

Market Failure and the Democratic Deficit of Commercial Mass Media

Mark Cooper, 2014

The role of the media (journalism) in democracy:

- **4th Estate Monitor and Inform**
- **5th Estate, Mobilize**

The causes of a persistent democratic deficit in commercial mass media:

- **Externalities/Public Goods**
- **Structural Flaws**
- **Endemic Problems**
- **Transaction Costs**
- **Behavioral flaws**
- **Power**

Methodology

- **Scientific Analytics**
- **Avoidable Mistakes**
- **Concepts and Measures to Build a Diversity Index**
- **Multidimensional Analysis**

Matching Policy Solutions to Problems

OUTLINE

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Layering Solutions to the Complex Problem of Digital Age Media and Democracy

- **Matching Policy Solutions to Problems**
- **Alternative Media**
- **A New Model of Participatory Governance**

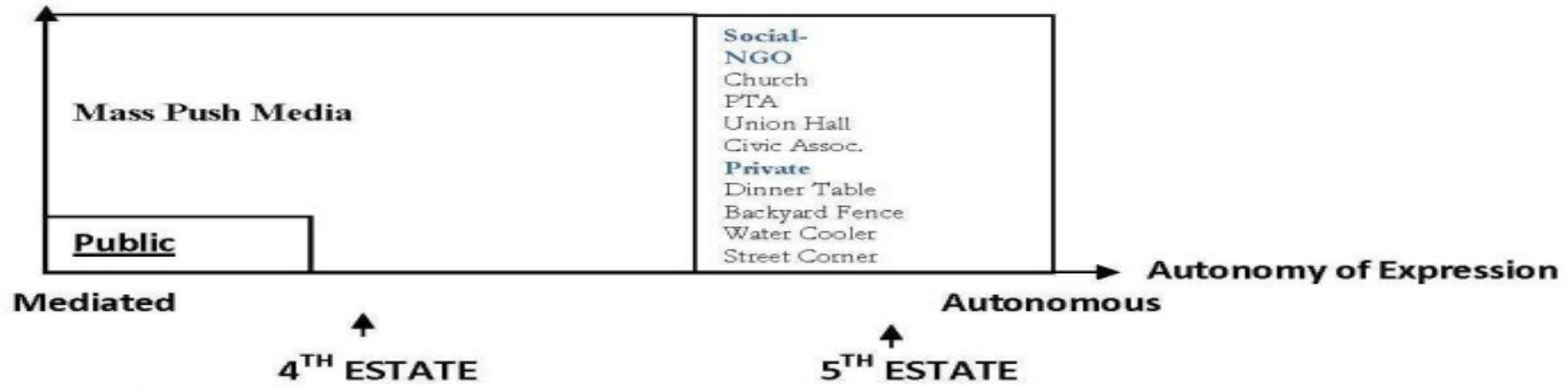
TABLE VII-3: JOURNALISM AS A PARADIGM FOR NON-GOVERNMENTAL OVERSIGHT

Role	Relationship to the Public	Function	Complex Democracy's Ideal Media
Fourth Estate	Mediated	Monitorial	The Checking function Independent of both government and private economic power Grounded in the pluralism of the life world Nurture non-market structures to capture positive externalities
Fifth Estate	Direct	Participatory	Participatory Democracy's Ideal Media Pluralist: Distribute politically and culturally salient media in an egalitarian manner Supports interest group formation Mobilize interests Convey public opinion to policymakers Communal: promote agreement on common good Inclusive Thoughtfully discursive Self-Reflective Inform public about itself Contest dominant opinion Criterion to measure government responsiveness

Source: C. Edwin Baker, *Media Markets and Democracy* (2003), Chapter 6.

