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The effects of strategic news sources on media coverage

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ABSTRACT

Media firms regularly depend on contacts with well-informed news sources when they cover business and government affairs. However, news sources might have their own agendas and prefer that some information is hidden from the public. In this paper, we model the relationship between news sources and media firms as informal contracts based on trust and punishment. The interactions between these two types of agents may have a significant impact on the completeness of news coverage in the media. Profit maximizing media firms may deliberately hide information from their audiences in order to maintain a long-term relationship with a source. We find that this cunning behavior might become more intensified the tougher the competitive pressure in the media market, since a newspaper risks to lose the source to a rival if it does not withhold information to please the source.

1. Introduction

The political science literature has analyzed the interplay between media firms and news sources in great detail, partly motivated by the fact that as much as three quarters of all published political news originate from news sources (see, e.g. Sigal, 1999). A somewhat worrying empirical finding from this literature is that media firms might voluntarily abstain from publishing information that the source finds unfavorable (see for instance, Herman and Chomsky, 1988; Berkowitz, 2009; Dinan and Miller, 2009; Entman et al., 2009; Manning, 2001) but which the public would like to learn about. One might conjecture, though, that this does not hold if the competitive pressure to capture media consumers is sufficiently strong (e.g. strong competition between two newspapers in the reader market). Unfortunately, the political science literature has little to say about the consequences of competition, and the economics literature has almost completely ignored this research field. This is not because the interplay between news sources and media firms has become less important; on the contrary, media firms' dependence on news sources seems to have increased over the years (Gans, 1999; Manning, 2001; Berkowitz, 2009; Dinan and Miller, 2009; Entman et al., 2009; Couldry, 2010 and Phillips, 2010).[1] The aim of this paper is to provide a formal theoretical analysis of the interplay between media firms and news sources, and to analyze the consequences of media firm competition.

We focus on sources that have the potential to provide media firms with a regular flow of information over an indeterminate number of periods (examples of relevant sources could be large corporations, political parties, well-established NGOs and public agencies). Such sources often have preferred access to information that is hard to get hold of elsewhere, and they regularly try to persuade the media to publish information favorable to their cause and withhold unfavorable information (see Herman and Chomsky, 1988). The question that begs to be asked is why media firms should respond positively to such a request.

In order to provide an answer, we first consider the relationship between a news source and a monopoly media firm. We find that the greater the intrinsic value of the news to the public, the less the newspaper could end up printing. This might seem like a paradoxical result, since the demand-expanding effect of satisfying the readers' hunger for news is reasonably increasing in the public's perceived value of the news. The reason why the newspaper might nonetheless accept to withhold information is that it fears that the source will otherwise stop providing information in the future. Put differently, the prospect that the flow of information

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[1] The increased dependence on news sources might be due to the crisis in the newspapers industry, which has forced staff cuts and reduced the time and money allocated to investigative reporting (Pew Project for Excellence in Journalism, 2010).

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might be terminated can give the media firm incentives to deliberately provide the public with incomplete information. It is ambiguous how these incentives are affected by competition between newspapers. We show that competition could force the newspaper to publish more information. However, the opposite could also be true. The reason is that if a rival firm turns up, then the position of the news source might become stronger. Now the source is not limited to threaten to stop providing information to its present collaborator; additionally, it can credibly threaten instead to provide the rival with publishable information in the future. In order to prevent this negative business stealing effect from occurring, the media firm that receives information today might accept to withhold more information than it would do if it were still a monopolist. Competition could thereby lead to more media bias.

Contrary to the political science literature, the economics literature is sparse on the role of news sources and media bias. Three notable exceptions include the theoretical works of Baron (2005) and Ellman and Germano (2009), and the empirical exercise of Dyck and Zingales (2003). Baron (2005) analyzes media bias in a context where a news firm receives information from sources with conflicting interests, for instance an environmental activist and a polluting industry. Regulation of the polluting industry can help mitigate both a government failure and a market failure for the benefit of the public. He shows that the media firm consequently has incentives to bias information in favor of regulation. Due to this bias, the activist then has incentives to conceal information unfavorable to its interests, whereas the industry fully reveals its information.

