HIGH SCHOOL EDITION
Journal of Student Research
Volume 13 Issue 4 (2024)

The Economics of News: Should News Agencies Be Funded from Taxation?

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ABSTRACT

Accurate news reporting is essential for a well-functioning democracy and can be classified as a quasi-public good due to its non-rivalrous and non-excludable nature. This paper explores whether such reporting should be funded through taxation, analyzing both the potential benefits and drawbacks. The media industry faces significant challenges, evidenced by declining readership and job losses, particularly in traditional outlets. Despite its limited direct contribution to GDP, the media plays a crucial role in informing the public about economic trends, policies, and societal issues, thereby influencing consumer decisions and fostering economic growth. The paper argues that accurate news reporting is a merit good, often under consumed due to the proliferation of misinformation and preference for indirect news sources, particularly among younger generations. Government intervention through subsidies could mitigate market failures by supporting news agencies that prioritize quality journalism over sensationalism. However, concerns about government influence on media independence necessitate strict oversight and transparency in subsidy allocation to maintain journalistic integrity. By addressing these challenges, the paper posits that taxpayer funding of news agencies could enhance the quality of journalism, reduce unemployment in the sector, and ultimately contribute to a more informed citizenry. The conclusion emphasizes the need for a balanced approach that safeguards media independence while ensuring the provision of accurate news, essential for the health of democratic societies.

Introduction

A public good is one that is characterized by being non-rivalrous, non-excludable, and non-rejectable. This entails that one person consuming the good does not diminish the availability of that good for others as well, one individual preventing others from reaping the benefits of the good would be highly costly or impossible, and it is not possible for people to refuse the good once it has been provided for one consumer.

Accurate news reporting can be loosely defined as the reproduction of an event or activity of public interest, inclusive of a truthful account of the facts. Keeping this criterion in mind, accurate news reporting can be characterized as a quasi-public good. While it may be possible for news outlets to charge a subscription for their services, one person consuming the information provided by the news outlet does not prevent anybody else from using it as well. Moreover, were a person to purchase a newspaper or news channel, they cannot refuse the news provided.

I will run under the assumption that the news outlet being discussed does not charge any form of fee. In this paper, I will discuss whether accurate news reporting should be funded by taxes or not, considering both advantages and disadvantages to presumably reach a definite answer.

The News Industry Landscape

Before discussing the need for news agencies that provide accurate news reporting to be funded by taxes, it is crucial to understand the nature of the media industry. In the U.S.A, over half of the 3140 counties rely on a singular daily

newspaper, while over 200 counties do not have a newspaper at all. The cost of providing news to an additional customer is often very low, and in the case of free digital newspapers, non-existent.

Moreover, there is a lack of confidence in the circulation of news through social media, as it is predominantly done at present. Consumers are also more likely to trust larger, national newspapers due to established credibility, therefore market share would influence prices. These reasons dictate that the market for news would naturally not be perfectly competitive.

Role of News in an Economy

The media plays a crucial part in the economy. In terms of direct contribution to GDP, the media industry has a humble contribution, being relatively small in all economies alike, regardless of whether they are developed or developing. For example, data from the USA in 1999 shows that all printing services, such as newspapers and magazines, only amounted to 1.06% of the GDP, while news broadcasting through radios contributed a further 0.3%

Despite little direct contribution, news indirectly plays a pivotal role in economic growth by providing commercial knowledge about market and economic trends which may assist consumers in making economic decisions based on factors such as the current inflation and interest rate, prices of commodities, new regulations and policies, etc. Throughout the 21st century, we have seen an increasingly complex market and financial system. Thus arises the need for increased financial literacy, which may be provided through the news. It is crucial for citizens to understand the functions of major financial institutions, policies, etc. in order to make decisions that best serve their economic interests.

Moreover, it allows advertisers to reap the benefits of mass marketing. By advertising at a large scale, firms will be able to achieve marketing economies of scale, lowering their total average costs. This contributes directly to economic growth in the nation.

News As a Merit Good

A merit good is one that are beneficial for society, however are under consumed and under produced in a free market economy due to imperfect information in the economy. Accurate news reporting can be classified under this category. Reading news articles or watching news channels on television holds several benefits for the consumer. The consumption of accurate news assists in fostering a population that is well-informed on current affairs, economic issues, politics, and other major cultural, entertainment-related and sports-related events from around the world.

News, however, is underproduced due to a fall in demand for news. Younger people are driven by the desire to enjoy their lives. As such, they do not get a sense of enjoyment by consuming news in the traditional sense. Most people prefer to receive their news through indirect sources, namely social media and other online sources, such as YouTube videos, blogs and online forums. In essence, this means that people prefer for news to reach them without them having to actively seek it. However, news obtained in such a manner is not always accurate, plagued by misinformation and false news, especially considering the ease with which AI can generate fake images and videos can be deep faked.