20th Century Public Sphere

Size of Audience

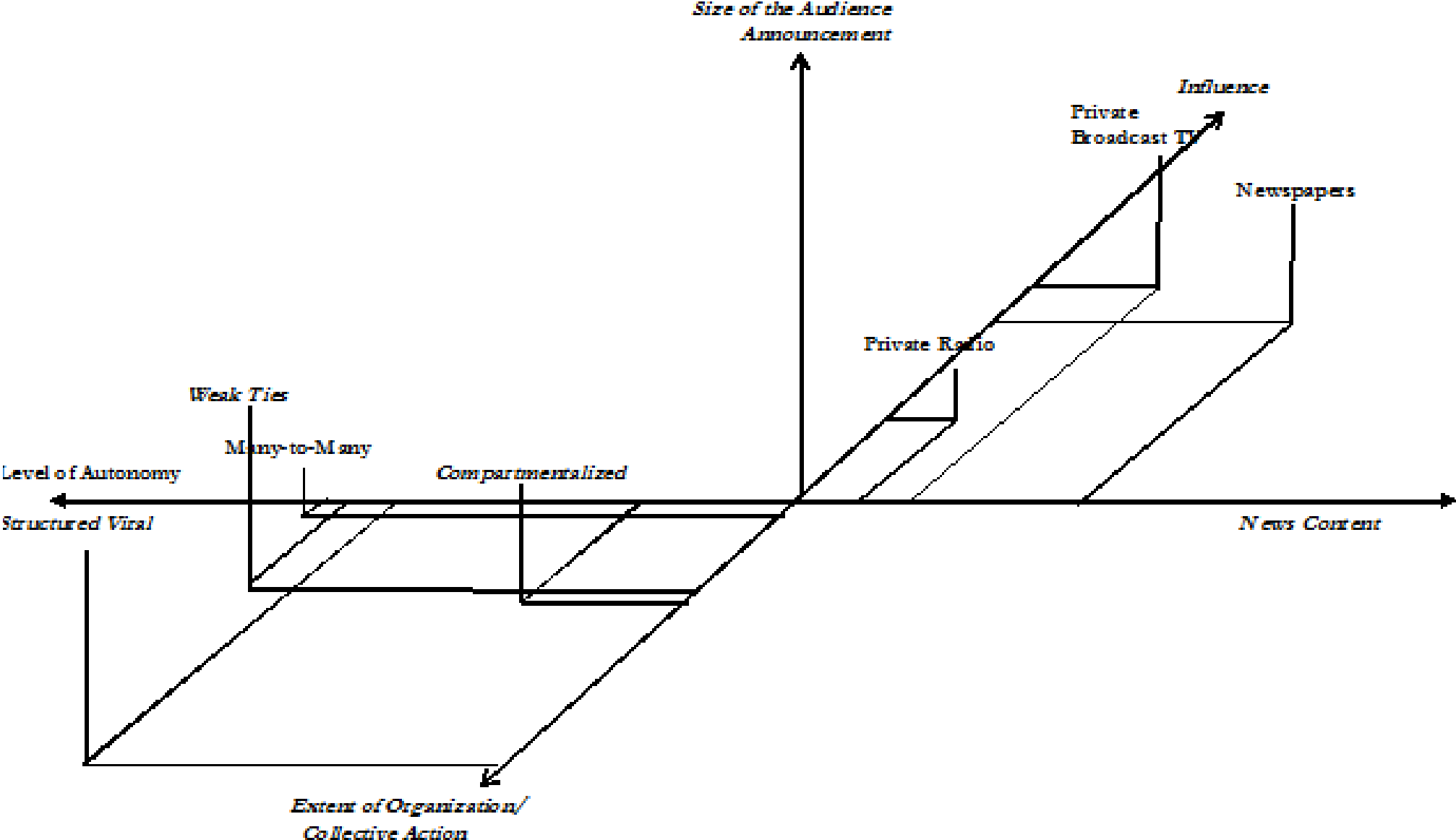


21st Century Public Sphere

Size of Audience



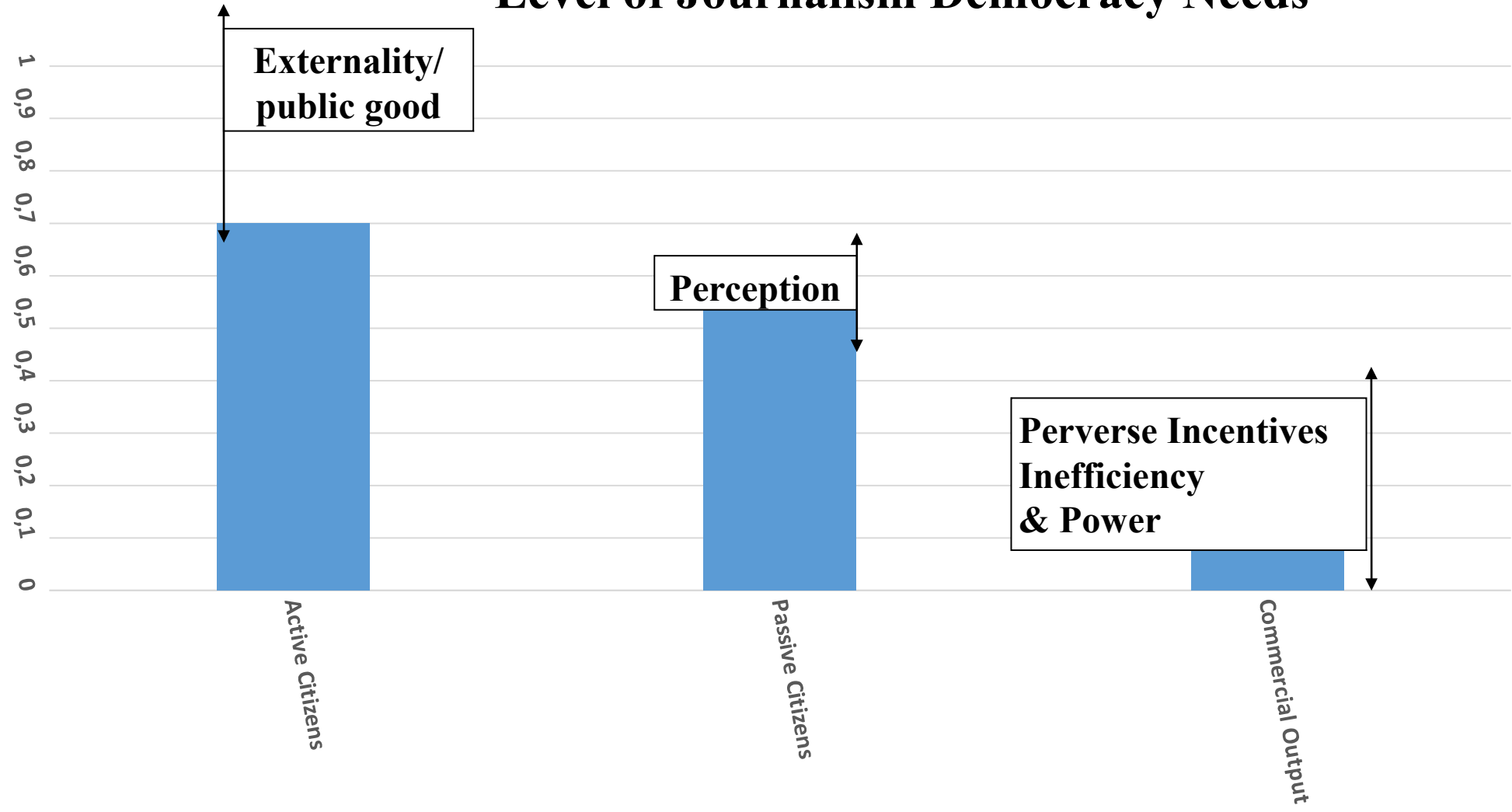
Mapping the Terrain of 21st Century Media by the Press Functions



FIFTH ESTATE FUNCTIONS

Three Deficits in the Information for Civic Discourse

Level of Journalism Democracy Needs



COMPREHENSIVE LIST OF IMPERFECTIONS THAT CAUSE MARKETS TO FAIL

NEOCLASSICAL & INDUSTRIAL ORGANIZATION

<u>INDUSTRY STRUCTURE</u>
<u>Imperfect Competition</u>
Concentration
Barriers to Entry
Scale
Vertical Leverage
Collusion
<u>ICE problems</u>
Price discrimination
Entry barrier
Bargaining
<u>Technology</u>
R&D/Investment
<u>Marketing</u>
Bundling: Multi-attribute
Product Differentiation
Go B Flating
Inseparability
Purchase Method
Advertising
<u>Cost-Price</u>
Level
Structure
Product cycle
Disaggregated Mkt.
<u>Elasticity</u>
Own-price
Cross-price
Income
<u>Availability</u>
Backward bending supply
Lack
Emergency replacement
Poor Quality
<u>Regulation</u>
Price Distortion Arg-cost
Permitting
Other Distortions

