



Communications and Digital Committee

Corrected oral evidence: BBC future funding

Wednesday 27 April 2022

2.15 pm

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Members present: Baroness Stowell of Beeston (The Chair); Baroness Bull; Baroness Buscombe; Baroness Featherstone; Lord Foster of Bath; Lord Lipsey; Lord Vaizey of Didcot.

Evidence Session No. 12

Heard in Public

Questions 90 - 97

Witnesses

I: Ryan Bourne, R Evan Scharf Chair for the Public Understanding of Economics, Cato Institute; Dr Cento Veljanovski, Founder and Managing Partner, Case Associates.

USE OF THE TRANSCRIPT

This is a corrected transcript of evidence taken in public and webcast on www.parliamentlive.tv.

Examination of witnesses

Ryan Bourne; Dr Cento Veljanovski.

Q90 **The Chair:** This is the meeting of the Communications and Digital Committee, and we are continuing our inquiry into BBC future funding. I am very pleased to be joined by two witnesses today: Mr Bourne, over Zoom, and Dr Veljanovski, here in the room. Obviously, we are transmitting live now on the internet and a transcript will be taken, which will be published on our website in due course. Can you briefly introduce yourselves and the organisations that you are associated with?

Dr Cento Veljanovski: I am managing partner of Case Associates, an economist and writer, and I have an affiliation with the Institute of Economic Affairs.

The Chair: Thank you very much. Mr Bourne?

Ryan Bourne: I am currently the R Evan Scharf Chair for the Public Understanding of Economics at the Cato Institute. I write for the *Times* business column weekly, and I have previously done work on the BBC and been published by the Institute of Economic Affairs.

Q91 **The Chair:** I am very pleased that you are both here, and thank you for your time this afternoon. I do not know whether you were able to watch our hearing yesterday, but people from the commercial public service broadcasters, as well as commercial broadcasters Sky and Global Radio, joined us, and some of the evidence that we received from them was really quite interesting in that they are dealing with a lot of challenges in the commercial part of the broadcasting sector, but they were also quite keen to emphasise a desire for a status quo in the funding regime. We feel that today's session is quite a timely follow-on to that one, and it will be quite interesting to explore some of the things we learned from them as we go through the questions.

We will come to principles underpinning what decisions should be made about the BBC funding model, and talk about different options for future funding and how the BBC might need to change in order to remain legitimate. I want to start with the purpose of the BBC. In your view, is there still a need for a national broadcaster like the BBC and, if there is, what purpose do you think it should serve?

Ryan Bourne: Thank you for inviting me to the committee. I would slightly change the question to: is the notion of a national public service broadcaster still justifiable? I would probably argue largely no. If the BBC did not exist now, we probably would not have much clamour to invent it; nor would there be much intellectual justification for doing so, given commercial and technological developments.

It is certainly true that, in principle, you can envisage markets not providing all types of content that could be deemed necessary for society to flourish and that which ordinary consumers demand. One can imagine that some genuine public service broadcasting—we can debate the exact contours of that—should be limited to things that the market fails to

provide in sufficient quantity or quality, but I do not think that requires a full-blown national public service broadcaster such as the BBC, for four observations.

First, for many years a lot of shows that the BBC has produced have equivalents that are provided privately, whether that be showcasing sports, dramas, soap operas or comedies.

Secondly, a lot of private providers now produce or commission content that is indistinguishable from what we might consider public service broadcasting, whether that is high-quality 24-hour news or award-winning documentaries. I believe that Netflix even commissioned one from David Attenborough.

Thirdly, technological change has meant that television is no longer what economists describe as having the economic kind of characteristics of a public good. It is more of a club good. You can exclude people from watching for non-payment and, again, there is a lot of public service content available on demand in other places.

Finally, the BBC itself is not just a national broadcaster; it is an international broadcaster. It is happy to take advertising revenue and provide subscription services here in the US through BritBox.

For all those different reasons, the collective implications are quite profound. The economic case for a full-blown national broadcaster providing that full spectrum of content has really evaporated, in part because of the example of what we are seeing happen.

The Chair: Thank you. I might want to come back and look at those points, but before I do I would like to hear from Dr Veljanovski.

Dr Cento Veljanovski: I agree with most of what Ryan has said. I must admit I was a bit flummoxed when the question was put the way it was, because with devolution and other broadcasters having regional obligations, the question is really: is the BBC a national broadcaster? I know that it has national coverage, if that is what is meant, or universal service obligations.

The Chair: I think it was more that the BBC is the national public service broadcaster.

Dr Cento Veljanovski: I was not too flummoxed by it, though. Given what Ryan said—I would have said pretty much the same, bar one or two points—the best way to proceed is to think about the broadcasting principles. In the round, we have a huge legacy system that has been around certainly since the 1960s when ITV was introduced, and we have to be clear about what these institutions are supposed to do.

