

PUBLIC INTEREST JOURNALISM, THE INTERNET, AND COMPETITION FOR ADVERTISING



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I. INTRODUCTION

The advent of the Internet and of new Internet-based platforms and social networks has profoundly changed the competitive landscape for traditional publishers of “public interest journalism” or, more generally, quality journalism. Consumers now have access to virtually unlimited online content, of which quality journalism is one of many options. But despite clear gains for consumers, there has been widespread concern about the long run impacts of the changes now underway on the future of the medium, and of journalism more broadly. In this article, we investigate how recent trends towards digitalization have affected the provision of public interest journalism in Australia, how they might play out in the future and the scope for public policy responses.²

II. WHAT IS PUBLIC INTEREST JOURNALISM

There is no commonly accepted definition for what constitutes public interest journalism: we define it broadly as journalism that confers large positive “externalities” on the public, and where these public benefits extend beyond whatever monetary payment the journalist or publisher might earn from publishing an article. Public interest journalism would certainly include investigative reporting, and can perhaps best be described as a subset of quality news journalism. The future of public interest journalism is therefore tied to future trends in the provision of quality news content.

Viewed in analytical terms, the essence of public interest journalism is that it focuses on situations where power can be abused, be it by government, business or society more generally. By exposing these abuses — whether they involve corruption, coercion or simple error — public interest journalism does not only right an immediate wrong: it also helps deter the kind of conduct at issue. Additionally, a vibrant and effective media that has the incentives and ability to identify, investigate and publicize abuses of power strengthens the community’s trust in our system of government.

Because its impacts are so pervasive, the benefits of public interest journalism far exceed the economic rewards that newspapers, broadcasters, and other sources of content obtain from investing in it. It is therefore understandable that the financial strains which many segments of the traditional media have experienced in recent years would raise fears that public interest journalism will become ever harder to fund, reducing its level, both relative to the past and compared to the level which is in the best interests of the community.

In examining whether those fears are justified, it is important to start by noting that the “digital disruption” which has helped cause those financial strains has brought far-reaching gains to Australian consumers,

² This short article summarizes the results of a larger study prepared on behalf of Google in the context of a recent Senate Enquiry on the future of Public Interest Journalism. Green Square Associates: Impact of news aggregators on public interest journalism in Australia; May 2018. In press: available on request from the authors.

and consumers of journalism more broadly. Access to content has become vastly easier and the range of content that can be accessed has exploded: if consumers have a complaint, it is more likely to be about “information overload” than about a paucity of content. This is, moreover, an area where the “death of distance” is not mere hyperbole, with instant accessibility to news from around the world yielding especially large benefits to all Australians but especially to the millions who have close personal, social, and economic links overseas.

Whether or not the supply of quality or public interest journalism is in decline, and the role of the Internet in bringing this about, is not as straightforward as is commonly assumed. In Australia, as is the case in most developed economies, the circulation and readership of print newspapers has generally fallen for many years, although some publications have fared better than others. Yet these changes are reflective of a long-term trend that commenced well before the Internet became widespread, beginning with the decreased use of public transport, where people read newspapers while commuting, and the rise of the television evening newscast.

There have also been frequently cited significant job losses in the traditional print media, yet there are no direct links between the provision of quality news content, on the one hand, and the number of journalists working in Australia on the other. Historically, that number has varied considerably year-on-year, and it is not the case that the number of journalists in Australia is particularly low today, or even that it has consistently declined in recent years. Also, traditional newspapers are transitioning from a pre-Internet world in which they were effectively protected from competition, including by regulation, distribution costs, and geographic markets, to one where competition for audiences of online news and non-news content is intense. In such a context, it is inevitable and indeed essential that traditional newspapers make efficiencies in order to compete and remain viable.

Particularly given the changing dynamics of the online news environment, there is also a distinction to be made between public interest journalism and the organizations that produce it. Historically, most, although by no means all, quality journalism has been produced by traditional (quality) newspapers. However, new models for producing and funding quality journalism are emerging and more may emerge.

III. COMPETITION IN THE TRADITIONAL AND NEW MEDIA

The vast amount of news and other online content has intensified competition among news publishers, as well as competition for consumers’ attention and time more generally. An increasing number of consumers, particularly younger people, now prefer to access news online, and the Internet offers diverse new platforms and channels whereby news can be accessed. Online-only news businesses have entered the Australian market, while time-saving innovations such as search engines and news aggregators assist consumers in discovering news content. For consumers, this has brought about an unprecedented level of choice and variety in news content, as well as convenience in terms of the channels via which news can be accessed.

