

VOTER-FUNDED MEDIA:

GOVERNANCE REFORM FOR DEMOCRACIES AND CORPORATIONS

Mark Latham

April 14, 2007

Links updated 2009-08-16
(See www.votermedia.org/publications for future updates.)

Abstract

Media reform can help solve the voters' free-rider problem in democracies and corporations. Uninformed voters cannot hold elected leaders accountable. Letting voters allocate collective funds to competing media organizations would avoid the misaligned incentives that limit political effectiveness of existing private- and public-sector media. Integrating related research in corporate governance, campaign finance and media reform, this article argues for funding allocated by consensus vote, rather than by the voucher method more often proposed. Voter funding of media has recently been implemented for the first time, in a university student council election. It is designed to spread to larger democracies and corporations, to improve their policies and social impacts.

Mark Latham is a financial economist and founder of VoterMedia.org. Phone: (604) 608-9779; postal address: 1755 Robson Street #469, Vancouver, B.C., Canada V6G 3B7. Email: mark[at]votermedia.org. Thanks for helpful discussions with and comments from Mark Rubinstein, Andrew Eggers, Yves Tiberghien, James McRitchie, Randal Helten, the University of British Columbia Alma Mater Society 2006 Council and its Voter-Funded Media Committee, and participants in Stanford University Professor Ted Glasser's 2006 seminar on Freedom and Control of Communication.

CONTENTS

Introduction.....	4
1. Similar Published Proposals.....	5
1.1 Corporate Governance Reform.....	5
1.2 Political Campaign Finance Reform.....	9
1.3 Media Reform.....	10
2. Comparing Voter-Funded Media Designs.....	11
2.1 Incentive Problems with Independent Allocation of Collective Funds.....	11
2.2 Difficulty of Countering Incentives with Regulation.....	13
2.3 Benefits of Funding Infomediaries Rather Than Parties.....	14
2.4 Majority Hurdle Versus Lower Hurdles.....	15
3. Implementing Voter-Funded Media in Civic Politics.....	16
3.1 University Student Elections as a Starting Point.....	16
3.2 Spread to Larger Democracies.....	18
3.3 Continuous Voting and Monthly Tallies.....	18
3.4 How Much Should Voters Decide?.....	20
3.5 Supporting Deliberative Democracy	21
4. Economic Incentives of Journalism.....	22
4.1 Private Sector Media Shortcomings.....	23
4.2 Public Sector Media Shortcomings.....	24
4.3 Voter-Funded Media Advantages.....	26
4.3.1 Many Organizations Lack Voter Information.....	26
4.3.2 Voters Would Be Able to Discern Media Quality.....	27
4.3.3 Voters Would Fund Socially Valuable Media.....	29
4.3.4 Media Would Compete to Serve Broad Voter Interests.....	30
5. Conclusion.....	31

Introduction

The voters' free-rider problem, also called the rational ignorance problem, causes many dysfunctions in widely held corporations (where investors vote their shares) (Monks & Minow, 2004) and democratic governments (where citizens get one vote each) (Lohmann, 1998). Because voting is a collective decision process, each voter lacks the private incentive to make the socially optimal amount of effort to become informed about candidates and issues. As a result, we elect suboptimal representatives (corporate directors and politicians) who often make decisions harmful to voter interests, especially when they can favor themselves or special interests allied to themselves.

Corporate directors and CEOs may overpay themselves, obstruct value-enhancing mergers, boost short-term profits at the expense of long-term returns, conceal bad performance, approve related-party transactions that drain value from the firm, and permit environmental, social and political harm that their own shareowners would oppose. Politicians may conceal bad performance, make our tax system wastefully complex, award government contracts to their supporters, favor some companies or industries with subsidies or tariff barriers, pursue short-sighted foreign policy, and avoid tackling messy problems until the costs of postponing become large and obvious.

In the wide range of ideas for reducing this collective agency problem, a few authors have proposed letting voters allocate collectively owned funds to pay for improved voter information. This article summarizes those proposals in Part 1, then compares their strengths and weaknesses in Part 2. Part 3 develops a new proposal for voter-directed funding of information in civic politics, along with a step-by-step agenda for implementation, which has already begun. Part 4 explains why the proposed system will provide the economic incentive needed to increase the quality and quantity of public-interest journalism.

1. Similar Published Proposals

Table 1.
Representative Publications

Authors	Year	Field	% Consensus Required	Collective Funds Paid To
Adamany & Agree	1975	Political Campaign Finance	0%	Political candidates
Baums & von Randow	1995	Corporate Governance	5%	Stock-voting agents
Latham	1997	Corporate Governance	50%	Director-nominating agents
Baker (cited in McChesney)	1999	Media Reform	0%	Nonprofit news media
Latham	1999	Corporate Governance	50%	Stock-voting advisors
Ackerman & Ayres	2002	Political Campaign Finance	0%	Political candidates, parties, PACs etc.
Choi & Fisch	2003	Corporate Governance	0%	Stock-voting advisors, analysts etc.
Canadian Parliament	2004	Political Campaign Finance	2%	Political parties

1.1. Corporate Governance Reform

Baums & von Randow (1995) proposed a market for share voting services, to help investors in large, publicly held corporations. In this design, professional agents not only add information to the voting process but also cast votes on behalf of shareowners. Key features are that shareowners vote to choose among competing agents, and pay with their collectively owned corporate funds [*italics are from the original article, not added here*]:

“Voting agents offer their services to the corporation and declare the prices they intend to charge for their services. Eligible as voting agents are auditors and

auditing companies only. Any business links between the voting agents and the corporation and/or shareholders of the corporation are prohibited by law. ...

- ... The voting agents will be elected for a certain period of time. After each period – say, three years – there will be a new election. In this election the incumbent voting agents are not allowed to represent shareholders. Moreover, a term limit prohibits reelection of a voting agent for more than two consecutive terms. After such a break, however, voting agents are free to campaign for a new election.
- ... In corporations that are listed on a stock exchange there may be no more than three (3) voting agents at a time...
- In order to be elected, *voting agents need to get at least 5 percent of the votes cast or votes representing more than DM 500,000 [about US\$350,000] of the nominal equity capital of the corporation.*
- *The voting agents represent all shareholders except those who attend the general meeting during their tenure or are represented by a person that has been given specific instructions or a special proxy. ...*
- *The voting agents declare in advance how they plan to decide the issues of the general meeting's agenda. ...*
- *The voting agents cast votes of nonactive shareholders according to their success in the election.* Thus, if two voting agents have been elected, and voting agent A received 40 percent of the votes, while voting agent B got 20 percent, A represents two-thirds and voting agent B one-third of the inactive shareholders in the general meeting. Shareholders, of course, are free to choose whether to attend the general meeting, let third parties decide on specific instructions, or to rely on the voting agent.
- *The voting agents are paid by the corporation.*
- *Voting agents will be supervised by a regulatory authority."*

(Baums & von Randow, 1995, pp. 451-452)

Note that each agent receiving enough votes to get hired, is paid the fixed price it had declared, regardless of how many votes it received.

This proposal was tucked away in the last few pages of a World Bank book on transitional economies, although it is primarily relevant for firms with widely dispersed share ownership as in the USA. It has received scant attention since publication in 1995. Even though its first author (Baums) chaired the 2001 German Government Panel on Corporate Governance, the resulting

recommendations did not include the proposal (Baums, 2001).¹ Professor Baums explained to me that while he still believes the idea is valid, it was just one of his many ideas for improving corporate governance, and has found little or no support among other experts in the field.

Likewise focusing on the governance of large widely held firms, several interrelated reform proposals were developed by Latham (1997; 1998; 1999a; 1999b; 2000; 2003; 2007). Among the features they all share is a new type of informational intermediary (“infomediary”) paid with corporate funds and selected by majority shareowner vote. Infomediary candidates would nominate themselves, paying an entry fee to discourage frivolous applicants. Relatively ignorant shareowners would find it easier to choose among competing infomediaries than among competing director candidates, because there would only be perhaps ten or twenty infomediaries in the USA compared with thousands of directors. The entire financial community could thus summarize and communicate information about quality through the brand reputation of each infomediary. Improved monitoring would encourage CEOs to better serve shareowner interests, thus enhancing share values and reducing short-termism. The exact role, functions and powers of these infomediaries could be expected to evolve through time. These proposed reforms could develop in existing securities markets, requiring no new laws or regulations. Shareowners could make them happen by simply voting in their own interests, replacing boards of directors if necessary to implement new corporate bylaws.

In the original version of the above design, shareowners of each company would vote to hire a single infomediary for the key function of nominating directors.² To provide the best nominees, infomediaries would monitor director performance, thus encouraging director loyalty to shareowners. This contrasts with the current practice of directors nominating directors, with its obvious conflicts of interest and lack of connection to owners. Even if regulatory reform were to give shareowners full access to the ballot for their director nominees, the free-rider problem would still limit the effectiveness of such a mechanism. Monitoring and choosing candidates take time, money and expertise, as does voting intelligently among competing candidates. The brand reputation of infomediaries paid with corporate funds solves this collective action problem.