One of my major points—jumping ahead of my list of points—is that it is important not to confuse public service broadcasting, or national broadcasting or whatever, with the institutions that currently provide it. That is an important point, because that is often confused in the debate on public service broadcasting. Public service broadcasters often come into committees like this and say, “Public service broadcasting is what we do”, and that is supposed to be the end of the debate.

But there must be clarity and coherence of purpose in the public service or the broadcasting ecosystem or digi system, or whatever you want to call it, and that requires addressing certain questions. What is public service broadcasting as a concept, both in theory and in practice? What is the role of the BBC in that public service regime and in the broadcasting and communications sector more widely defined? What are we trying to finance: an institution or public service broadcasting? We must be clear on these issues.

We are constantly using analogue thinking in a digital age and, with due respect, most people in this room are probably analogue baby boomers, if that is not a contradiction in terms, and not really representative.

Lord Vaizey of Didcot: We are practically Jurassic.

Dr Cento Veljanovski: Jurassic is it? Oh right. Most people in this room are not really representative of today's viewers, certainly the younger viewers. The basic thing we have to ask is what framework we are using. We need clarity—we should not confuse the institutions with public service broadcasting—and what is good for the survival of the BBC in its current or slimmed down form, or any form, is not necessarily the best way of organising its component of public service broadcasting.

We have inherited a frankly ramshackle legacy structure. We have five public service broadcasters: a BBC with guaranteed access to funds, free of spectrum and immune from direct commercial forces but acting commercially, and seeking to compete with ITV and the rest; ITV, which has public service obligations that have been somewhat watered down recently; Channel 4, which is trying to deal with the mass-audience orientation of ITV with its publisher/broadcaster status; and a periphery of portfolio channels such as C4C and Alba, for the nations, and a variety of digital services.

I do not think we can carry this analogue organisational structure forward in a digital age, and I do not have to tell this committee what is happening outside of that system.

I should have prefaced my comments by saying that my starting point is as an economist in a classical liberal vein, and I am not against public service broadcasting per se, as long as it is consistent with some principles, at least economic and liberal principles, or there is some overriding principle that will say that private and market provision of television and radio services are not possible. We will come back to this market failure framework in a later question, so I will pause there for the moment.

Q92 The Chair: That is really helpful. Your distinction between institutions and actual purpose is an important one—as in, the reason for public service broadcasting is not the same as trying to protect or defend any particular institution.

I have one follow-up question. We have heard from a lot of witnesses about the importance of public service broadcasting and the BBC being a national glue as a way of unifying us as a nation. They might argue that

it comes from the BBC, and that they are focusing on the institution rather than the actual method of delivery. If you take the institution out of the equation, do you agree that the reason for public service broadcasting would be to provide that sort of glue? If you are arguing that there is some potential value in public service broadcasting continuing, would you argue that that would be a purpose for it?

Dr Cento Veljanovski: I am not an expert in national unification, but I am not sure that it is the role of a state broadcaster to bring these together. You might hear a hint from my accent that I am not British, I am Australian, and we have three national broadcasters, a commercial broadcaster, and an ABC. I cannot tell you if that argument is valid in some sense—I am not able to assist you on that—but it still goes to the concept of the scale and scope of the BBC. I know the institutional argument that the BBC makes is it has to do a wide range of activities, cater for all tastes and provide a universal service obligation, but that still begs the question whether, as an organisation, it is fulfilling even that function. I am sure that even some in this room would say that the BBC is quite divisive in some of its coverage.

The Chair: I am sure we will come back to the impartiality thing. Just before I move on, Mr Bourne, did you want to say anything in response to the question I just asked?

Ryan Bourne: It is a great question. I have just a couple of observations. We should be very careful in this discussion not to conflate what is in the interests of businesses as they are currently set up to operate and what is in the interests of the longer-term consumer-led market development of the sector overall. There are probably good reasons why other broadcasters would not want to fundamentally disrupt the purpose or commercial operation of the BBC, not least because if you are, say, ITV or Channel 4, you would not want the BBC competing for a relatively fixed pot or a declining pot of advertising revenues. You have to be careful about taking these statements at face value.

My second point is about your allusion to the BBC being a kind of national glue. I see the decline of that to a certain extent as being more about technological change rather than thinking through how we as politicians can set a framework to try to encourage that. The BBC could produce all the content it wants to try to unify the nation, but the trends seem to suggest that fewer and fewer people are watching TV collectively. Some people bemoan that that reduces a shared experience and the social capital that that generates, but that is a reality that we have to take as given. The BBC might produce a lot of content, but if people ultimately do not watch it in 10, 20 years, it is difficult to see how you achieve that objective.

Q93 **Baroness Bull:** Mr Bourne, you talked only about watching and television in relation to the concept of the national glue. As I was thinking about the Chair's question, I wondered about the multiple channels and times of our life in which the BBC operates. Most people still grow up with kids' television—we all did, and kids still do. Then you have BBC radio, you probably have BBC orchestras, and you might have

BBC in your community. Do you agree that the glue concept might be about those multiple ways in which the BBC reaches and connects with us through our lifespan, or I am being romantic?