The role of the Internet as a low-cost distribution channel has led to the dismantling of the geographic monopolies and other barriers to entry that historically shielded traditional print newspapers from competition. At the same time, the Internet has generated an enormous expansion in the supply of advertising space, and has thus disrupted the traditional business models for newspapers. These trends have enabled new online players to emerge, but have also contributed to a substantial reduction in the main source of funding for traditional media: revenues from classified and display advertising. These competitive forces are superimposed on an environment in which consumers’ time and attention is increasingly scarce; even without new online competitors for the news space, the Internet would still have presented great challenges for traditional media.

IV. ECONOMICS OF QUALITY JOURNALISM

From an economic perspective, theory alone does not offer clear predictions as to how the Internet and its range of new technologies for accessing online content will affect the future production of quality and public interest journalism. As is often the case with two-sided markets, where agents compete for two or more types of purchasers, models yield ambiguous results, and are sensitive to the calibrations adopted.

What is clear, however, is that digitalization has brought many gains to media itself. The costs of producing and distributing content have been greatly reduced, as electronic distribution replaces the printing and cumbersome physical delivery of newspapers; and all media make extensive use of information technology and advanced communications in gathering, investigating and checking stories, as well as in converting raw information into “news.” Productivity advances have occurred at every stage of the content production process, with public interest journal-

ism (which involves finding, collating, and testing large volumes of information) benefiting more than most forms of content.

In many respects, the Internet has enabled traditional newspapers to achieve potentially significant reductions in the costs of producing news. Historically, more than half of the costs of producing a typical newspaper (for instance, in the U.S. or in Germany) related to the costs of physically producing the paper, including the costs of raw material such as paper and ink, as well as the costs of physical distribution (OECD 2010).³ In contrast, the costs of content creation and editorial work only amounted to around 24 percent of costs for a German newspaper and 14 percent for a U.S. newspaper. For newspapers, the trend towards online publishing will eventually all but eliminate print production and distribution costs. The Internet can also be expected to affect at least a share of the costs of producing quality news content, including the costs of investigative journalism, for instance costs relating to accessing documents or to checking and verifying primary news and facts. The ability to transfer digital content across the Internet has also enabled cost reductions from greater sharing of news content across metropolitan and regional newspapers. One of the by-products of these cost reductions is a substantial reduction of entry barriers and therefore a more diverse media landscape. New publishers of news have been able to establish themselves without incurring the large upfront costs of setting up print operations and distribution channels. Innovative revenue models are also emerging.

It is equally true, however, that the shift to a connected world has greatly intensified the competitive pressures on the media. By lowering barriers to entry, digitalization has allowed both the emergence of new forms of content — such as blogs and online videos — and encouraged convergence between previously separated markets. In addition to competing more directly with each other, Australian newspapers must now compete for readers with publications overseas, while Australian broadcasters risk losing their viewers to competitors located tens of thousands of kilometers away. Equally, thanks to the development of their websites, high quality public broadcasters such as the ABC and the BBC, which previously did not compete directly with newspapers, now do, offering for free what commercial suppliers want (and ultimately need) to charge for. At the same time, competition for “eyeballs” has increased as time-poor consumers have an almost unmanageably rich menu of online options from which to choose; getting consumers interested in news has become a far tougher challenge.

It is not only rivalry over consumers that has become more intense. Competition for the advertising dollars that have traditionally funded the bulk of the costs of newspapers and other producers of public interest journalism has intensified. Like consumers, advertisers now have a much broader range of options for reaching audiences. Moreover, as more and more activities move on-line, “eyeballs” can be reached through an ever-greater range of platforms, breaking down any barriers that might once have insulated media advertising from other marketing channels. In choosing among those options, advertisers naturally place a substantial value on the ability to accurately target audiences, gauge their reactions and assess their return on investment. The technology that underpins the new digital platforms has provided the ability to tailor and measure advertising far more effectively than the traditional mass media could.

