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Old Media Policy Failures, New Media Policy Challenges

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Abstract

This paper deals with two related subjects. The first is the failure of economic analysis to trigger elimination of welfare-reducing public policies affecting the older mass media technologies, such as broadcasting. The second is some speculation about policy issues that may continue or arise in the future given the technical characteristics of the new broadband media, combined with advances in social psychology, neuroscience and behavioral economics.

I draw two principal conclusions. First, the failure of economic analysis to stimulate fundamental reform of media regulation is largely due to the fact that policy makers have greater incentives to focus on the allocation of economic rents among interest groups than to promote consumer welfare.

Second, it is clear that IP-based technology is replacing old media such as newspapers and broadcast stations. The technology has the potential to greatly enhance competition and diversity, and to reduce the cost of access by consumers and suppliers to each other. However, regulation is not likely to be reduced, because a whole new rationale for media regulation is being developed. The new rational will be a market failure—adverse welfare effects of competitive media content responsive to consumers' cognitive impairments.

This paper was presented at a 2009 University of Bayreuth conference on the future of public broadcasting in Germany. While my point of reference is media structure and policy in the United States, I believe that most of what I have to say is also applicable to other countries, including Germany and other members of the European Union. For example, new media technology is challenging the highly concentrated "public" structure of German television, and will continue to do so unless policymakers intervene. The externality rational for public television in Germany is of fading importance, but the argument for public control might be strengthened in the future by welfare-reducing market imperfections in commercial media content.

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Old media, bad policy

If we date the current era from Ronald Coase's (1950) early work on British radio broadcasting, economists have been studying media and media policy for nearly sixty years. Our focus is on understanding how media firms respond to consumer demand for news and entertainment, and to advertiser demand for audiences. With this understanding comes recognition of various imperfections or outright market failures that might be mitigated by policy interventions. We then analyze the policy interventions themselves, asking whether the interventions have improved the economic welfare of consumers and citizens, relative to market outcomes.

The result, at least in the United States, is a long list of regulatory failures, in the sense that regulatory intervention probably has produced lower welfare than flawed markets would have done. But it seems that most of our prescriptive analyses are unattractive to policymakers. Is this because policy-related research has been wanting, or is it (as some of my more arrogant colleagues have suggested) because policy makers are too dense to get the point or economists too inept as communicators?

I think one of the reasons for this possibly deplorable state of affairs simply is that most state interventions in the media industries are <u>not</u> aimed at mitigating market failures. Instead the interventions are aimed mostly at implementing solutions to current or anticipated political or economic disputes among affected interest groups. Negotiated solutions and compromises certainly can make consumers better off than they might have been in a "but-for" world of incessant political stalemate or sectarian violence. But such solutions are not likely to be responsive to the market failures that economists have identified. In short, democratic political systems simply tend to use regulation to address a different set of problems than the problems that media economists have found to be interesting. Politicians are more concerned with the creation and allocation of economic rents; that is how most of them make a living.

Two examples of welfare-reducing public policies will illustrate my point. The first is centralized spectrum allocation and the second is the pursuit of diversity.

Spectrum allocation

Ronald Coase (1959) was the first of many to point out that the radio spectrum could be allocated by private markets, given a system of property right definitions. Having the spectrum allocated by competitive markets is perfectly consistent, in principle, with regulatory policy that seeks to promote diversity, localism, access or other values. The state could purchase spectrum to provide public services, just as it pays for other resources it uses. Also, the state could use taxes and subsidies, or mandate performance criteria, to achieve policy goals. If this policy reform were made, spectrum would be used far more efficiently, technological innovation would be more rapid, and the economic "pie" would grow faster.

Indeed, governments today <u>do</u> use certain features of market allocation, such as the familiar spectrum auctions, to maximize government revenues from spectrum. But spectrum auctions are but a shadow of the market. Most spectrum rights, including mobile telephony licenses, cannot be freely repurposed as demand and technology changes. The state remains firmly in control of the uses to which each portion of the spectrum can be put, the very function at which markets process information so much more efficiently than bureaucrats.

