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ABSTRACT

The Price of Media Capture and the Looting of Newspapers in Interwar France*

This paper develops a new insight enabling the empirical study of media capture: minority shareholders of newspapers and readers face similar risks. Both are adversely affected when corrupt insiders use the newspaper for personal profit and receive invisible revenues. This means that relevant data on influence and exploitation of newspaper has been hiding in plain sight in stock exchange or over-the-counter prices, since stock transactions reflect the value of this capture. Empirical data is consistent with increasing levels of looting in France during the 1930s. We provide a comparison with Britain and argue that Britain managed to protect its newspapers better.

JEL Classification: D72, G34, L82, N24 and N74

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It is conventional to use the word “media capture” to characterize how insiders or connected individuals (government, politicians, corporate interest) extract pecuniary or non-pecuniary revenues from controlling newspapers. Newspapers offer attractive possibilities: promotion of certain views and parties, help with lobbying, campaigns for or against certain regulations, etc. These benefits have value and are priced, but the prices are not meant to be public. Nor have researchers, as far as we can tell, sought to venture into computing the returns from media capture – nor the effects of capture on the value of newspapers.

This article provides what is, to our knowledge, the first attempt so far to measure returns to media control and discuss the valuation of journals given the risk of capture. We propose an analytic and empirical contribution. The analytic effort builds on insights from finance theory. We adapt theories of shareholder value and the pricing of control rights. Our novel perspective is to suggest that readers and the minority shareholders of journals are in the same incentive group in that both are adversely impacted by exploitation from journal insiders (those who control the editorial line). This enables us use simple indicators of governance such as the voting premium or the control premium to provide empirical insight on the phenomenon of media capture and journal looting.

The context in which these ideas are tested is interwar France. This is an excellent context, both historically and economically. Historically, the interwar is a period that is famous for having seen French newspapers looted by their owners, as argued in a celebrated work from economic historian Marc Bloch.¹ After France’s defeat in 1940, Bloch wrote a manuscript *L’étrange défaite* (“The strange defeat”), where he faulted France’s media and elites for the country’s debacle against Nazi Germany.² Bloch argued that France’s defeat had been facilitated by degradation of the country’s informational infrastructures and newspapers. He also pointed to the inconsistency in which corporate elites found themselves, with individuals from this group bragging at noon that they had successfully influenced a newspaper and complaining at the end of the day of the “corrupt” state of the French press. To

¹ Bloch, a student of Medieval economic history, had early been interested by the issues related to press and information when he observed as a lower rank officer the effects of censorship during World War I. Later, he published an article where he argued that soldiers in the trenches reacted rationally to widespread censorship. They heavily discounted the informational value of newspapers: He recalls that a popular joke was that “everything is true, everything – but what they print in newspapers” See Bloch “Fausses nouvelles”.

² Bloch, *Etrange défaite*. Bloch, a resistant and a Jew was murdered by the Nazis in 1944.

illustrate his point, Bloch provided a scathing criticism of *Le Temps*, France's leading conservative high brow newspaper commonly seen as a counterpart to Britain's *Times*. He suggests that comparison is not favorable to France. From Bloch: "Both journals respond to, and cater, for similar interests, [but] he who reads the former [*The Times*] would know always as regards the world such as it is infinitely more than he who reads the latter [*Le Temps*]"³ This suggests that valuable insight may be garnered from a comparative approach as we do here.

Economically the period we look at has several merits. First, during the interwar, a cartel agreement concluded between incumbent newspapers did complicate entry and limited the supply of substitutes to the poor-quality journals. This facilitated looting and enables us to study the mechanics of newspaper's exploitation by insiders in the crudest light.⁴ Second, the availability of relevant financial series provides a neat empirical way to identify the gains to owners from influencing the policy of a newspaper. Several important French newspapers had floated both voting and non-voting shares on the stock market and the latter gave their holders exactly the same dividend rights as voting shares. By comparing the price of those two shares, we are thus able to identify the premium derived from influencing the news media.⁵

Our analysis of journal quality thus presents an addition to and departure from some themes in the recent literature, which has focused on "slanting" (i.e. the provision of biased reports). Mullainathan and Shleifer (2005) have ascribed slanting to preferences of readers.⁶ Gentzkow and Shapiro, (2006a) suggests that this is linked to the cost for readers to verify the truth of an information.⁷ Bovitz et al. (2002) emphasize the writers' ideological bias.⁸ Baron (2006) recognizes the importance of newspaper governance.⁹ His model emphasizes the moral hazard of low-paid journalists who may choose to

³ Our translation from Bloch, *Etrange défaite*, p. 163

⁴ In a different context and perspective Gentzkow, Glaeser and Goldin "Fourth estate" emphasize the positive effects of competition.

