Fake News vs. Accurate News Should the Government Intervene?

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ABSTRACT

Following the US 2016 presidential election and the Covid-19 pandemic, it has become clearer that fake news is a pressing issue faced by modern society. The decline of traditional media has led to an under-provision of accurate news. Some argue that the government should intervene in the news industry to fund the provision of accurate news. Accurate news reporting can be treated as a public good and possesses positive externalities, and the decline in local journalism has led to increasing inequality. The government, therefore, can be justified in funding the news industry. However, concerns about freedom of the press and government failures should also be addressed by combining alternative measures such as policies to improve fact-checking abilities, holding social media platforms accountable, and investing in improving the media literacy of the population.

Introduction

In an era of social media, information flows freely and quickly, yet its veracity is increasingly questioned. The 2016 U.S. presidential election spotlighted the issue of "fake news," with studies suggesting that the average American came across one to three fake news stories in the month leading up to the election (Allcott & Gentzkow, 2017). The danger of misinformation can be enormous. In a study, researchers found that the economic cost of fake news could be as much as $78 billion annually in the US (Cavazos, 2019). In contrast, accurate news reporting nowadays seems to be underprovided by the market. It is thus intuitive to ask whether the government should intervene in the news industry, particularly through subsidies using tax money.

This essay argues that the increasing spread of fake news justifies government intervention in various ways. Yet, one must be wary of potential government failures. The essay begins with an economic explanation of why the government should intervene, especially through subsidies for accurate news reporting; then, it addresses opinions on the other side. Finally, the essay examines current policies for dealing with fake news and suggests that combining subsidies for the news industry with institutional designs to limit the spread of fake news and increase investments in education could be the correct path forward.

Justifications Of Government Interventions

Accurate News as Public Goods

The concept of accurate news as a public good is one critical reason for government intervention. In economics, public goods are characterized by non-excludability and non-rivalry. Non-excludability means that it is impossible or prohibitively expensive to prevent non-payers from consuming the good. At the same time, non-rivalry implies that one person's consumption doesn't diminish the availability or benefits of the good for others (Fernando, 2024). News exhibits characteristics of a public good. Once published, it becomes difficult to prevent others from accessing it, as

the news can be shared without any payments. Moreover, one person's consumption of news doesn't reduce its availability to others. Because of non-excludability, it is not possible to exclude non-payers from accessing news. Therefore, we have a free rider problem where people expect others to pay for them. As a result, there will be an underprovision or even non-provision of accurate news due to the lack of financial incentives for producers (Investopedia, 2020). This classic market failure example justifies government intervention in the market to improve economic efficiency.

Arguably, there can be some private attempts to deal with the free-rider issues. However, due to the nature of public goods, those measures could not sustain in the long run due to the lack of profitability. The case of the New Zealand Press Association (NZPA) illustrates this problem. NZPA, initially started in 1879 and owned by many small newspapers around the country, was established to share news between members. Most overseas news agencies supplied news through NZPA, such as Reuters. It did try to deal with the free-rider problem from the start, as members of the association were not allowed to supply news to non-members. Nevertheless, the government offered some help as NZPA lobbied for copyright laws. Despite all these precautionary measures, newspapers competing with each other for profit became less willing to share their news with others as they worried other news outlets would eventually free ride. With the development of the industry, NZPA finally ended its news-sharing model, and there were no entrance fees to join the club (Hannis, 2008). The story of the NZPA demonstrates that due to the non-excludability nature of news and competition in the industry, accurate news reporting, which requires money and effort for fact-checking, can be underprovided as it is simply not profitable. On the other hand, although fake news also faces the free-rider problem, the cost of producing it is negligible, especially in the age of social media. As audiences and media outlets want to free ride on others' efforts to fact-check, the circulation of fake news becomes larger than that of accurate news. Moreover, as fake news becomes more viral, it becomes more credible to the audience (Ehsanfar & Mansouri, 2017). As a result, fake news can dominate the public space.