A subsequent design variation would allow shareowners of each corporation to vote to hire multiple infomediaries (instead of just one), who would provide voting advice (instead of nominating directors) (Latham, 1999b; 2000; 2003; 2007). This follows the Baums and von Randow (1995) design, where voting advice is the crucial element, and multiple infomediaries at the same client firm can provide valuable competition. Merely giving advice is a less aggressive reform than nominating directors, so it should be easier to attract support for implementation. The power to nominate could be added later. The established reputation of ISS (Institutional Shareholder Services) provides a reassuring prototype for an independent proxy advisor. Note

¹ The proposal is likewise absent from the subsequent implementation, *German Corporate Governance Code*, www.corporate-governance-code.de/index-e.html.

² Latham (1997, 1998, 1999a). In this design where a single infomediary is to be elected from among several competing self-nominated candidates, shareowners should use a majoritarian voting system to prevent vote-splitting. Each shareowner ranks the infomediary candidates, indicating first, second, third choice and so on. The winner is the candidate preferred by a majority in every two-way race against each other candidate. Rare but theoretically possible three-way ties are decided by a method such as “ranked pairs”, www.condorcet.org/rp.

however that ISS is currently paid by each investor rather than with corporate funds, so the free-rider problem limits its funding in our existing system. Instead of Baums and von Randow's threshold of 5% voting support and a maximum of three infomediaries, Latham chose a majority (50%) threshold in a separate yes/no vote on each candidate. Given modern systems for electronic proxy voting without attending shareowner meetings, these agents need not actually cast ballots on behalf of owners. All investors can see the advice of all infomediaries, and follow whichever they choose.

Diversified investors have a much stronger incentive than CEOs to balance profit maximization against social goals, so these proposed monitoring mechanisms would encourage such balance by giving shareowners more power (Latham, 1998; 2003; 2007). Such social impacts include corporate influence on politics.

One possible reason for manager opposition to employee representation on boards is that it would reduce management autonomy, even though it could improve productivity, increasing the firm's value to the benefit of shareowners. So if infomediaries can make managers act in the interests of shareowners, this could lead to greater employee empowerment, including board representation (Latham, 1999a).

The infomediary system described above is designed for firms with no controlling shareowner. But if one investor owns a controlling stake (typical in Hong Kong, for example), the design could be adapted to allow minority shareowners to hire a monitoring agency to protect their interests (Latham, 1999b).

An intermediate step toward this brand reputation system for company-paid proxy advisors could be built on the recent shift toward voting stock via the internet. Individual investors could be empowered to vote their stock via the internet by simply copying the voting decisions of institutional investors or other advisors with strong reputations. Convenient access to these competing brands would also make feasible the proposal to pass voting rights through institutions to individual beneficial owners. This would reduce institutional investors' conflicts of interest in voting stock (Latham, 2000). The potential for these developments is heightened by the new (August 2004) SEC requirement for American mutual funds to disclose their stock voting decisions. The tension between disclosure and confidentiality of voting provides a further reason for passing voting rights through to individuals (Latham, 2007).

Voting in corporations and voting in civic politics have enough features in common (notably the free-rider problem) that a shared framework can be developed for infomediaries to facilitate voting (Latham, 2003). Corporate monitoring intermediaries could reduce some negative corporate externalities, including pollution and political corruption. They could eventually compete with political parties for brand reputation.

Although Latham's proposals are designed to benefit shareowners, most shareowners have not supported them in proxy votes at ten American corporations so far.³ This may be partly because the professionals involved in voting most U.S. stock are reluctant to support restructuring of the stock voting business (Latham, 2007). Thus although voter-funded media designs for

³ See Shareowner Proposal Campaigns, at votermedia.org/proposals.

corporations have been developed and published since 1995, they have received little attention in academic and business circles, and no implementation.

1.2 Political Campaign Finance Reform

Based on U.S. Senator Lee Metcalf's 1966 proposal for federal voucher funding of presidential election campaigns, Adamany & Agree (1975) proposed a system for financing campaigns for President, Senate and House of Representatives. Their goal was to counterbalance large private donations to political campaigns, which often seem to influence politicians to favor narrow special interests at the expense of broader public interests. Allocation of funds by voters would avoid the potential self-serving biases of allocation by a bureaucracy appointed by politicians. Ten weeks before an election, each voter would receive three vouchers, one for each electoral office. Voters would then send the vouchers to the candidates they wish to support financially. Candidates would get federal funding in proportion to the number of vouchers received from voters, with a cap of 38% of all vouchers submitted for a given race. In addition, contributions of up to \$100 per individual donor would receive a two-for-one matching federal grant.

Updating and expanding the approach of Adamany & Agree, Ackerman & Ayres (2002) proposed letting each American voter allocate \$50 of public funds to political candidates of her choosing, in each four-year national election cycle. (This more recent book, denoted "A&A," is used as the representative of this general class of reform strategies in discussions below.) Voters could direct funds to specific candidates, or to organizations like political parties and political action committees (PACs) who would then choose which candidates to fund. These organizations could serve the brand reputation role emphasized in the Latham articles discussed above, reducing the voters' need for detailed information about specific candidates. To reduce corruption, campaign contributions would be anonymous (donor identity unknown to the receiver), both for the publicly funded \$50 and for private donations.

Choi & Fisch (2003) ("C&F" below) adapt A&A's design to solve the free-rider problem faced by corporate shareowners when voting their stock and monitoring management. Regulators would collect from all publicly traded firms mandatory fees "determined by a formula based on factors related to the benefits intermediaries may provide" such as "issuer size, market capitalization, and total number of shareholders" (p.318). Each shareowner would then be allocated vouchers equal to her proportionate share of the fee levied from each firm in her portfolio. She could spend these vouchers on "registered investment intermediaries (RIIs)" that provide information benefits to shareowners (p. 324). RIIs would offer such services as proxy voting advice and security analysis (but not auditing services). There is no specific requirement that RIIs serve the firms from which a shareowners' voucher fees were levied, but presumably shareowners would allocate vouchers to RIIs that benefit those firms which they own.

Not one of the voter information system designs described so far in this article has yet been implemented anywhere. But several countries (including Germany, Belgium and Denmark) provide public funding for political campaigns based on the number of votes received in the previous election. This conveniently piggybacks the fund allocation vote onto the candidate election vote. If you vote to elect a candidate, then presumably you would favor funding that candidate's political party.

In a recent implementation, Canadians voted on June 28, 2004 in a federal election under a new law that pays public funds to political parties in proportion to the number of votes received.⁴ The federal government pays each party \$1.75 per year for each vote cast for that party's candidates in the 2004 election. The payments are made annually until the next federal election.

This Canadian funding system evolved from a series of campaign finance reforms designed to enhance the diffuse influence of individual citizens, while reducing the concentrated influence of larger special-interest organizations. Thus campaign contributions by corporations and unions are now all but prohibited, individual contributions are limited to \$5000 per year, and small individual donations (up to \$400 per year) receive a generous 75% tax credit. The \$1.75 federal funding rate was calculated to replace the overall amount of campaign funds lost to these new restrictions, while increasing the effective political voice of each voter.

To prevent possible abuses, and to limit public funding to serious participants in the political process, Canadian legislators imposed several minimum conditions. To qualify for funds, a party must receive at least 2% of all votes nationwide or at least 5% of all votes in those ridings (electoral districts) where they ran candidates. Parties must also be registered with Canada's Chief Electoral Officer, a procedure intended to facilitate informed voting, but with one controversial requirement: a minimum number of candidates running for election. For many years the minimum was 50 candidates, and in 1993 several parties were deregistered for nominating fewer than 50. However, in June 2003 the Supreme Court of Canada ruled this condition unconstitutional, so now a party can be registered with as few as one single candidate.⁵

1.3 Media Reform

Similar public interest reasoning for funding voter information has led to this proposal:

“One proposal, for example, by economist Dean Baker, would allow any American to deduct \$100 from his or her federal income taxes and give it instead to any tax-exempt nonprofit outlet that meets existing IRS standards. This would provide a massive public subsidy, but it would not favor a particular point of view and would be independent of political control. ... We mention Baker's proposal not because it is necessarily the one we should adopt, but rather because it is a visionary way to begin thinking about methods to reorganize the media system to take advantage of emerging technologies and to promote democratic values. It is a discussion we desperately need to have in this nation.”⁶

⁴ See *Bill C-24: An Act to Amend the Canada Elections Act and the Income Tax Act (Political Financing)*, www.parl.gc.ca/common/bills_ls.asp?Parl=37&Ses=2&ls=c24. The web page includes an informative background, description and analysis paper for the legislation, prepared by Parliament staff. See also Steven Chase, “Your vote is worth \$1.75 for the party you choose”, *The Globe and Mail*, May 22, 2004.

⁵ See *Bill C-3: An Act to Amend the Canada Elections Act*, www.parl.gc.ca/common/Bills_ls.asp?Parl=37&Ses=3&ls=C3; and accompanying background paper.

⁶ For an earlier version, see McChesney (1999, pp. 305-306). A tax credit is like a voucher, although limited to taxpayers; citizens who pay no taxes would not qualify.

(Nichols & McChesney, 2005, pp.190-191)

Relative strengths and weaknesses of the above systems are explored in Part 2 below.

