounds felt they are often portrayed in narrow and negative ways.
- Many minority groups feel misunderstood, stigmatised or simply overlooked by society in general, and notice this reflected on TV.



No judgement is passed on the BBC in relation to these observations. The point is that changing technology has ensured that a wide variety of different content types are provided by a huge range of providers – some with millions of viewers in the UK and some with a few hundred. Given the range of alternative content provision, a strong argument, both in terms of economic welfare and in terms of fairness, can be made against licence-fee funding.

6.3 | Broadcasting and publishing

The Peacock Committee (1986, pp. 5–6) drew an analogy between broadcasting and the development of printing and publishing. Peacock argued that statutory and church regulation restricted the proliferation of competing publishers with periodic liberalisation followed by the reimposition of restraints. But it is also notable that the available technology, the inability of people to read, low real incomes, and high material costs ensured the low penetration of the published word before the nineteenth century. This was rather like broadcasting in the early years – strong state control and technological constraints going hand-in-hand. No doubt the state control inhibited the development of technology (see above). Certainly, the limitations of available technology made state control easier. As with the early years of broadcasting, public policy interventions exacerbated a situation which to an extent was the natural result of other factors.

In publishing, this changed in the eighteenth and nineteenth centuries. Technology improved, raw materials costs fell in real terms, and real incomes rose. A similar phenomenon is happening in relation to broadcasting and content provision. In both broadcasting and streaming there is a huge variety of genres, delivered in different ways through different platforms and responding to different tastes and by different organisations. This is similar to how bookshops, libraries, pamphlets, novels, and newspapers all proliferated in the nineteenth century: in 1898 there were around 400 publishers in Britain and Ireland alone (English Catalogue of Books, 1901). The growth in publishing both encouraged and was encouraged by a growth in literacy. Good-quality literature was read and literature from the period is still read today.

The parallels between publishing and broadcasting continue almost down to fine details. In publishing, as well as a variety of formats (magazine, newspapers, serialisations, books, and pamphlets) there was also a variety of payment mechanisms (subscriptions to series or serials, pay-per-chapter, pay-per-book, and subscription to lending libraries which would allow readers to read as much as they wished in return for the subscription). High and low price-elasticity markets were segmented in order to cover fixed costs and ensure that all who valued the output could benefit (hardback and higher priced editions being sold before lower-priced and lower-quality editions). This is very similar to broadcasting today.

The arguments for the continued funding of the BBC through a television licence seem to be no stronger than those for a state-funded publisher producing books or a publisher of books providing free literature financed by a tax on all other literature. The analogies between the two sectors are very strong. Furthermore, a consideration of welfare economics would suggest that the BBC should not be funded by a tax on all television sets but by subscription. This conclusion then leads to the need to consider the question of ownership of the BBC.

7 | THE OWNERSHIP OF THE BBC

In this section, we examine potential ownership structures for the BBC. The underlying assumption is that its main funding mechanism will be from subscription.

7.1 | A nationalised BBC?

A government-owned corporation could operate exactly as the BBC does now while having to compete for subscription income. The BBC could be directly owned and controlled through a government department or it could be controlled at arm's length as it is currently or through UK Government Investments, which manages government corporations such as Channel 4.

There are, however, a number of disadvantages to state ownership. It could be argued that state ownership is likely to embed inefficiencies and reduce innovation. It might also prevent the evolution of forms of corporate governance which might be desirable in a rapidly changing broadcasting world. Nationalisation may limit access to outside sources of capital on a commercial basis if general Treasury criteria for the provision of investment funds and for borrowing were applied.

The empirical evidence on the performance of nationalised and privatised companies is mixed and difficult to interpret because of the intense effort put into making some companies fit for privatisation in the 1980s and early 1990s. However, Parker (1994) certainly finds evidence to suggest enhanced performance for privatised companies. There are few industries that do not have a substantial natural monopoly aspect to their business that are normally regarded as candidates for government ownership. It is clear that the BBC is not a natural monopoly in the current age.

While the author believes that the evidence against maintaining the BBC as a government-owned institution is strong, these arguments are contestable and cannot be fully reviewed in this article. There are, however, two further arguments against a nationalised BBC. The first is that it increases the likelihood of direct political interference in the broadcaster's activities. The second is that a nationalised BBC funded through non-compulsory sources reduces the plurality of ownership forms, especially given that Channel 4¹³ is nationalised.

