

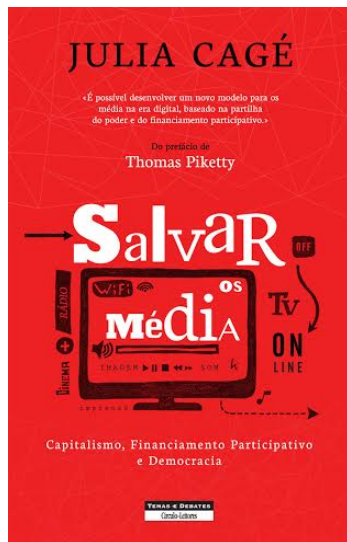
# Salvar os Média

Julia Cagé

Sciences Po Paris

December 2nd, 2019  
Conferência Financiamento dos Media  
Cidadela de Cascais

# A new corporate model for the media



# A new corporate model for the media

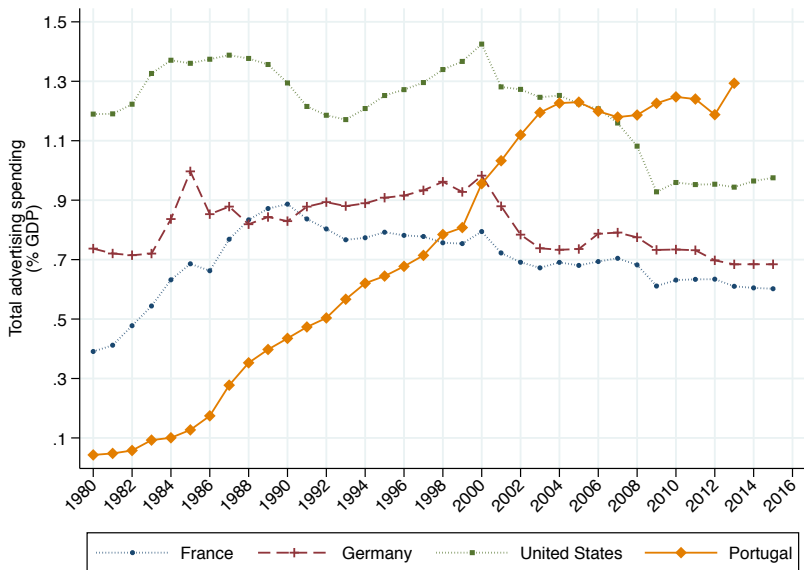
- A conviction: the news media, like universities, provide a **public good**: information.
  - Information is an essential ingredient of political participation in a democracy.
- A solution: a new type of entity, the *nonprofit media organization* (NMO).
  - Intermediate in status between **foundations** and **shareholder companies**.
- And an innovative form of public funding: the “**media vouchers**.”

- 1 The state of the media
  - A long-term decrease in advertising revenues
  - A decrease in the number of journalists
  - The race for higher profits
- 2 The new “press barons”, a solution?
  - One dollar one vote?
  - Money in politics... and in the media
- 3 Government intervention and nonprofit media
  - Government intervention
  - Nonprofit media
- 4 Saving the media



- 1 The state of the media
  - A long-term decrease in advertising revenues
  - A decrease in the number of journalists
  - The race for higher profits
- 2 The new “press barons”, a solution?
  - One dollar one vote?
  - Money in politics... and in the media
- 3 Government intervention and nonprofit media
  - Government intervention
  - Nonprofit media
- 4 Saving the media

# Total advertising spending (% GDP) (all media)



# How to explain such a decrease?

- Increase in media competition (with an increasing number of outlets plus social networks – e.g. Twitter and Facebook) → decrease in advertising price.
  - Decrease in advertising revenues despite increase in space media devote to advertising.

⇒ *Decrease in the size of the cake... share devoted to newspapers?*

# How to explain such a decrease?

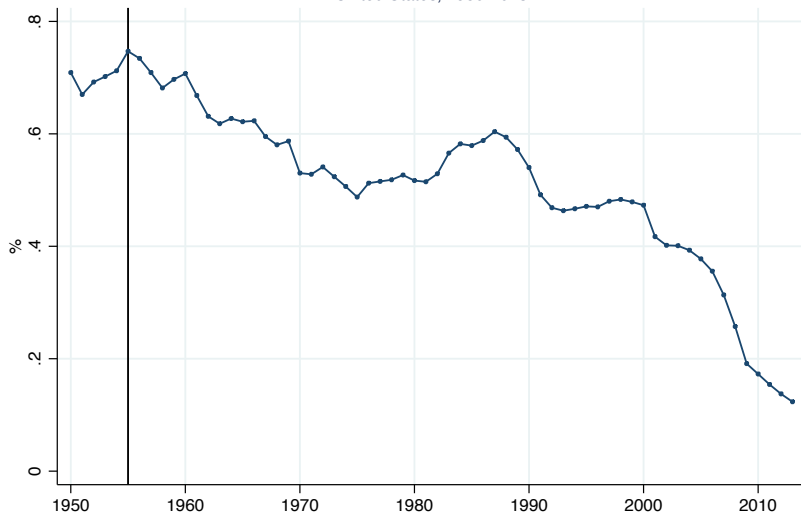
- Increase in media competition (with an increasing number of outlets plus social networks – e.g. Twitter and Facebook) → decrease in advertising price.
  - Decrease in advertising revenues despite increase in space media devote to advertising.