2. Comparing Voter-Funded Media Designs

The various infomediary systems described in Part 1 above differ primarily in the degree of voter consensus required to approve each allocation of collective funds. With some simplification, Latham's designs require 50% voter approval, Baums and von Randow call for a minimum 5%, and Canada's new campaign finance law demands 2%, while Ackerman-Ayers (A&A), Choi-Fisch (C&F) and Baker require nothing (0%) since they allow each voter to allocate funds independently. The discussion below focuses on the effects of changing the percentage approval requirement. For the sharpest distinction, Latham's 50% is first contrasted with A&A and C&F's 0%, and intermediate levels are considered later. There has been little critical discussion of the Baker proposal in the literature, but it suffers shortcomings similar to those of A&A described below. Following this Part's general arguments for the majority vote requirement, Part 3 below spells out in more detail how such a feature can be implemented in a sequence of civic democracies of increasing size and complexity. Part 4 discusses the potential impacts of this reform on the quality of journalism, in comparison with other media reform approaches. The designs which simply fund political parties according to how many votes they receive are not discussed in depth here. They lack the additional check and balance benefits of proposals that allow voters to allocate funds in a separate decision.

Several other design differences are logically connected to the approval threshold. Notably, a 50% vote requirement would not make sense for public funding of political campaigns, because at most one strongest party would get money. A majority consensus threshold could be considered, however, for infomediaries that are independent of political parties and candidates. Publicly funded organizations could, for example, do investigative news reporting and public policy analysis.

In both civic and corporate contexts, voters have difficulty knowing which way to vote. A&A see civic voters being snowed by a blizzard of campaign spending, much of it funded by special interests. Their antidote is voter-directed public funding of campaigns which should remove much of the special-interest bias. C&F and Latham see investor-voters lacking information and analysis, and emphasize the free-rider problem – voters' lack of private incentive to spend time or money gaining such insight. Thus they advocate group funding of organizations to provide information and analysis. Voter control of the funding should help keep the analysis objective. Likewise Baker sees voters lacking independent insight into political candidates and their policies. I will argue below that majority-vote funding of infomediaries is an attractive design not only for corporate governance, but also for civic politics.

2.1 Incentive Problems with Independent Allocation of Collective Funds

Latham's collective funding scheme differs from those of A&A, C&F and Baker in requiring a majority vote to approve each allocation of funds, whereas they allow each voter to allocate her own share of funds independently. This high majority-vote hurdle reduces the risk of diverting

collective funds toward the narrow private interests of each voter. A&A and C&F believe this risk can be sufficiently controlled by law and regulatory enforcement. However, the pervasive private incentive to divert funds can lead voters to find many subtle ways of benefiting themselves individually at the group's expense. When it comes to pursuing our personal interests, we humans are notoriously creative.

In the A&A design, voters and regulators would be condemned to an endless game of hide and seek, of cops and robbers. Early moves in the game are for any voter to allocate her portion of collective funds directly to her own pocket, for example by pretending to run for office. Regulators counter by outlawing that, or making sure there are significant fixed costs for running. Next she allocates her portion to her friends, and that is in turn prohibited or hindered. Then to candidates or groups who happen to provide benefits only to her, or to a small group including her. And so on.

For example, your friend could run for senator, take you and fourteen other friends out to dinner as his "campaign", then lose the election. Knowing this plan, it is in your personal interest to donate your \$15 (A&A's allocation for senate races) to that campaign fund, even though A&A's anonymity design lets you falsely claim to have donated. This is because your donation adds \$1 to your share of the dinner budget, compared to an infinitesimal private benefit if you donate to a broad-based political campaign. Perhaps most of us are not so venal; yet it would be galling to watch a venal minority feasting on our largesse. Regulatory monitoring could limit such blatant corruption, but not its more subtle political analog: a pervasive incentive to donate to narrower interest groups rather than supporting moderate consensus-based agendas with broad public benefit. (The Baker proposal for tax credits directed by individuals to nonprofit media would suffer from the same natural selfish tendency to direct public funds toward narrow interests.)

A&A worry about such incentive problems: "A Ralph Nader or a Pat Buchanan will... have an extra incentive to become a declared candidate to obtain public funding. ... Moreover, expanding the voucher to include all 'First Amendment' communications has problems of its own. Your bowling league or church might start a pseudo-First Amendment organization to raise money for its next social event" (p. 258, note 16). Ferejohn's (2003, p. 702) critique of A&A raises a similar concern: "Proxy organizations, I imagine, would tend to be ideologically motivated single-interest groups more focused on the pursuit of discrete ideological objectives than on creating broad-based support for candidates capable of effectively governing."

Professional commentators are likewise skeptical of Canada's \$1.75-per-vote-per-year funding of political parties. These include politicians:

"Members [of parliament] voiced their concern over the reduction of the candidate minimum to one, fearing that this low threshold would allow organizations that are not serious about participating in the political process to raise money and issue tax receipts."⁷

And political scientists:

⁷ *Bill C-3: An Act to Amend the Canada Elections Act*, background paper, www.parl.gc.ca/common/Bills_ls.asp?Parl=37&Ses=3&ls=C3.

‘Critics say the amendments will spawn parties that don't genuinely intend to participate in the political process, and point out the legislation's sloppy notion of "political party."'

It's a definition "through which you could drive not a truck but a convoy of Mack trucks," said Nelson Wiseman, a University of Toronto political scientist.

The changes will encourage parties to form along special interest lines, said Mr. Wiseman, who cited possibilities such as the "gun" and "pro-choice" parties.

Those parties would then be eligible for public subsidies through new campaign finance legislation brought in earlier this year.’⁸

Whereas A&A limit public funding strictly to candidates for political office (some channeled through intermediaries), C&F aim to fund a broader array of group-interest functions performed by various agents for investors voting their shares in corporations. This more open design forces C&F to worry more about how group funds might get diverted to private ends. Corruption incentives are also increased by the concentration of share ownership, which puts far more group voucher funds in the hands of some investors than does A&A's democratic Patriot dollar allocation. Thus C&F cite the danger that “[a]n intermediary might rebate a portion of the funding that it receives to shareholders, particularly institutional investors, in exchange for the allocation of voucher dollars to that intermediary” (p. 333). To prevent this, they discuss regulatory strategies including disclosure and A&A-style donor anonymity.

But here again, regulators would face an uphill battle against pervasive private incentives. For example, suppose a large institutional investor holds a widely diversified portfolio, owning less than 1% of the stock of many companies plus a large stake in a few, say 40% of those few firms' stock. There would be an incentive for specialized intermediaries to appear, that provide services benefiting only those few firms. This institutional investor could spend all its vouchers on such specialized intermediaries, capturing 40% of the benefit. In firms where they own less than 1%, they would free-ride on the other shareowners. Notice that anonymity would not remove such incentives.

2.2 Difficulty of Countering Incentives with Regulation

Regulators would be left with the uncomfortable choice of wasteful permissiveness or expensive and intrusive enforcement. If they choose enforcement, they would have to decide which agents are appropriately providing services in the public interest. Voter autonomy would then be lost, leaving us dependent on the dysfunctional political process that chooses and monitors our regulators.

Thus in both A&A's civic and C&F's corporate designs, regulators would in effect be running around trying to prevent a million drops of water from flowing downhill. Instead, requiring a majority vote to approve each payment of public funds would remove most, though not quite all the opportunity to divert them toward narrower private interests.⁹ A “tyranny of the majority” is still theoretically possible if 51% of the voters can find a way to spend the group's money for

⁸ Nicholas Kohler, “Definition of 'party' has critics edgy”, *The National Post*, June 14, 2004.

their own benefit, thus exploiting the other 49%. But the financial incentive to do so is far less than under individual allocation, and coordinating the 51% is a practical obstacle except for highly concentrated shareowners. Moreover, Latham's design allows for funding multiple infomediaries, each funded by the votes of a different majority coalition, so minority interests can find expression by forming coalitions.

2.3 Benefits of Funding Infomediaries Rather Than Parties

Brand reputation of political parties and other organizations is a valuable guide for voter decisions. A&A point out the reputational information role of organizations: "How are relatively uninformed citizens to identify the best ways of funding the process of deliberation? When faced with this question, it is perfectly sensible for a responsible citizen to respond: 'At the present time, I'm not informed enough to say which candidate I will finally support. But I am informed enough to say which organization I trust'" (p.71). But they recognize that our existing information systems guiding voters are still lacking: "When a voter casts her final ballot, she may not be very well informed – but she is as informed as she is going to get" (p. 71).

Once we consider the possibility of public funding for independent infomediaries instead of (or in addition to) political parties and candidates, we can see substantial potential advantages. They would have less bias and conflict of interest, being paid only to inform voters, whereas parties and candidates want to be elected and have many powers and functions if elected. As an explicitly money-making organization rather than a vehicle for political candidates, an infomediary may have a greater incentive than a political party to invest in its long-term reputation for serving voter interests.

As human organizations, these new infomediaries would necessarily be imperfect, with some percentage of errors, some corruption, some incompetence, and some lack of effort. Their brand reputations assessed by the political community would never be entirely accurate. Nonetheless, this new component would add a professional independent source of information to our democratic processes, thus serving as an additional check and balance in our political system, answerable directly to the voters. Voters would fund multiple infomediaries to check and balance each other.

Publicly financed infomediaries would in effect take over some of the role of political parties, by providing brand name guidance to help voters select political representatives. They would reduce the need for political campaign financing. There would be greater ease of entry for new infomediaries than for new political parties, thus more competition to serve voter interests. This competition to make money by providing services (information) desired by a mass market might elicit longer term brand quality reputations, like those in the private sector. Somehow the brand competitions between IBM and Dell, and between General Motors and Toyota, seem to serve the people's interests better than the competition between Republicans and Democrats.