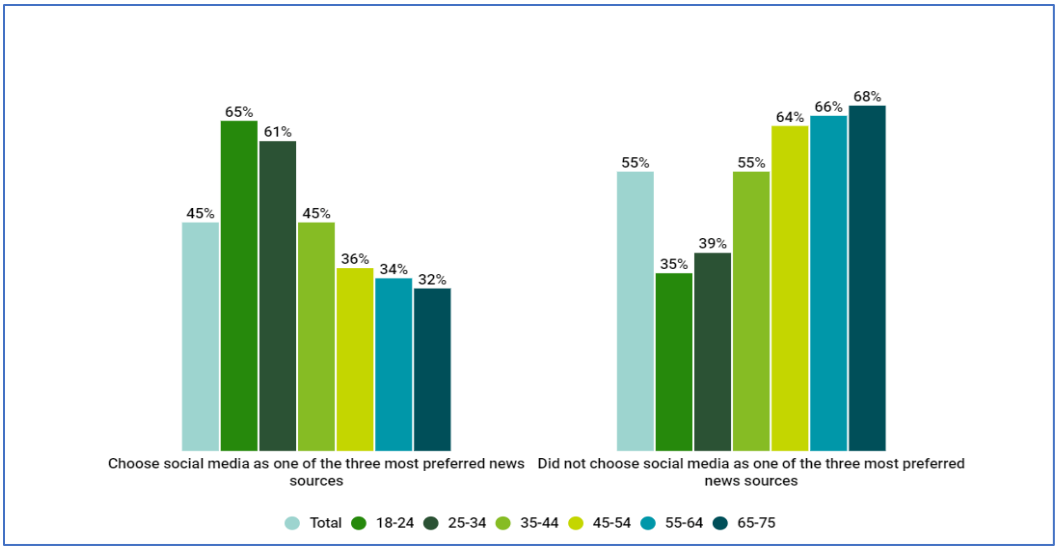

Figure 1. Survey on Preferred News Sources Amongst Different Age Groups

The media industry has borne the brunt of this decrease in demand for accurate news reporting, having recorded 21,400 job losses. Hundreds of CNN employees were laid off in 2022, followed by other outlets such as National Geographic and Los Angeles Times. This is highlighted in Figure 1. This gave rise to a situation of cyclical unemployment, in which a reduction in demand for news services led to news agencies having to make their employees redundant in order to reduce costs.

Table 1. Number of U.S. Newspaper Employees (2012-2020)

Year	Number of employees	Change
2020	133,740	-3.44%
2019	138,502	-9.51%
2018	153,060	-9.66%
2017	169,421	-6.21%
2016	180,637	-7.30%
2015	194,870	-6.97%
2014	209,464	-4.24%
2013	218,736	-5.47%
2012	231,384	

The under provision of merit goods in the economy indicates market failure. In such a scenario, it would be the duty of the government to intervene in a mixed economy and overlook the provision of accurate news reporting. They may do so by providing subsidies to news agencies that present accurate and high-quality journalism. These subsidies would be provided through tax revenue.

By providing firms providing news services with subsidies, it would reduce their cost of production, allowing them to retain more employees. This would reduce unemployment, resulting in workers having higher wages, and in turn, higher disposable income. They may choose to spend their disposable income on purchasing more goods and services and contributing to the aggregate demand in the economy. This would stimulate economic growth.

Ensuring Objectivity in News Reporting

Since access to accurate news reporting is seen as crucial for ensuring proper functioning in a democratic society, most newspapers are sold at extremely low prices. 30% of newspapers in the USA offer subscriptions at USD 2.00-2.99 weekly, translating to the cost of a singular newspaper lying somewhere between USD 0.3-0.4. Consequently, newspapers rely majorly on advertisements as a source of funding. It was found that on average, approximately 75% of the Los Angeles Times consisted of advertisements.

Since the cost of advertising is extremely volatile and unreliable (see Table 2), many newspapers have turned to publishing articles that are often exaggerated, or in extreme cases, false news presented as legitimate. Many newspapers sensationalize negative news in order to shock people, while positive developments are neglected. An article by The Guardian describes how articles in The New York Times have become increasingly morose since the 1990s. News agencies may also solely cover issues that will generate commercial interest rather than those of importance, but would attract fewer readers.