⇒ *Decrease in the size of the cake... share devoted to newspapers?*

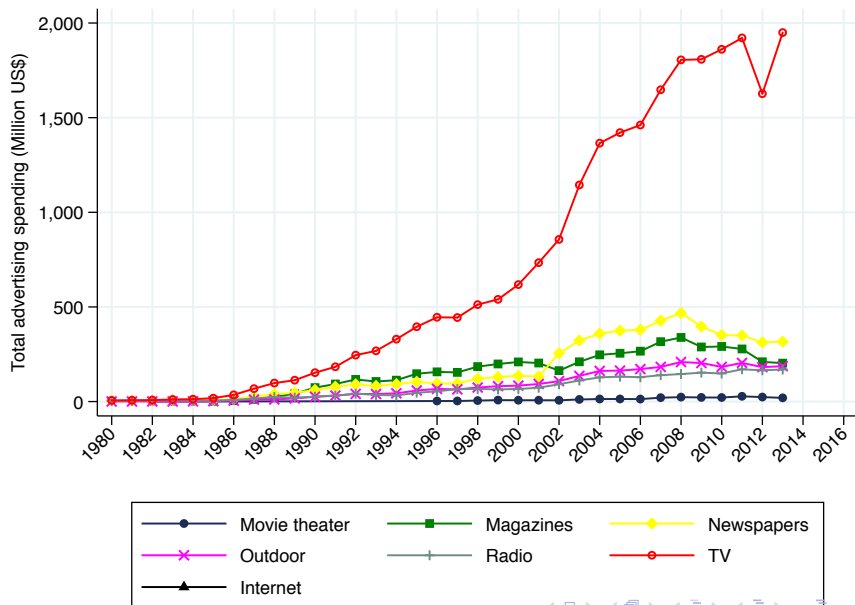
# Newspaper advertising revenues (US)

Evolution of newspaper advertising revenues (% GDP)

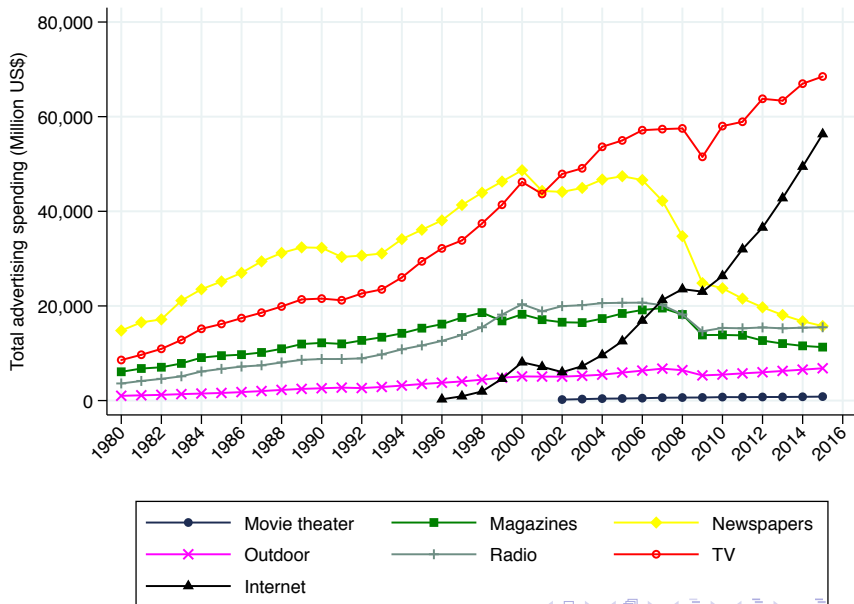
United States, 1950-2013



# Advertising spending by support (Million \$US) (Portugal)



# Advertising spending by support (Million \$US) (US)



## Lower share for newspapers

- Good news: the digital advertising market is growing.
  - E.g. in 2017, US digital ad spending will reach \$83 billion.
  - 15.9% increase. Following a 20% increase in 2016.
- But Google and Facebook capture the large majority of this market.
  - Google account for more than 40.7% of US digital ad revenues in 2017.
  - News properties lay claim to only a very small share of the digital ad market.

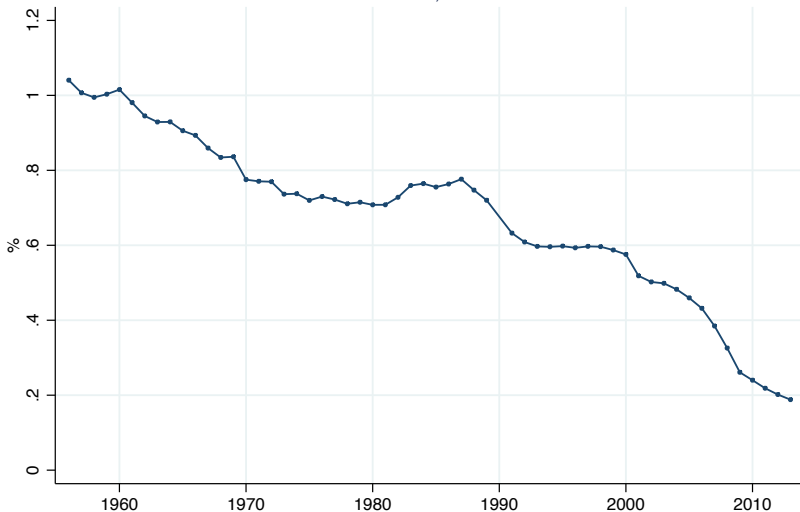
⇒ The digital advertising market turns out to be a “duopoly”.