Ryan Bourne: There are probably more tensions there than we would like to acknowledge, and Cento indicated these in one of his first answers. To the extent that you are trying to get the nation to share in a particular experience, there is tension there with providing very local and regional services too. Of course, the BBC tries to do both at the moment, but that entails opportunity costs: the more you invest in local and regional product, the less you have to invest in national programmes, whether that be national radio or national television. I acknowledge what you are saying, but this is one reason why we must be very clear as to what the purpose of the BBC is. It is not inherently clear to me, and I probably disagree that the purpose of public service broadcasting, to the extent that we are trying to define it, should be about this unclear concept of unifying the nation.

The Chair: Would you take a punt at what the purpose is?

Ryan Bourne: I am coming at this as an economist, so I probably agree with Gavyn Davies, who I believe used to be the chair of the BBC, when he said, "You can't define any robust definition of public service broadcasting without justifying it according to providing things that the broader market sector would not be able to provide or would provide in insufficient quantity or quality". Anything beyond that is incredibly difficult to pin down, and quite often looks like a degree of special pleading.

Dr Cento Veljanovski: What Gavyn Davies said in 1999, which I believe is the quote you are thinking of, is, "Some form of market failure must lie at the heart of any concept of public service broadcasting. Beyond simply using the catchphrase that the public service broadcasting must inform, educate and entertain, we must add inform, educate and entertain in a way which the private sector, left unregulated, would not do. Otherwise, why not leave matters entirely to the private sector?"

The Chair: Thank you. As somebody who used to work for Gavyn Davies, it is nice to be reminded of him and his very well-put definitions.

Q94 **Lord Lipsey:** I also used to work with Gavyn Davies. I just wanted to start by making an initial point in response to what you were saying about the technological challenge. If we did not have the structure of institutions that we have, we would probably not invent them in the form they are in, which is a point I take. But it is probably also worth making the point that there is a fantastic amount of inertia in institutions. When I sat on Gavyn Davies' committee on BBC funding in 1999, if anyone had told us the licence fee would still be afloat 23 years later, I think we would have laughed out loud. We thought it was a goner, but there it is and it still goes on.

That brings me on to the question I wanted to put to you. Given that this institutional structure exists and it is not easy to change, what principles should decide the funding model of the BBC within that? Are there

principles you can adduce, or is it just an ad hoc process?

Dr Cento Veljanovski: You have sort of cut me off at the legs in a way with, "Let's keep the BBC as it exists at the moment", so it is a bit hard to respond to that question.

Lord Lipsey: I did not really say that. I said that these institutions take a long time to change. Over 50 years, the BBC may well do what you would like it to do and disappear, but it does not solve the short-term problem of what we do with the licence fee over the next four, five or 10 years.

Dr Cento Veljanovski: No. I have written down some meta principles that one might think about when thinking about funding issues. They are not earth-shattering. I do not know whether you want me to talk about them.

The Chair: Yes, please do.

Dr Cento Veljanovski: I just go back to my fundamental point that we have to be clear about what public service broadcasting is, and, when we have decided that, how we will fund it. I do not think we have even got to first base, because everything is still quite woolly, at least to an economist. It is all expressed in aspirations about quality programming. I do not deny that there is quality programming, but it is hard to identify how those goals are being achieved.

The first principle is that funding must be fit for purpose. You have to assess the suitability of alternative funding systems that are necessary, after you have identified the purpose of public service broadcasting, and use the most efficient and liberal funding methods. That does not get us very far. The funding that is made available through a compulsory licence fee, general taxation, or whatever, must be directed at this concept of public service programming and not allowed to expand in order to ensure the survival of the institution, or its credibility as an institution, and we go back to this conflict between broadcasting and institutions.

A corollary point is that funding must not undermine the public service broadcasting goal of the organisation. If we say, "Well, you have this amount of funding to do public service broadcasting, but you can expand commercially", the inevitable happens, which is that the effort will go to that which generates the most revenues.

I give as an example Channel 4 during the early 1990s, because I know that Channel 4 is on the slab at the moment. Its funding formula then—I will not go into the details of its funding formula at the time—encouraged Channel 4, under Michael Grade, to take a much more mass-audience perspective. Effectively it was identified that it was generating more advertising revenue than was thought permissible under the formula that it had. As a result, it was bringing in "Neighbours" and programmes like that, rather than doing something that was distinctive and complementary to ITV.

The same goes for BBC 1; there is a lot of debate about whether BBC 1 is doing public service broadcasting or is a foil for ITV, taking away a lot of its audiences. In the last committee meeting I was at, several years ago, I pointed out that when ITV started, it took 60% of the audience away from the BBC, saying how out of touch the BBC was at that time.

We obviously want economic efficiency in the administration of any public funds given to a public service broadcaster. We have to tackle the issue of compulsion. We are in a situation where we are compelling people to have this licence fee, irrespective of whether they want to watch the BBC or not. It is just a bit instructive that we find that Netflix has been giving away its services for free to 100 million people, and has suddenly said, "Well, we have to do something", because its audience share is going down. I do not know whether Netflix will bring criminal charges against families like mine who are using my son's Netflix account, but it just goes to show that this is an issue across the board.

