

An Economic Model of Media Ethics

Prajjwal Dhungana¹

Ethics and economic profits are considered to be trade-offs to one another. Akin to other disciplines, private media face the same dilemma. Pursuing more economic profit through increased viewership, advertising rates, or other practices usually comes at the cost of diminished ethical compliance. However, many studies highlight the importance of ethical guidelines in increasing revenues and profits in media organizations. This article aims to reconcile previous scholarship on the subject and develop an economic model of media ethics. The model is based on the literature and methodology of public economics, particularly that of public goods and externalities. It predicts that private media firms, when left to the perfectly competitive market, produce a greater quantity of news that may not be socially desirable and is of low quality and poor ethical compliance. When the social cost of producing ethical and quality media products is considered, the revenue of the private firms decreases, thereby suggesting an inverse relationship between ethical compliance and profits. This demands a case for libertarian paternalism, nudges, or incentives to restore private firms to the socially optimal equilibrium to ensure independent, ethical, free, and sustainable media.

Keywords: Ethics, economics, media, news, externality, public good, demand, supply, libertarian paternalism

JEL Classification: L82, D62, H41, M2

Introduction

Ethics and economics have become two separate entities. Although modern economics historically developed as an off-shoot

of ethics, it has turned self-consciously non-ethical (Sen, 1999, p. 2). Most businesses of the present day focus heavily on achieving their profit-maximizing objectives through any means of their disposal. This has led to an unprecedented rise in the unethical measures firms deploy to extract profits from their consumers, including manipulation and exploitation of employees, unfair competitive prices, manipulation of the code of conduct, and fake public disclosure, among others (IvyPanda, 2022). Hence, the trade-off between seemingly disparate concepts demands critical study in all kinds of businesses- media being one of them.

Media is the fourth estate of democracy, as put by Edmund Burke (Carlyle, 2013), which underpins its role as a people's watchdog. However, the rapid globalization and diversification of media, media convergence, and the conglomeration of the majority into a few hands have led to a massive fall in profits. It has often limited money to be the bottom line in the media industry (Luna, 1995). Small media houses, including new entrants, tend to be experiencing extreme economic stress, thereby subjecting the necessary ethical compliance to serious risk. Moreover, the availability of multiple media platforms – offline and digital, with limited licensing and censorship has exacerbated the probability of unethical media practices in the quest to earn profits (Dolunay et al., 2022).

Some unethical practices in media include indecent advertising, smear campaigns, invasion of privacy, fake news, conspiracies, cultural debasement, collusion with political groups and businesses, and so on (IvyPanda, 2021). Media, on the one hand, can be a principal in advancing one or more of these unethical practices to fulfill its vested interests– maximizing profit being one of them. On the other hand, it can act as an agent of some political or business elite in the pursuit of their interests. Whatever the case, serious consideration of ethical compliance in media, given its nature of producing a public good under critical scrutiny, is deemed necessary.

Ethics is one of the many variables of the news story function (Luna, 1995). Like the event, reporter, medium, and audience, ethos or ethics affect the news story along with these components in a bidirectional way. Unethical practices may increase the accounting profit of the media companies in the short term. However, the opportunity cost, which includes decreased community respect and reputation and loss of autonomy, among others, may subdue the company's future prospect with decreased economic profit (Primeaux & Stieber, 1997).

Furthermore, journalism and similar media products are public good (Pickard, 2021). Thus, it demands the role of government to ensure whether or not these goods are in the interests of the public. Using the same token, these goods might generate positive or negative societal externalities. In the lack of necessary ethical compliance, these products are sure to amplify negative externalities, thereby deteriorating the very fabric of society, not only the media house's business.

Hence, media with its peculiar function and different nature of goods and services it offers to society – might respond differently to the subject of ethics against profits than other businesses do. With continuous short-term and long-term public and government threats, ethical dishonesty and other unethical practices become highly costly in media. This is what demands a separate study of the economics of media ethics.

Cost-benefit analysis of ethics through the economic model of supply and demand of news media from the methodology of public economics is the primary objective of this article. It is a theoretical paper that attempts to study the effect of ethical compliance on the economic revenue of media, thereby generating essential policy recommendations.

The model predicts that private media firms, when left to the perfectly competitive market, produce more news that may

not be socially desirable, resulting in low quality and poor ethical compliance. Considering the social cost of producing ethical and quality media products, the revenue of the private firms is decreased, thereby suggesting an inverse relationship between ethical compliance and profits. This demands a case for libertarian paternalism or nudges to restore the private firms to the socially optimal equilibrium to ensure independent, ethical, free, and sustainable media.