⁹ Allocating public funds by voting would be anonymous because voting is anonymous. This prevents corruption via vote-selling, just as A&A's anonymity requirement prevents corruption via selling your \$50 voucher.

Political parties emphasize conflicting interests, and thrive by pitting one group of citizens against another. Instead, funding by majority vote would push the new infomediaries toward emphasizing common interests and building consensus views. Such an evolution may help cure the American political malaise bemoaned by Halstead & Lind (2001, pp. 1-2): "...our Democratic and Republican parties have failed the two most important tests of American politics: the ability to unite a majority of citizens in a lasting coalition, and the ability to find workable solutions to the problems of our era. Our nation's politics are dominated by two feuding dinosaurs that have outlived the world in which they evolved. ...both parties have been captured by their own extremes and special interests, which prevent them from promoting majority views across a wide range of issues"

American voters have mixed views on public funding for political campaigns.¹⁰ Perhaps they will take a more favorable view of funding infomediaries answerable directly to voters.

2.4 Majority Hurdle Versus Lower Hurdles

Requiring majority approval allows us to relax the regulations on what kind of organization can qualify for public funding, opening the door to any kind of information service that most voters find beneficial. As with investor-voters, one can also imagine civic voters giving majority support for funding information analysis organizations that are less partisan than the PACs funded in A&A's design. Any threshold less than a majority would risk dividing our publicly funded infomediaries into two disjoint warring camps, each preaching its own biases to its own choir – Michael Moore on one side, Rush Limbaugh on the other.¹¹ This could leave little common ground in the center, but instead a no-man's-land – much like our current political battleground. A majority vote hurdle would both require and reinforce infomediary brand reputations for serving broad public interests.

Is 50% voting support too restrictive a requirement? We would lose the appealing feature of A&A, C&F and Baker's designs, which "let a thousand flowers bloom" by funding the wide variety of ideas and information supported by each voter's independent allocation of group funds. Trading off this benefit against the danger of diverting funds to narrow interests, perhaps we will find that a compromise is best, such as the 5% minimum vote requirement in Baums and von Randow or the 2% minimum in Canada's new campaign finance laws. But even a limited number of funded infomediaries are each likely to include a variety of views, since voters should recognize that such diversity is in the public interest.

In such a complex interactive behavioral system as democracy, ultimately we will find a good tradeoff by trial and error in actual implementation. In principle it should be easier to build voter support for a majority-approval system than for a lower percentage hurdle. Majority is a more restrictive condition, so the innovation would be more moderate, a less aggressive change. The

¹⁰ See, e.g., *Return of Votes for Massachusetts State Election*, November 5, 2002, pp. 53-54, www.sec.state.ma.us/ele/elepdf/2002rov.pdf.

¹¹ For a striking illustration of "preaching to the choir" and the lack of consensus-building in American public opinion, see the statistics on Moore and Limbaugh audiences in "Fahrenheit 9/11 Viewers and Limbaugh Listeners", *National Annenberg Election Survey*, August 3, 2004 press release, www.annenbergpublicpolicycenter.org/naes/2004_03_fahrenheit_08-03_pr.pdf.

main consensus group of citizens would retain more control of funding, so should expect it to serve their interests. The threshold could be gradually lowered later if that seems beneficial.

3. Implementing Voter-Funded Media in Civic Politics

There are substantial obstacles to implementing voter-funded media (“VFM” below): it is a new, relatively unknown idea, it costs money, and would upset established power structures. Its beneficiaries (voters) are unaware of the potential benefits, and their elected leaders would lose some power and autonomy. These factors have so far prevented any implementation in corporations.

The larger the democracy, the harder it is for citizens to understand the issues at stake when they vote, and thus the greater potential benefit from publicly funded infomediaries. We can reasonably expect this benefit to grow more than proportionally, so that even as a percentage of the economy it increases with the size of the democratic community. Conversely, the elected leaders of a 50-person democracy are typically known personally to all voters, and have little scope for abusing power. Such a small democracy would not need the information system proposed here.

3.1 University Student Elections as a Starting Point

In terms of size and openness to new ideas, a university-wide student council election may be the ideal first VFM implementation. Students have little vested interest in the status quo, and enjoy exploring ways to change the world. But even they may be reluctant to try an untested innovation in their political system, given its cost and possible resistance from incumbents elected without this innovation.

A likely strategy to overcome resistance is for a public-spirited sponsor to foot the bill, rather than waiting for funding approval from internal sources. In August 2006 I proposed to sponsor VFM in the annual elections for the University of British Columbia’s (UBC) campus-wide student Alma Mater Society (AMS). The incumbent council accepted, so the world’s first implementation took place in their next election, in January 2007. What follows is a brief report of that experience; further details and subsequent developments are presented at www.votermedia.org.

UBC has 45,000 students. In a typical election, only about 10% of them vote. The annual AMS budget is (Canadian) \$11 million.¹² The five main AMS executive officers are chosen by campus-wide election each January. They are paid positions, earning about \$21,000 per year. Decision authority rests with a 40-odd member Council, which includes those five officers and student representatives elected by the various campus departments at various times.

AMS Council created a committee to work with me on specifying exactly how VFM would be implemented. Several design changes evolved during that consultation. In my earlier designs for

¹² See www.ams.ubc.ca/budget. *The Ubyyssey* newspaper is funded by a separate annual \$5 fee per student, plus advertising revenue.

corporate shareowners, I had proposed that advisors be selected by vote, and then advise on voting decisions in the subsequent year. For student elections however, I recommended that competing advisors be invited to give voting advice first, in the hope of pleasing voters enough to be selected and paid afterward. Thus voting in the officer election, and voting to choose and reward voting advisors (media), would take place at the same time on the same ballot. It became a media competition or contest, with cash awards.

We agreed on an \$8,000 award pool, which I paid to the AMS in November 2006. We sliced the pool into eight prizes, from a \$1500 first prize to a \$500 eighth prize. There was an entry fee of \$100, mainly to discourage marginal entries who might overtax voters' and electoral candidates' time. Any individual, group or organization could enter except for electoral candidates and election officials. Entrants did not even need to be associated with UBC.

We feared that a majority vote requirement might be dauntingly high for this first implementation. Voters might not realize that they should support several competing media simultaneously, and media might not enter the contest if their chance of getting a prize were too low. Furthermore, the existing software for UBC student voting was relatively inflexible, and it seemed best to stay with familiar voting options. Therefore we created just one checkbox for each media contestant, and let students check as many or as few as desired. First prize went to the contestant with the most votes, second prize to the second most, and so on. This would still encourage media to appeal to as many voters as possible (in contrast to the incentives of a voucher system). And it virtually ensured that the entire \$8,000 pool would be given out.

To avoid government control of the media, there was no screening of entrants other than the \$100 entry fee. The media were not required to do anything; they could try to win votes any way they wished. It was announced as a media competition to encourage coverage of AMS issues, of electoral candidates, and of the other media. But students could vote any way they wanted. The media contestants were listed on a central web page (www.ams.ubc.ca/elections/vfm.html) with a link to each contestant's website (if any).

The contest should ideally have been launched several months before the election, to give media contestants time to build their reputations among voters. But negotiation, approval and other preparations took so long that we ended up launching in early January 2007, just three weeks before the election. Nonetheless, the students and I felt it worthwhile to go ahead.

The competition attracted thirteen media entrants. Voting results and links to their content are available at votermedia.org/ubc/Contestants2006-2007.html. Following the election, the student committee gathered feedback from many participants and reported back to AMS Council on the impacts of VFM (votermedia.org/misc/2007UBCVFMCommitteeReport.pdf). The contest brought forth some excellent new media, offering considerable breadth and depth of coverage of election issues and candidates. Media participation raised the level of debate among candidates.

Media award voting seemed to be influenced first by name recognition, then by election coverage, then by promotion (especially in print).¹³ Three of the top four award winners had existed as print publications for one or more years before the contest. The weblog *Elections*

¹³ See <http://votermedia.blogspot.com/2007/02/multifactor-analysis-of-ubc-vfm-votes.html> for a subjective assessment of these factors.

Insider (<http://ubcinsiders.blogspot.com/>), widely considered to have the best election coverage, only won seventh prize. Also disappointing was the contest's apparent lack of impact on overall voter turnout. These shortcomings may be attributable to the short three-week lead time. Thus the committee report recommended repeating the contest in the coming year, but launching in September 2007, five months before the election.

3.2 Spread to Larger Democracies

Judging the success of voter funding for media will depend primarily on subjective assessments, especially for the first few implementations. The main goal is to improve government, but how do you measure the quality of a student council? We can look at some superficial indicators from the elections, such as voter turnout, number of award contestants and the distribution of award allocations. Only after well over ten implementations could some statistical measures of government quality become significant, such as average budget deficit, budget growth, re-election rates etc.

A poll or referendum could assess voters' subjective impressions and support of VFM. If participants' and observers' impressions are broadly positive, voter funding of media could soon spread to other universities and to off-campus elections. Early adopters may include organizations with many student members and/or idealistic goals, such as alumni associations, outdoor equipment coops, credit unions, environmental groups and labor unions. From there, the path would lead via municipal and regional elections toward the principal goals – reforming our national governments and our multinational corporations.