For example, if terrestrial broadcasters could sell their spectrum licenses to mobile telephone providers, or provide such service themselves, the broadcast spectrum would be far more efficiently utilized. Only a tiny fraction of TV viewers today rely on over-the-air broadcasts, while the demand for broadband mobile services is booming. In the U.S., we have the ludicrous situation of thousands of TV transmitters pumping megawatts of power into the ether in order to excite the rabbit ear antennas of a handful of TV receivers. Swathes of spectrum are wasted (and the environment degraded) merely to preserve the illusion of free television and the continued reservation of single-digit channel numbers for legacy broadcaster licensees.

Why are spectrum markets not permitted? The answer is straightforward: rent-seeking and rent-retention. Moving to tradable and unrestricted spectrum rights would create the possibility that some incumbent licensees could be worse off, often because of increased competition. Such licensees are rationally willing to pay up to the value of future rents to preserve them.

Democracies have difficulty designing political structures that are both responsive to the public and resistant to rent-seeking behavior. The original intervention in spectrum allocation was designed in part to remedy a real market failure—namely, the absence of enforceable property rights in a newly discovered resource. It might have been better to establish such rights than to resort to nationalization. But in any case, once spectrum nationalization took place it necessarily followed that spectrum allocation decisions would be made by the political process rather than by markets or by efficiency-oriented technocrats.

The absence of spectrum reform reflects the constraints imposed on the political system by path-dependent processes of rent creation. Once an initial set of allocations or regulations is made, and the associated flow of rents initiated, rent-holders have strong incentives to oppose changes in the allocations. Because the rents arise from artificial scarcities and suppression of competition, generally no one is willing to spend as much money to eliminate them as the incumbents are willing to pay to keep them. (Collective action barriers usually preclude consumer participation in the political market for rents.)

This tendency of the political system to preserve pre-existing rents is reinforced by all sorts of rights-based procedural conventions that also favor the status quo, both in the legislature and in the regulatory agency. So-called administrative law in the U.S. always puts the burden of proof on those who would change the status quo. Indeed, it is likely that a number of regulations and policies have survived their initial beneficiaries. These policies go on creating welfare losses in spite of the disappearance of rents simply because it is so difficult to change laws and regulations, even when no one is opposed.

Diversity

For a second example of misplaced policy, consider the issue of diversity. It has long been an explicit objective of government policy in the United States to promote additional *diversity* in the mass media, with the logical implication that existing levels of diversity are inadequate, or perhaps that diversity can never be excessive.

Similarly, *bias* in the media, although not an explicit target of government policy, has been regarded as untoward, a symptom of poor performance, and evidence of lack of diversity. Conservatives complain, for example, of a liberal bias in broadcast network news. Scholarly and populist attention to media bias and diversity has not waned in the six decades since the Hutchins Report (1947), and has now broadened to include many econometric studies of media bias, mostly focusing on newspapers. (Knight &Chuang 2008, Durante & Knight 2009, Groseclose & Milyo 2005, Groeling 2008, Ho & Quinn 2009, Puglisi & Snyder 2008)

In the U.S. the federal government remains committed to using ownership rules to promote diversity, to regulating both the terms of access to the media and methods of pricing media output, and to using fines and other sanctions to limit the range of expression, at least in broadcasting. In spite of cycles of deregulation and reregulation and in the face of an explosion of media competition facilitated by new technology, regulation of broadcast content remains where Felix Frankfurter left it in 1944.[1]

In my view diversity (and its fellow-traveler, localism) is a meaningless and even harmful policy objective. As applied to media, the term diversity can be used to mean the variety of gatekeepers, authors or categories of media <u>content</u>. Even less rigorously, it can mean the extent of content or gatekeeper <u>bias</u> or the difficulty—for someone who lacks it—of obtaining <u>access</u> to audiences. None of these concepts is readily defined or reliably quantifiable, despite the recent flurry of attempts to measure political bias in newspapers.