⁵ While the idea on which this insight rests could in principle be applied to other historical contexts, similar data is not available for today in such a clean form because newspapers belong to conglomerates and therefore control premium cannot be directly matched with the gain of influencing news diffusion.

⁶ Mullainathan and Shleifer, "Market for News".

⁷ Gentzkow and Shapiro, "Media Bias and Reputation".

⁸ Bovitz, Druckman, and Lupia, "News Organization".

⁹ Baron, "Persistent Media Bias".

distort news for career concerns. We argue that the problem identified by Baron is much more serious in that not only journalists (agents) but owners too (principals) have reasons to debase contents for private gains. Perhaps closest to our analysis is the formal model by Besley and Prat (2004) who analyze media capture as arising when politicians have an interest in paying the media so that they accept to suppress some truthful information.¹⁰ Their paper provides insights on features of the media market such as competition and regulation, which they show may determine the ability of the government to exercise such capture. Regarding empirics, we mention the article by McMillan and Zoido (2004) who use judicial evidence to document payments made by Montesinos' regime in Peru to suppress information.¹¹ In general (and France during the interwar is no exception¹²) the scattered nature of payments makes it impossible to reconstruct amounts spent to influence editorial lines. In this article, our innovation is to retrieve a measure of the value of media capture by looking at the pricing of journal stocks. One advantage of this approach is that it enables to exploit publicly available information.

Beyond the theoretical and empirical contribution we make, this paper has value for recent historical controversies. It has long been known and emphasized that France's newspapers were corrupt: Domestic, foreign, government and corporate interests contributed. Payments made by fascist dictatorships after 1935 occupy a prominent place, although they were not the only ones as Sabine Dullin's work on Stalin's Ambassadors shows.¹³ British Journalist Alexander Werth first characterized this process using the expression "*Gleichshaltung*" ("forcible-coordination", a word which, in the Nazi vocabulary summoned the image of having people march in step).¹⁴ More recently, Annie Lacroix-Riz's has argued that that France's mediocre response to Hitler's threats and passive subjection to *Gleichshaltung* is explained by France's conservative interests' preference for fascism vs. the perils of

¹⁰ Besley and Prat, "Handcuffs".

¹¹ McMillan and Zoido, "How to Subvert".

¹² Eveno, *L'argent*, p. 95.

¹³ Dullin, *Ambassadeurs de Staline*.

¹⁴ Werth, *Twilight of France*.

communism and the Soviet Union. She claims that this preference led to a biased representation that announced and facilitated the subsequent Collaboration with Nazi Germany.¹⁵

We provide time-series evidence of the trafficking value of newspaper. The data confirms the previous qualitative insight on the specificities of the post 1935 “*Gleichshaltung*” period. We document – using evidence from the sale of media ownerships – that most of the price paid by purchasers did not represent the cost of acquiring rights on the future flows of dividend. Comparison between *Le Temps* and *The Times* underscores the effects of looting in France and show the superior performance of the British counterpart. We also find evidence that attempts at looting French journals eventually destroyed their commercial value.