Ellman and Germano (op. cit) set up a model with a two-sided market where newspapers sell news to readers and advertising space to advertisers, and they show that monopoly media firms tend to under-report news that reduces advertisers' profit. With competing newspapers, they find that increasing the role of advertising (i.e., the size of the advertising market) will eventually induce maximal accuracy, as newspapers compete for truth-seeking readers. More generally, in their framework media coverage will always be larger with than without competition in the media market. As we show below, this need not hold once we take into account the fact that news sources might be powerful agents that act strategically.[2]

In an empirical paper, Dyck and Zingales (2003) assume that there is tacit collusion between media outlets and news sources, and investigate the connection between media reporting and asset prices. They try to explain media bias on the reporting of assets prices from the relation between news sources and journalists. Dyck and Zingales (2003) main hypothesis is that in order to induce a source to reveal information, the journalists have incentives to give a positive spin to the source's views. They find evidence that this positive spin tends to be greater when there is a high demand for the information.

The rest of the paper is organized as follows. In the next section, we analyze the role of news sources in the media market. In Section 3, we introduce the basic model. In Section 4, we analyze what characterizes the news source-media firm relationship if the media firm faces no competition, while in Section 5, we look at the duopoly case. In Section 6, we compare the monopoly and the duopoly case. We offer some concluding remarks in Section 7.

2. News sources and the media market

A central argument in the political science literature on journalist studies is that news sources might have a kind of monopoly power over the information they hold, since they often control whether the information will become publicly available. News sources can use this market power to strategically release information to specific media outlets that report positively on them.

Herman and Chomsky (1988) portray source-based information as a form of "subsidy" to media firms, since news sources provide valuable, verifiable, and costless information to newspapers in return for positive reporting. However, media firms are not just passive transmitters of the information. For instance, Gans (1999) describes the interaction between news sources and journalists like a "tug of war", and argues that "while news sources try to 'manage' the news, putting the best light on themselves, journalists concurrently 'manage' the sources in order to extract the information they want." Sigelman (1999) thus argues that the key to understanding the relationship between media and news sources lies "not in conspiracies but in cooperation and shared satisfaction." If news sources are successful in influencing the reporting of news by media firms, media firms might deliberately provide the public with biased information. In other words, source-based information might constitute a supply-side media bias.[3]

The political science literature stresses that media sources and newspapers base their relationship on the grounds of exchange and negotiation (Ericson et al., 1999 and Manning, 2001), trust (Golding and Elliott, 1999 and Schlesinger and Reader, 1999), punishment and threats (Molotch and Lester, 1999), and confidentiality and secrecy (Ericson et al., 1999). Manning (2001) describes this as a non-economic "exchange relationship", since it usually does not involve direct payments in money. Each side recognizes certain (unwritten) rights and obligations. For instance, journalists expect that news sources "understand the criteria defining 'good copy', the importance of speed and accuracy in responding to inquiries, the value of an 'exclusive' to individual journalists and the nature of intelligence or 'contextual information'." Trust plays an important role, since a newspaper that publishes untruthful news loses credibility, and this can reduce the newspaper circulation or lead to legal actions and losses (Soloski, 1999). Media organizations prefer to work with sources that guarantee communication of true facts on a relative regular basis. In return, news sources often expect that journalists "listen to suggestions put to them for particular news items or features" (Soloski, 1999).

Since this type of informal contract between news sources and journalists is widespread, political scientists argue that punishments and threats play a central role. The evidence from this literature shows that when a news source provides too much inaccurate, false, or uninteresting information, newspapers tend to drop the source (Manning, 2001). Similarly, if a journalist or a newspaper constantly reports news in a way which is negative for a source, the source will also tend to stop passing information to

[2] In a somewhat related strand of the economics literature, Gentzkow and Shapiro (2008) argue that competition can reduce supply-side media bias that e.g. originates from journalists' private information (Baron, 2006), media capture by interest groups (Besley and Prat, 2006) and the two-sided nature of the news market (Gabszewicz et al., 2001). However, such is not necessarily the case with demand-side media bias, i.e. bias that comes from consumers' prior beliefs (Mullainathan and Shleifer (2005); Anand et al. (2007), and Burke (2008)). The idea is that if consumers incur a disutility cost by reading news that goes against their prior beliefs, news firms have incentives to slant news to consumers' ideological preferences. By reporting news with a more extreme flair than is preferred by the audience, they differentiate themselves from the rivals and competition thereby increases media bias.

[3] The supply-side channels for media bias identified in the literature rest on the journalists' private information (Baron, 2006), media capture by interest groups (Besley and Prat, 2006) and the two-sided nature of the news market (Gabszewicz et al., 2001). The reward to profit-maximizing media firms for biasing information ranges from pure monetary grants to purchase of advertising space and more indirect benefits. See for instance Besley and Prat (2006) for a discussion of persuasive tools used by governments, and Ellman and Germano (2009) for examples of how advertisers might influence media bias in advertising-financed media firms. For empirical evidence, see Strömberg (2001); 2004a); 2004b) and George and Waldfogel (2003).