But the key problem with diversity is not its vagueness or difficulty of quantification. The problem is that diversity is not firmly linked to any fundamental economic or political principle. It cannot be said that diversity in any of the senses just mentioned is an obvious public good in its own right. It is easy to provide examples where greater diversity produces less economic welfare or less political freedom, both more fundamental values. In the case of many U.S. policies intended to promote diversity the result is in fact to reduce economic welfare or to imperil political freedom (Owen 2003).

My views on diversity are not shared by all media economists. But I will illustrate the ineffectiveness of economic analysis in the policy arena with a point on which I believe most media economists *would* agree. The most straightforward application of economic analysis to questions of diversity is the measurement of concentration. In antitrust analysis the primary concern is with welfare-reducing restrictions on consumer choice. (USDOJ 1997) We measure the severity of such restrictions by defining a relevant market and then measuring concentration among sellers in that market. The key step in this analysis is definition of the relevant market. This step requires us to understand the choices actually available to consumers. In this inquiry, we do not assume in advance that different production technologies or disparate product characteristics necessarily constitute market boundaries.

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[1] A U.S. Supreme Court case decided last week offers some hope that Justice Frankfurter's invention of the notion of "spectrum scarcity" as a rationale for broadcast regulation may finally be revisited. Federal Communications Commission v. Fox Television Stations, Inc., et al. 556 U.S. ____ (April 28, 2009) (Justice Thomas, concurring).

So, why do regulators, legislators, judges, journalists and so-called consumer advocates persist in viewing diversity in terms of concentration within particular technologies? Why do policy makers assume, without much inquiry, that diversity or concentration *within* a particular medium, such as TV broadcasting or newspaper publishing, is a meaningful policy concern? I think the answer is clear: to do otherwise would remove the last significant rationale for regulation and reduce demand for rent awards by the political sector.

In Germany, one of the principal justifications for a system of television broadcasting that relies chiefly on two "public" (quasi-government with both paid commercial announcements and tax revenues) broadcast networks is "external effects." An externality arises when a producer does not internalize all costs or benefits of an incremental unit of output, and hence produces too much or too little, relative to the welfare norm. There are at least two sorts of externalities in television broadcasting. One arises from the zero marginal cost of additional viewers within the broadcast signal radius. The second arises from the social, educational, or political benefits of certain kinds of broadcast content, benefits that accrue in part to non-viewers. Both effects suggest that private commercial markets would produce too little television content, and thus rationalize public subsidies.

The externalities argument is very weak. Essentially the same argument could be advanced with respect to other mass media technologies, such as printing. One suspects that externalities were not the primary reasons for the creation of current German public broadcasting institutions. Certainly Germany's twentieth-century political history had a strong influence. More importantly, the issue today is why new media technology and the possibility of much-expanded commercial output from competitive content producers should not be allowed to supersede the old public broadcast structure, presumably by eliminating the subsidy, or somehow making it available to all content producers. So long as the subsidy continues, there will be intractable policy debates about whether to permit the public broadcasters to participate in the new technologies.

The future

Turning now to speculation about the future of media regulation, I think we may look forward to concerns far more serious than inefficient rent seeking. Scientific advances are undermining the Enlightenment dream of a fully rational and deterministic world. There is a sustained assault on the assumption that humans are possessed of conscious free will. The new media of mass communication increase vulnerability to primitive unconscious motivations that may call out for regulation by the state. To set the stage for this argument, let me review the current status of the media technologies.

Wired and wireless interactive broadband mass communication is ascendant, while printing and broadcasting, the old passive media transmission technologies, are in decline. Consumers and advertisers in the aggregate prefer the mix of content and prices made possible by the new technologies. Especially with mobile viewing devices, the new media have both a technological and an economic advantage over the old. As consumers switch away from the old media products, their economies of scale are lost. The unit costs and prices of the older technologies rise, further reducing both supply and demand.