1. BACKGROUND: CARTEL, CORRUPTION, AND DECLINE IN THE FRENCH PRESS.

Economic hardships, corruption, and decline: The unanimous verdict of the literature on the France’s newspaper industry during the interwar is “failure”. Trafficking and corruption was the norm as a suggestive anecdote from journalist Pierre Lazareff’s memoirs (*Deadline*, 1942) shows. *Deadline* was published in English and expressed a view on the origins of France’s defeat quite similar to Bloch’s, for Lazareff concluded that “the French people were systematically misled by a venal and treasonous press. France fell”.¹⁶ As he explained in the book, Lazareff lost his illusions when, as a young journalist, he was briefed by his boss at *Le Soir*:¹⁷

“You know, Lazareff, when I was your age I thought that all you had to do was to write a good article, and that then some newspaper would be only too glad to pay a good price for it and to feature it. [...] Young fellows like you ought to be told just how matters stand. For instance, I just wrote three articles on Rumania. Really good articles, full of sensational revelations, carefully checked articles in which I may say I boldly attacked the strange conduct of some of the Rumanian Ministers. ‘Since we wanted to make absolutely sure of the authenticity of all the statements, I submitted them for final checking to the Rumanian Minister (in

¹⁵ Lacroix-Riz, *Choix*.

¹⁶ Lazareff, *Deadline*, p. 359.

¹⁷ Lazareff, *Deadline*, p. 29-30.

Paris). He kept the manuscripts for a few days, then asked one of our managers to come to see him. “The articles were very interesting, the Minister said. He added that the Rumanian Government was very grateful for this valuable information, The Government requested, however, as a personal favor, that we postpone publication of this material. Then, in conclusion and quite incidentally the Minister informed our manager that the Rumanian Government had decided to give our paper a rather handsome contract for advertising the beautiful scenery of the Rumanian countryside. So you see, Lazareff, what happened. For these three articles which will never be published, I received more money than I ever received for any published material in my life. And, thanks to this windfall, I'll be able to pay you your salary at the end of the month. So you see what goes on in this business”

There is extensive evidence that this anecdote was typical. The French press was corrupt, by almost everybody, beginning with French government and parties as well as French corporate interests. During the whole interwar years Italian, Greek, Spanish, Soviet, Nazi governments paid various press organs to influence the information available to Frenchmen.¹⁸ From time to time, “muckraking” journalists revealed details – and were immediately branded as “sold” to some interest. According to Dullin details were occasionally leaked by the secret services of countries spying on one another. A well-informed source was Alexander Werth, Paris correspondent of *Manchester Guardian*. In 1936, his newspaper published the amount of bribes that French journals received from Mussolini during the Ethiopian War in 1935-6. Werth states that £2'000'000 were distributed by the Nazis to French journals during the “greater part” of year 1938 (in relation to Munich-related international tensions).¹⁹ While this might have provided newspapers with ample resources, the effect was to debase journals because most of the time, money went straight to the pockets of editors and journal owners who kept their journalists on a tight leash.

¹⁸ Albert, “La difficile adaptation”, p. 487-90. On subsidy from French ministries see Lazareff *Deadline*, p. 52. Werth, who closely monitored *Le Temps*, describes how the trick of an “occasional correspondent” allegedly from Basel, Switzerland, covered the distilling of French officials pro-appeasement views; Werth, *Twilight of France*, p. 140-141; See also Jeanneney, “Vénalité”, “Fonds secrets” in *L'argent caché*; On bribes by corporate interest in France, Jeanneney, *Francois de Wendel*, p. 458-63, “Presse et Politique”, Lacroix-Riz, *Choix*; On Fascist and Nazi money in France, Werth, *Twilight of France*, e.g. p. 321; On Soviet money, Sabine Dullin, *Ambassadeurs de Staline*, p. 206-16. On Greek money to *Le temps*, *Le Figaro* and *Le Gaulois* Kitsikis, “*Les rapports du Temps*” p. 513-5; On Spanish money (before Civil War), Lazareff, *Deadline*, p. 53-4.

¹⁹ Werth, *Twilight*, pp. 321, quoting Kerillis a dissenting French journalist and politician, invoking a US Intelligence source

Readers realized this but they could not switch easily to other newspapers. A feature of the interwar era mentioned by all earlier students of the press is that there existed a press cartel, created in 1916 and involving leading Paris newspapers with national circulation. This cartel survived until WWII.²⁰ It probably originated in the military censorship described in Bloch's early article. Leading newspapers that had supported the executive's propaganda were discredited and risked serious revenue losses when the war would end.