It may be a bit surprising, but the way of funding the public service institutions, whether it is through an arts council of the air or whatever, must not undermine the creative process of producing good-quality programming. If I can give you an example, we set up an arts council of the air, we put in a competitive bid, people produce not that great programming in order to get the subsidy, and then they shunt it into some late-hour slot that no one watches.

That was the experience when I was involved in getting the money for the Gallic television service, as it then was, and the initial experience was that a lot of children's programmes were being produced and being shown at 2 o'clock in the morning, which was not a very good outcome. We have to be careful to link the funding to the institutions, but also the funding to get a quality product at the end of the day, because we have a lot of procurement and subsidy programmes that are generating quite the opposite of what they were intended to do in generating revenue for producers. As Ryan said, we should not be too sensitive to produce interest. Even Adam Smith was worried about listening to business in order to develop public policy. I think I will pause there.

Lord Lipsey: That was a good answer.

Ryan Bourne: I had an exchange with the BBC's head of policy in 2014 and I agree with what he said about this, which is that what the BBC is for and how it should be funded have to be inextricably linked. I outlined in my first answer that I do not believe the BBC should be a kind of all singing, all dancing, public service broadcaster with that universality at its core. Given that, I think its future funding model should probably change to reflect that.

What you do more broadly depends on where you see the consequences of that for the BBC. If you believe that, ultimately, because of the changes that we are seeing, one day the BBC will end up operating in the private commercial sector, the BBC should be left to devise its own methods of funding, which would cause significant disruption to the sector.

If we believe that there is a clear public service broadcasting benefit, and that the BBC should be a significant provider of that, we have to think carefully about how public service broadcasting is funded. There are a few different options. One is to maintain a kind of slimmed down, smaller licence fee. The difficulty with the licence fee is that because everybody pays it and a lot of people complain about having to pay it, it encourages an institution like the BBC to provide a range of content for everybody to justify the licence fee being the method of payment.

You could go down the route of an Arts Council-style thing where the Government set up the Arts Council, which determines what they believe is a narrow range of public service broadcasting, and then open that up to competitive bids. As Cento said, there is no guarantee that people would watch that, and then you would probably have to impose further regulations on when those shows or programmes produced are aired and the audiences they are available to. Or, indeed, you could fund things out of general taxation, which obviously brings politicians much closer to the process and which itself has some downsides.

I do not pretend there are any easy options if you are going to have public service broadcasting. The first thing we should try to do is define that role before we think about how things are funded. Really, I do not have a good answer to the question, because how the BBC should be funded cannot be disentangled from what we believe the BBC is for, and as you can probably tell from my answers I do not tend to have the kind of consensus opinion on that first question.

The Chair: Understood, thank you.

Q95 Lord Foster of Bath: I am required to ask a question that I know neither of you feel willing to answer, for the simple reason that you give a very good argument that, until we clear what we want the BBC to do, we cannot work out how we want to fund it. The committee has been very clear about that, and we have taken a lot of evidence already about the sort of activities that we think the BBC should be engaged in, to help us to move to the second part of the question.

Before I come back to the funding mechanism, you have both been very clear that there is little justification for maintaining the BBC as it is, that the market will provide a lot of it anyway, and that there is the issue of market failure, which we might want to pick up as part of the package of responsibility for a continuing BBC.

In addition, given that you have said that, in the current climate, there should be no need for the BBC as a glue to hold the nation together, is there not an argument for saying that the BBC has a role as the glue that holds broadcasting together, not least when you think of its ability, because of its secure funding, to take risk? There is the work that it does in upskilling people who then very often move into other parts of sector, the quite amazing technological development work that it has done and, of course, the incredible amount of funding that it provides for the independent productions sector. Some would argue not just that there is a need for the BBC to be a programme producer within the definition of

public service broadcasting, whatever that is, but that it has a wider remit as the glue that holds broadcasting together.

Before we look at what the funding mechanism might be, I would be interested in either or both of your views on that.

Dr Cento Veljanovski: I will light a fire now by saying that, historically, the BBC and public service broadcasting have been an inhibitor of innovation development in broadcasting. The BBC has used in a very strong form the argument that it is using now in a watered-down form that, "Private-provided market-orientated television is a disaster. It'll wreck the whole broadcasting system, and we must stop it".

This national glue idea comes from the monopoly provision of broadcasting where it was the only voice in the country, so you would expect it to be balanced and try to hold the nation together in some form, or to represent certain values of the nation. If we had listened to the BBC, we would have been thrown back into some stone age of broadcasting, because it would have blocked all the technological developments. It was only through the imagination and innovation of private sector people—and, oddly enough, British Telecom—that the BBC monopoly was broken with satellite television and then cable television.

I do not think the romantic view of the BBC and public service broadcasting holds when looked at historically. I even think that the original justification for the BBC was flawed, in the sense that it was nothing to do with programming; it was to do with radio spectrum, and the idea that the market would result in chaos if broadcasters were free to compete amongst each other, which never held much water.