Government communications policies designed for the earlier technologies nevertheless remain in place. One result is that old media are handicapped in responding to the new competition. The new media tend to use technologies that more closely resemble telephone services than traditional mass media services, and therefore do not fall automatically under all the regulations and policies applicable to the old media. Lingering obsolete regulatory constraints on the old media will hasten their exit from the market by placing them at an additional competitive disadvantage.[2]

Traditional regulation has focused on supply-side problems, such as concentration, that might lead to content distortion, including biased news reporting or unrepresented viewpoints. The danger going forward is more likely to be on the demand side. The newer media are more responsive to demand for hastily-produced content that may decrease well being by reducing the extent of rational processing that precedes political and other action. The new media are also potentially more effective in facilitating hasty collective action.

What new policy issues will arise?

Some of the old policy issues will survive, of course. Content and its regulation will continue to generate debate. Even with the equivalent of hundreds of competing interactive broadband channels, many will criticize and advocate regulation of the resulting content. Whatever is popular inevitably will offend the serious-minded. Whatever is popular will continue to attract access advocates, seeking to ride free on the investments or good luck of other content producers. And the more content diversity there is, the more opportunities there will be for critics to find content that is morally, politically, aesthetically or otherwise objectionable. What

[2] Or, in Germany, at an advantage—from the continued receipt of tax revenue—that produces a disadvantage—restrictions on public broadcaster expansion into new technologies of distribution.

will be different is that the connection between "bad" content and demand-driven supply will be so obvious that there will be less tendency to blame media structure for the problem. Instead, I think the tendency will be to regard the problem as a competitive market failure arising from consumer demand for media content whose consumption has negative externalities or socially harmful collective action effects.

The thunder from the Left blaming Big Media for its failures and biases, and the thunder from the Right, blaming the left-leaning creative community for its failures and biases, will have to be redirected toward the audience itself, or parts thereof. There is a fundamental tension between being in favor of competition and de-concentration in the supply of media content and gate keeping, and being against low brow, tawdry, populist outcomes.

Thus, in the new media I think complaints about content will be "spun" as complaints about culture, and in some cases perhaps individual, ethnic, regional, or other deviance. A media industry that has become highly competitive and decentralized, producing tailored or consumer-designed products, cannot be held accountable for its content. As the famous American newspaper cartoonist Walt Kelly (1953) once wrote, "We have met the enemy, and he is us!"

Market Imperfections Arising from Impaired Cognition

If I am correct that policy concerns with the new media eventually will center on demand-responsive content that is nevertheless socially welfare-reducing, then the key analytical problem will be to distinguish such content from that which should be protected by the principles of personal liberty.

My crystal ball is quite foggy on the details of these future controversies. Still, I have an example to illustrate my concern. The example comes from the developing field of "neuroeconomics."

Neuroeconomics is the study of economic decision-making and motivation at the level of individual agents who depart frequently and systematically from what economists define as rational behavior. One way to think about the field is to say that it seeks to explain how an individual who seeks to be rational could end up viewing her own decisions as systematically irrational—that is, as non-utility maximizing.

Of course, this issue has long been used by non-economists to criticize economic modeling. Economists have tended to respond to the by inventing elaborate rationalizations demonstrating that the suspect decisions actually are, or could be, rational. This is done by re-categorizing the suspect decisions as preferences, by suggesting that the decision-maker was cognitively "impaired" in some way and thus only "boundedly rational," or by elaborating a hyper rational solution to a hypothetical game structure.

But now the overlapping fields of psychology, neuroscience and behavioral economics have identified neurological loci—not just conceptual, but anatomical—for various human behaviors. By this I simply mean that human decision making is influenced by unconscious motivation, including that which is emotional or instinctive. For example, nearly anyone can behave immorally or unethically in certain circumstances. (Zimbardo 2008) How altruistically we behave can be influenced by ambient odors and other irrelevancies. Moral judgments are not consistent across logically equivalent but circumstantially different situations. (Appiah 2008) We regularly violate Professor Arrow's "axiom of independence of irrelevant alternatives." (Arrow 1953)

Of course, we always knew that humans make irrational choices at times of heightened emotional stress. But it is now clear that we can make poor or inconsistent choices, influenced by unconscious motivations, even when we are entirely calm. However, we are rational enough to regret some of our irrational decisions. Human rationality is only an aspiration. The conflict between reason and emotion, and the unconscious basis of motivation, are the stuff of art and literature. What has changed is that we can now observe this happening in real time in the laboratory, using neuro-imaging technology. What used to be merely <u>conceptual</u> theories of the psyche can now to a much greater extent be tested in an atmosphere of "hard" science.[3] This field is in its infancy, but its aim would be to understand the neurological basis for decision-making at the level of physical science.