Dramatic changes have then taken place on the revenue side of quality journalism. To a greater or lesser extent, both traditional and new media are “advertiser-supported” and operate a “two-sided” business model.⁴ Platforms that operate in two-sided markets serve and compete for two distinct groups of customers who “need” each other in some way; the platform provides the means of enabling members of the two groups to capture the benefits from having access to one other. For media platforms, the two customer groups are readers or audiences, on the one side, and advertisers, on the other. In the case of newspapers, the platform creates content, the content attracts readers or audiences, who in turn attract advertisers who effectively pay for most (or all of) the content. The same fundamental relationship generally exists for online platforms, where the use of both the infrastructure and the search, aggregation, and content services that are offered to consumers without a direct charge are paid for by advertising revenues.

Increased competition for readers, and the better “targeting” of specific segments of consumers facilitated by the internet, have resulted in the decline of traditional newspaper readership and a loss of print advertising revenues for these organizations. In addition, the widespread availability of news and other specialized content on the Internet has undermined the business model of traditional news organizations, which relied on cross-subsidizing the production of news with revenues sourced from other types of content. Twenty years ago, a reader interested in, say, sports, would have to buy an entire newspaper, consisting of a bundle of news (including on local, state or national politics, international affairs, and many other topics), even if none of that other content interested them. Today, a reader who is interested in sports or any other topic can visit one of many specialized websites, which may additionally offer more in-depth or up-to-date information; he or she is no longer obliged to buy a newspaper or even visit a general news site.

3 Organization for Economic Co-operation and Development, 2010. The evolution of News and the Internet, 11 June.

4 Evans, D.S. and Schmalensee, R., 2005. The industrial organization of markets with two-sided platforms (No. w11603). National Bureau of Economic Research.

By the same token, 20 years ago, an advertiser wishing to purchase ad space had a limited number of options: a small number of national and regional newspapers, magazines, radio stations or television channels. Moreover, given limited advertising “real estate,” that advertising was expensive. Today, the Internet has vastly expanded the space in which advertisers can reach consumers, advertisers can buy advertising cost-effectively (directly or through aggregators), in different and innovative formats (including photos and videos), and at a scale that suits their requirements. As the geographical monopolies held by traditional newspapers in terms of consumers and advertisers have been eroded, their most important sources of revenue – classified and display advertising – has migrated to online marketplaces and other online media.

All of these trends are apparent in the declining share of advertising revenues directed to traditional print media (newspapers and magazines), and the rapid growth in online advertising. In nominal terms:

- advertising expenditures in print media have fallen consistently from a peak of around \$6.2 billion in 2005; as of 2016, print media expenditures were around \$2 billion, and are expected to fall further; while
- digital advertising expenditures in Australia were zero until 2001, but grew to \$7.4 billion by 2016 (from around \$6 billion in 2015), and continue to climb.

V. FUTURE OF QUALITY AND PUBLIC INTEREST JOURNALISM

Over any longer-term time horizon, the availability of quality or public interest journalism in Australia – as provided by the private sector media and specifically newspapers – requires that a sufficiently large subset of consumers is either prepared to pay directly for content, or is sufficiently interested in that content to attract adequate advertising revenues. There are some indications that at least a share of the audience is willing to pay for news content, although in Australia that share is undoubtedly lessened by the presence of public sector broadcasters and other private publishers, who offer their news content free of charge and who compete aggressively for online audiences with traditional (private sector) media.

Given the scale and pace of these changes, it is hardly surprising that the traditional media have struggled to adjust, with newspapers experiencing particular difficulties. Nor is it surprising that adjustment has been uneven, with some suppliers adjusting better than others. Nonetheless, focusing on those newspapers that seem to be best at navigating the new environment, we find that the strategies they have adopted have three key elements:

- First, the most successful publishers have harnessed technology to drastically reduce costs and improve quality. Computer-aided forms of investigative journalism are now widespread — for example, the recent exposés of the Panama and Paradise papers relied on online coordination within a global consortium of newspapers and on the types of database searches of which only national governments used to be capable. Quality improvements also apply to the services those publishers provide advertisers, for instance by working with platforms such as Google to make available highly detailed information about segment demographics and the behaviors of their readers.
- Second, they have placed greater emphasis on increasing subscription revenues, notably by expanding online sales, which reduces their reliance on advertisers and simultaneously makes them more attractive to advertisers. Properly managed pay-walls are critical in this respect, not only in motivating consumers to subscribe but also in restoring papers’ control over the “bundle” of content consumers can access — to that extent at least partially reversing the unbundling of newspaper content which the emergence of digital platforms initially induced.
- Third, the most successful publishers have given increased prominence to unique content, thereby differentiating their offering from the enormous range of material the World Wide Web makes available. While that unique content can take many forms, those publishers who target the higher quality end of the market show every sign of viewing in-depth analysis and reporting as being a crucial part of their unique offering to readers.