So I am very sceptical of the argument. I am sure that the things you say the BBC does at the moment are true, but I think the private sector does that too. If we had had this debate 15 years ago, people would have said, "Well, satellite TV, Netflix, are all parasitic on public service broadcasting. They're showing repeats and bought-in programmes. They're not producing anything. They're not producing high-quality drama."

Anyone who has any familiarity with television today will know that people hardly watch terrestrial television anymore. It is Netflix and Prime. I get my news from my mobile phone. I do not watch "BBC News", or only occasionally—when a Ukraine crisis occurs. As for "Channel 4 News", I have my own views about that. I used to watch that religiously, but then I found I do not want to hear Jon Snow's views on everything. It is not objective or researched enough, so I moved away from the public service broadcasters when getting my news.

I do not think that is an idiosyncratic view about what is happening to the terrestrial system. For most people in this room, one has to go back to what our children are watching and how they are using the media. They are not watching the BBC, and they do not see that as bringing them together.

Lord Foster of Bath: I understand and absolutely accept what you are saying about people's changes in how they make use of what the BBC

provides, but the BBC has recently conducted research where they got volunteers to have the BBC removed from availability, so they did not have to pay the licence fee. After about a month or so they said, "Do you want to start paying the licence fee again and get the BBC back, or do you want to stay just getting the cash?" The vast majority, as I understand it, opted to have the BBC back. That does not chime with what you are suggesting is going on.

Dr Cento Veljanovski: I do not know that survey, but as an economist, and an empirical one—

Lord Foster of Bath: And a sceptical one.

Dr Cento Veljanovski: —I would like to see how the questions were asked and whether it gelled with observed behaviour, but I take your point.

Lord Foster of Bath: Ryan, how do you view the argument about the BBC's role as the glue for broadcasting as opposed to for the nation?

Ryan Bourne: I think this is just another example of the general debate that we as economists have over industrial policy. The Government can guarantee funds for a certain sector—in this case, the licence fee funds are obviously granted to the BBC with little direct political involvement—but it is a guaranteed form of funding, so I have no doubt that in certain respects and in certain forms of production it probably builds an ecosystem that might look very different if the BBC did not have that guaranteed funding.

We should think about the BBC competing in a broader market to entertain and inform. To the extent that there is an industrial policy that kind of tilts the playing field towards the BBC and creates that system around it, I have no doubt that if that were removed, there would be some disruption. The broader economic literature on industrial policy in the longer term suggests that it actually undermines the degree of efficiency and innovation and the transfer of best practice in an industry over time.

The truth is that we do not know how this market will develop in the longer term. The entertainment market has gone global. It is not entirely clear yet how horizontally integrated lots of these different providers and streamers will be. We will probably see some degree of consolidation. It is not clear what the optimal form of vertical integration between production, communication and broadcasting should be in the long term. Keeping a publicly funded broadcaster with a charter drafted by politicians inevitably means that the BBC is less nimble in responding to these market forces than some of its global competitors.

To sum up, I have no doubt that there may well be more in the way of independent production and money invested into broadcasting as a result of the guaranteed licence fee, but in the longer term I do not believe that form of industrial policy helps to maintain the most nimble, globally competitive, broader entertainment sector and news sector within the UK.

Lord Foster of Bath: Is not the logical follow-on from that that even your suggestion that there might be an “arts council of the air”-type model, with contestable funding, still requires somebody to decide on the issues that have to be covered—the market failure issues, if you like, or however you want to define it? Somebody has to decide what they are. You are basically saying that any policy that relies on politicians to make such decisions is doomed to failure anyway, so even the contestable funding model is not one you really support.

Ryan Bourne: I said that the contestable funding model was one option. I have severe doubts and reservations about it—for the same reason that I doubt much government subsidy in arts more broadly, for the reasons that you have just alluded to.

I actually think the range of what you might define as traditional public service broadcasting—whether that is things like children's educational TV and certain historical informative documentaries—has severely narrowed as we have seen broader developments in the commercial sector. We have the Discovery Channel and the History Channel, and we have YouTube providing pretty high-quality educational products for kids on its platform. This whole sector is changing pretty dramatically, and as viewership disperses on to these various platforms and streaming services, you could have a BBC or have an arts council distributing funds to produce certain forms of content, but there is no guarantee that people will watch it, and a lot of this type of content is being produced elsewhere already.

Whether there is a role for the Government in advertising certain content that they think has genuine social benefits, I do not know. You are right to say that I am severely doubtful. Inevitably, when politicians get involved in this stuff, it tends to be quite paternalistic as opposed to thinking through logically where there are genuine real market failures. So, yes, I do have reservations about the Arts Council model.

Q96 **Lord Vaizey of Didcot:** As economists, do you think the media sector is different from other sectors, and is it important or legitimate that government should say that some parts of the media should be owned in the UK? I think I am right in saying that foreign ownership is not allowed in the US.