Cognitive Biases as Market Failures

If we find ourselves calmly and repeatedly making certain decisions that we later regret, is there not a case for intervention to help us avoid such decisions? And if, in certain areas, all humans systematically err in predictable ways (according to our own subsequent judgments), is there not a case for public measures to reduce such errors? These are interesting and difficult

[3] There are competing conceptual theories of mind; for a survey see Smith and DeCosta 2000. Some posit dual systems, one rational and conscious, the other affective and pre-conscious. For an example of applications to media content processing, see Novak and Hoffman 2009.

policy issues. We will probably hear more about them, because one of the proponents of policy interventions to temper harmful unconscious motivation, Cass Sunstein, has been appointed by the Obama Administration to a post that oversees all U.S. regulatory agencies, including the FCC. (Wall Street Journal 2009)

So, what does affective "interference" with rational decision-making have to do with media regulation? We already recognize the potential for conflict between socially harmful media content (demagoguery, for example, or "copy cat" crime) and the benefits of civil liberties such as freedom of expression and access to information. One key difference is that dangerous media content has always been viewed as necessary grist for rational decision-making, especially in a Miltonian (1644) world where truth supposedly emerges from competition in the marketplace of ideas. But if some media content is processed wholly or in part by emotional and instinctive mental processes, with welfare-reducing consequences, then much of the libertarian basis for tolerance of such content is undermined.[4]

Consider news media content in a competitive environment. Clearly, what attracts audiences to competing sources is bad news—specifically, that which is alarming, unexpected, scandalous and dreadful. This is news that may inflame the brain's *amygdalæ,* or panic buttons. Our amygdalæ apparently review arriving stimuli to determine rapidly whether to invoke unconscious or instinctive "fight or flight" motor responses or to refer the stimuli for slower conscious analysis, or in what proportion. (LeDoux 2007) Individuals presumably are attracted to alarming news because of the need to understand, the nature of newly discovered risks and the gravity of known risks. We are compelled to consume such information, again presumably, for reasons related to evolution and natural selection. "News" media cater to this demand. For this reason, tension has long existed between media critics who decry the triviality of much news content and media, whether profit-seeking or not, seeking to maximize the size of their audiences. This can be viewed as an allegation of market failure arising from "false" demand signals giving rise to producer incentives inconsistent with promotion of consumer welfare.

Much entertainment content seems to attract attention for similar reasons. Indeed, I would argue that there is little meaningful distinction between news and entertainment, especially for

[4] In the extreme, all basis for tolerance may be undermined. It is well established that conscious decisions to engage in physical action are rationalizations of prior unconscious decisions. (Libet et al. 1983) Some emerging evidence extends this finding to purely conceptual decisions. (Sheth et al. 2009) A possible implication is that even rational processing is subservient to non-auditable (unconscious) affective control.

video content. If it is right to view some entertainment content as socially dysfunctional because it stimulates unhealthy emotions, activities and choices (such as fear, aggression, and gluttony), why is the same not true of news content? No one could reasonably characterize the content of popular broadcast or cable news channels, or supermarket tabloids, as catering to the need for rational citizens to make wise choices on the basis of the best available information about important public and private decisions. It is not truth that attracts audiences, but rather lies.

These sources of demand for media content are not likely to change just because we have new technologies of mass communication. Therefore suppliers of content will continue to have an incentive to satisfy these demands. However, at least three important features of the new media may change the significance of such content in the new environment: speed, feedback, and division.