Though ultimately accountable to government, which has the power to grant and periodically change a Royal Charter, the BBC currently has a different ownership model from traditional nationalised companies. However, the arguments for and against state ownership are not obviously different in the case of the Royal Charter model. The BBC does not have full commercial freedoms; it is not free to raise capital as it wishes; and there is a degree of control by government that does not exist in relation to commercial or independent charitable organisations.

7.2 | A fully commercialised BBC?

An alternative to maintaining the BBC as a state-owned company would be full commercial privatisation. This was the model used in the 1980s and 1990s for nearly all the previously nationalised industries. Congdon (2014) has argued in favour of full privatisation and commercialisation with a shareholder-owned model. He suggested that the audience potential for producers and broadcasters of content is now global. He argues that the national lens through which broadcasting policy is viewed is anachronistic and that the BBC should be privatised and



commercialised so that it is free to take advantage of all markets and potential collaborations with other broadcasters and platforms. In particular, Congdon points out that within a century the UK will have only 1 per cent of the world's English-speaking population¹⁴ and that any broadcaster or content provider, using all the available technology, cannot thrive if constrained by government ownership.

These arguments are all valid. However, the question that is raised here is whether this is the right form of ownership and governance for an institution such as the BBC. It is certainly true that shareholder-owned organisations can respond more rapidly in periods of rapid technical change because of reduced agency costs (see below). It can, though, be argued that the BBC may have inherent value embedded in the institution. This value could be lost by a radical change involving full commercialisation. Institutions evolve in the political, civic, social, and economic spheres. Arguably, the process of competition helps to select those institutions that are most effective in their own domain and those forms of governance that are appropriate for different institutions operating in different arenas.¹⁵ Of course, the BBC has not been exposed to a process of competition. The question is whether there might be a form of governance which will preserve the institutional memory that has evolved while ensuring that consumer preferences are reflected in the output of the BBC and exposing it to competition.

7.3 | A subscriber-owned mutual?

Some time after the Peacock Committee reported, Peacock himself suggested that the BBC should be rather like the National Trust (an independent British charity and membership organisation for environmental and heritage conservation) without elaborating on the precise ownership or governance structure (Peacock, 2004). This idea is worth exploring.

In a free society there are many forms of institution that are not necessarily fully commercial or shareholder-owned. There is a long tradition of different ownership models in sectors such as insurance, banking, retailing, and higher education, dating back centuries.¹⁶ Full commercial privatisation could be regarded as a 'constructivist' approach which would not allow the institution to evolve organically.¹⁷

As the BBC has not operated in an environment in which it has been subject to the process of competition, it is difficult to make a judgment on the appropriate model for the BBC if it moves out of government ownership. But there is certainly no a priori reason to assume that a shareholder model of ownership might be preferred. It might be the case that a mutual structure would be innately more likely to preserve those aspects of the BBC that are widely valued. Under such a model, consumer sovereignty, the importance of which was stressed by Peacock, would still prevail. Furthermore, the BBC would still be competing against fully commercial organisations and would thrive or not depending on whether its services were valued.

What might be the arguments in favour of a non-shareholder-owned model of governance for the BBC?

First, individuals may obtain value from being members of clubs, part-owners of mutual societies, and so on, which goes beyond the measurable financial advantages. Indeed, it is worth noting that, as suggested by Peacock (2004), there is probably not a consumer desire for a fully commercialised broadcaster of the kind proposed by Congdon. Opinion polls have reflected this. In a 2017 opinion poll, only 25 per cent of the population expressed the view that the BBC should be "privatised and run by private companies". The proportion expressing the view that it should be run in the public sector was 58 per cent (YouGov, 2017). However, in more recent

polls there has been strong opposition to licence-fee funding. For example, in a poll published in December 2019, 75 per cent of people opposed licence-fee funding and 56 per cent of people believed that the BBC should secure its own funding (Bodkin, 2019). Another poll in July 2014, commissioned by the Whitehouse Consultancy of media analysts, found that 51 per cent of the public would support the idea of abolishing the licence fee and making the BBC “fund itself” (Ross, 2014). Of course, decisions should not be taken simply by reference to opinion polls; and the option of a mutual model was not suggested as an alternative in the polls. However, there does not seem to be strong public support for the binary option of government ownership and the status quo or for privatisation along shareholder-owned lines.