Ryan Bourne: I do not know whether that is true, but I know that Rupert Murdoch owns a lot of shows. I am not clear whether he has permanent residence in the US.

Lord Vaizey of Didcot: He is a US citizen.

Dr Cento Veljanovski: He is yet to become a US citizen.¹

Ryan Bourne: Okay. I will take your word for it.

Lord Vaizey of Didcot: Anyway, do you think the media sector is different from the widget sector in the sense that it is important that there are elements of the media that are owned domestically, or not?

¹ Amended by witness: This should read: “He became a US citizen.”

Ryan Bourne: As the media sector changes and you do not have as monopolistic or oligopolistic sectors as perhaps we once did, that becomes less of a problem anyway. Given the provision of information, I can see why you might be more concerned about that than in the widget sector historically. But given the huge explosion of different providers in the sector, you could deal with those potential concerns with more keyhole solutions; as indeed we do with the regulation of certain news provision and content, which has seen Russia Today pulled over the coals in recent months. I do not think that these days you need that kind of nationalistic demand that somebody is a UK citizen to provide certain forms of TV.

Lord Vaizey of Didcot: Dr Veljanovski, we now have a national security Act here, and the Americans have CFIUS.

Dr Cento Veljanovski: I once wrote an article saying that the media is like cheese—to imply that it was not very different. If we have free markets, we must have the free circulation of ideas. This tension has arisen everywhere—Elon Musk is a free speech absolutist, whatever that means, and has bought Twitter—and we have contradictions everywhere. We have the BBC, which is effectively a state-owned broadcaster. If we were not in Britain but in Russia, we would take a different view of what the free flow of information meant.

There are some things that cannot even be explained rationally. Why is a state-run broadcaster here not a puppy of the state in presenting its views and the state itself is always trying to clip its horns? There are unusual circumstances in the present. We sometimes have these ownership regulations for the national terrestrial broadcasters, which exist in most countries, of who can own them, and a fit and proper person is a general requirement to own a television company.

Generally, I say let the market rock, but we do have situations, such as war, that sometimes call for a different response. Effectively, we have done what we would never have done in peacetime: identify individuals who we do not even want to have access to their assets. I believe the competition legislation carves out a niche for media mergers, because the concern of the concentration of ideas in certain organisations, and we have privacy regulations and regulations trying to control some of the uglier features of free speech.

It is not an issue I have thought a great deal about, but it is much more complicated than coming in and saying, “Well, let the market decide the outcome”. The market could decide more and we would have a wider diversity of views, but we have seen some ugly features emerging both from state-run media companies and from Governments trying to control them and, allegedly, the private sector trying to control their media operations. Often this is largely in response to the state concerned about them not doing enough to control it, but, as they say, that is a whole different story.

Baroness Buscombe: Thank you. This has been an incredibly useful sessions so far. I want to touch on what the BBC needs to do to underpin its legitimacy going forward. Around this table, we are of the analogue

age—or we were; we have moved on—but perhaps that is quite helpful, because some of us can even remember when BskyB appeared on the scene, and there was uproar that this new organisation was going to compete with our national broadcaster, our institution. It was our only broadcaster that we ever referred to as the institution. We do not even call ITV or Channel 4 an institution. We used to call it by its other name, which is Aunty—hence the reference, Ryan, to paternalistic. Each time we raise the issue of actual future funding as we go through our evidence sessions, it becomes more difficult to find the solution. In other words, is contestable funding a good idea, is general taxation a good idea, is advertising, and so on?

Does that mean that perhaps it would be helpful now for the BBC itself to put its head above the parapet instead of lurching towards the usual debates about the next licence fee? Decade after decade we have seen the same arguments, with not much change—partly, frankly, because politicians are very concerned to ensure self-interests and appearing in the media more than anything else. Is this not an opportunity for us to have a fundamental review of the purpose of the BBC, its structures and its role, which would then perhaps help with the whole future of funding, but a very independent review so that it does not involve politicians and the BBC? It is beyond that.

Dr Cento Veljanovski: That was my starting premise in the presentation: that we really have to decide what is public service broadcasting and what role the various institutions play, because we are hidebound all the time by our history. We have a big organisation there, and we have a public service system that consists of more than just the BBC—it is Channel 4, ITV—and we need to ask some fundamental questions about where we are going. At the moment, we have this incremental policy-making of saying, “Right, the world's changing. The BBC's there. What is your view, BBC? How do we fund your activities?” Then we get the politicians involved. I think that is why, each time, people retrace their steps: because they see that there is no immediate radical solution to all this.

Baroness Buscombe: It is all a bit difficult.

Dr Cento Veljanovski: Exactly, which is a very good fudge. It is all a bit difficult, and perhaps the next committee will come to the right answer on this. In the meantime, the world is just screaming ahead.

Baroness Buscombe: Absolutely. Even in 2003, our last major use of media legislation, we did not even mention the internet; it was put in a box called “Too difficult”.