This article is divided into the following sections below. First, the Literature Review section summarises all the existing economic models of media ethics and their explanation of the subject. Second, the Model section proposes an economic model of media ethics based on previous literature and findings. Third, the Discussion section elucidates the workings of the model and its nuances. It also offers possible explanations and policy relevance. Next, the Limitation section highlights the possible caveats of the developed model and considerations needed for the interpretation. Lastly, the Conclusion section sums up the article.

Literature Review

A large and growing body of literature has proposed different models of ethics theory and reasoning (Meyers, 2016). In particular, scholarship in media ethics has ranged from media sociology, philosophical explication, universalism, moral relativism, pluralism, logical positivism, and others (Plaisance, 2011). Among many factors determining media ethics, increasing economic pressures have been crucial (Martin & Sounder, 2009). Many ethical theorists have scrutinized disputes between the economic interests of news media and the duty to serve society (Blevens, 1995). This has led to an advancement in different economic models of media ethics. The economic model of media ethics developed by Luna (1995) can be considered the benchmark. The study places ethical decisions by

the news industry on the supply-demand curve, where ethical behavior is quantifiable via a z-score ranking approach, as suggested by Whitlow & Tubergen (1987). The equilibrium is achieved when news organizations supply the exact amount of ethical behaviour as demanded by the consumer. In contrast, a shortage of ethical behavior in the model occurs when the consumer demands greater ethical behavior than the news organization is supplying, while a surplus results when the consumer is supplied greater ethical compliance than demanded.

Another study (Souder, 2010) proposes a new model of media ethics by integrating Adam Smith's free market theory and his system of moral reasoning. The conditions in the model's media system are analogous to that of the economic system, where wealth is substituted for information and the market of goods and services for the market of ideas. It demands the crucial role of moral obligations for maintaining the integrity of the system for anyone who wants to profit from it.

Similarly, many studies, although not providing an entire theoretical model of the economics of media ethics, are important. For instance, Jackson (2009) applies commodification theory to news whereby the clash of capitalistic and journalistic imperatives is synthesized to offer regulatory reforms and ensure ethical journalism. Another study (Blankenburg, 1995) suggests management's role in harnessing virtue to increase profits under a specific budgetary constraint.

Despite the burgeoning amount of literature on the subject, there has been little consensus on whether the ethics and profit motives of the media are directly associated or otherwise.

For example, Luna (1995), using her model of demand and supply of media ethics, argues that ethics can be used to prevent potential losses and increase profit in media. The disengagement of a particular news organization from its ethical foundations may result in a decreased audience, thereby decreasing revenue. Along with the monetary costs of ethical divergence, the firms face non-monetary

costs, including decreased reputation, autonomy, accountability, and effectiveness.

Similar findings are highlighted by another study (Vanacker & Belmas, 2009). Applying Meyer's influence model from Meyer (2009) suggests a positive correlation between journalistic excellence and economic success, thereby resulting in increased public trust in news media. According to them, owners of successful media organizations would continue to invest in important projects for the community, reinforcing the trust, ensuring the public's time, energy, money, and trust in their products.

A similar line of thought is advocated by Souder (2010), who argues that moral compliance maintains the integrity of the media system for anyone to profit from the system. With his model mentioned above, a system of the free press produces reliable and ethical market information as the market for goods and services creates wealth. In the same way, a study by Morant (2005) supports the strengthening capacity of ethics in the successful economic progress of a media organization. It is argued that corporate or private interests include only one segment of pluralistic democracy. Corporate influence and benefits, particularly in the context of media organizations become reliant on the aspirations and support of the served public thereby requiring the private benefits to be in due consideration of the public needs. This requires the media organizations to be ethical to ensure public support and a higher economic gain. The triad of profit, audience size, and credibility is emphasized as an operational criterion, thus limiting the existence of media organizations without ethical practices.

In contrast, a vast amount of literature exists, highlighting an indirect relationship between ethical compliance and economic incentives.

