Saving the Media
A new business model for media in the crisis

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Science Journalism in the Digital Age

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**.

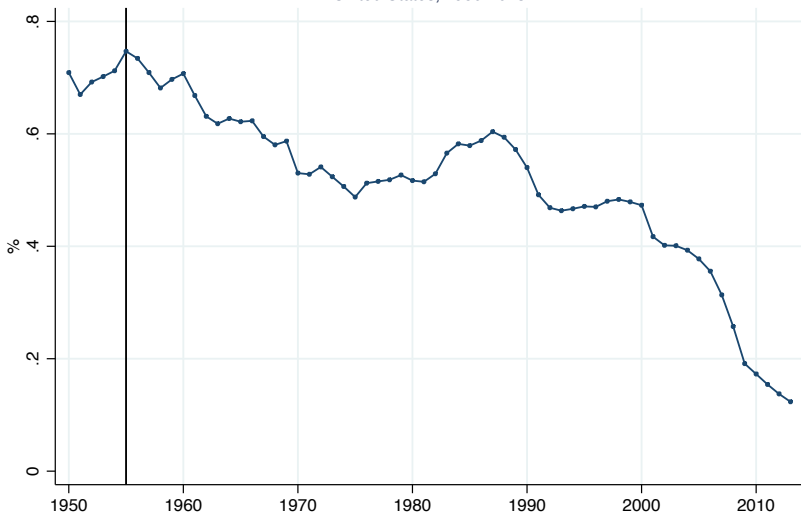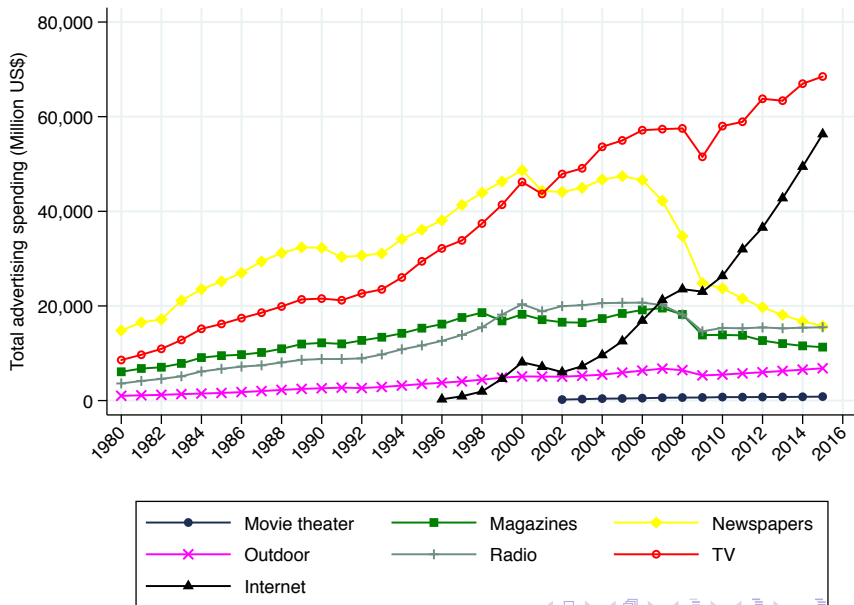- And an innovative form of public funding: the **"media vouchers."**

Newspaper advertising revenues (US)

Evolution of newspaper advertising revenues (% GDP)

United States, 1950-2013

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.
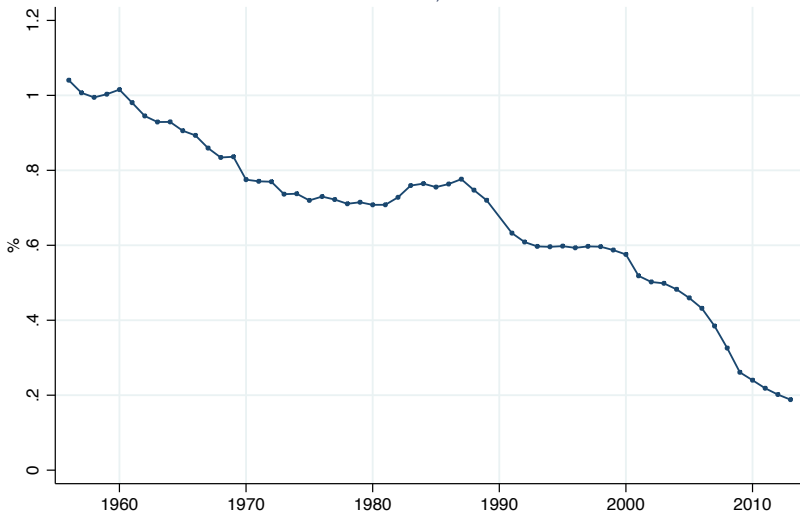
$\Rightarrow$ The digital advertising market turns out to be a "duopoly".