# Newspaper total revenues (United States)

Evolution of newspaper total revenues (% GDP)

United States, 1956-2013



- **Need to monetize:**

- Paywalls are the long-term sustainable solution;
- Not advertising; in particular not *native* advertising.
  - Would be a mistake – prices are going to decrease – with negative long-term consequences: trust.
- If newspapers' sales are collapsing, it is because for too long media organizations have given their content to consumers' for free.  $\Rightarrow$  Historical mistake.

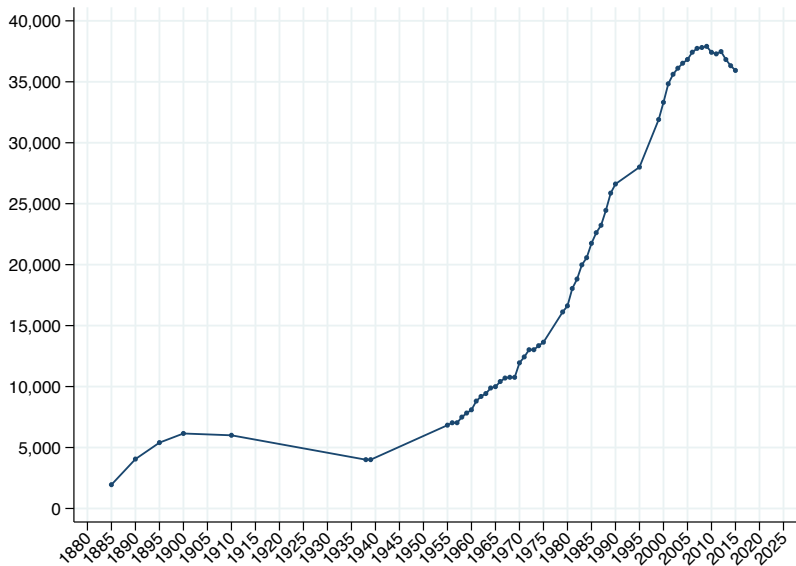
What consequences of the decrease in revenues?

- 1 The state of the media
  - A long-term decrease in advertising revenues
  - A decrease in the number of journalists
  - The race for higher profits
- 2 The new “press barons”, a solution?
  - One dollar one vote?
  - Money in politics... and in the media
- 3 Government intervention and nonprofit media
  - Government intervention
  - Nonprofit media
- 4 Saving the media

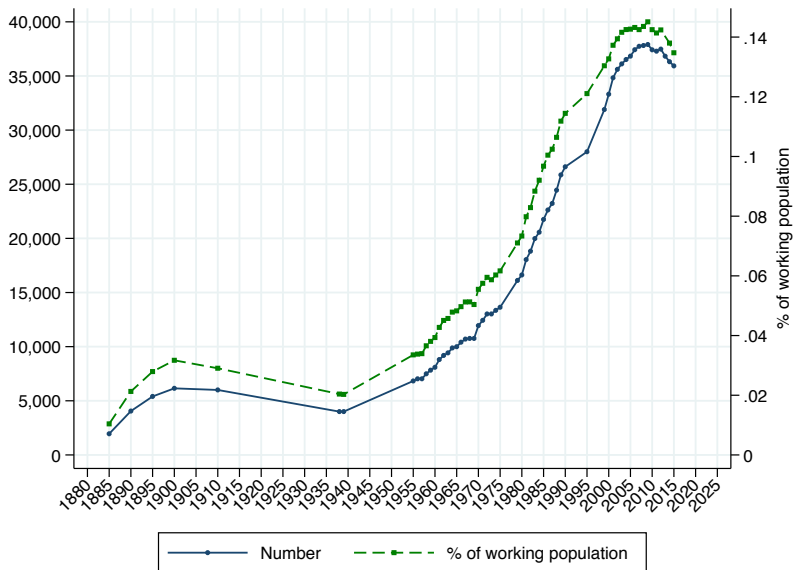
# The need for journalists

- To produce information, and in particular hard news, a media needs... a newsroom.  $\Rightarrow$  There is no information without journalists.
- How did the number of journalists evolve over time?

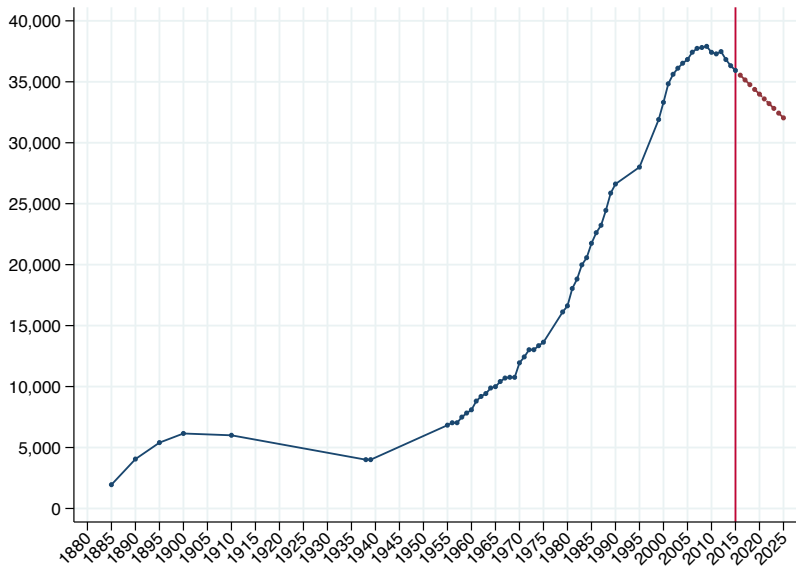
# Evolution of the number of journalists: France