Jackson (2009) underpins the threat of commodification of news as mentioned above. Moral or ethical failure results when

journalism or other media products are treated as a commodity, ultimately seriously threatening democracy. The study claims that the public interest quality of a story of commercially produced news is often inversely related to consumer demand. With the amoral values of a free market and the moral agency of a free press regarded as incompatible, the research asks for regulatory mechanisms to check the predatory nature of the free market system in news media. Similarly, McManus (1922) highlighted the inability of news consumers to discern the quality of news. As a credence good, the problem of asymmetric information leads to market failure. Media organizations may opt for unethical practices to fulfill their pecuniary motives of profit maximization. Furthermore, McManus argues that the deterioration of the quality of news leads to negative externality. Market-oriented news stakeholders seek news with high entertainment value as these kinds lure large audiences and may result in larger profits.

Another study (Champlin & Knoedler, 2002) argues that the prime objective of the news in the age of media has been to enrich the corporate parent rather than stimulating the public debate. The demand for ratings pulls journalism toward the commercially lucrative features while also shirking away from risky and costly investigative studies. The same study reports a deliberate increase in soft news. A survey by the Pew Research Center in collaboration with Columbia Journalism Review (The Pew Center, 2000) with nearly 300 journalists and news executives found that more than one-third (35%) of respondents mentioned that news hurting the financial interests of a news organization often or sometimes goes unreported.

With multiple conflicting theses and theories in the literature on the economics of media ethics, this article aims to resolve this issue by offering a simple economic model of media ethics. This gap in the literature is what this paper aims to address, examining whether

ethical compliance in media organizations increases or decreases economic profits and thereby generating policy recommendations.

Model

For simplicity, news media—the central component of media—is used for analysis. Similar analysis can be used to analyze other components of media. Before proceeding to an economic model of news media ethics, it becomes necessary to state some assumptions for clarity.

1. **Nature of the news market:** The market is perfectly competitive with private ownership of news media with the primary objective of earning profits. Public ownership of media may demand a different scholarship outside this article's scope. In the news media market, as Souder (2010) discussed, informed citizens, a free press, democracy and information take the place of virtuous citizens, a free market, perfect liberty, and wealth, respectively. The case of information asymmetry, as pointed out by McManus (1992) in the context of news, is vital in determining the quality of the news as the quantity increases.
2. **Nature of the news as a commodity:** Although the news has been regarded as a contested commodity (Jackson, 2009) when left to the free market, it is realistic to consider news as a public good (Pickard, 2021). As a public good, news can be considered both nonexcludable and non-rival. The public good nature of news results in market failure due to negative externality as news organizations in quest of their private interests of profit-making, produce news with low public value, reducing the public welfare (McManus, 1992b).
3. **Nature of Demand:** In private ownership of news media, as McManus (1992) suggested, the probability of an event or issue becoming news is directly proportional to the expected appeal of the narrative to audiences advertisers will pay to reach. In

commercially produced news, the public interest quality of the news is often inversely related to consumer demand (Jackson, 2009). Generally, news products have been considered relatively elastic (Lacy, 1989). An increase in the price of the news product results in a similar decrement in the quantity demanded, as news is not a necessary commodity.

4. **Nature of Supply:** News production experiences substantial economies of scale, with the first copy of news costing a significant portion of the total cost. The average cost of producing news falls with an increased quantity produced (Ludwig, 2000).

Fig 1: Supply and Demand of news

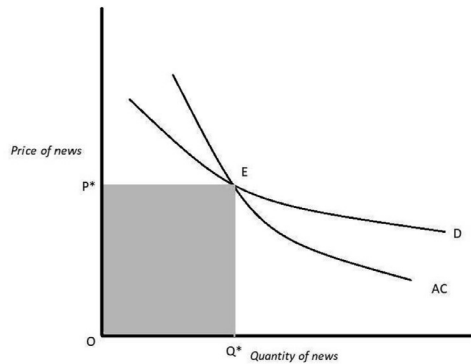
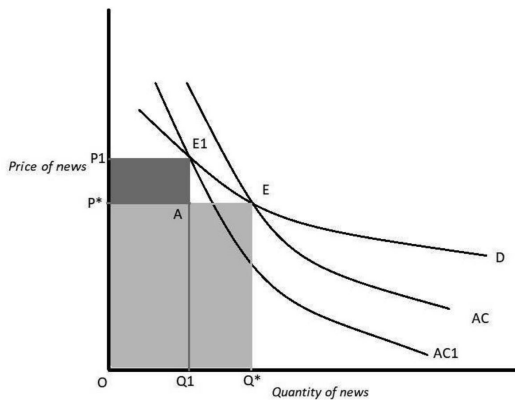


Figure 1 provides the supply and demand of news under the assumptions (1-4). The demand (D) and average cost(AC) curves intersect at the equilibrium (E). P^* provides the equilibrium price of the news under perfect competition, while Q^* gives the equilibrium quantity of news. Area ($P^* O Q^* E$) provides the revenue under the equilibrium condition E.