Newspaper total revenues (United States)

Evolution of newspaper total revenues (% GDP)

United States, 1956-2013

What consequences of the decrease in revenues?

Daily newspaper journalists: United States
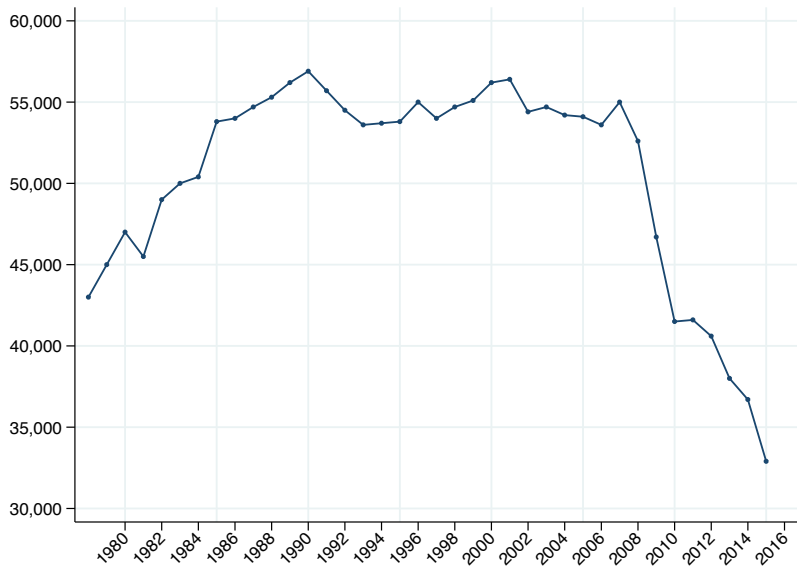
Daily newspaper journalists: United States

Daily newspaper journalists and advertising revenues
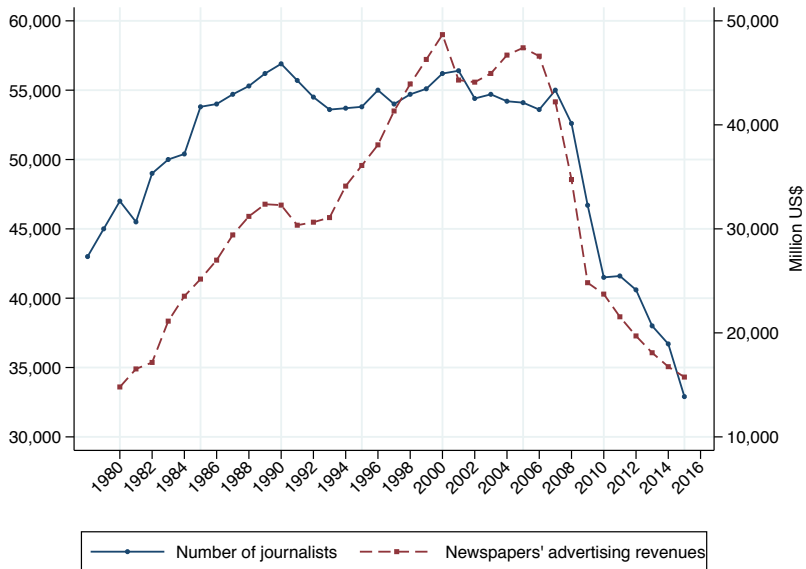
A decrease in the size of the newsrooms

- 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**.

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What could be done?

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.)

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.*

2. How to guarantee an high-enough degree of pluralism and avoid concentration?

- <u>Caveat:</u> 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.

- <u>Solution:</u> we introduce a **threshold**.

  - A given media outlet cannot receive more than 1% of the total number of media vouchers.

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.

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.

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"*).

The Nonprofit Media Organization

$\Rightarrow$ New model intermediate in statuts 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%).

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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.

Un Bout du Monde

New association: https://unboutdumonde.org/en/home