By speed I mean nothing but the obvious—whatever there is to know, we know it sooner than we did before, often in real time from multiple perspectives and in great detail. So it is possible now to engage exclusively in real-time consumption of information about an individual event or chain of events. The old media were unable to provide this service, except for broadcast radio and television in times of great crisis. While the option to take time for reflection and cognitive processing certainly still exists, the option not to do so is newly enhanced. Reflection and cognitive processing of information, alone or with others, takes conscious effort. Reflection is more difficult when its opportunity cost includes less consumption of even more seemingly relevant information. Hence the new media may permit the consumption of information to crowd out rational processing.

By feedback, I mean that the new media are interactive not just in the sense that the consumer actively selects content in real time from among numerous choices, but also in the sense that the individual can act instantly upon the information—can purchase goods, donate money, respond to polls, or email the president, [5] or join a demonstration.[6] Because these options to take action are immediately available, they are likely to be especially affected by

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[5] http://www.whitehouse.gov/contact/. Similarly, a "video prank" posted on YouTube and amplified by Twitter quickly caused a "marketing crisis" for Domino's Pizza. See Clifford 2009.

[6] Instant messaging and social networking web sites such as twitter are used as means of mass communication and sometimes to organize demonstrations and other real time collective actions (Schleifer 2009).

instinctive responses heavily influenced by the amygdalæ, at least compared to the responses resulting from the delayed opportunities for feedback available with the older media. The behavior of legislators during the financial crises last fall seems to have been heavily influenced by rapid pulses of spontaneous electronic outcries from frightened citizens.

By division, I mean that the new media permit the formation and maintenance of interest groups, factions, and sects that previously faced insurmountable barriers to effective organization and collective action. Economies of scale in production and politics have been crucial in shaping the global economic and political environment. Economies of scale are achieved, however, at the expense of minority preferences. When interest groups, factions or sects can more easily organize for collective action, they become more powerful, politically and economically. The result is to weaken older conglomerations of power, such as nations and formerly stable political parties and majorities. The growth of ethnic separatism movements is a clear example.

I think most people today accept as a topic of legitimate debate the wisdom of intervention by the state to promote or to discourage certain kinds of media content and promote others based on morality, diversity, obscenity, blasphemy, education of the young, preservation of cultures, and the like. Many countries already intervene to regulate such content in ways that vary depending on the value placed on individual liberty. It does not seem farfetched that interventions to forestall some of the problematic consequences of new media technology will be proposed. This seems particularly plausible as we pursue such interventions in other contexts, such as those discussed in the best-selling book, “Nudge,” by Cass Sunstein and Richard Thaler (2008), which popularizes some aspects of the hot new fields of research that I summarized earlier.[7]

According to Sunstein and Thaler, the state can hardly avoid interventions affecting cognitive biases. For example, a law requiring employers to offer a retirement plan *into* which employees may opt has substantially lower participation rates than an otherwise identical program *out* of which employees may opt. The state *must* choose which option (if any) to mandate. To take a second example, school cafeterias must place the sweets *somewhere* on the line, and their position may heavily influence the healthfulness of the student’s choices. If the state must make these choices, why not make them with unhealthy cognitive biases in

[7] Russell Korobkin 2008 summarizes and extends the rational for such intervention in a recent working paper.

mind?[8] Indeed, the state almost everywhere already regulates in numerous ways in that most sensitive of all neurological interventions—the education of the young.

Returning to the media, if the state already intervenes to regulate media content, based on theories of the impact of content on behavior and the social good, why does it not make sense to consider the impact on behavior and the social good of the content and technologies of the new media? For example, is it conducive to the mental health of audiences (or the stability of society) that technology now permits obsessive consumption of alarming or threatening information, and thus encourages the production of such "information?"

Suppose it could be demonstrated that both the speed and gravity of the current global economic crisis were greatly enhanced by the availability of new-media-based information flows—leading to destabilizing expectations-based feedback effects? After all, much of what happened to the world economy in 2008-09 can be explained in terms of the psychology of expectations. (Akerlof & Shiller 2009) Would that fact justify interventions to regulate the flow of such information or to restrict the range of instinctual actions permitted to individuals in response? Similarly, some observers claim that media coverage of the 2009 swine flu epidemic was characterized by misleading information tending to exaggerate the danger, causing large economic losses will ultimately fall on consumers and taxpayers. (Nolan 2009) Possibly overwrought media coverage of the "Y2K problem" a decade ago caused some people to stockpile provisions and even arms against possible apocalyptic breakdowns in public order. (Ermann 2000)

The nexus between economic analysis and neuroscience goes beyond the possible regulation of instinctive behavior with direct macroeconomic effects. Both the political economy of regulation itself, and the optimizing behavior of individual agents subjected to regulatory constraint are the subjects of an extensive literature.