Under assumption 2 of public good, a negative externality is associated with the above market. This is why the news market produces more news than is socially optimal. Considering the social cost of news production, which includes ethical compliance as a

major aspect, the average cost curve(AC) shifts to the left to AC1, as shown in Figure 2 below. The quantification of ethics in news media is conceived as put forth by Luna (1995). Although we may not precisely calculate how much ethical compliance increases from AC to AC1, ethical compliance is undoubtedly higher in AC1 than in AC. The demand curve is assumed constant to facilitate static analysis (Mankiw, 2021, p. 190).

Fig 2: Supply and Demand of News with Social Cost



With the average cost shifting from AC to AC1 (social cost of producing the news), the equilibrium price increases to P1, and the equilibrium quantity decreases to Q1. Revenue is provided by (P1 O Q1 E1) in this situation. Whether it is greater than the initial market equilibrium depends on the relative area of (P1 P* A E1) and (A Q1 Q* E). With the nature of news as a commodity, the demand and supply curve, as stated in the assumptions, the latter area is greater than that of the initial one.

Thus, with higher ethical compliance, it can be found that private news organizations have to forgo a specific portion of the revenue (A Q1 Q* E - P1 P* A E1) than they would have earned without considering the social cost of producing news.

Discussion

The primary implication of the proposed economic model of media ethics concerns the quantity of news produced by private news organizations. Private news organizations tend to overproduce news due to the nature of news as a public good. When left free to the market, they face cut-throat competition, forcing them to produce any type of news at their disposal at low costs. On one hand, they attempt to compensate for the low cost of a piece of news by increasing the volume of similar news thereby causing excessive production. On the other hand, the tendency of each news organization to be the first to report every event of interest to the consumer leads to a large quantity of news.

The quality of news, as the quantity increases indiscriminately, is crucial. Although perfect competition gives rise to high-quality products at low cost, news products differ. As mentioned in Assumption 1, there exists a gap in knowledge regarding the quality of news between firms and consumers. This information asymmetry provides an advantage for the news media firms to cash on the ignorance of the consumers by offering them low-quality news in disguise. Moreover, a haphazard proliferation of news automatically reduces the incentive for news firms to consider quality along with ethical compliance in news-making practices. At the same time, as most of the revenue for news firms comes from advertisers, there is an unspoken executive contract in their favor exploiting the ethical capital for whatever reasons of their interest.

Multiple ailments in news media ensue due to excessive competition and commercialization, degrading the quality of news. When news media fall prey to specific vested political or business groups, also known as media capture, the tendency of fake and sensational news, conspiracy theories, defamation, and so on rises at the cost of ethics it should be complying with. Enormous technological advancement in online news and digital publishing

has further contributed to the multiplication of news portals with an undue mandate of producing any quantity of news at almost zero marginal cost. This has made discipline even more arduous in the new age of news media.

According to the second implication of the model, the revenue of news media decreases when the social cost of producing news (ethical compliance) is taken into account. Thus, examining whether the private news media becomes willing to incorporate the social cost and move their way towards more quality and ethical news becomes interesting. In other words, is the situation with ethical compliance achievable independently by the perfectly competitive private firms?

Without any incentives, no news media firms will increase their cost to produce a socially optimal quantity of news. For instance, if a private firm increases the cost to enhance its ethical compliance by recruiting a research and quality assurance team in their organization, its sales decrease, and so do the revenue and profits. This may lead to the shutting down of the firm in the long run when it regularly becomes unable to cover its costs.

However, the circumstances become different when incentives arise. Let's say the public values the quality of news stories of the firm and increases their demand, whatever the cost (relaxing assumption 3). The firm not only sustains but also experiences increased revenue and profits. This is what most researchers, including Luna (1995), argued in favor of ethical compliance increasing profits and revenue. But it can be tough to assume all public to be homogenous and behave in the same way in the presence of information asymmetry as discussed already.

Similarly, different legal and regulatory conditions, along with financial support from the government and community, can act as an incentive for the news firms to maintain ethical compliance and hence curtail the excessive production of news.