Dr Cento Veljanovski: Yes. I was involved with all the debates over BskyB, BBC and all that. In a fundamental sense, the arguments have not changed. That is why I withdrew from that whole debate. Every time we came before public service broadcasting individuals, who have now changed their mind to some degree, the same arguments were being brought out: that the last thing we wanted was a commercial sector that would destroy everything that had been created since the 1920s.

We really need to have a fundamental review. Having been an expert adviser to the Peacock Committee—Ryan alluded to this—I can say that it was stymied, for two reasons. It said, “We have a broadcasting sector governed by consumer sovereignty”, which would basically mean a subscription based on a multi-funded system.

First, in 1989, the price elasticity of the demand for advertising meant that any more money going to the BBC, if it was advertiser funding, meant that there would be less money for ITV, and it would undermine ITV. Secondly, it was misled, whether by the Government or the Department of Trade and Industry, into thinking that there was no possibility of a fifth channel. So it was stymied at that stage, and it said, “Let’s move towards this consumer thing. Let’s not have advertising on BBC”.

That is history, but that is the type of obstacles that are put in front of trying to take a radical look at it, because you are threatened with destruction of all of Aunty and all that is good in British broadcasting if you tweak the system now.

I do not believe the executives today are public service-minded. Some of them are getting huge salaries and they are jumping ship as fast as they can to get into the commercial sector. The ethos that was public service broadcasting has broken down, largely because the sector has become much more commercialised. When we are talking about what the scope of the BBC should be, if you look at some of the official documents—Ofcom, for example, asking what public service broadcasting is—it is these flagship programmes: news that is impartial and trusted, religion, classical music, children's programming. If we restricted the BBC to these allegedly flagship programmes of public service broadcasting, we would have a radically reduced BBC.

Even Sir Alan had difficulty, because he was in our mould—a classical liberal economist who had looked at the issues. Even he did not come up with a particularly radical solution. I am with Ryan, an Arts Council approach and contestable funding has certain attractions, but it also has some major disadvantages. If I may put in a small plug for the licence fee, the licence fee has the attribute of causing people to complain about the BBC. They pay the licence fee. It may not be a price to receive the service; it is a tax on television. But that makes a link between the viewer and the BBC, because people are forking out £153 a year, or whatever it is, and saying, “What value am I getting for this?” and then writing to their local MP. So it is a roundabout process, but certainly one that exists. If it was funded out of general revenue—.

Baroness Buscombe: Possibly the whole issue of better public engagement with what people want, as opposed to just points of view and so on, should also be considered.

Ryan, over to you. I wrote down the four reasons why you are sceptical about the future of public service broadcasting, which is quite helpful. Do you think we should encourage the BBC to look to itself and have the courage to call upon outsiders to have perhaps a radical think about the future of BBC, and then how the funding of it might fit?

Ryan Bourne: In theory, that would be a good idea, but the history of some organisations, even in the commercial sector, shows that dreaming up a pathway for fundamental change for what you do and how you operate is sometimes very difficult.

I agree with the point you made at the start that there is no obvious solution to this. I believe it was the great economist Tom Sowell who once said, "There are no solutions, only trade-offs", and that is certainly true when it comes to this issue. We first have to decide what public service broadcasting is, and, if we decide that there is something there, whether the BBC should be a semi-monopoly provider of certain forms of content.

Ultimately, the discussion we are having is a good example of one of the downsides of having a state broadcaster with guaranteed revenues like this. In a commercial market sector, you have a clear means of identifying whether what you are doing is something that consumers want, and that is the profitability generated by the bundle of output that you produce. Without those types of pressures, we are left to second-guess what the market might look like or how the BBC should approach things going forward. That tends to be highly speculative or, more often than not, reactionary; we are responding to developments that the market commercial side of the sector has adjusted to already.

The inertia that we talked about earlier stems from having a public broadcaster funded in this way. We can have all the reviews we like, which tend to be people with vested interests putting their views in and it is very difficult to find consensus. Ultimately, it really comes down to whether you trust the consumers, through the country, to determine what is best for them or whether, for a whole variety of reasons, it is better to have committees and politicians paternalistically determining what is good for us as consumers. All the other questions stem from that fundamental philosophical one at the top.

I am sorry for going meta and big picture, but I just think you cannot escape these first-principle questions.

Baroness Buscombe: It is very important. If I could just touch on the legitimacy point and institutional biases and so on, you have argued that privatisation would incentivise the BBC to address institutional biases. I have not read that before, but perhaps you could speak to that a little more, because that is an important point. One of the reasons why people are saying they are not watching or listening to the BBC is to do with impartiality and so on. It is something we have touched on a lot through our evidence sessions.

Ryan Bourne: I cannot remember the exact citation. I do not necessarily think privatisation of the BBC would solve the bias issue. It would provide a responsive mechanism through which people could exit if they disliked the type of content that they were seeing. I do not suggest that the BBC is overtly and deliberately biased, particularly on politics. It often gets accused of political bias, but in terms of political parties I do not think it is and I think it does a very good job in trying to walk that line. It is really more that an institutional world view

sometimes, and you might say inevitably, shapes coverage—decisions on what to cover, what to include in a story or what to omit.