Second, there are also arguments from corporate governance economics that favour the consideration of alternatives. Ricketts (2019, chs 10, 11) discusses the relative advantages and disadvantages of non-profit organisations and mutual societies.¹⁸ Mutuals grew up in financial services to deal with conflicts of interest between owners and customers arising from information asymmetries. However, mutual organisations suffer from principal–agent problems and higher transactions costs of monitoring managements to ensure that they pursue the objectives of owners. In other words, they manage conflicts of interest between owners and managers less effectively than proprietary companies. Although much is written about principal–agent problems in shareholder-owned companies,¹⁹ the market has mechanisms that alleviate these problems.²⁰ Mutual organisations, by nature, have very dispersed ownership and it is more difficult for them to overcome principal–agent problems. They will therefore tend to exist where these disadvantages matter less and where there are specific benefits from that organisational form.

Given that mutuals can handle conflicts of interest between customers and owners better, why might this be relevant to a large broadcasting network with a high degree of embedded trust? First, the size and dominance of the BBC could create conflicts of interest between owners and the consumers in the same way that any organisation with monopoly power can lead to suboptimal outcomes. Additionally, if the BBC became owned by a single individual or group of individuals who wished to pay a premium price in order to use the BBC to promote a political agenda, the interests of owners and subscribers may not be aligned. A mutual structure would prevent this happening. In turn, this may allow a reconsideration and relaxation of media competition rules more generally as this approach would embed structural diversity into the market and should, perhaps, make us less concerned both with BBC dominance and with the dominance of other players as there would be a range of models competing alongside each other.

In fact, non-proprietary forms of organisation do tend to exist especially in education, culture and the arts, according to Ricketts. This is largely because it is easier for such organisations to attract funding from non-commercial sources. A mutual structure would facilitate the development of a non-profit or charitable subsidiary for the BBC. This could raise philanthropic funds for certain types of broadcasting and content provision, especially those which are commonly described as ‘public service’, but, in the terms outlined in this article, are better described as having specific cultural or educational goals. Such goals might be supported by charities or other grant-giving bodies. Although it is possible for shareholder-owned companies to create charitable foundations, their objectives are normally different from those of the corporation which founds them.

Mutual organisations tend to be more conservative in their corporate governance because of the transactions costs of organising change. While that might be regarded as a disadvantage in most markets, as Fairbairn (2004, pp. 67–8) notes, conserving the nature of the BBC as an institution might be intrinsically valuable in ways that might not be easily reflected in the market prices for its services: “In many areas of our cultural and civic life, institutions play a pivotal



role in sustaining public service values that risk being diluted if these institutions themselves are hollowed out.”

Conservatism in governance can, paradoxically, encourage artistic innovation that may be more difficult to promote within a shareholder-owned firm. The importance of cultural conservatism is one of the reasons why universities and other institutions tend not to be shareholder-owned, according to Ricketts (1999, 2000). Related to this, the BBC brand may well have significant value, especially overseas. For example, it is the fourth most trusted news brand in the US (Kearney, 2017). That brand value might well be greater if the organisation had conservative corporate governance mechanisms because it is understood by owners that there are self-imposed constraints on radical change.

Graham (2013) uses arguments not dissimilar to the above to justify continued state ownership of the BBC. He criticises shareholder-owned models in capitalism in general, quoting the work of Colin Mayer (2013) arguing that shareholder-owned companies are too short-term in their thinking. Then, specifically in relation to the BBC, Graham (2013, p. 49) writes: “Second, as it happens, the BBC meets both of Mayer’s criteria. It has a very long-term shareholding – the UK public in perpetuity – and it has different purposes from that of the maximisation of profits. Its role, often stated but still worth repeating, is to inform, educate, and entertain.”

However, this is faulty reasoning. Mayer is not supporting nationalisation but alternative forms of private ownership with longer-term shareholdings. The literature in public choice economics (see e.g. Buchanan & Tullock, 1962) illustrates the problems of ensuring that a nationalised corporation will be run for the benefit of its nominal owners. A subscriber-owned mutual would surely meet Graham’s criteria more effectively as well as being compatible with Mayer’s critiques of shareholder-owned companies.

Indeed, interestingly, Graham (2013, p. 49) then continues: “Seen from this new perspective, we are fortunate, indeed, that in the newspaper world, the *Guardian* exists and that in world of broadcasting, we have the BBC. British democracy would be a much weaker institution without these two players.” The *Guardian* is not, in fact, owned by the state but by a charitable trust. It is close to the model that Peacock seems to have preferred.