SOCIETAL FLAWS

Traditional Externalities

- Positive
- Negative
- Public Goods
- Basic research
- Information
- Learning-by-doing
- Learning-by-using

Network Effects

- Direct
- User
- Nonuser
- Indirect
- Cross platform

Innovation Economics

- General Purpose Tech.
- Producer surplus
- Consumer surplus
- Prosumers
- Productivity
- Applications
- Non-economic Values

POWER

- Legal Framework**
- Property
- Contract
- Policy**
- Taxation
- Subsidies
- Protectionism
- Trade
- Antitrust Enforcement**
- Toward Structure
- Market Dominance
- Merger
- Toward Behavior
- Regulatory Capture**

KEYNESIAN

ENDEMIC

TENDENCIES

- Asymmetric Information
- Agency
- Moral Hazard
- Adverse Selection
- Reverse Incentives**
- Conflict of Interest
- Ownership
- Control
- Transfer
- Limited payback
- Lack of premium
- Inequality
- Physical Capital
- Maldistribution
- Insufficiency
- Human Capital
- Health
- Education
- Macroeconomic**
- Imbalances
- Income/
- Insufficient Demand
- Investment Instability

NEW INSTITUTIONAL & BEHAVIORAL ECONOMICS

TRANSACTION COST

FRICION

- Search and Information
- Imperfect Information
- Availability
- Accuracy
- Search Cost
- Bargaining
- Risk & Uncertainty
- Technology
- Marketplace
- Policy
- Financial
- Liability
- Enforcement
- Switching costs
- Sunk costs
- Monitoring Costs

BEHAVIORAL FACTORS

Motivation Values &

- Commitment**
- Bounded Selfishness/wants
- Morality
- Fairness/reciprocity
- Altruism
- Preference
- Custom
- Social group & status
- Perception
- Bounded Vision/Attention
- Prospect
- Framing
- Loss Avoilance
- Status Quo
- Saliance
- Self-fulfilling Prophecy
- Social Influence
- Awareness
- Attention
- Low priority

Calculation

- Bounded rationality
- Ability to process info
- Limited understanding
- Heuristic Decision
- Making
- Rules of thumb
- Information
- Discounting
- Low Probability Events
- Long-Term
- Small Outcomes
- Execution
- Bounded Willpower
- Improper use
- Improper maintenance

Exhibit 4: The Impact of Market Failure on Journalism

<u>Category of Failure</u>	<u>Specific Problem</u>	<u>Effect on Journalism</u>
Societal Flaws	Externality/Public Goods	Underproduction of quality
Structural Flaws	Concentration/focus on	Lack of responsiveness to demand
	Short-term profits	Failure to make technological change
	Vertical integration	Lack of diversity
Endemic Problems	Perverse incentives	Serves narrow market with narrow products
	Conflict of interest	Pursue ownership goals/bias
Transaction Costs	High cost of physical	Reduces supply, underpays creators,
Behavioral flaws	Public misperception of	Reduced demand
	value of civic discourse	
Power	Owners have too much influence	Coverage is distorted

Exhibit V-5: Traditional Concerns about Media Functionality as a Source for Insight into Disparity and importance.

Coverage of local affairs

Community news

(police, traffic, weather, sports)

Emergencies & events

Education about local institutions

Local religious

Local advertising

PSAs in public interest

Sensitivity to Local Tastes

What listeners want

Avoid offense

Tailored to local taste

Opportunity for local involvement

Local ownership/control

Use of local resources

Working in industry

Locally originated

content

Outlet for local talent

Facilitation of local political discourse

Public affairs

Expression of group interests

Community, political, religious group discussions

Local political view

Local call-in and talk

Public access

Editorializing

Impact of Competition/Consolidation

Market structure

News & public affairs

Children's programming

Entertainment

Advertising

Affiliate relations

Payola,

Voice tracking

Playlists

ANALYTICS

Scientific Explanation in Policy Advocacy

Essence of scientific explanation

- Correlation

- Temporal Sequence

- Causal connection (theory)

