Saving the Media
Capitalism, Crowdfunding, and Democracy

Julia Cagé

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EPOG seminar
A new corporate model for the media

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Saving the Media
CAPITALISM, CROWDFUNDING, AND DEMOCRACY

Translated by Arthur Goldhammer
A new corporate model for the media

- A new type of entity: the *nonprofit media organization* (NMO).
- Intermediate in status between a *foundation* and a *corporation*. 
Crisis of the media

- Economic crisis.
- Trust in the media is very low.
- Decrease in the quality of the media.
Media crisis
- The need for journalists
- A long-term decrease in advertising revenues

The new “press barons”
- One dollar one vote?
- Money in politics... and in the media

Government intervention and nonprofit media
- Government intervention
- Nonprofit media

Saving the media
Media crisis

1. The need for journalists
2. A long-term decrease in advertising revenues

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Government intervention and nonprofit media

1. Government intervention
2. Nonprofit media

Saving the media
The need for journalists

- To produce information, and in particular hard news, a media needs... a newsroom. ⇒ 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, 1880-2013

Number of journalists (% of working population)

Number of journalists

0 0.02 0.04 0.06 0.08 0.1 0.12 0.14

0 10,000 20,000 30,000 40,000


Julia Cagé (Sciences Po)
Evolution of the number of journalists

- Recent decrease in the number of journalists (beginning in the 2000’s; due to the “media crisis”? – we will come back to this point later) but trend: overall increase in the total number of journalists.
  - Around .14% of the working population.

- Does it mean that we are better informed today?
  - Normalization: working population.
  - But may just reflect increasing importance of knowledge workers.
    - Normalize number of journalists by senior executives and knowledge workers.
Evolution of the number of journalists: France

Evolution of the number of journalists as a share (%) of the number of senior executives and knowledge workers

France, 1955-2013

Number of journalists (% of senior executives and knowledge workers)
A revolution of the journalist profession

- Not only decrease in the total number of journalists as a share of senior executives and knowledge workers, but also decrease in the absolute number of journalists working in general information newspapers.

  - Even taking into account journalists working for the website of these newspapers.
Evolution of the number of daily newspaper journalists: United States
International comparaison (2013)

Number of daily newspaper journalists (% of working population)

International comparaison, 2013

France | Germany | Italy | Japan | United States

Number of daily newspaper journalists (% of working population)

0.005 | 0.01 | 0.015 | 0.02 | 0.025 | 0.03 | 0.035
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.

- 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.
How to explain this crisis?
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4. **Saving the media**
Total advertising spending (all media)

Evolution of advertising spending
Germany, United States and France, 1980-2013

France
Germany
United States
Newspaper advertising revenues (US)
Reliance on advertising revenues (US)

Evolution of the share of advertising in newspaper total revenues
United States, 1956-2013

- Share of print advertising (% total revenues)
- Share of total advertising (print and digital) (% total revenues)
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.

- Moreover, Google and Facebook capture more than half of the advertising market (in the future also Amazon).
  - Digital advertising market in the US: $43 billion.
  - But news properties lay claim to only roughly $5 billion (12% of the total digital ad market).
Newspaper total revenues (United States)

Evolution of newspaper total revenues (% GDP)
United States, 1956-2013
One good news

- Media outlets can survive without advertising (e.g. Mediapart in France; *New York Times*).
  - Advertising revenues represent less than half of total revenues of the *New York Times* since 2000.
  - Revenues from both circulation and digital subscriptions are increasing, however.
What could be done?
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The new “press barons”

[Image of a man speaking at a podium with a sign that reads "KANE"]]
The new “press barons”
Welcome to a new era of corruption?

- For the first time in a long while, people with money are 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?
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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.

- In the US, all these legislations have been removed during the last decades.
Total outside spending
Why hasn’t democracy slowed rising inequality? Bonica et al. (*JEP*, 2013)

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

- Campaign contributions
- Income

Year/Election cycle

<table>
<thead>
<tr>
<th>Year/Election cycle</th>
<th>Share (in %) of income/contributions</th>
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<tbody>
<tr>
<td>1980</td>
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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.
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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.
  - Koch brothers.
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?
  - Anti-trust regulation is one side of the story.
  - Nonprofit media can be another solution.
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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.
Government intervention

- Governments implement policies and subsidies to support the media in a lot of developed countries.
- This takes a variety of forms depending on the countries but also on the media.
  - Special tax and legal status for newspapers.
    - Tax relief.
    - Postal subsidies.
    - Direct subsidies.
  - Financing of public broadcasting: **by far the biggest part.**
It is clear from Figure 3.1 that support for public service media organisations (however incorporated) is the single largest factor in all these countries except the United States. The second largest type of subsidy in five countries (and the largest in the United States) is indirect support for print publishers, mostly through VAT exemptions. Direct support for the press follows in third place in two of the three countries where it is provided (Finland and France). In Italy, both the private press and private sector local broadcasters benefit from direct subsidies, in both industries to the tune of around €3 per capita per annum. Only one country – France – provides direct public support for online-only “pure player” operations, and the sums involved are negligible compared to the total scale of public intervention. (The 2008 figure of €0.01 per capita is too small to be visible in the figure above and has hence been excluded. This form of support was in 2009 increased to €0.3 per capita annually.)

The total scale of state intervention measured in euros per capita is by far the largest in Finland, which has the highest household licence fee and exempts a comparatively large and vibrant newspaper industry from the standard 23% VAT rate on subscription sales, advertising, newsprint, composition, and plant. This scale of support is not surprising. Finland is a small media market with little more than 5 million native speakers of a rather distinct language. A commitment to comprehensive and cross-platform public service plus a desire to see at least one and preferably several private sector media organisations compete in every local media market in a geographically large but sparsely populated country therefore requires

Private sector media organisations are of course far from the only companies to benefit from various forms of tax relief. The German Federal Government provided an estimated total of €25 billion in tax exemptions and reductions in 2008, and the United States Federal Government $120 billion (€82 billion) in tax relief for corporations.


Unit: euros by capita.
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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.
The limits of the nonprofit model

- 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.

- 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 ("la société de médias à but non lucratif").
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The Nonprofit Media Organization

⇒ 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.