In other words, in a perfectly competitive news market, point E is a stable equilibrium, i.e. when left to the market forces, the private news market produces Q^* quantity of news at the price of P^* . However, as discussed above, Q^* is not a socially optimal quantity of news that can be reached in the presence of adequate incentives from the public, government, or community, which is one of the most important implications of the model. It should be noted that the socially optimal equilibrium is unstable, i.e. news market can remain at that point until the necessary incentives are available.

The ideas of the economic model of news media ethics can be employed in the case of other media as well, as long as they fulfil the stated assumptions. Now onwards, we will discuss the implications of the model in the purview of media as a whole. With the help of a purported economic model, the article claims first the need for public support of media organizations, second the alignment of incentives for their sustainability and last, a safety net to fall back on at times of crisis to ensure ethical production of media products.

Publicly supporting news media for varied reasons—quality assurance and ethical compliance is one of them—is not new. Many developed countries have different mechanisms to incentivise media to produce a socially optimal quantity of news with adequate ethical conformity. A study by Linnebank & and Nielson (2011) surveys public support for the media in six countries: Finland, France, Germany, Italy, the United Kingdom, and the United States. Some incentives include indirect subsidies to private firms using Value Added Tax (VAT) exemptions, reductions on single-copy sales, and subsidized postal rates.

Similarly, in his bachelor thesis, Hauksson (2012) presents a short overview of public support in six other countries: Sweden, Luxembourg, Switzerland, Belgium, Denmark, and Iceland. The study finds that VAT for newspapers and other media publications in Sweden is reduced to six percent from 25 percent (For general

goods). In addition, Sweden also has a provision of a twofold direct subsidy system, one on the basis of production and the other aimed at distribution. Other countries also have a similar set of public support systems ranging from direct and indirect subsidies to VAT exemptions primarily aimed at ensuring quality, diversity, plurality, and accountability in news media.

In addition to developing necessary conditions for producing a socially optimal quantity of news, incentives aimed toward publicly supporting media help their sustainability as well. Many media organizations, to produce quality and ethically sound news, may fail most of the time to ensure a critical mass of consumers or may not attract enough advertisers willing to fund the sort of news they are producing. Moreover, this also inhibits the opportunities for business and political collaboration which can be a major source of revenue for them. As a result, they are forced to shut down and leave the market which can be devastating for the social welfare as a whole. Thus, a minimum threshold of funds provided to each media organization – an example of public support– can prevent such closure. The modus operandi of the funding structure, whether through the government itself or a commission, can be the subject of another article. Besides, it also diminishes the need for any media organization to depend on external sources to produce news, making them more independent, accountable, and accessible.

Limitation

Although the model offers concluding arguments with strong policy recommendations about media ethics, it has a few limitations. It only models the behaviour of private media organizations with profit maximization as their primary objective. Last, it lacks an empirical model to test the potential hypotheses generated by the theoretical framework on which the researcher is currently working.

Conclusion

Media is always held as an essential pillar of democracy. However, extensive commercialization has made most of them like other businesses that seek profits rather than truth and ethics. This has raised a pertinent question of whether ethics is a tradeoff media organizations face in today's capitalistic market. As implied by the economic model of media ethics, necessary incentives or nudges are required to help media organizations produce a socially optimal quantity of news away from what the free market asks them to do. It also provides a cushion for independent media organizations to be sustainable without relying on any external funding sources. To sum up, media organizations are not inherently free and may get dissuaded from their heavenly task of informing democratic citizens, demanding a case of libertarian paternalism to persuade them to get back on track.

Prajjwal Dhungana is a senior-year undergraduate student of Economics at Kathmandu University School of Arts. He can be reached at prajjwaldhungana123@gmail.com.

References

- Blankenburg, W. B. (1995). Measuring Morality in Newspaper Management. *Journal of Mass Media Ethics*, 10(3), 147–153. 10.1207/s15327728jmme1003_2
- Blevens, F. (1995). Newspaper Monopolies: Profits and Morality in a Captive Market. *Journal of Mass Media Ethics*, 10(3), 133–146.
- Carlyle, T. (2013). *On Heroes, Hero-Worship, and the Heroic in History* (T. Carlyle, D. R. Sorensen, & B. E. Kinser, Eds.). Yale University Press.
- Champlin, D., & Knoedler, J. (2002). Operating in the Public Interest or in Pursuit of Private Profits? News in the Age of