# Evolution of the number of journalists: France

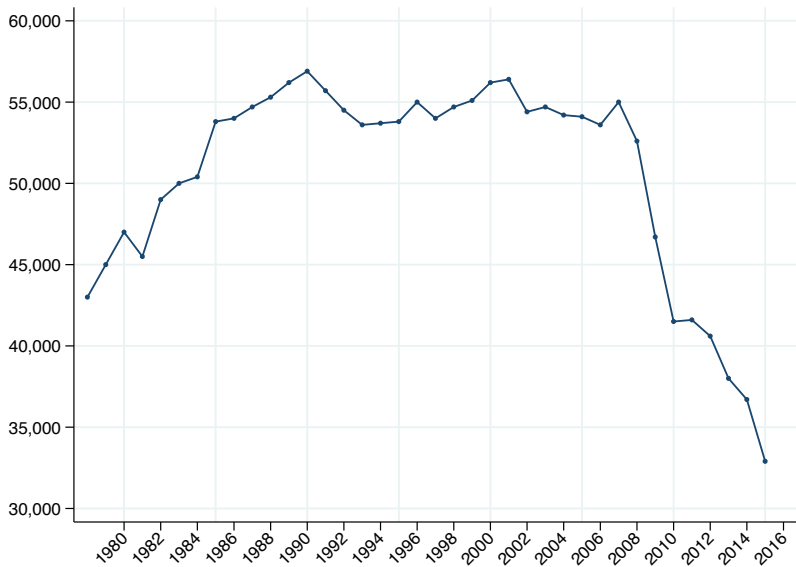


# Evolution of the number of journalists: France





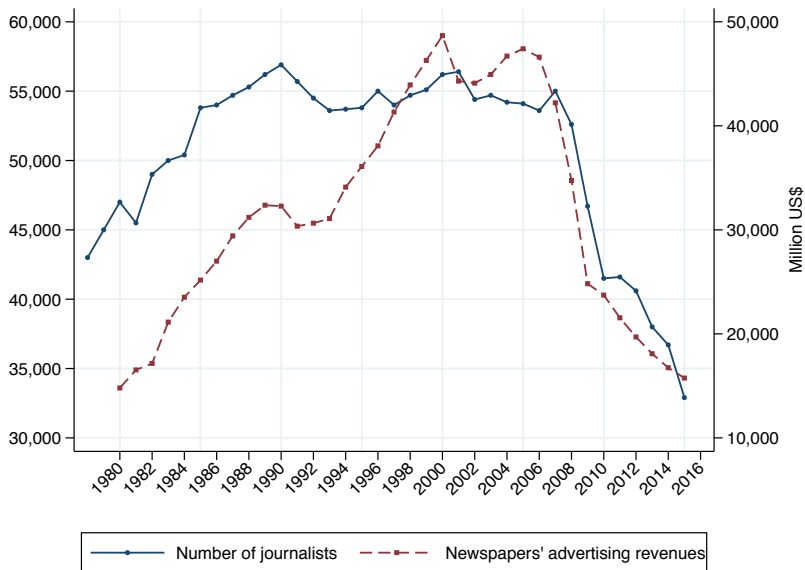
# Daily newspaper journalists: United States



# Daily newspaper journalists: United States



# Daily newspaper journalists and advertising revenues



# A decrease in the size of the newsrooms

- How to interpret this decrease in the number of journalists?
  - Decrease in the number of media outlets...
  - ... or decrease in the number of journalists by media outlet?
- Decrease in the size of the newsrooms.
  - E.g. average number of journalists by newspaper in 2001 in the US: 39.  
In 2013: 27.

# A decrease in the size of the newsrooms:

## Why do we care?

- Production function of the media industry: **increasing returns to scale**.
  - Cagé (*Journal of Public Economics*, 2020): “Media Competition, Information Provision and Political Participation”.
- The cost of producing the first newspaper is high and increasing in quality – it depends on the number of journalists on staff –, but once this fixed cost has been borne, the variable cost of selling additional newspapers is limited to the cost of paper, printing and distribution, which is relatively low.
  - Important consequences for understanding of impact of media competition on production of information.
- Furthermore, **increasing casualization of the profession**.

# A decrease in the size of the newsrooms:

## Why do we care?

- Production function of the media industry: **increasing returns to scale**.
  - Cagé (*Journal of Public Economics*, 2020): “Media Competition, Information Provision and Political Participation”.
- The cost of producing the first newspaper is high and increasing in quality – it depends on the number of journalists on staff –, but once this fixed cost has been borne, the variable cost of selling additional newspapers is limited to the cost of paper, printing and distribution, which is relatively low.
  - Important consequences for understanding of impact of media competition on production of information.
- Furthermore, **increasing casualization of the profession**.

