The Media: Information as a Public Good[1]

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The media has played a central role in modern society—its traditional function as the "fourth estate" is a critical part of the system of checks and balances that makes democracy work. But more recently, we have come to recognize that the media is important to a well-running economy, too.[2] That also requires good information that is widely disseminated.

Everybody benefits when media performs its function well. An effective media is a *public good* (in the technical sense used by economists—something from which everybody benefits without a marginal cost to its benefiting anybody in particular, which is called non-rivalrous consumption.[3])

There is a very general proposition concerning public goods: *the private provision of public goods will result in an undersupply and inefficient restrictions on the use of the public good, if such restrictions can be imposed.* But we rely largely on the private sector for the provision of media services, including investigative reporting.

The difficulty is that the public provision of media services can also be problematic. Here, the problem not so much *inefficiency* of public production, which is the center of attention in other arenas of public goods and a problem that can be solved by combining public finance with private production. The real concern is the credibility of government and the incentives it may have to provide distorted information. But that is also a problem in private production (witness Murdoch media, where news is distorted both to increase readership/viewership and to influence politics).

[1] Paper presented to a conference of the Pontifical Academy of Social Sciences, May 10-12, Casino Pio IV, Vatican City, May 10-12, 2021

[2] See, for instance, Alexander Dyck, Adair Morse, and Luigi Zingales, "Who Blows the Whistle on Corporate Fraud?," *Journal of Finance* 65, no. 6 (2010): 2213-2253.

[3] The formalization of the concept of public good is due to Paul Samuelson (Samuelson, Paul , "The Theory of Public Expenditure," Review of Economics and Statistics 36, 1954, pp. 386–389.). He also emphasized that it was often difficult or costly to exclude anyone from the benefits of a public good (this is what is referred to as non-excludability.) A broader taxonomy and more detailed discussion is provided by A. B. Atkinson and J. E. Stiglitz, *Lectures on Public Economics*, McGraw-Hill Book Company, New York and London, 1980. Reprinted in 2015, with a new introduction, Princeton: Princeton University Press

But these concerns with public provision can and have been effectively addressed: Some governments have established very credible institutions both for financing and production of media services. The key question is how to do that, and how to preserve that credibility/trustworthiness.

The media is different

What the media produces and delivers is different from ordinary goods. It produces information, and *information is itself a public good. The media's production of information is especially important because individuals, firms and others do not have incentives for full and honest disclosure.*

The marketplace of ideas is not like a conventional marketplace, with the best ideas winning out in the end. Gresham's Law (which holds that "bad money" may drive out good money) may apply: bad ideas may drive out good ideas. We know that regulation is needed in ordinary markets in the presence of a wide set of "market failures." The media market is rife with market failures, so regulation is needed even more so here. These regulations may even need to "infringe" on other principles, like free speech, because possible harms that occur in the absence of regulations and accountability outweigh the downside risks of such infringement, especially with an appropriately designed institutional structure. Thus we have fraud laws and truth-in-advertising laws to prevent deception that would completely undermine an effective market for goods and services. We have tort and libel laws to protect against injury.

Moreover, the media market is not naturally competitive. There are important returns to scale/network externalities; and as media markets have evolved, there is very limited competition today. The fact that information is a public good—with the marginal cost of provision to an additional individual being low, much below the average cost-- itself implies that the media market will not naturally be "perfectly" competitive.

Good markets are transparent—but social media, which has come to play a dominant role in the dissemination of news and information, is not. We don't know what messages (how news and information is being presented and framed) are being sent to whom. Good information widely disseminated (transparency) is necessary for a well-functioning, competitive market. That's why in the United States, there are Securities and Exchange Commission (SEC) rules on equal access to information ("Fair Disclosure").

In well-functioning markets, participants cannot engage in intimidation; in today's social media, trolling has become a serious problem.

What is required to make an effective media

The implication of the previous discussion is that the media cannot be left to the market. The government has to play an important role, and a different one from the role it plays in other economic sectors. In the following sections, we discuss three critical ingredients for sustaining an effective media: (a) Ensuring certain rights and protections; (b) A viable economic model; and (c) An appropriate regulatory structure.

Rights

Much of the earlier discussion of media and government focused on these rights—such as freedom of the press. They are necessary but not sufficient. Without an economic model, for instance, it is not possible to produce and deliver relevant high quality information.

Among the basic rights that have to be protected are two: (a) The right to know, reflected in freedom of information acts that many jurisdictions have passed in recent decades; (b) The right to tell--the freedom of press.[4]

We need to be aware of the many ways by which these rights can be undermined. Governments may not comply with right-to-know laws, and have used libel suits and the threat of such suits to stifle criticism.

The economic model

The development of social media has threatened the traditional economic model—and without a good economic model, the media cannot perform its central functions.

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[4] There is obviously a large literature on each of these topics. I have written about these rights from the perspective of an economist in "On Liberty, the Right to Know, and Public Discourse: The Role of Transparency in Public Life," *Globalizing Rights: The Oxford Amnesty Lectures 1999*, Mathew J. Gibney (ed.), Oxford University Press, 2003, pp.115-156 (a shortened version of which is available in *Global Law Review*, 24, Autumn 2002, pp. 263-273); and in "Transparency in Government," *The Right to Tell: The Role of Mass Media in Economic Development*, R. Islam, ed., WBI Development Studies, Washington, D.C.: World Bank Institute, 2002, pp. 27-44. For a broader discussion of the right to know, see *The Right to Know: Transparency for an Open World*, A. Florini, ed., Columbia University Press: New York, 2007.