Early implementations are likely to be sponsored by individuals or organizations with the goal of supporting an innovative enhancement of democracy. Only after its value to voters has been demonstrated can we expect to see enough political will to fund this mechanism internally, from tax dollars, student society funds, or corporate funds in the case of shareowner voting.

3.3 Continuous Voting and Monthly Tallies

For university student elections, an annual vote to allocate funds to infomediaries may be sufficient. But if this system spreads to larger and more complex democracies, it may become worth the trouble to build a more frequently adjustable funds voting system.

We can maximize timing control by frequent (e.g. monthly) payments of public funds to organizations, where citizens can change their votes at any time. Suppose there is a two-year voting cycle for electing national political representatives. You would cast your funding votes at the same time as your electoral votes. But the polling booths for funding would stay open year-round, so you can change your vote in response to new information about each organization. You vote by logging onto an electronic terminal, identifying yourself so that your previous vote can be deleted when you vote anew. In effect there is a monthly poll, but your vote stays constant until you change it, for up to two years. With this continuous feedback system, organizations would see their funding respond promptly to changes in their reputations.¹⁴

¹⁴ Electronic voting terminals could let us grant more open access. For example, we could let organizations pay any amount of application fee they choose. The resulting potentially endless

Continuous voting helps solve the coordination problem: you might want to vote differently depending on how others vote. For example, you may have a view on how many organizations should be funded, preferring a greater number for diversity of views or a smaller number for economies of scale. You can express this view better in your voting if you know how many (and which) organizations most voters are supporting. Because voting will change only gradually from one month to the next, you can look at last month's results when deciding your vote this month. (There would be a bigger change on the biennial elections days however, when many more citizens revise their funding votes.)

While the potential array of powerful and flexible voting design options is attractive, we must offer a design simple enough for most voters to understand and use without time-consuming study. (More sophisticated designs could be offered as options, especially if we use electronic voting terminals.) As with political parties and personal computers, individuals can only be expected to keep track of the reputations of a limited number of brands. Citizens will only vote to fund infomediaries with reputations that they can remember. So for example, let us suppose that in a large democracy only five infomediaries are currently funded, and that the hurdles to ballot access are set high enough that about fifteen contestants qualify. What might a ballot look like?

Especially if we have continuous voting with frequent (e.g. monthly) tallies, it will be helpful for voters if we show on the ballot how much funding each infomediary received in the previous tally. Voters can subjectively judge whether we have been receiving enough valuable information for the money spent, and vote for a higher or lower amount accordingly. The hypothetical numbers below are annual rates in millions of dollars, so monthly payments would be 1/12 of these. For voter convenience they are sorted in diminishing order, and contestants that have not yet received a majority show their percentage of positive funding votes.

list of applicants paying zero could be sorted in any way voters prefer. Voters could be offered a choice of ballot designs, with features like sorting organizations by how much fee they paid, how much funding they received last month, how quickly their funding votes have been growing etc.

Table 2.
Sample Ballot: National Media Funding

Infomediary Name	Previous % Vote	Previous \$mm/year	Your Vote \$mm/year
UBS	> 50%	90	
VBS	> 50%	75	
WBS	> 50%	65	
XBS	> 50%	50	
YBS	> 50%	35	
ZBS	40%	0	
TBS	33%	0	
SBS	25%	0	
RBS	15%	0	
NBS	11%	0	
MBS	9%	0	
LBS	5%	0	
KBS	new	0	
JBS	new	0	
IBS ¹⁵	new	0	

In this suggested ballot design, you vote by entering your desired funding level for each infomediary. You enter 0 for infomediarities you don't want to fund, and leave blank those for which you have no opinion. Each media entrant then receives its *median* voted amount.¹⁶

3.4 How Much Should Voters Decide?

Just as with allocating campaign finance vouchers, it is a difficult and subjective decision for voters to choose funding levels for media organizations. However, it is also a difficult and subjective decision to choose the next President of the USA, and we routinely ask voters to do that. The question here is whether the long-term reputation of competing infomediarities, determined by widespread discussion and debate, will guide voters to fund information that will help them choose our leaders more intelligently.¹⁷

¹⁵ These infomediary names suggest television broadcasting systems, but some organizations are likely to specialize differently. For example, they might do only investigative journalism or public policy research, and pass their information along to other media for dissemination.

¹⁶ Note that the median would win a majority vote against any alternative amount.

¹⁷ As a system for many participants to process a mass of information and form a consensus, voting for funding levels would resemble a stock market. The consensus number is the level that equalizes buyers and sellers, those who think the number should be higher and those who think it should be lower. Each participant has only a small amount of information compared to the wealth of information reflected in the consensus. So when you are deciding which way to vote, it may

Although the design proposed here involves voting on funding levels, it need not be considered a form of direct democracy. Rather, it is an enhanced form of representative democracy, in which voters choose infomediaries to investigate political issues in more detail than citizens have time to do themselves. Thus infomediaries represent voters in performing this complex investigation process. They would compete with political parties in building brand reputations for guiding citizens on which political candidates to vote for. Such competition should benefit voters, and would improve the prospects for independent candidates.

How much would we need to regulate these publicly financed organizations? How should they be allowed to use the funds? What accounting reports should they file? Must they prove their independence from potentially corrupting influences? I argue that the majority vote requirement plus monitoring of media by media will make most types of regulation unnecessary. In order to receive funds month after month, organizations will have to convince a majority of citizens that they are getting more benefit than the cost, and more benefit than with competitors. In order to win the trust of enough voters, they will voluntarily publish detailed information about their use of funds, their activities, their political and business relationships. To be most convincing, they should subject themselves to a regime of financial penalties for any falsehoods detected in their disclosures. Some regulatory oversight may be desirable, but it should be weighed against the danger of undermining this check-and-balance mechanism.

While this media funding system is designed to serve voters' information needs, if no regulation limits the use of funds we might wonder what other uses, good or bad, might end up being served. This new channel for funding public interest efforts could compete with the channels we already have – our governments. Given that we already have professionals (politicians, bureaucrats) making detailed decisions for us on how to allocate public money, why should we burden voters with any such decisions? Perhaps the only funding decisions voters would choose to undertake are those for which politicians and bureaucrats face the sharpest conflict of interest: evaluation of their own quality and performance.¹⁸ Such evaluations can provide a safety check on all public spending by government, so this may be the only function that needs to be funded via direct citizen voting.

3.5 Supporting Deliberative Democracy

simplify your decision to use the consensus as a reference point, and narrow your focus to only the information you have that may not be well reflected in it. Another simplifying factor is that you only really have to decide whether to vote higher or lower than the current median consensus. Since the amount of your influence is fixed at one vote, and the median will change only slowly, it doesn't matter how far above or below the median your vote is. Of course, if over time the median moves significantly, then what will matter is whether your vote is above or below the new median; so to keep from having to revise your vote, you should try to estimate what funding level you think is best. Like stock market prices, consensus funding levels would not reflect true value perfectly; but it would be hard for any individual (or committee) to estimate true values more accurately and dependably.

¹⁸ Politicians also face sharp conflicts of interest in designing and implementing political system reforms, so voters might choose to fund intermediaries that propose and monitor such reforms.

A large and growing literature has developed a range of political reform proposals broadly termed “deliberative democracy” (Gastil & Levine, 2005; Ackerman & Fishkin, 2004). Like voter-funded media, this movement aims to make political leaders more accountable and loyal to citizens. Its main proposals are broader citizen participation in public policy deliberations, and random selection of representatives to deliberative assemblies of limited term and scope. Broader deliberation would educate voters and monitor leaders’ performance more closely. Randomly selected representatives would not be corrupted by the campaign finance and media spin distortions that pervade electoral politics.

Eliminating agency conflicts from our large complex power structures is so difficult that neither of these two very different approaches – voter-funded media and deliberative democracy – would completely solve the problem on its own. Rather, they can reinforce each other in pursuit of the common goal. To get the most benefit from deliberative democracy, we need media with strong incentives to serve the public interest, which voter funding aims to provide. Effective deliberation should be based on accurate unbiased in-depth information. Whether as a basis for broad debate by all citizens or focused debate by random representatives, voter-funded media could supply insight that enables participants to reach informed consensus decisions.

Public-interest media would help voters recognize the desirability of deliberative democracy proposals, even though entrenched powers (such as political parties) may selfishly oppose these innovations. This need was clearly illustrated in May 2005, when voter approval of the British Columbia Citizens’ Assembly’s electoral reform recommendation fell just short of the 60% required for implementation. Many observers considered that the voters did not sufficiently understand the merits of the proposed electoral system and of the deliberative process that generated it.¹⁹

Deliberative systems could improve the consensus assessments of media quality needed for a voter-funded media system to function effectively. To enhance their reputations for generating insight that serves the public interest, media organizations could sponsor deliberative groups. Recognizing the public benefit of both reform strategies, these media could recommend greater use of deliberative democracy, and conversely citizens’ assemblies could recommend voter funding systems.

4. Economic Incentives of Journalism

Although much of the early voter-funded media research was directed toward enhancing corporate financial efficiency, it has led here to a political prescription for improving the quality of journalism by majority vote funding. This Part outlines the reasons why we can expect this proposed system to improve upon the political journalism provided by existing private sector and public sector news media.

¹⁹ <http://en.wikipedia.org/wiki/BC-STV>: “...establishing STV constituency boundaries may provide the public with a critical piece of information that was missing at the time of the referendum.”