Positive Externalities of Accurate News

The second reason for government intervention concerns the positive externalities of accurate news reporting. In economics, positive externalities refer to benefits to third parties who are not directly involved in the production or consumption process. Therefore, the marginal social benefit is larger than the marginal private benefit due to the existence of external benefits (Figure 1). Without government intervention, the free market produces goods at Q1 instead of Q2, where allocative efficiency is achieved.
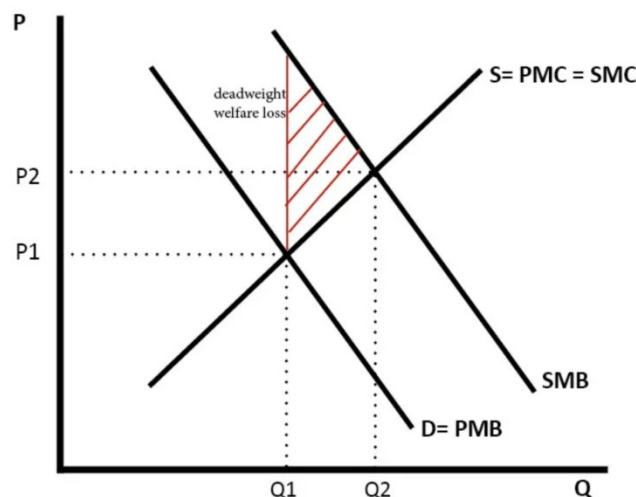
Figure 1. Positive Consumption Externality(Pettinger, 2021)

Empirically, there are many examples of positive externalities in accurate news reporting. Firstly, consuming political news can have positive externalities. For instance, Strömberg (2004) studied the impact of media access on the implementation of policies. The main finding of the study is that US counties with a higher number of radio listeners received more relief funds during the New Deal era. In those areas, voter turnout was higher, and people were more informed about the candidates. As a result, it was rational for politicians to target those areas with favorable policies. This case suggests that consuming more news can have external benefits to others, which individuals may not realize (Strömberg, 2004). Secondly, the consumption of health-related news can have external benefits. The COVID-19 pandemic has further highlighted the external benefits of consuming accurate information and the potential consequences of misinformation. Covid-19 is extremely contagious, so people who consume accurate news can help to slow down the spread of the pandemic, which benefits third parties. In contrast, in the United States, widespread fake news led to increased infections, and some misinformation about disinfectants eventually cost lives (European Commission, 2022). Given these externalities, it is rational for the government to intervene to increase the provision of authentic news and reduce fake news for the greater good of society.

Inequality in News Provisions

Apart from the textbook examples of market failures that require government intervention, the government can intervene in the market to promote equity. The presence of inequality in the news industry serves as a rather convincing argument for government intervention. One of the most concerning trends in the modern media landscape is the proliferation of "news deserts"—communities with limited or no access to local news. This phenomenon has become increasingly prevalent, particularly in rural and economically disadvantaged areas. According to research, more than one-fourth of U.S. newspapers have disappeared since 2004. As of 2020, over 200 counties in the United States had no local newspaper, and about half of all counties—representing about 70 million Americans—had only one newspaper, typically a weekly publication (Abernathy, 2020). Arguably, this is less of an issue for wealthy regions, as people can access a rich amount of digital and broadcast local news. However, some poor communities simply lack the funding for local news organizations to turn digital. As a result, people can only get news from social media sites, where the danger of fake news is greatest (Abernathy & Franklin, 2022). This kind of information inequality can further develop into broader economic and social inequality. As this essay has discussed, communities with less access to local news tend to have lower voter turnout in local elections. A study by Hayes and Lawless (2015) found that the closure of local newspapers was associated with decreased voter turnout and reduced political competition in local elections. The elected leaders may pay even less attention to the development of these areas. With decreased government spending, local GDP decreases, and there will be less growth and fewer job opportunities. Moreover, the lack of local news from these areas might lead to higher taxes, as there is less transparency and accountability for politicians (Abernathy, 2024). The internet cannot replace traditional media as watchdogs. A study shows that the closure of local media results in government inefficiencies financially, as the cost of municipal bonds increased, indicating rising borrowing costs in the long run (Gao et al., 2020).

Critics of Government Interventions

Despite all these reasons for government intervention, debates often arise about whether the independence of journalism can be preserved and whether government failures might be greater than market failures if the government uses subsidies to fund the provision of accurate news.

Media Capture

Independence of journalism can be vital to a well-functioning democracy. A study finds that 91% of U.S. adults think press freedom is somewhat or extremely important (Figure 2). With government interventions in the media industry, one may worry about the potential impact.