The traditional model was itself peculiar because it entailed news (information) being sold as a joint product with advertising. The underlying economic framework recognized that producing information is costly. Newspapers that produced good information would attract more advertising, and so would be more profitable. But that model was always challenged: sensationalism could attract more eyes, and private production provided an opportunity for the wealthy to get their views disproportionately distributed, raising broader issue of trust in the media.

But on line media, and especially social media funneling information in a feed has undermined that traditional model to the point that it no longer seems viable. Social media, allowing targeted advertising (powered by artificial intelligence), provided a better advertising model; and social media could distribute the information produced by the traditional media more quickly, and more targeted to those who were interested.

In response, new business models have developed based, for instance, on subscription and philanthropy; but these have had only limited success.

One of the reasons is that social media has been free-riding on other media—it gets the benefits from disseminating information without bearing the costs. One approach is to circumscribe that free-riding, as Australia has recently proposed doing and other countries are now considering.

But that doesn't solve the fundamental problem discussed earlier in this paper: *Information is a public good and needs to be publicly financed.*

The critical question to which we turn in the final section of this paper is: how best to institutionally organize financing and "production," preserving independence but with accountability. But first we need to examine the third pillar of an effective media, good regulation.

Regulation

The two central regulatory problems facing media are ensuring competition and preventing social harms. Earlier, we observed that the market was not naturally competitive and in many locales there is only one newspaper. Unfortunately, anti-trust authorities have focused on the wrong metrics of competition—the marketplace for advertising (assessing the degree of substitutability between, say, newspapers, radio, and TV) and not the marketplace for ideas. This omission has allowed the formation of firms that dominate in a particular locale in print, TV, *and* radio. But all the problems with the lack of competition within the traditional media have been heightened by social media, especially given the inadequacies of competition in social media, the ability of the dominant firms to exploit data, and their anti-competitive practices. There needs to be stronger competition policies for these dominant platforms, and if competition can't be sustained, they will have to be regulated as "utilities." [5] But to have at least some competition within the traditional media will require public support, an issue to which we return in the final section of this paper.

The new terrain for regulation that social media presents are the "digital harms" that have become endemic—fomenting incitement and violence, misinformation and disinformation, political manipulation, etc. These digital harms are not an accident, they are an integral part of their business model. The model is based on "engagement," and profits from taking advantage of, and encouraging, extremism and division. Mis- and disinformation have flourished because social media was freed from the normal standards of accountability (section 230) in the infancy of these platforms, on the grounds that it was important to facilitate this nascent industry. But three decades on that argument doesn't hold water anymore; the platforms are well entrenched, with strong market power.

Stronger regulation is needed and self-regulation won't work: as we have noted, the platforms profit from the digital harms. Private incentives run contrary to the public interest. (More generally, self-regulation is an oxymoron because one of the reasons for regulation is that a party exerts externalities on others that they don't take into account. Self-regulation failed in the financial sector and predictably so. It has failed in this arena, too.)

Increased competition within social media would reduce the "power" of the digital giants, but could make regulation more difficult. It clearly is not a solution to the problem of digital harms.

Critics of regulating social media argue that it would interfere with the fundamental principle of free speech. There are at least two responses: First, as we have already noted, speech has always been regulated. You can't cry fire in a crowded theatre, engage in libel and slander, disseminate child pornography, or advertise falsely. New circumstances require reassessing social trade-offs. Today there is a consensus, even in the US, that there should be restrictions on spreading misinformation concerning covid-19 vaccines—the resulting social harm from reduced vaccination could be

[5] The design of these competition policies would take us beyond the scope of this short paper. See *People, Power, and Profits: Progressive Capitalism for an Age of Discontent*, New York: W.W. Norton, 2019. Published in paperback in 2020.

enormous. As we have also already noted, the justification of section 230, treating digital platforms differently from other intermediaries, is no longer valid; it is no longer a nascent industry.

Moreover, regulating virality is not the same as denying free speech. Many of the proposed regulations are designed to reduce the speed with which misinformation and disinformation disseminates, and some of the social harms are a result of virality—the misinformation spreads more rapidly than the economic and social systems' "defenses" can kick in, countering the mis- and disinformation.

Public support required

We began this paper by explaining that the media provides information, which is a public good, and that we cannot accordingly simply rely on the private sector. This public support needs to take a number of forms (the list below is by no means exhaustive):

(a) For investigative reporting—the basic production of information; some of this needs to be done on a global level—witness the success of the Panama and Paradise Papers.
(b) For better education of journalists, so they are less likely to be "captured" (turning, for instance in economic journalism, to business sources). It is important that their sources of information be broadened.
(c) For easier (less costly) access to information. There are a variety of proposals to do this, including the public provision of news vouchers.
(d) To ensure more competition in the media, to break the pervasive "natural monopolies" or oligopolies.

Creating an effective media is one of the most important challenges of the time

The failure to do so will have large consequences for our democracies, our economies, and our societies. There are no easy or "free" solutions. It will take resources and entail hard trade-offs. But approaching the problem through the lens of "information and the media" as a public good may provide some guidance to what can and should be done.