- 1 The state of the media
  - A long-term decrease in advertising revenues
  - A decrease in the number of journalists
  - The race for higher profits
- 2 The new “press barons”, a solution?
  - One dollar one vote?
  - Money in politics... and in the media
- 3 Government intervention and nonprofit media
  - Government intervention
  - Nonprofit media
- 4 Saving the media

# Transcending the laws of the market

- Media companies *ought* not to be like other companies.
  - Their primary purpose should not be to maximize profits and pay dividends to stockholders,
  - But to provide a public good: the free, unbiased, high-quality information that is indispensable to democratic debate.
- But what we see: profit-maximization strategy  $\Rightarrow$  resulting decrease in quality.



# The issue of publicly traded media companies

- In the United States: The New York Times Company & the Gannett Company (*USA Today*) listed since 1967; the Washington Post Company since 1971;...
- ⇒ Publicly held companies have a fiduciary responsibility to their stockholders to maximize profits... This conflicts with their moral responsibility to serve the general welfare.

What could be done?

- 1 The state of the media
  - A long-term decrease in advertising revenues
  - A decrease in the number of journalists
  - The race for higher profits
- 2 The new “press barons”, a solution?
  - One dollar one vote?
  - Money in politics... and in the media
- 3 Government intervention and nonprofit media
  - Government intervention
  - Nonprofit media
- 4 Saving the media





# Welcome to a new era of corruption?

- Since the beginning of the 2010s, people with money seem to be excited about the news business.
  - Jeff Bezos (Amazon founder) bought *The Washington Post* for \$250 million.
  - Pierre Omidyar (eBay founder) pledged \$250 million to his new First Look Media.
  - John Henry (Red Sox owner) has acquired *The Boston Globe* for \$70 million.

⇒ Good news or bad news?

- 1 The state of the media
  - A long-term decrease in advertising revenues
  - A decrease in the number of journalists
  - The race for higher profits
- 2 The new “press barons”, a solution?
  - One dollar one vote?
  - Money in politics... and in the media
- 3 Government intervention and nonprofit media
  - Government intervention
  - Nonprofit media
- 4 Saving the media

## Related issue: money in politics

- There are legislations in the majority of developed countries to control and limit the amount both firms and individuals can give to politicians / political parties.
- Why?
  - Because “*money corrupts congress*” (Lessig, 2011).
  - The rich are able to use their resources to influence electoral, legislative, and regulatory processes through campaign contributions, lobbying, and revolving door employment of politicians and bureaucrats.

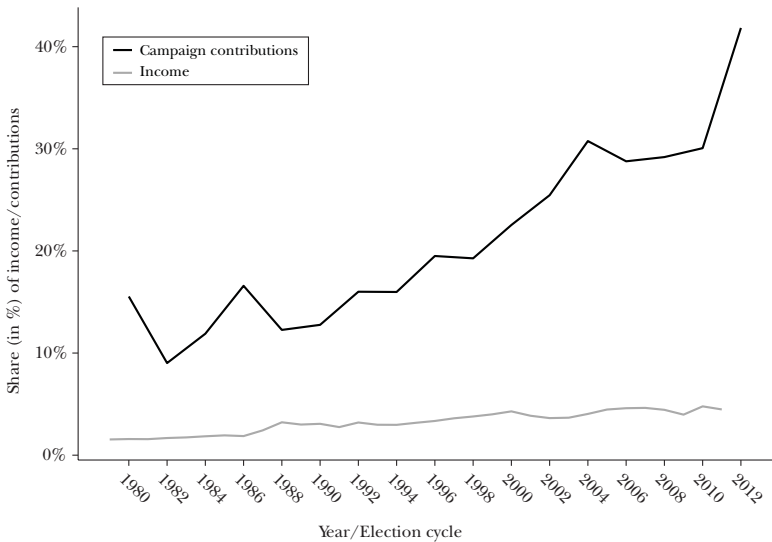


# Why hasn't democracy slowed rising inequality ?

Bonica et al. (*JEP*, 2013)

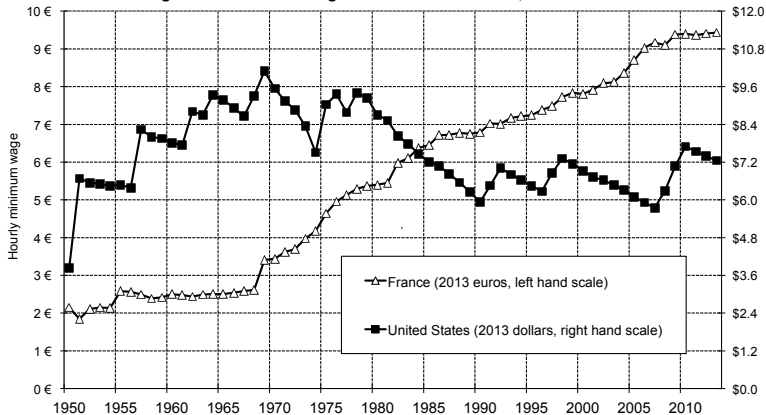
- In the US, all these legislations have been removed during the last decades.
- ⇒ The share of total income received by the top 0.01% of households is about 5% but the share of campaign contributions made by the top 0.01% of the voting age population is over 40%.