Figure 2. Most Americans say press freedom is important to society (Pew Research Center, 2024)

There can be two-sided influences on the independence of journalism. On one hand, after taking money from the government, the government might "capture media" and suppress critical information. Though the most blatant channel is through bribery, the government can also provide exclusive access to interviews to favor certain media (Besley & Prat, 2006). This gives the government the ability to censor content and promote propaganda. For instance, the Russian media have been largely influenced by the state in terms of censorship, which results in poor coverage of the dysfunctions of the government. In addition, these media in Russia have engaged more actively in political propaganda since the war with Ukraine started (RSF, 2023).

On the other hand, government funding for the media could reduce news agencies' dependence on advertising revenue, potentially leading to more impartial reporting and reducing the influence of commercial interests on news content. Baker (2001) argues that advertiser influence can lead to a bias toward content that attracts affluent audiences, potentially neglecting important issues that affect minorities. Therefore, government aid toward the media industry, if executed well, has the potential to promote diversity in the media landscape.

Crowding Out and Policy Conflicts

Critics also point to potential government failures, as the government might not improve efficiencies either. One economic argument against public funding is the potential crowding out of private initiatives. This means that government support is not necessary since the market could provide similar services without any government interventions. The real effect of government subsidies thus can be much smaller, leading to an inefficient use of resources. Empirically, Berry and Waldfogel (1997) study the impact of public radio broadcasting on commercial radio stations in the U.S.

They find that public broadcasting partially crowds out commercial broadcasting, suggesting that public funding might discourage private investment in news production.

Policy conflicts can also be one of the most important government failures. This means the government might sacrifice other aims when trying to finance the media industry. For instance, an increase in subsidies might result in an increase in taxes. The increase in direct tax will reduce disposable income. As a result, consumption might decrease, leading to a leftward shift in aggregate demand (AD). This results in lower GDP and higher cyclical unemployment (Figure 3).
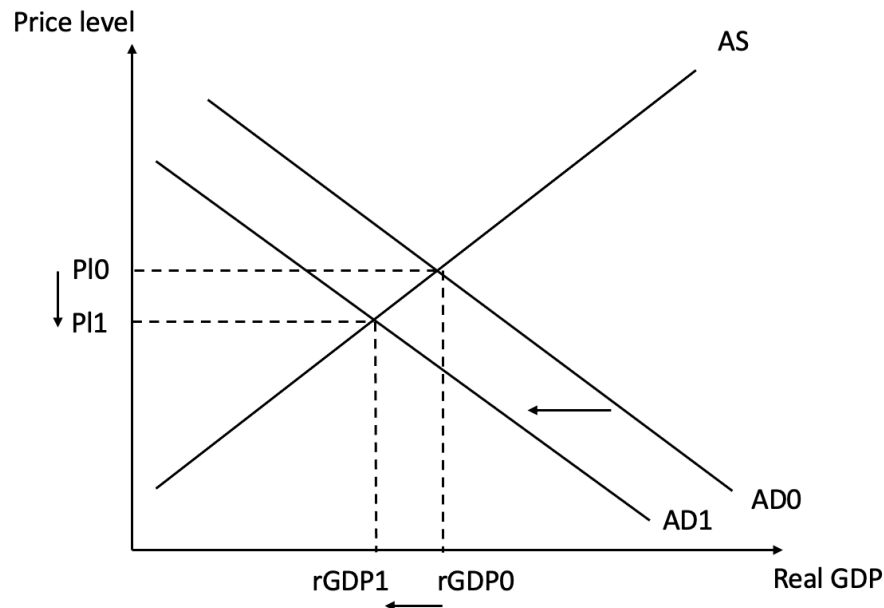
Figure 3. A leftward shift of AD

If the tax rate remains the same, funding media will bring inevitable opportunity costs. It can take a tremendous amount of money from the limited budget to help traditional media. For instance, the city of New York has decided to spend $90 million in subsidies just to protect local journalism for the next 3 years, starting in 2024 (Joseph, 2024). Therefore, for a nationwide subsidy, the government must carefully plan its spending between aid to the media and to other important industries such as healthcare and education.