4.1 Private Sector Media Shortcomings

Private sector media are driven by consumers' willingness to spend money on subscription fees and time watching (or listening to) advertising. The following simplified model can help focus the analysis on a few major factors. Let us define three categories of media content:

- a) "Entertainment" – Here I will use this term to include not only entertainment, but more broadly, content providing a direct personal benefit to the media consumer. So this category would also include such practical information as weather and traffic reports.
- b) Political News – Information that helps citizens vote in their own interests. This is distinct from political advertising, which is in category (c) below. Of course this distinction is difficult to discern, but for now let us consider them distinct in principle. The practical difficulty of distinguishing them is addressed in Section 4.3 below.
- c) Advertising – Some is to sell products and services to consumers; some is political advertising to persuade people to vote a certain way.

I will couch the discussion in terms of television, but similar principles apply to other media.

Consumers are willing to pay for entertainment, but are not very willing to pay for political news. This is because of the voters' free-rider problem. High quality political news is a collective benefit that each of us is unwilling to pay for individually (Sunstein, 1993, pp. 68-71). Voting is a collective decision process, with the same incentive problem as a collective farm. Those who work harder (spending extra time or money to be better informed) get no more benefit from it than those who do not. So no one wants to work harder, and we all suffer as a result.

Even though everyone wants to be part of a well-informed society, when we each make our own choice of which channel to watch, we naturally prefer entertainment over political insight. So private sector media give us entertainment. Urging citizens to demand more public interest journalism, and urging journalists and media firms to provide it, are like urging workers on a collective farm to work harder – an uphill battle; not a complete waste of time, but there must be a better way.

This analysis would thus predict that our media will be dominated by entertainment and advertising (since mixing in advertising is a common way to pay for media content). Indeed, even our news shows have substantial components of entertainment and (political) advertising. Stories about celebrities, violent crimes and sex crimes have entertainment value far beyond any public interest for voters, so they tend to lead news programs. The commercial need to entertain likewise degrades the style of what political coverage we do receive:

"The tendencies to emphasize drama, conflict and personalities over in-depth discussions of policies and their implications are easily identified in the coverage of virtually every [Canadian] federal and provincial campaign of the last generation. Given the competitive commercial imperatives of most news media, requiring them to deliver audiences to their advertiser, and so ensure that they entertain as well as inform, the extent to which politics has become a kind of modern-day blood sport is probably not so surprising."

(Graydon & Mitchell, 1998, p. 62)

Similarly, renowned investigative reporter Lowell Bergman complained:

“...all the networks, including CNN, were laying people off, closing foreign bureaus, moving to entertainment-style programming, trying to compete with FOX News and what I call ‘food fight television,’ and pushing off the screen more serious, in-depth reporting. The rationale behind it was ratings and money.”²⁰

The lack of consumer incentive to support public-interest nonpartisan political news leaves private sector media open to other stronger incentives. The U.S. government has especially deep pockets, extensive powers, and a great interest in influencing public opinion. Recent examples of deploying this power to sway the media include paying “journalists” to write pro-government stories, and providing military protection and valuable front-row seats for Iraq war coverage to reporters writing positive accounts.²¹

Such influence tilts U.S. news coverage away from informing citizens and toward pro-government spin – in other words, political advertising masquerading as news. A free and independent press is a critical check and balance needed in any democracy. Cooperation between the government and private sector media is a serious threat to democratic systems:

“...the media system has been set up to serve the interests of those who make the policies behind closed doors – large profit-driven media corporations – while the broad and vital interests of the population have been largely neglected. This system has contributed to a political crisis of the highest magnitude and unless it is confronted directly will severely limit our ability to make progress on any of the other major social and political problems that face the nation.”

(McChesney, 2004, p. 18)

4.2 Public Sector Media Shortcomings

Information for voting is a public good, so it makes sense to pay for it with public funds, as we do for other public goods like national defense. Thus the Public Broadcasting System (PBS) in the USA, the CBC in Canada, and the BBC in the UK are supported from national tax revenues. Recognizing the dangers of government influence on news media, these public funding systems try to insulate media management from politicians. But politician involvement in budget

²⁰ Lowell Bergman, *The Media & the War on Terrorism*, speech to the Commonwealth Club, January 9, 2002, www.commonwealthclub.org/archive/02/02-01bergman-speech.html.

²¹ “Armstrong Williams received \$240,000 to pump up the White House’s education policies under the guise of being a credible journalist. Two other reporters, Michael McManus and Maggie Gallagher, were also paid under the table to do the White House bidding.” (Nichols & McChesney, 2005, pp. 51-52); “... those embedded reporters who wrote negatively about the military found themselves blacklisted. Moreover, to be an unembedded journalist in Iraq was a very risky proposition, and the death rate for journalists was striking from both Iraqi insurgents and U.S. military forces alike.” (ibid., p. 62)

approval and/or management appointments continues to undermine the independence and effectiveness of public media.²² The danger of political pressure on public broadcasting is sharpened by the private sector media's lobbying power over politicians (Layton, 2004).

The same inherent conflict of interest would undermine any possible benefit from using government power to pressure private sector media for more public interest programming. Nonetheless, some reformers advocate such an approach:

“In 1950, the FCC [Federal Communications Commission] put out an order concerning who was qualified to hold a license to broadcast and said that a commercial station itself “must be operated as if owned by the public.... It is as if a community should own a station and turn it over to the best man in sight with this injunction. ‘Manage this station in our interests.’ ” The standing of every station that is a licensee at the time is determined by that conception, and the Supreme Court, in one decision, said that it's the right of the viewers, not the right of the broadcasters, which is paramount. Hopefully, in reaction to what happened on September 11, those rules will have more effect and we will have better in-depth coverage in the future and we won't have to ask ‘why?’ so much.”²³

Would the agents entrusted with this power to influence the media exercise it intelligently and loyally in the public interest? Might a regulator find that a TV station's criticism of U.S. foreign policy is not in the public interest? Who is going to select and monitor these agents?

Recognizing the importance of how those who control media funding are selected, the organization Citizens for Independent Public Broadcasting spells this out in some detail in their proposal for a \$1 billion Public Broadcasting Trust (PBT):

“The PBT would have nine members with appointments made by representatives of the public broadcasting community (3), educational community (3) and

²² Konz (2005, p. 1): “Our review also found evidence that suggests ‘political tests’ were a major criteria used by the former Chairman in recruiting a President/Chief Executive Officer (CEO) for CPB [the USA's Corporation for Public Broadcasting], which violated statutory prohibitions against such practices.”; Fulford (1998, p.21): “The [Canadian] government, in the name of cost-cutting, has severely curtailed CBC Television and Radio, raising the suspicion that official Ottawa (whether headed by Liberals or Conservatives) resents the independence of the CBC journalists and seeks to curb their influence.”; McChesney (2004, p. 245): “When PBS broadcast muckraking programs such as 1970's *Banks and the Poor*, it sent some politicians into a tizzy. President Nixon vetoed the public broadcasting budget authorization in 1972 to express his displeasure. ... PBS eventually did get its funding, but with it public broadcasters got a clear message: be careful in the coverage of political and social issues and expect resistance if you proceed outside the political boundaries that exist in commercial broadcast journalism.”

²³ See Bergman, footnote 20 above. A protest movement is developing to fill this accountability vacuum; strategies include petitioning to revoke licenses of radio stations deemed lacking in public service, e.g. www.media-alliance.org/index.php?topic=-accountability. A more comprehensive and systematic strategy could be to auction licenses and let voters allocate some of the resulting funds to public interest media.

President's Commission on the Arts and Humanities (2). The PBT Managing Director would be the ninth member, selected by the original eight board members. All members would serve staggered six-year terms. Participants in the nominating process would include representatives of public television and radio stations, independent producers, and associations for school administrators, teachers, academics, librarians, and school boards.

One half of the PBT's funds would go into commissioning, producing, and distributing programs as part of a national service to local stations. The national television service would be administered through a Television Program Department, itself divided into a Division of News and Public Affairs and a Division of Cultural and Educational Programming.

This programming, with funds for promotion, would be offered to local public stations free-of-charge. Thus, the Department would provide for a daily in-depth news program, documentaries, specials and coverage of special events as well as arts, entertainment, dramatic, and children's programming. Consistent with the unique mission of public broadcasting, there would be a premium on public affairs and cutting edge artistic presentations in prime time.”²⁴

Defining a system for selecting overseers that will be independent of politicians is a positive step. But if the resulting public information system is to become politically influential (as intended), we must expect pressures and conflicts in all parts of the control process. We should not only keep corrupt influences out, but also build in accountability to voter interests. The myth of the independent bureaucrat in public policy parallels the myth of the independent director in corporate governance. Independence is hard to define, hard to achieve, and not the ideal goal anyway – more important may be *dependence* on voter interests.²⁵

For any media funding design, we must ask what incentives the media organizations will have. Will they get paid more if they do a great job? If so, who assesses their performance, and by what standards? If not, what other motivations do we expect them to have?

4.3 Voter-Funded Media Advantages

4.3.1 *Many Organizations Lack Voter Information*

Sections 4.1 and 4.2 above show why we can be sure voters generally lack information. Economic theory demonstrates that the free-rider problem deprives private sector media of the incentive necessary for providing public-interest information. Agency conflicts of interest

²⁴ *The CIPB Proposal for a Public Broadcasting Trust*, www.cipbonline.org/trustMain.htm. See also *A New Standard: Building a Public Broadcasting System That Deserves Public Support*, April 28, 2005, www.freepress.net/docs/pbs_report.pdf. See also Rendall & Hart (2005).