## Concentration of Income and Campaign Contributions in the Top 0.01 Percent of Households and Voting Age Population



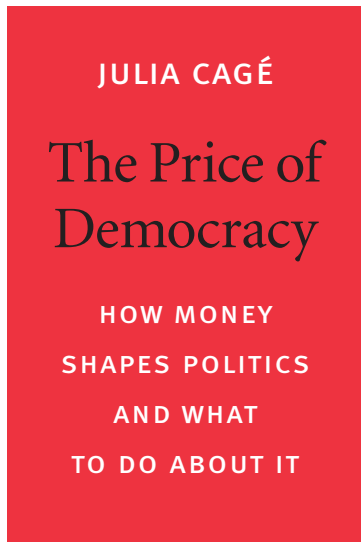
# Consequences?

Figure 9.1. Minimum wage in France and the U.S., 1950-2013

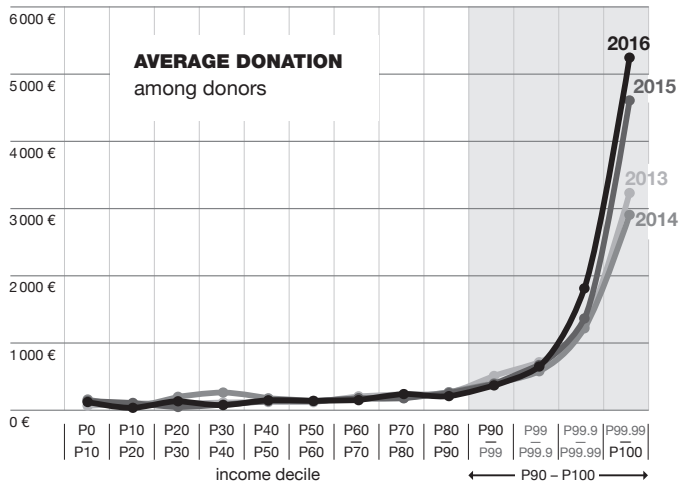


Expressed in 2013 purchasing power, the hourly minimum wage rose from \$3.8 to \$7.3 between 1950 and 2013 in the U.S., and from €2.1 to €9.4 in France. Sources and series: see [piketty.pse.ens.fr/capital21c](http://piketty.pse.ens.fr/capital21c).

# The price of democracy



# Income and political donations: France



- 1 The state of the media
  - A long-term decrease in advertising revenues
  - A decrease in the number of journalists
  - The race for higher profits
- 2 The new “press barons”, a solution?
  - One dollar one vote?
  - **Money in politics... and in the media**
- 3 Government intervention and nonprofit media
  - Government intervention
  - Nonprofit media
- 4 Saving the media

# Dimensions of influence on public policy

- Which sets of actors have how much influence on public policy?
- 3 dimensions:
  - Political donations.
  - Foundations, think-tanks, “opinion-shaping apparatus”.
  - Financing of the media.
- Very often, same individuals using different tools.
  - E.g. **Murdoch**, but far from being the only one.
  - **Bloomberg** is another recent example in the news.

# Media independence

- Increasing number of shareholders who earn most of their income from another activity than the media (e.g. from the telecommunication sector or from the car industry).
- This affects the independence of journalists and what they are allowed to cover.

⇒ *Preserving democracy – “one person one vote” rather “one dollar one vote” – requires to think about a new economic and legal framework for the future of the media.*



# What can be done?

- Seems feasible (even if not easy) to regulate money in politics: campaign-finance regulation.
- But what can be done to regulate money in the media?

⇒ 2 issues:

- Race for profits at the expense of the quality of information (that should be considered as a public good). → Nonprofit could be part of the solution.
- An increasing number of tycoons from outside the media sector that threaten media independence. → We need to have a new approach of media as foundations.

- **Solutions:**

- Anti-trust regulation is one side of the story.
- A new form of nonprofit media can be another solution.

- 1 The state of the media
  - A long-term decrease in advertising revenues
  - A decrease in the number of journalists
  - The race for higher profits
- 2 The new “press barons”, a solution?
  - One dollar one vote?
  - Money in politics... and in the media
- 3 Government intervention and nonprofit media
  - Government intervention
  - Nonprofit media
- 4 Saving the media

# Information is a public good

- Media matters because it provides information to voters.
  - Information from the media makes votes more responsive to the quality of policy outcomes.
  - This improves political selection and incentives, political accountability and the quality of policy.
- But if information is a public good... this public good cannot be delivered efficiently by the market.
  - Need for **government intervention**.

# Public funding of news

- Public support to journalism: not a novel concept.
  - And a mechanism increasingly supported by researchers and media actors: Bollinger (2010), McChesney and Nichols (2010), McChesney and Pickard (2011), Cairncross Review (2019), etc.
- In most developed countries, the government financially supports the media one way or another:
  - ① Direct / indirect public subsidies to news media: reduced value-added tax, tax credit, postal subsidies, operating subsidies, etc.
    - Both neutral and discriminatory subsidies depending on the countries.
    - But less favorable status than in education or health sectors.
  - ② Funding of public broadcasters (either through license fees, income tax charges, parliamentary grants, etc.)