- Media Consolidation. *Journal of Economic Issues*, 36(2), 459–468. 10.1080/00213624.2002.11506490
- Dolunay, A., Elyeli, K., & Kasap, F. (2022). Unethical Practices and Effects of Digital Journalism in the COVID-19 Era: The Case of TRNC. *SAGE Open*, 12(2). <https://doi.org/10.1177/21582440221085266>
- Hauksson, H. (2012). News Economics: How Property Rights and the Price Mechanism Influence Media Content. Department of Economics, University of Iceland School of Social Sciences.
- Jackson, P. T. (2009). News as a Contested Commodity: A Clash of Capitalist and Journalistic Imperatives. *Journal of Mass Media Ethics*, 24(2-3), 146–163.10.1080/08900520902905349
- “Journalism is a Public Good: World Trends in Freedom of Expression and Media Development Global Report” 2021/2022. (2022, March 18). The Communication Initiative Network. Retrieved November 30, 2022, from <https://www.comminet.com/global/content/journalism-public-good-world-trends-freedom-expression-and-media-development-global-repo>
- Lacy, S. (1989). A Model of Demand for News: Impact of Competition on Newspaper Content. *Journalism & Mass Communication Quarterly*, 66(1), 40–48. 10.1177/107769908906600105
- Linnebank, G., & Nielson, K. N. (2011). Public Support for the Media: A Six-Country Overview of Direct and Indirect Subsidies. Oxford: Reuters Institute for the Study of Journalism, University of Oxford.
- Ludwig, J. (2000). The Essential Economic Problem of the Media: Working Between Market Failure and Cross-Financing. *Journal of Media Economics*, 13(3), 187–200. 10.1207/S15327736ME1303_3

- Luna, A. (1995). An Economic Philosophy for Mass Media Ethics. *Journal of Mass Media Ethics*, 10(3), 154–166. doi:10.1207/s15327728jmme1003_3
- Mankiw, N. G. (2021). *Principles of Microeconomics*. Cengage Learning.
- Martin, H. J., & Sounder, L. (2009). Interdependence in Media Economics: Ethical Implications of the Economic Characteristics of News. *Journal of Mass Media Ethics: Exploring Questions of Media Morality*, 24(2-3), 127-145. 10.1080/08900520902885210
- McManus, J. H. (1992b). What Kind of Commodity is News? *Communication Research*, 19(6), 787-805.
- Meyer, P. (2009). *The Vanishing Newspaper: Saving Journalism in the Information Age* [2nd Ed]. University of Missouri Press.
- Meyers, C. (2016). Universals Without Absolutes: A Theory of Media Ethics. *Journal of Media Ethics*, 31(4), 198–214. 10.1080/23736992.2016.1220255
- Morant, B. D. (2005). The Endemic Reality of Media Ethics and Self-Restraint. *Notre Dame Journal of Law, Ethics & Public Policy*, 19(2), 595-636.
- Pickard, V. (2021, September 2). In the Digital Era, Journalism Should Be Considered a Public Good. Centre for International Governance Innovation. Retrieved November 30, 2022, from <https://www.cigionline.org/articles/in-the-digital-era-journalism-should-be-considered-a-public-good/>
- Plaisance, P. L. (2011). Moral Agency in Media: Toward a Model to Explore Key Components of Ethical Practice. *Journal of Mass Media Ethics*, 26(2), 96–113. 10.1080/08900523.2011.559800
- Primeaux, P., & Stieber, J. (1997). Managing Business Ethics and Opportunity Costs. *Journal of Business Ethics*, 16(8),

- 835–842. <http://www.jstor.org/stable/25072947>
- Self-Censorship: How Often and Why. (2000, April 30). Pew Research Center. Retrieved December 3, 2022, from <https://www.pewresearch.org/politics/2000/04/30/self-censorship-how-often-and-why/>
- Sen, A. (1999). *On Ethics and Economics*. Oxford University Press.
- Souder, L. (2010). A Free-market Model for Media Ethics: Adam Smith's Looking Glass. *Journal of Mass Media Ethics*, 25(1), 53–64. 10.1080/08900521003598488
- Unethical Business Practices and their Effects. (2022, August 1). Ivy panda. Retrieved November 30, 2022. <https://ivy panda.com/essays/unethical-business-practices-and-their-effects-term-paper/>
- Vanacker, B., & Belmas, G. (2009). Trust and the Economics of News. *Journal of Mass Media Ethics*, 24(2-3), 110-126. 10.1080/08900520902885277
- Whitlow, S., & Tubergen, N. V. (1987). Pattern of Ethical Decisions Among Investigative Reporters. *Mass Comm Review*, 6, 2-9.