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[8] An extension of this idea is the notion of employer efforts to "train the brains" of employees in order to induce them to make more effective use of health-care resources. See Fuhrmans 2009.

[8] Adler's work is an example of the increasingly popular use of subjective happiness as a substitute for conventional measures of income in welfare and policy analysis. (Posner & Sunstein 2008, Adler & Posner 2008, Kahneman & Krueger 2006, Layard 2005) Most economists do not claim that income and wealth are more than useful proxies for utility or welfare. Whether happiness, as measured by asking individuals the question, is the same as utility or welfare is debatable, but it seems a closer proxy than income.

Fear itself

Let me press my example a bit harder, focusing for purposes of illustration on a single emotion—*fear*. Professor Adler has argued forcefully that in assessing the costs and benefits of public policies, we do wrong to ignore the very significant role of *fear* in human well-being. (Adler 2004) Put into conventional economic terms, there is a willingness to pay to avoid fear.[9]

It would be easy to ridicule the suggestion that reducing fear is a potentially important policy objective. We all know that fear has a lot of entertainment value. Horror movies, ghost stories, and scary amusement park rides are examples. A universal entertainment trope is to induce vicarious fear in the audience, and then to resolve or relieve it, often with comedy. But the fear generated in these cases is cathartic, and the audience knows it. Media content intended to induce real fear—that is, fear the audience does not necessarily expect to be relieved, is a different matter, because it can stimulate costly defensive and aggressive action.

What Adler (2004) has in mind is such fears as arise from social and economic conditions affected by public policy: fear of crime, fear of poverty or homelessness, fear of hunger, fear of war or invasion, fear of expropriation, and so on. These are not abstract or conceptual fears, but fears of personal harm, including death.

One of Adler's points is that a reduction in the incidence of, say, crime brings benefits not only to those who would have been the victims of crime, but also to those whose fear of crime is lessened. This lessening of fear can sometimes be measured or valued, and this value should be included when calculating the benefits of anti-crime policies.

A simple extension of this logic suggests that many consumers might benefit from the lessening of fears inflated by media content whose very purpose is to instill fear, merely to attract audiences. Clearly such regulatory intervention in the business of fear mongering would be a complex task, but no more complex than, say, the current policies that regulate false and misleading advertising. In the case of misleading advertising, we ask whether a reasonable person likely would be so misled by advertising content as to erroneously purchase an unsuitable product or service. In the case of dreadful media content, we would perhaps ask whether a reasonable person would likely be led to suffer objectively unwarranted feelings of fear or dread.

For example, news coverage of airplane crashes is often said to induce individuals, for a time, to substitute automobile travel for air travel. Automobile travel is objectively riskier than air travel. Why would social welfare not improve if news coverage of airplane crashes were limited? Should government regulators respond to erroneous risk perceptions (as they do!) by making aviation safety standards higher than automobile safety standards?[10] It is not difficult to imagine officials proposing a regulation, justified on market failure grounds, limiting media coverage of improbable catastrophes.

My own libertarian instincts make me very uncomfortable with such suggestions. But perhaps we may be wise enough to distinguish fear mongering from protected political speech. There is, or ought to be, a difference between the use of fear as a rhetorical device in political debate and the use of literal fear mongering for commercial ends. Perhaps the deciding factor will be whether attempts to engage in such regulation present opportunities for rent seeking. And unwarranted fear is but one cognitive impairment giving rise to potential market failures.

[10] For an analysis of this issue in the context of a hypothetical false perception of drinking water contamination, see Salanié and Treich (2009).

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