- Behavioral affirmation (real world smoking guns)

Compelling effects are:

- Statistically significant

- Quantitatively meaningful

- Especially convincing when they are

 - Natural experiments

 - Historically grounded

Methodological Problems in the FCC TV Output Studies

	Study 3	Study 4.1	Study 6
Unrepresentative samples ³			X
Poorly defined variables ³	X	X	X
Missing variables ⁴	X	X	X
Questionable Statistical Models ⁴	X	X	X
Failure to report effect magnitudes ⁶	X	X	X
Questionable assumptions ⁷	X		
Incomplete analysis ⁸	X	X	X

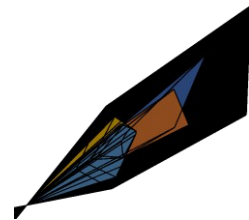
Concepts and Measures to Build a Diversity Index

Concept	Name	Formula
Variety	Simple	N
	Scaled	$(N^2 - N)/2$
Balance	Gini/2	$\sum_{i,j} p_i * p_j$
Variety and Balance	HHI	$\sum_i p_i * p_i$
	Shannon-Weiner	$-\sum_i p_i * \ln p_i$
Disparity		$\sum_{i,j} d_{ij}$
Diversity	Stirling	$\sum_{i,j} d_{ij} \alpha * (p_i * p_j)^\beta$

Exhibit V-4: Redundancy and Functionality in the 21st Century Media

Fifth Estate Functions

Fourth Estate Functions



■ TV ■ Newspaper ■ Structure Viral ■ Weak Ties ■ Limit

Differentiating Policy Recommendations by Problem and Function

Market Failure	Specific Problem	4th Estate Policies	5th Estate Policies
Societal	Externalities/Public Goods	Public funds create public media	Promote ubiquity and digital inclusion
Endemic	Perverse Incentives	Expand public media to provide content	Promote mix of models
	Conflicts of Interest	Expand public media to expose bias	Network neutrality
Structural	Concentration/ focus on short term profits	Avoid bailouts	Network neutrality
	Vertical integration	Expand public media as an alternative commercial mass media	Prevent anti-competitive behavior by
		Reform commercial, promote mix of models	Promote mix of models
Transaction Cost	High physical	Channel resources to content producers	Promote digital inclusion
	Avoid bailouts		
Behavioral	Under-appreciation of value of civic discourse	Education	Education, Promote appreciation of
		journalistic values, Localism, Diversity	
		Ensure access to mass market audience	
	Lack of willingness to pay	Vouchers	Vouchers
Power	Excessive owner influence interest obligations	Promote Mix of Models, Public	Localism, Diversity

Alternative Media can provide Building Blocks, but Public Resources Are Necessary

Informational Text: Is Wikipedia an encyclopedia?

Online Posts: Online posts began as pure opinion pages (e.g. Huffington) but they have started to take root, add reporters and start doing investigative journalism.

e-Books: Rejected authors build audiences on line and get contract from the publishers who rejected them. Publishers now make all or part of their works available at no charge online and have agreed to allow them to be scanned and searched. Whole new forms of copyright are being developed.

Music: Digital disintermediation at its best

Crowd Sourcing: One of the lessons being taken (and debated) from the past election is the ability of semi-organized crowds (truth squads) to respond to negative advertising and smear campaigns. The impact of poor quality content was reduced (it can never be eliminated) dramatically because of the speed and scope of the ability to respond.

Nonprofit information models: Consumer Reports has transformed itself into a hugely successful mass online subscription business. Commercial news outlets have begun to rely on noncommercial services that produce and distribute news relying on low cost digital communications.

Open Source: Open source software has produced large quantities of high quality product; some believe higher quality than commercial software. Decision making management structures have been created to promote progress toward completion of tasks. Group processes determine critical tasks and screen acceptable solutions, not unlike the functions of editorial boards and editors.

A New Model of Participatory Governance that Combines Mandatory Collaboration in Multi-Stakeholder Institutions with Crowd Sourcing Enforcement