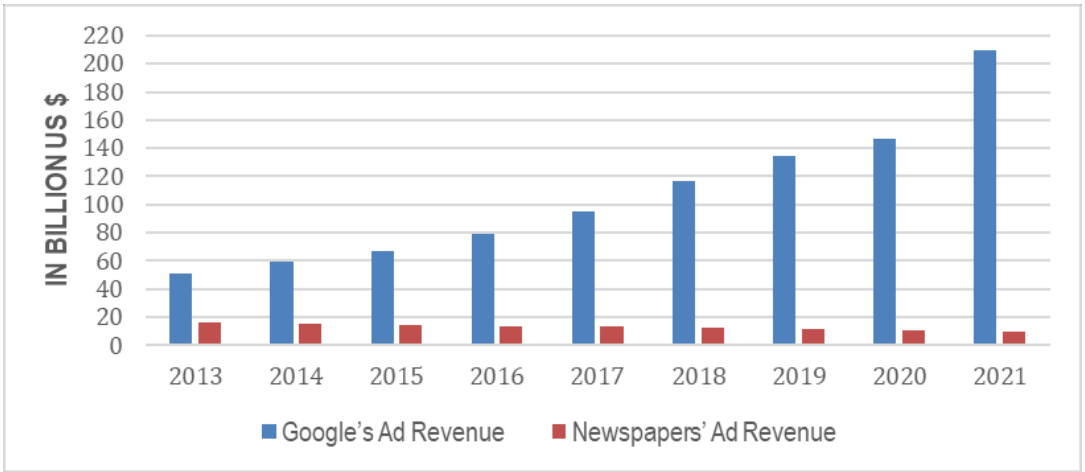

Figure 2. Google's annual advertising revenue in comparison to newspaper advertising revenue

The government may support news agencies by providing them with subsidies. In doing so, they ensure that the firms are less motivated by increasing revenue and generating profits. This may allow for the firms to focus on providing unbiased, relevant and objective news. Moreover, journalists and other staff would be encouraged to undertake investigative journalism articles that may motivate them more than repetitive articles that aim to attract attention rather than provide accurate news. Increased motivation would result in journalists producing a greater amount of articles that are of superior quality.

Political Influence and Media Independence

The model of government funding news outlets through taxpayer money has caused valid concerns for many. If the government is subsidizing the provision of news by providing any form of financial aid, they may have the power to influence the nature of the articles that news outlets present to the public to better fit their political agenda. They may coerce news agencies to either exaggerate positive news, keep negative news undisclosed, or alter details about an event to better fit the government's desired narrative. News agencies would feel obligated to comply out of fear of having their subsidies taken away.

In most democracies, this would be seen as an infringement of basic rights; the first amendment of the

U.S. constitution guarantees freedom of speech, and of the press. Many may argue that government interference through providing subsidies funded by taxpayer revenue would go against the first amendment, and would want to keep news agencies independent of all government institutions, as shown in Figure 4.

Do you think government funding of private media companies undermines the independence of media holding the Government to account?

		Count	Col %
Govt funding of media undermine independence	Yes	558	59%
	No	203	21%
	Unsure	192	20%
	Total	953	100%

Figure 3. New Zealand survey whether taxpayer funding of news undermines media independence

If people are distrustful of news reporting, as highlighted in the survey above, they will not consume news regardless of how accurate the news being reported is. They may also protest the use of the taxpayer money that they contribute towards to fund politically-biased news, potentially leading to people petitioning against the practice, or in extreme cases, causing civil unrest. However, this issue can be overcome through the strict implementation of laws and regulations.

One method to eliminate government interests influencing the nature of articles is to establish strict guidelines as to what kind of news agencies qualify for subsidies. For example, they should produce articles that are informative and based on factual evidence. Policy makers can ensure that none of the criteria can be subjected to political manipulation, and therefore the government will not be able to deny news agencies subsidies based on their political stance or what information they choose to relay to the public.

Another method would be to establish regulatory private sector institutions to overlook the allocation of subsidies. These institutions would be independent from the government and politically neutral. They would overlook the allocation of subsidies and have the authority to overrule the government's decision as to whether a specific news outlet should be provided with a subsidy or not if they feel as though the government has acted in their own interests. This institution would also be transparent with the public as to why each agency qualified for the subsidy in order to provide consumers with greater trust in the news being provided.

Conclusion

Funding news agencies that provide accurate news reporting through taxpayer money may initially lead to distrust and scepticism amongst the general public due to governments potentially being able to influence the actions of news agencies. However, through transparency and legislating strict oversight, consumers may be more confident in the news being provided.

Such measures will allow news agencies to focus on providing high-quality and honest investigative journalism rather than eye-catching, sensationalized news. Additionally, it will create jobs in the declining media industry. This will ensure that democracy is functioning as intended and promote a well-informed population, and private entities will be more likely to make financial decisions that are in the best interests of the economy.

Acknowledgments

I would like to thank my advisor for the valuable insight provided to me on this topic.

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