A feasible model for BBC ownership would involve turning the licence fee into a subscription, as proposed above. The BBC would be able to provide different packages for different service levels, both domestically and internationally. It would also be able to sell programmes on a pay-per-view basis and make some service available for free with or without advertising on appropriate platforms. There could be differences between the subscriptions for streamed, digital, and broadcast content and content viewed with a time delay. There could also be different subscription rates, for example for students and older people. Such differentiation of subscription levels helps promote welfare maximisation where the value of the service differs between groups and the marginal cost of providing the service is zero (Peacock Committee, 1986, pp. 29–30). Within this model, all individuals and commercial entities that subscribe to a certain level would become equal owners in a mutual structure for the BBC. Instead of the trustees of the BBC being appointed by representatives of the licence-fee payer (notionally the government), they would be elected by the subscribers in the same way as the trustees of a charity such as the National Trust are proposed and elected or in the same way as the board of a mutual building society is elected. The National Trust has 6 million members and so the scale of the BBC as a mutual organisation would be similar to that of the National Trust, though somewhat larger.²¹

It would be possible, in principle, for the BBC to have a mutual structure while developing specific activities in joint ventures, shareholder-owned subsidiaries, or charities²² so that it can

take advantage of the commercial opportunities discussed by Congdon (2014). The success of such ventures would allow member subscriptions to be reduced or provide capital for investment. Indeed, universities have governance structures reflecting their culture and they have a wide range of partnerships, profit-making enterprises, charitable foundations, and so on operating domestically and internationally. London University is such an example which is, despite the difficulty of conducting mergers and developing profit-making subsidiaries in the field of higher education, about the same size as the BBC.²³

There are two arguments against a mutual as opposed to a shareholder-owned structure. First, the shareholder-owned structure tends to raise and use capital more efficiently. Second, there are no significant media organisations that have adopted a mutual structure. However, there are a number of media organisations which are successful joint ventures or entirely charitable. On balance, the author would suggest that a mutual structure should be adopted. It would seem to accord with current consumer preferences, and the BBC would still be subject to competition and consumer sovereignty. At the same time, such an ownership structure would promote diversity and allow the government to remove extensive regulations designed to promote media pluralism. A mutual structure is also more likely to preserve the institutional memory of the BBC and promote artistic innovation. Other large shareholder-owned media organisations would compete with the BBC and, if they are based on more efficient models, they will thrive compared with the subscriber-owned BBC. The BBC would still be able to develop and subsequently take to market shareholder-owned subsidiaries as well as initiating joint ventures.²⁴

8 | CONCLUSION

The Peacock Report was an important landmark in the economics of broadcasting. It was a sustained economic analysis of public service broadcasting coming from a perspective that respected consumer sovereignty while also appreciating the value of the institution of the BBC.

The conclusions of the Peacock Report on the BBC and on public service broadcasting more generally have not been implemented. If anything, in recent years public consultations on broadcasting have tended to beat a retreat from Peacock. However, the technological change that Peacock believed was necessary before full implementation of the approach recommended by the Committee on financing the BBC has happened. Indeed, the changes in broadcasting technology and content have been so dramatic that this article argues that we should go beyond Peacock. Analogies with publishing are especially pertinent. The provision of broadcasting and streamed content now takes place in such a heterogeneous environment that we cannot easily define the activity of broadcasting or define those who are undertaking the activity. This article argues that public service broadcasting should not be a policy objective as such. Therefore, it is proposed that there should be no specific support for public service broadcasting even if government departments and organisations provide support for broadcasting or digital content in pursuit of other government policy objectives.

An economic analysis of broadcasting would now conclude that it is a club good and not a public good. Given this, there are strong arguments for the BBC becoming a subscription service.

It is also proposed that the BBC adopts a mutual structure whereby it is owned by its subscribers. Such an approach would put the organisation in a position of competing with profit-driven broadcasting organisations so that it would not thrive unless the model is valued. The



BBC would still have the freedom to develop charitable arms (for explicit educational purposes), joint ventures, and fully commercial subsidiaries. This approach would embed media plurality and diversity while exposing the BBC to the rigours of competition and ensuring that consumer sovereignty determines the shape of the broadcasting market in the remainder of the twenty-first century.