**Table 1: Funding Public Media in the U.S. and 14 Leading Democracies**  
(figures in U.S. Dollars)<sup>1</sup>

Country	Year	Public Funding (millions)	Non-Public Funding <sup>2</sup> (millions)	Total Revenue (millions)	Per Capita <sup>3</sup> Public Funding	Per Capita Total Revenue
Australia (ABC)	2008	728.9 (82.3%)	157.0 (17.7%)	885.9	34.01	41.34
Belgium (VRT/RTBF)	2008	805.1 (77.8%)	229.8 (22.2%)	1,034.9	74.62	95.92
Canada (CBC)	2008	1,013.3 (63.6%)	579.7 (36.4%)	1,593.0	30.42	47.83
Denmark (DR)	2008	717.0 (91.0%)	70.9 (9.0%)	787.9	130.52	143.42
Finland (YLE)	2007	526.0 (95.0%)	27.7 (5.0%)	553.7	99.00	104.21
France <sup>4</sup> (F2/F3)	2008	3,211.1 (74.0%)	1,128.2 (26.0%)	4,339.3	51.56	69.68
Germany (ARD/ZDF)	2008	10,778.5 (86.2%)	1,721.5 (13.8%)	12,500.0	131.27	152.23
Ireland (RTE)	2008	317.1 (45.6%)	378.3 (54.4%)	695.4	71.65	157.13
Japan (NHK)	2009	6,900.0 (100%)	---	6,900.0	54.03	54.03
Netherlands (NPO)	2007	822.3 (68.0%)	386.9 (32.0%)	1,209.2	50.00	73.53
New Zealand (TVNZ/NZOA)	2008	126.5 (38.5%)	202.4 (61.5%)	328.9	29.63	77.05
Norway (NRK)	2007	636.9 (95.0%)	33.6 (5.0%)	670.5	133.57	140.62
Sweden (SVT)	2008	533.5 (93.0%)	40.1 (7.0%)	573.6	57.87	62.22
United Kingdom (BBC)	2009	5,608.8 (77.9%) <sup>5</sup>	1,593.4 (22.1%)	7,202.2	90.70	116.43
United States (PBS/NPR)	2008	1,139.3 (40.0%) <sup>6</sup>	1,710.0 (60.0%)	2,849.3	3.75	9.37

Sources: For Europe, 2009 Yearbook of the European Audiovisual Observatory; For Australia, ABC Annual report 2009; for Canada, CBC Annual Report 2009; for Japan, NHK Annual Report 2010-2011; for New Zealand, New Zealand Annual TV Report and New Zealand on the Air Annual Report, 2009; for United States, Corporation for Public Broadcasting 2008 Annual Report.

⇒ All developed countries spend between \$30 and \$130 per capita to support public media (TV, radio), except the US (\$4).

(Source: Benson and Powers (2011), "Public Media and Political Independence: Lessons for the Future of Journalism from Around the World".)

# Public funding of news: The limits... and the solution

- Salient argument in opposition to public funding of journalism: the **threat to editorial independence**.
  - Public subsidies may open the door for manipulating journalists and inducing media bias in favor of the government.
  - In some countries, the government used public money (public subsidies but also advertising) to keep media in line.
  - Furthermore, public subsidies may be misappropriated.
- An innovation solution: a “private media voucher” system funded with public money.

# Public funding of news: The limits... and the solution

- Salient argument in opposition to public funding of journalism: the **threat to editorial independence**.
- An innovation solution: a **“private media voucher” system** funded with public money.
  - Proposed with the “Subcommittee on the Media Industry” during the “2019 Antitrust and Competition Conference”, together with Joshua Gans, Ellen Goodman, Brian Knight, Andrea Prat, Guy Rolnik, and Anya Schiffrin.

# An innovative proposal to publicly fund the media: the “media vouchers”

- Give each adult a **media voucher** worth €50 per year from the Portuguese Treasury, to donate to her favored media outlet(s).
  - In the spirit of the “democracy vouchers”: Lessig (2015), Hasen (2016), and Cagé (2018) ( “*democratic equality vouchers*”).
- Concretely, every year, when filling her tax returns, each citizen will indicate to the tax administration the media outlet(s) to which she wants to allocate her media voucher.
  - Preserved anonymity: each citizen will be provided with a token and the allocation choices won't be linked to the addresses of the token holders (using protocols of anonymous voting on blockchain based networks).



# The media vouchers in detail

1. Who are the media outlets who could benefit from the media vouchers?
  - Objective: to guarantee that the list of the media that could benefit from the vouchers is as extensive as possible (to protect *independence*) and that the vouchers are used to fund the production of information (to avoid *misappropriation*).
  - Solution: we impose a small number of conditions the outlets have to respect to benefit from the media vouchers:
    - ① Appoint **at least one journalist**.
    - ② Mostly produce “**general-interest news**”.
    - ③ **Be transparent**, in particular regarding ownership.
    - ④ **Be ethical**: adopt an ethical code of conduct.

⇒ *Overseen by an independent news monitor.*

# The media vouchers in detail (ct'd)

2. How to guarantee an high-enough degree of pluralism and avoid concentration?
  - Caveat: our scheme could potentially lead to the allocation of the large majority of the media vouchers to a small number of media outlets, and in particular to the most well-known outlets.
  - Solution: we introduce a **threshold**.
    - A given media outlet cannot receive more than 1% of the total number of media vouchers.

# The media vouchers in detail (ct'd)

3. What happens in the event of an “over allocation” or in the case a citizen decides not to allocate the voucher?
- Objective: enough public funding devoted to the production of high-quality news each year.
  - Solution: in case (i) more than 1% of the adult population decides to allocate its media vouchers to the same outlet / (ii) a citizen does not choose a media to which to allocate her voucher: then her voucher will be allocated as a function of the allocation of the other vouchers.
    - Allocation rule that relies on the preferences expressed by the citizens and avoids any government intervention.