That is not to downplay the disruptiveness of the current transformation. As with every major structural change, it will impose substantial costs — just as the development of very high speed printing presses reshaped the newspaper industry early in the twentieth century, eliminating many smaller papers and rewarding those that could secure scale economies; and just as the development of broadcasting and the shift from public transport to commuting by car reduced newspapers’ circulation and led to the disappearance of evening papers (or at least of those that charge

a price). But it would be foolish to consider increased productivity, subscription focused business models, and the shift from “me too” reporting to unique content — which together have led to a shrinkage in the size of some news rooms — as harbingers of the impending extinction of public interest journalism.

Looking forward, new online-only sources of quality and public interest journalism are likely to enter the market. In addition to the on-line-only news organizations that have set up business in Australia, business models that focus on local or investigative journalism have also been established overseas, with some seeming more viable than others.

VI. POLICY IMPLICATIONS

Whether public interest journalism is currently “undersupplied” relative to a “social optimum,” or whether the advent of the Internet will reduce the availability of public interest journalism, cannot be established with any degree of certainty. The emergence of successful new online-only publishing and payment models suggests that public interest journalism is not inevitably tied to the success of traditional (print) newspapers, and that there is a distinction to be made between public interest journalism and the organizations that have traditionally produced it. At the same time, the incentives for all media organizations to differentiate their product are likely to create a continuing role for public interest journalism in the product offering of content providers, especially those targeting the higher quality end of the product spectrum.

Any substantial reduction in the availability of public interest journalism would most likely occur in small markets, for instance in regional parts of Australia, where local publishers also face significantly more competition, including for advertising, than was historically the case. But even in small regional markets poor outcomes are not inevitable. Australian media organizations are investing and expanding into these markets to attract and build audiences. More sharing of journalistic infrastructure across regional news publications or other media such as regional television may also enable cost savings that make smaller publications more viable. The recently passed Broadcasting Legislation Amendment (Broadcasting Reform) Bill 2017 will similarly enable savings from scope economies. There are also international lessons to be taken from publishers that have built successful business models that cater to small markets.

In any case, there are no simple policy solutions that would address a shortfall in public interest journalism, if it were thought to exist. There is no way of rolling back the forces of the Internet that have disrupted traditional publishing models (and to do so would ignore and potentially threaten the tremendous consumer and social benefits that technology has delivered). Market interventions in Europe have not been successful, while measures whereby the Australian Government becomes the arbiter of what constitutes worthwhile journalism will almost certainly raise concerns about political preferences and conflicts of interests:

- Mandated copyright payments have been tried and have failed in Europe. The effect of mandating some form of copyright payment in Germany and Spain was to either entirely eliminate news aggregation services for consumers, or to skew the competitive landscape to the disadvantage of smaller aggregators.
- The Australian Government provides a public subsidy (of around \$1.3 billion in 2016-17) to the public sector broadcasters, some share of which supports public interest journalism. One way of increasing the effectiveness of that funding would be to make it more contestable, for instance by allowing other media organizations to bid for the provision of news and journalism services. But direct measures to subsidize public interest journalism create the potential for a conflict of interest, since decisions about the extent of any subsidy and which organization(s) would receive it would be in the hands of those who might themselves be the target of investigative journalism, and who might then have their own motives for (not) selecting one candidate organization or another.
- The alternative to offering *ex ante* public subsidies would be to offer *ex post* awards for investigative journalism achievements. Here too, there are potentially serious incentive problems, given that those who would appoint, say, a decision-making board, may select board members with a similar political outlook or interests. An aggressive, independent publisher may then risk not being favored in any selection process.

Concerns around the heavy burden that Australia’s defamation laws place on publishers was a consistent theme throughout the Senate Enquiry hearings. Australian law limits the defenses available to journalists, and the costs involved in defamation matters can easily run into the millions of dollars, prohibitive for publishers without substantial resources. One option therefore worth considering is to reform Australian defamation laws with a view to mitigating some of the significant costs and risks encountered by journalists and publishers of investigative journalism. Any legis-

lative reform of this type would potentially be far-reaching and would have to be carefully considered. Yet if there exists a policy concern about the extent of open debate regarding matters of public interest, there may be a case for reviewing the balance of interests between protecting reputations, on the one hand, and the public interest in bringing to light potential malfeasance, on the other.



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