NOTES

- ¹ In fact, Samuelson focused only on the characteristic of public goods (or collective consumption goods as he called them) being non-rivalrous.
- ² If televisions were owned only for watching pre-recorded videos and no signals were received, the licence fee did not have to be paid.
- ³ This may not be true of educational and cultural aspects of broadcasting, which will be discussed later.
- ⁴ The earlier Sykes Committee (1923) had suggested that broadcasting should be regulated while implying that it should not be undertaken by the state.
- ⁵ Such a body is often described as an 'Arts Council for the Air', the Arts Council being the UK body that provides such grants in the sphere of culture and the arts.
- ⁶ Interestingly, recent criticism of subscriber models for the BBC, for example in a speech by David Clementi, BBC chairman (Clementi, 2019), has suggested that a subscriber-funded BBC would orientate its output towards the middle class (though serving the middle class and producing 'junk food' are not mutually exclusive, the emphasis is certainly different).
- ⁷ It is interesting to note that the author was asked by one of the official bodies involved in reviews of policy at this time to arrange a series of events in Westminster with Professor Sir Alan Peacock. There was a clear openness to his ideas.
- ⁸ The reference to the Public Service Publisher relates to Ofcom's own proposal to broaden the production of public service content through a wider range of providers (Ofcom, 2005, ch. 5). This idea was dropped in 2008.
- ⁹ The argument is complex because it combines points relating to externalities and club goods. If the marginal social benefit is always above marginal private benefit, welfare economics would normally lead to the conclusion that there should be a subsidy. However, assume that fixed costs are £100 million and marginal costs are zero, it is possible to obtain revenue of £90 million from 0.9 million viewers and social benefits from broadcasting are £20 million. The programme will not be produced and broadcast without a subsidy. However, in this case expanding the market and the revenue sources and also segmenting the market so that more is charged to those who value the programme more can make it more likely that the socially valuable programme will be broadcast. If the market can be segmented in such a way that some viewers can watch at a zero price at the margin while revenue is recouped from other viewers and from subscriptions, then the whole market will be served as efficiently as if the programme had been licence fee-funded and provided free for everybody. Of course, there may still be people who value the programme insufficiently, but, unless we pay people to watch it or prohibit competing programmes, no method of funding can resolve that problem.
- ¹⁰ This distinction between instruments and targets is made in a somewhat analogous but different context in macroeconomic modelling. The early work was developed by Tinbergen (1952).
- ¹¹ The Smithsonian television channel does this, for example.
- ¹² Of course, the BBC, with a subscription service, might in any case serve a wide audience. The question is whether this should be an explicit policy objective.
- ¹³ Channel 4 is a publicly owned channel, but mainly supported by advertising. It began broadcasting in 1982.
- ¹⁴ Currently, the figure is between 3 per cent and 4 per cent.
- ¹⁵ Perhaps this wider interpretation of competition and evolution is best expressed in Hayek (1988).
- ¹⁶ There were 28 mutual life insurers in 1863, for example, one of which survived nearly 250 years with a very similar culture and approach to corporate governance (see Black, 1864).

- ¹⁷ Again, see Hayek (1988). It should be noted that this is not a definitive argument. In principle, almost any change could have this accusation levelled against it. Nevertheless, in this case a model of ownership will be proposed which would be compatible with organic evolution. The dangers of imposing a model on an industry that does not evolve in the market itself are illustrated by the example of railway privatisation in the UK. The government imposed a corporate structure that had not evolved in the market. The transactions costs of that model have contributed to its lack of success – at least in certain parts of the country. See, for example, McCartney and Stittle (2017).
- ¹⁸ Other work in this area coming to broadly the same conclusion includes Rasmusen (1988).
- ¹⁹ See, for example, Jensen and Meckling (1976).
- ²⁰ For example, through takeovers or a company moving to private ownership with less dispersed shareholdings.
- ²¹ The BBC has 25 million licence-fee payers. If 80 per cent subscribed it would, of course, be three times the size of the National Trust but of the same order of magnitude. As a proportion of the relevant population, the number of BBC members would not be very different from the number of Trades Union Congress members at its peak. The Co-operative Group has about 4 million members. As a matter of detail (though important detail) it would have to be determined which subscribers were owner-voters (for example, would it include streaming-only subscribers or international subscribers?).
- ²² For example, Norwich Union was a mutual life insurer until 1997. The mutual wholly owned a shareholder-owned company selling general insurance. At the time it demutualised in 1997, it was the UK's second biggest insurance company. The mutual structure still allowed the company to own a proprietary company, diversify and grow while not undermining the culture of the mutual part of the business. It also operated subsidiaries in a number of countries.
- ²³ The precise governance and ownership structures of universities differ and are often complex. Few, though, are profit-making institutions.
- ²⁴ Given that the existing capital would not be bought by the new subscriber-owners, as in a conventional privatisation, there would have to be restrictions on future disposals or winding-up if it was chronically loss-making. This would be a technical detail to be dealt with in legislation.

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