- 1 The state of the media
  - A long-term decrease in advertising revenues
  - A decrease in the number of journalists
  - The race for higher profits
- 2 The new “press barons”, a solution?
  - One dollar one vote?
  - Money in politics... and in the media
- 3 Government intervention and nonprofit media
  - Government intervention
  - Nonprofit media
- 4 Saving the media

# News organizations and the nonprofit form

- An increasing number of people are advocating in favor of the development of the **nonprofit form for the media**.
- Advantage: the government does not choose how much funding to allocate to each news organization; it just provides a subsidy through the charitable deduction.
- The charitable deduction allows the government to piggyback on the judgments of private donors about which nonprofits to support.
- In addition, this subsidy is feasible politically since it already can be used, to a significant extent, under current law.

# Nonprofit media: examples

- There are several forms of noncommercial ownership:
  - Direct government ownership (e.g. Voice of America).
  - Indirect control by lower levels of government (e.g. broadcast station licensed to a state university);
  - Nonprofit public TV stations;...
- In the UK, *The Guardian* is part of the GMG Guardian Media Group of newspapers, radio stations, and print media, which is owned by The Scott Trust.
  - The Scott Trust: charitable foundation which aimed to ensure the paper's editorial independence in perpetuity, maintaining its financial health to ensure it did not become vulnerable to take overs by for-profit media groups.
- In France, *Le Monde* announced last week that in the future it may want to become a foundation.

# The limits of the nonprofit model: governance

- Germany's largest media firm – and Europe's largest media company –, Bertelsmann, is owned by the Bertelsmann Foundation, a non-profit entity.
- But limit: no **voting rights** for small donors.
  - Benson (2015): foundations “*are ultimately donor-controlled rather than member-controlled organizations*”.
- And concentration of power in a couple of hands (on top of tax deductions...) (e.g. the Bertelsmann Foundation is controlled by the Mohn family).
- Solution: the Nonprofit Media Organization (NMO) ( “*la société de médias à but non lucratif*”).

- 1 The state of the media
  - A long-term decrease in advertising revenues
  - A decrease in the number of journalists
  - The race for higher profits
- 2 The new “press barons”, a solution?
  - One dollar one vote?
  - Money in politics... and in the media
- 3 Government intervention and nonprofit media
  - Government intervention
  - Nonprofit media
- 4 Saving the media



# The Nonprofit Media Organization

- ⇒ New model intermediate in status between public companies and (nonprofit) foundations.
- Hybrid model inspired in part by the model of the great international universities, which combine commercial and noncommercial activities.
- But there is more to it than that:
  - One goal is to secure permanent financing for the media by freezing their capital.
  - A second goal is to limit the decision-making power of outside shareholders with constraining bylaws.

# The Nonprofit Media Organization

- Nonprofit company:
  - Must invest any surplus revenue back into the organization.
  - Shareholders not allowed to withdraw.
  - Tax-deductible contributions.
- As in a public company, a lot of stockholders, each of them with voting rights.
- But voting rights do not increase proportionally with shares in the company.

# Capital and power

- Below a certain threshold (e.g. 1%), “stockholders” are allowed to gather to form an association (e.g. editors’ association or readers’ association).
  - Compared to existing model of crowdfunding, they obtained voting rights: they are no longer considered as crowdfunders/donors but as stockholders.
- Above a certain threshold (e.g. 10%), voting rights increase less than proportionally with capital shares.
  - E.g. above this threshold, investments might yield only 1/3 of a vote per share.
  - Tax-deductions offset this loss of power.
- Below this threshold (for small stockholders), investors would receive a proportionate boost in their voting rights (so that the total is always 100%).

# Capital and power

- Below a certain threshold (e.g. 1%), “stockholders” are allowed to gather to form an association (e.g. editors’ association or readers’ association).
  - Compared to existing model of crowdfunding, they obtained voting rights: they are no longer considered as crowdfunders/donors but as stockholders.
- Above a certain threshold (e.g. 10%), voting rights increase less than proportionally with capital shares.
  - E.g. above this threshold, investments might yield only 1/3 of a vote per share.
  - Tax-deductions offset this loss of power.
- Below this threshold (for small stockholders), investors would receive a proportionate boost in their voting rights (so that the total is always 100%).

# Capital and power

- Below a certain threshold (e.g. 1%), “stockholders” are allowed to gather to form an association (e.g. editors’ association or readers’ association).
  - Compared to existing model of crowdfunding, they obtained voting rights: they are no longer considered as crowdfunders/donors but as stockholders.
- Above a certain threshold (e.g. 10%), voting rights increase less than proportionally with capital shares.
  - E.g. above this threshold, investments might yield only 1/3 of a vote per share.
  - Tax-deductions offset this loss of power.
- Below this threshold (for small stockholders), investors would receive a proportionate boost in their voting rights (so that the total is always 100%).

# Capital and power

- More democratic power sharing.
- New place for societies of readers and employees.

⇒ **Democratic reappropriation of the media** by those who produce and consume the news rather than by those who seek to shape public opinion or to use their money to influence our votes and our decisions.

*To save democracy, one need first to democratize the media.*