My own work shows that the BBC does exhibit what one might describe as biases relative to the views of the population in the EU debate, against capitalism on certain programmes, and in its presentation of budgets and different think tanks. All media outlets exhibit these biases to a certain extent. That bias is more worrying when it comes from the BBC for three main reasons. The first is that trust in the BBC is higher than in other media institutions. It dominates news coverage in the UK, so, given that reach and trust placed in it, any biases could have a much more significant impact on altering public understanding of an issue.

Let me just give you one example of that, because you might think that the trust comes from the fact that people think that the BBC is unbiased and is therefore doing a good job. There was a period when there was discussion of tax avoidance stories, and the BBC published lots and lots of articles on Amazon and how little tax it was paying in corporation tax. It continually compared Amazon's tax payments for corporation tax, which is a tax on profits, to Amazon's revenue, not talking about its cost base at all. I thought that was highly misleading and that most of the commercial broadsheets did a much better job of analysing that issue.

There are two other reasons why I think BBC bias is more problematic than elsewhere, where consumers can respond. The first is the guaranteed funding through the compulsory licensing. That means that consumers are not able to punish the institution financially for a perceived bias, which puts it in a privileged position in which we are made to pay for content irrespective of the views presented on it.

The second is linked to what we have been talking about here. Because of the method through which the BBC is funded, the organisation itself has a vested interest in the political process. It uses a chunk of its guaranteed revenues—not a massive chunk, but a chunk none the less—to lobby for the maintenance of the licence fee, and feels the need to defend itself when it is accused of bias and when politicians seek reforms. To a certain extent, that makes it an inevitable political player.

All media organisations' biases will be reflective of the pool of journalists they employ and the world-view of those journalists. However hard you try to iron that out through processes and complaints systems, it is inevitably baked in, to a certain extent. BBC bias is much more problematic because of the compulsory nature of the funding and because, as a result, the BBC is an active and large political player.

Baroness Buscombe: That is really interesting. Do you want to add anything else, Dr Veljanovski?

Dr Cento Veljanovski: No, I am happy.

Baroness Buscombe: Thank you very much.

Q97 **Baroness Featherstone:** I have been listening very intently to both of you. I think of the common good, the public good, and the glue as education, the National Health Service and the BBC. They keep a solidity

around us. Yet you are saying that that really does not matter and that anything should be up for competition. Do you not think that would have an effect on the nation? Everyone pays for education, pays taxes, but not everyone has children.

Dr Cento Veljanovski: If you put it in such broad terms—the National Health Service, the public education system—

Baroness Featherstone: It has all been a one-way discussion so far.

Dr Cento Veljanovski: I appreciate that. We can get carried away with that. The National Health Service has some very strong, attractive features, and it is an institution. By the same token, it is shot through with inefficiencies and problems. It always struck me as a bit odd that during the Covid pandemic the message we were receiving was not to protect ourselves but to protect the National Health Service. The National Health Service is there to protect us. We are not there to protect the National Health Service. I know that it probably had a different connotation, but I just throw that one in for you.

The question is: what is the boundary between the state and the market? Is it in the correct place at the moment? Should we just continue with institutions that patently have a lot of problems with them? How do we reform them, or how do we contract out now? Putting things into the marketplace led to problems, and often lead to problems because the procurement policy or the competitive tendering has been pretty rubbish, to be quite frank. The commercial sector is profit maximising and exploits any problems with the competitive tendering system.

The Chair: It is a whole different philosophical route.

Dr Cento Veljanovski: Yes.

Baroness Featherstone: You get the point I was making: that these things are the fundamentals of a nation, and beware how you pull them apart.

Dr Cento Veljanovski: You forgot the Church.

Baroness Featherstone: Neither of you has given a recipe for what it would look like if you—

Dr Cento Veljanovski: We have not been given the opportunity yet, but I could come back again and tell you.

Ryan Bourne: It is interesting, because you are making the quintessential conservative argument for these institutions, and Cento and I would describe ourselves as liberals on this issue.

Baroness Featherstone: It is my career, really.

Ryan Bourne: I do not think that in the long term it does any good to raise up public institutions to the level of quasi-religious status and insulate them from change or criticism. Even if you fundamentally disagree with our views on this, having our voice helps to put pressure on reforming these institutions in a direction where they are more responsive to consumer demands. I have no doubt that there is zero

probability of my conception of the BBC being implemented in the next decade.

The Chair: Can I draw this to a conclusion and say a huge thank you to both of you for joining us today? It has been incredibly helpful and very interesting to get your perspective. As Ryan acknowledged at one point, this is a debate that has been conducted at a meta level, because these are philosophical issues, such as has just been played out in that last exchange, but they are important, and it is important for them to be heard, reflected on and considered. They are questions that are to be debated at a much more global political level, and it would be interesting to see whether any political party would want to go quite as far as you say you would wish them to go. Thank you again. I really do appreciate it.