Methods For Government Interventions

As government subsidies may suffer from several pitfalls, it is rational to combine other methods to deal with the under-provision of accurate news to combat fake news. With declining advertising revenue, traditional media could try innovative funding models, such as non-profit journalism, reader-supported models like The Guardian, and hybrid models that combine different revenue streams, as potential solutions. Governments have the option to support these approaches by providing tax incentives without deciding the content. Moreover, the government can tax big tech to gather revenue for funding accurate news reporting. Apart from direct government financial assistance, some argue that regulations should be in place to force big tech firms to pay for news they publish on their platforms. For instance, Australia's Competition and Consumer Commission (ACCC) made this progress in 2021 through establishing the

News Media Bargaining Code (UNESCO, 2022). Moving on, fact-checking can be effective in stopping the spread of fake news. The major task is to debunk misinformation, especially on social media. This can potentially stop the spread of fake news so that the negative consequences of fake news can be controlled. For instance, Porter et al. (2018) carried out an experiment testing the impact of fact-checking on 2,742 people across the political spectrum. The results found that people became less convinced by fake news after corrections, even when the news challenged their initial ideological beliefs. Consequently, regulations should be put into place to force primary social media platforms that act as news distributors to set up their own fact-checking departments.

From the demand side, the government can spend more money on education to improve media literacy. In this way, individuals are more capable of distinguishing between accurate news and fake news. Agencies thus need to conduct more fact-checks in order to survive in the market. For instance, Finland has conducted programs to improve media literacy, eventually integrating it into the national curriculum from primary school onwards.

As a result, according to the media literacy index shown in Figure 4, Finland has ranked among the highest in European countries. Similarly, it has been recognized by the European Commission that the ability to distinguish misinformation online should be considered an indicator of digital competence for the population. The European Digital Competence Framework for Citizens (DigCamp) provides a useful tool for governments to plan their policies for improving the digital competence of the population. One dimension of digital competence under this framework is "to analyze, compare, and critically evaluate the credibility and reliability of sources of data, information, and digital content" (Vuorikari et al., 2016).

Rank (1-41)	Country	Score (100-0)	Clusters (1-5)
1	Finland	74	1
2	Denmark	73	1
3	Norway	72	1
4	Estonia	71	1
5	Sweden	71	1
6	Ireland	70	1
7	Switzerland	67	1
8	Netherlands	64	2
9	Iceland	62	2
10	Belgium	61	2
11	Germany	61	2
12	Portugal	60	2
13	United Kingdom	60	2
14	Austria	59	2
15	Czech Republic	58	2
16	Spain	58	2
17	France	57	2
18	Latvia	55	2
19	Slovenia	55	2
20	Lithuania	54	2
21	Luxembourg	53	2
22	Poland	53	2
23	Slovakia	48	3
24	Italy	47	3
25	Croatia	45	3
26	Malta	45	3
27	Hungary	41	3
28	Cyprus	39	3
29	Greece	38	3
30	Ukraine	38	3
31	Serbia	33	4
32	Moldova	32	4
33	Montenegro	32	4
34	Romania	32	4
35	Bulgaria	31	4
36	Turkey	29	4
37	Bosnia and Herzegovina	24	5
38	Albania	23	5
39	North Macedonia	22	5
40	Kosovo	21	5
41	Georgia	20	5

Figure 4. The European Media Literacy Index 2023 (European Policies Initiative (EuPI) of the Open Society Institute – Sofia, 2023)

Conclusion

In conclusion, facing the challenges of misinformation, government interventions in the media industry can be necessary. This essay has discussed some reasons for government interventions, including market failures in accurate news reporting and inequality caused by the decline of local news. Yet, the most common method of funding news reporting can be controversial in terms of its impact on freedom of the press and potential government failures. None of these critiques deny the importance of government interventions, but alternative measures should also be implemented to complement government subsidies. These include fact-checking institutions and forcing big tech social media firms to take more responsibility. Improving media literacy should also be a long-term measure. Moving ahead, the interconnectedness of information flow in the digital age emphasizes the importance of global cooperation in addressing misinformation and improving news delivery. False news stories often cross borders, impacting information ecosystems worldwide. All the measures mentioned in this essay require global efforts. Fortunately, international organizations such as the United Nations and the European Union are acknowledging this issue and developing strategies for collaboration to combat misinformation and encourage media literacy. For instance, during the pandemic, the UN

launched "Verified," a program designed to stop the spread of misinformation related to COVID-19 and to provide accurate scientific advice to the global population (United Nations, 2020). Until we finally beat fake news, more actions should be taken by governments around the world.

Acknowledgments

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