²⁵ Bebchuk & Fried (2004, p. 207): “We should make directors not only more independent of executives but also less independent of shareholders. ... Making directors dependent on shareholders could counter some of the factors that incline directors to pursue their own interests or those of executives rather than serve shareholders.”

hamper public sector media. And media observers confirm that indeed we lack the investigative reporting needed to support effective democracies. Continual corruption scandals in politics and corporate management provide further confirmation.

As a thumbnail example for illustrations below, let us say there are cases where information with a social value of \$10 could be produced at a cost of \$5. In a typical democracy with over 1000 voters, an individual will not pay the \$5 because she would personally receive less than one-thousandth of the \$10 benefit – less than a penny. But the \$10-for-\$5 is a profit opportunity that could fuel successful intermediation given the right institutional structure.

Although the amount of information available from such sources as the internet has grown exponentially, quantity is no substitute for quality. Given the limited time available to most voters, the fact that the “right” information was out there somewhere (e.g. an early indication that candidate X is corrupt) does not give voters a practical means of finding and trusting that information. Voters need news media (and policy research institutions) with established reputations for accuracy, depth of insight, and loyalty to the public interest.

Lack of voter information is widespread across organizations – national, regional and municipal governments, corporations, associations and so on. Any group with elected leaders, more than one thousand voters, and significant complex interests at stake, will have similar free-rider and other agency problems. Media reformers often focus on national politics, but smaller democratic organizations suffer even more from a lack of public-interest media coverage.²⁶

Voter-funded media systems will take particular advantage of this abundance of diverse opportunities for improving voter information. We can choose the most promising organizations for the first trial implementations – perhaps university student council elections, as suggested in Section 3.1 above. We can experiment with different designs for voter funding of media in different democracies, speeding the evolution of ever improving systems. And most importantly, such a plentiful array of organizations will provide a large statistical sample of voter-funded media performance, enabling voting communities to assess more accurate reputations of each media organization’s quality.

4.3.2 Voters Would Be Able to Discern Media Quality

Allocating media funds by majority vote avoids the corruption risk of bureaucratic allocation systems like the CIPB proposal in Section 4.2 above. But would voters allocate funds effectively? Several prominent researchers, reviewed in Part 1 above, believe that voters are capable of directing public funds to informational intermediaries in ways that would serve the public interest. Next we analyse voter capabilities and incentives in the specific context of the proposal for majority-vote funding.

In any democratic system, intelligent voting requires some time and effort. Given the free-rider problem, it is difficult for standard economic theory to explain the effort people already

²⁶ E.g. Carolynne Burkholder (November 17, 2005), Big time TV news ignoring municipal election, *The Thunderbird*, www.tojr.ca/index.php/?weblog/more/big_time_tv_news_ignoring_municipal_election/.

contribute to voting. This Section will therefore treat it as a “black box”, adopting as a baseline the amount of time voters spend in our existing systems, and argue that they can use it more effectively in a voter-funded media system.²⁷

Note that the time needed to physically go and vote is a small fraction of the time required to vote with any intelligence (as opposed to voting randomly). Clearly there is no point in voting unless you have thought at least a little about the relative merits of the different choices. So we can be sure that most voters now spend some time and effort thinking before they cast a ballot. Likewise, the time required is not measured by the number of boxes a voter must fill in. It is greatly affected by the quality (trustworthiness, expertise) of the information that citizens process before voting.

In existing democratic systems, citizens get political information from various sources – newspapers, TV channels, radio stations, websites, friends and so on. One source will often contradict another, so each voter decides how much weight of credibility or allegiance to give each source. The proposed voter funding system would invite some new media to join this mix in the hope of being voted some revenue. If some of these media offer new information with positive social value, would voters reward them?

For this proposed scheme to work, voters would have to give some attention to the new media, discern which of them are credible and useful, vote them public funds, and make use of the new information in electoral voting. The crucial device making all this possible for the typical busy non-expert voter is media brand reputation.

Brand reputation summarizes information about the quality of a product or service, based on many consumers’ experience and often on expert assessments. For example, you can easily learn that Toyota makes dependable cars, without having to test them yourself. Especially for complex products like cars and personal computers, reputation is a vital time-saving guide for non-expert consumers. Likewise, political news is too complex for most citizens to assess its quality on their own, so they will depend on the reputation of each news organization to help them decide which to fund and which to trust.

Existing media have reputations already, but because their economic incentives do not encourage them effectively, they do not provide enough public-interest political insight. They tend to have reputations for being entertaining and/or partisan rather than insightful.

Especially with complex products that take time to show their quality (or lack thereof), to build its reputation a producing organization should grow large and be in business for years. So new voter-funded media will have some disadvantage until they have established a track record. However, smaller democracies like university student associations are particularly underserved by existing news media, so would provide an easy initial setting to prove the value of voter funding. In time, serving an array of associations, municipalities, and corporations would give voter-funded media a broad résumé that conventional news media could not match.

²⁷ But by the way, although this Section’s arguments do not depend on it, the empowerment afforded by voter-funded media could increase voter turnout and the amount of time people will spend on voting.

The explicit group decision process of voting to fund media would focus the political community's attention on comparing the social value of the available news organizations. Media competing for public funds would check each other's stories for accuracy. Indeed, some may specialize in advising voters on how much to fund each information provider, leaving the main electoral voting advice function to other competitors.

Thus we can expect that these new media reputations will be rapidly developed, based on a wide range of information, and easily available to voters. As with automobile manufacturer reputations, they will communicate multiple features of interest. For media, these might include trustworthiness, depth, breadth, left-right slant, and regional or policy field specializations. Reputations are never perfectly accurate reflections of reality. But the more accurate they are, the more effectively voters will be able to fund the types of media they want.

4.3.3 Voters Would Fund Socially Valuable Media

If there is some socially valuable information not provided by existing media, if new media are offering to provide such information given voter funding, and if voters can discern the quality of such media by their reputations, would voters then actually vote the necessary funds? Yes, for the same reason that voters normally support public financing of various other public goods: benefit outweighs tax cost for most voters.

Recall the thumbnail example in subsection 4.3.1 above, where an individual citizen is rationally unwilling to pay \$5 for information with a social value of \$10, since that benefit is shared with over 1000 fellow citizens and her personal benefit is less than 1 cent. Instead, suppose she now has the option to vote yes or no on a proposal to tax every citizen \$5 and fund information with a social value of \$10 per citizen. The benefits are still shared by all, but there is no free-rider problem here, since either everyone will pay or no one will pay. If the vote passes, this voter will pay \$5 and receive \$10 in benefit. So she rationally votes in favor.

In contrast with private sector media, the type of information this mechanism would fund is political investigative reporting, which benefits all citizens, as opposed to entertainment which benefits only those watching it. It is rational to be unwilling to pay as an individual for a public good, but to be willing to vote for everyone to pay for it. So the same citizens who buy *People* magazine at the checkout stand will vote public funds for serious investigative reporting.²⁸

Of course we cannot realistically expect unanimous voting. There will be a range of opinion on the value of each media organization. Given also the need for multiple news sources to check and balance each other, we should develop voting rules and habits that would fund various competing media. A separate yes-no majority vote on each funding applicant gives voters this capability.

People would still watch entertainment TV. But those who intend to vote would briefly review the more serious information provided by media with strong public-interest reputations.²⁹ Voters

²⁸ Reaction to the Clinton-Lewinsky scandal showed that voters can and do distinguish between "infotainment" and politically important news. Clinton's job approval ratings remained high throughout the scandal (http://en.wikipedia.org/wiki/Bill_Clinton#Public_approval).

will be engaged in the process of determining media reputations. If you vote funding to an information provider, it is because you think their insight is worth having and using.³⁰

4.3.4 Media Would Compete to Serve Broad Voter Interests

If you fund it, they will come. A new source of media funding (majority vote) would induce profit-seeking organizations to try to get a piece of it.³¹ This innovation would benefit voters to the extent that they are able to accurately discern media quality by reputation, as discussed above. But it also depends on the degree of competition among these new media. Note first of all that conventional private and public sector media would continue to exist, so the creation of voter-funded media would increase overall media competition.

The growing consolidation of private sector media in recent decades, especially in the USA, has caused justifiable concern as to whether such a trend is in the public interest (Copps, 2005). The voters' need for reputation as a guide to quality would tend to push the new funded media toward a large organizational size, raising similar concerns about lack of competition. But several factors can be expected to limit concentration here.

A citizen's incentives as a private-sector media consumer are fundamentally different from that same citizen's incentives for voting public funds to new media. For the same reasons that we can expect someone to buy *People* magazine while voting funds for serious investigative reporting, we can also expect her to be selfishly indifferent to media concentration as a private consumer, while being selfishly sensitive to it as a voter. In the individual private transaction, direct impacts outweigh the very diffuse community-wide effect. In the collective public transaction, there are only community-wide effects, with both the tax payment and the benefit of information shared by all.

Media concentration is a relatively easy concept for voters to understand and observe. Funds awarded by vote would be publicly announced. Especially for complex and controversial political insight, most people recognize the value of multiple sources that can debate and check each other. As we can see from such products as cars and personal computers, consumers can learn enough about six or more brand reputations to keep the providers competing on quality and price.

The wide range of electorates that can be served by voter-funded media (government, associations, corporations etc.) provide a much broader and more varied playing field for competition than the narrower scope of existing media. We don't expect conventional media to cover corporate director elections in enough detail to help voters make their choices, nor to cover

²⁹ The internet may be a more effective medium than TV for providing serious political insight when each voter is ready to receive it.

³⁰ McChesney (2004, p. 249): "...public broadcasting, rather than being a paternalistic enterprise that ignores public wishes, is actually capable of generating a democratic relationship with the audience..."

³¹ Nonprofits too could be attracted to the honey pot, and voters would take any differences in motivation into account when allocating funds as they see fit.

election candidates in credit unions, professional associations, coops and labor unions. Some new media could cut their teeth in smaller electoral communities, then gradually compete in larger arenas as they build reputation. Some would specialize by gaining expertise in one type of electorate or geographical location, while others would try to succeed as generalists.

Not all of the incentives felt by voter-funded media would be positive, however. As with our existing news media, there would inevitably be some biases, even bribery or other corruption. But the new funding source would add an incentive for media to build reputations for serving the public interest, so we can expect them to produce better information. It would not be surprising to see at least one new infomediary that is left-leaning, and at least one right-leaning. But they would have to show enough balance to attract some moderate voters, which partisan media now need not. This is a key advantage of majority vote rather than voucher systems, which would end up financing more partisan media. Public funding could also shift voting patterns gradually away from voting by party and toward voting by infomediary endorsement, thus becoming less partisan and more based on long-run broad voter interests.

Competition for voter funding would encourage infomediaries to find new ways of serving the public interest. They could serve as a conduit for the public to reward whistleblowers. More broadly, they would have a strong incentive to invest in their long-term reputation, for being seen years in the future as having provided valuable insight to voters even when conventional wisdom disagreed at the time. This is because voters would have a mechanism and the incentive to reward such behavior by paying for such trusted advice for years to come. This mechanism is lacking in our current media system.

5. Conclusion

This article proposes that voters should allocate collectively owned funds to organizations (media) that provide information on how to vote better. This can be implemented in democracies of any size, and in corporations with shareowners who elect directors. By reducing the voters' free-rider problem, monitoring by voter-funded media promises to give our political and business leaders more incentive to serve voter interests.

Requiring 50% voter approval for each funding allocation would protect against diversion of group funds to narrow interests, and reduce the need for regulation of infomediaries. The ballot design can let each voter specify her desired funding amount for each infomediary applicant. Each applicant would then receive its median voted amount. Experimentation and years of social learning experience will eventually help us choose among the wide range of possible variations on this initial proposed design.

Implementation of voter funding for media will face substantial initial hurdles: voter unfamiliarity, politician resistance and lack of established media reputations in this new role. To overcome these, this article advocates applying the idea first to elections on a university campus, funded by a sponsor promoting democratic reform. Indeed, this has already begun at the University of British Columbia in January 2007. Evidence of benefits in campus elections can then sustain the spread of this innovation to larger political groups, eventually to national

governments and multinational corporations. Once voters taste the power of funding news media loyal to their interests, they may demand it wherever they vote.

The process of voting to fund infomediaries will focus our society more on serious discussion and evaluation of media quality. As with computer makers' reputations, the consensus forming process would give emphasis to expert commentators, informing the average voter as to which news sources are more broadly respected. Still depending on subjective judgments and limited by voter apathy, the system would be far from perfect. But we can experiment to find the best ways of deploying this new financial incentive for media to serve voter interests.

This one innovation may solve problems heretofore addressed in three arenas: media reform, political campaign finance reform and corporate governance reform. It would increase the economic incentive for investigative reporting. It would counterbalance the influence of special interest money and lobbying on politicians. And it would create independent professional monitors of corporate director performance. It could trigger further evolution of political system designs, and facilitate the creation of new types of organizations that do not now exist because of coordination costs. One can only speculate on what the latter may include – perhaps a global software consumers union?

With global pressures rising, improving our modes of large-scale human cooperation has become an urgent and vital necessity. This proposal's most important contribution could be to reduce international tension. A better informed citizenry should be less susceptible to nationalism, whether innate or induced by nationalistic propaganda, a common tool for leaders to increase their support. Especially because the infomediaries proposed here are likely to be international in scope, staff and voter clientele, they will tend to get voters in different countries "on the same page" in their assessments of international disputes. By reducing corruption in democratic systems, this reform can also make democracy a more effective and appealing alternative for countries that have not yet chosen to become democratic.

References

- Adamany, David and George Agree (1975). *Political Money: A Strategy for Campaign Financing in America*. Baltimore, MD: Johns Hopkins University Press.
- Ackerman, Bruce and Ian Ayres (2002). *Voting with Dollars: A New Paradigm for Campaign Finance*. New Haven, CT: Yale University Press.
- Ackerman, Bruce and James Fishkin (2004). *Deliberation Day*. New Haven, CT: Yale University Press.
- Baums, Theodor (Ed.) (2001). German Government Panel on Corporate Governance. In *Bericht der Regierungskommission Corporate Governance*. Koeln: Verlag. (Summary translation: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=290583.)
- Baums, Theodor and Philipp von Randow (1995). Shareholder Voting and Corporate Governance: The German Experience and a New Approach. In Masahiko Aoki and Hyung-Ki Kim (Eds.) *Corporate Governance in Transitional Economies: Insider Control and the Role of Banks*, 435-458. Washington, DC: The World Bank.
- Bebchuk, Lucian and Jesse Fried (2004). *Pay Without Performance: The Unfulfilled Promise of Executive Compensation*. Cambridge, MA: Harvard University Press.
- Choi, Stephen and Jill Fisch (2003). How to Fix Wall Street: A Voucher Financing Proposal for Securities Intermediaries. *Yale Law Journal* 113(2), 269-346.
- Copps, Michael (2005). Where Is the Public Interest in Media Consolidation? In Robert McChesney, Russell Newman and Ben Scott (Eds.) *The Future of Media: Resistance and Reform in the 21st Century*, 117-125.
- Ferejohn, John (2003). Playing with House Money: Patriot Dollars Considered. *California Law Review* 91(3).
- Fulford, Robert (1998). Tensions in Canadian Journalism. In Donna Logan (Ed.) *Journalism in the New Millenium*. Vancouver, Canada: Sing Tao School of Journalism.
- Gastil, John and Peter Levine (Eds.) (2005). *The Deliberative Democracy Handbook: Strategies for Effective Civic Engagement in the 21st Century*. San Francisco, CA: Jossey-Bass.
- Graydon, Sheri and David Mitchell (1998). Politicians, Journalists and the Need for Civil Dialogue. In Donna Logan (Ed.) *Journalism in the New Millenium*. Vancouver, Canada: Sing Tao School of Journalism.
- Halstead, Ted and Michael Lind (2001). *The Radical Center: The Future of American Politics*. New York: Doubleday.

- Konz, Kenneth (2005). *Report of Review: Review of Alleged Actions Violating The Public Broadcasting Act of 1967, as Amended*. Corporation for Public Broadcasting, Office of Inspector General, Report No. EPB503-602.
www.cpb.org/oig/reports/602_cpb_ig_reportofreview.pdf
- Latham, Mark (1997). Proposed: A Governance “Monitor”. *The Corporate Board*, 18(106), 23-26. votermedia.org/publications
- Latham, Mark (1998). Corporate Monitoring: New Shareholder Power Tool. *Financial Analysts Journal*, 54(5), 9-15. votermedia.org/publications
- Latham, Mark (1999a). The Corporate Monitoring Firm. *Corporate Governance: An International Review*, 7(1), 12-20. votermedia.org/publications
- Latham, Mark (1999b). Collective Action for Dispersed Shareowners. *Corporate Governance International*, 2(3), 11-16. votermedia.org/publications
- Latham, Mark (2000). The Internet Will Drive Corporate Monitoring. *Corporate Governance International*, 3(2), 4-11. votermedia.org/publications
- Latham, Mark (2003). Democracy and Infomediaries. *Corporate Governance: An International Review*, 11(2), 91-101. votermedia.org/publications
- Latham, Mark (2007). Proxy Voting Brand Competition. *Journal of Investment Management*, 5(1), 79-90. votermedia.org/publications
- Layton, Charles (2004). Lobbying Juggernaut. *American Journalism Review*, 26(5) (October-November). www.ajr.org/Article.asp?id=3748
- Lohmann, Susanne (1998). An Information Rationale for the Power of Special Interests. *The American Political Science Review*, 92(4), 809-827.
- McChesney, Robert (1999). *Rich Media, Poor Democracy: Communication Politics in Dubious Times*. Champaign, IL: University of Illinois Press.
- McChesney, Robert (2004). *The Problem of the Media: U.S. Communication Politics in the 21st Century*. New York: Monthly Review Press.
- Monks, Robert A.G. and Nell Minow (2004)(3rd ed.). *Corporate Governance*. Oxford: Blackwell Publishing.
- Nichols, John and Robert McChesney (2005). *Tragedy and Farce*. New York: The New Press.
- Rendall, Steve and Peter Hart (2005). Time to Unplug the CPB. *Extra!*, September/October 2005. www.fair.org/index.php?page=2671
- Sunstein, Cass (1993). *Democracy and the Problem of Free Speech*. New York: The Free Press.