According to recent theory and evidence, cartels are more successful (they survive longer) when they own powerful enforcement tools and are supported by the government, since both enable to mitigate free riding pressures (see e.g. Lewenstein and Suslow (2006) for a survey). From earlier literature and archive, we find that the cartel's powers were far reaching: It restrained newspapers' ability to differentiate products, it limited the number of pages per issue and set prices. It regulated the size of pages and location of each newspaper's market. Morning newspapers committed not to attempt poaching one another's readers and those of evening papers by setting working limit for typesetters and refraining from canvassing.²¹ Agreements were enforced through penalties. Defectors risked retaliation. One weapon was the service supplying companies, which were involved in the cartel arrangement. For instance, Hachette acquired a quasi-monopoly over newspaper distribution and was used to blackmail press dealers who refused to suspend the selling of defectors.²²

There is also abundant evidence of the enforcement role of the French executive. The government controlled the market by playing on the schedule of trains transporting the newspapers or on the custom duties on paper pulp (since France's production of cellulose did not ensure self-sufficiency) and on the price of mail and telegrams. Exchange controls could also increase scarcity selectively. After the devaluation of the British pound and the subsequent exchange rate devaluation of most

²⁰ Albert, "Difficile adaptation", p. 510-1 ; Kupferman, *François Coty*, p. 130-40 ; Chalaby, "Twenty years", p. 147-8, Lefébure, *Havas*, p. 221-34; Eveno, *L'argent de la presse*, p. 81. This is a contrast with the pre-war system. For a study of France's financial press before WWI showing how corruption was partly contained through newspaper competition see Bignon and Flandreau, "Badmouthing". Bignon and Miscio, "Media Bias" show that newspaper competition produce coverage of relevant information.

²¹ Amaury, *Petit Parisien*, vol. 1 p. 333-348

²² E.g. see Kupferman, *François Coty*, p. 130-40.

European currencies, the government decided to impose new custom duties on pulp to “compensate” for the competitiveness of imported paper.²³

The mediocrity of French journalism and its corrupt ways were thus strongly protected and kept readers captive. According to Bloch, readers reacted in an intelligent way. They reduced demand, lost interest and opposed to “insincere advice” a “waterproof attitude”. One reaction, he suggests, was to pore over newspapers to do exactly the opposite of advised.²⁴ Obviously, this went along with a reduced willingness to pay. Journals would be thin and poorly informative. A much-quoted *Report on the British Press* (published in 1938 by Political and Economic Planning, a British corporate Think Tank created in 1931) emphasized the “small circulations” of French journals, which it described as information poor “thin news-sheets” printed on “generally poorer quality paper”.²⁵ From there followed chronic economic difficulties and low wages for journalists. In 1941, writer Arthur Koestler recalled interwar France as a place where “prostitutes of the pen were just as badly rewarded as their colleagues on the street corners”.²⁶

The outcome was relative decline which previous authors such as Jeanneney have ascribed to “money” and its “corrupting power”.²⁷ When French readership of journals had been among the highest in the world before WWI, it stagnated during the interwar (despite progresses in instruction and literacy). For instance, on the eve of WWI, four journals had circulation larger than one million. In 1939 there were only two left and their total circulation was smaller. Formerly leading journals saw a decrease of their circulation by 2 (*Journal*) to 5 (*Matin*, *Petit Journal*) between 1912 and 1939. The latter became what a recent book called a “racket sheet”.²⁸ Hence while in 1914 the estimated daily circulation put France on par with English speaking democracies (244 in France, 220 in the UK; 255 in the US), France started lagging behind in the interwar and in 1939, the estimated total circulation

²³ For details on these tactics, see, Archives Nationales, *Journal*, 8 AR 326.

²⁴ Bloch, *Etrange défaite*, p. 163.

²⁵ Political and Economic Planning, Report, pp. 53, 82 and 54 respectively

²⁶ Koestler, *Scum*, p. 53

²⁷ Jeanneney, *L'argent caché*.

²⁸ Pinsolle, *Matin*.

was only 280 copies per 1000 inhabitants while the ratio had grown to 360 and 320 for the UK and US respectively.²⁹

2. GOODWILL AS A PROXY FOR THE VALUE OF MEDIA CAPTURE

These rather disappointing results had a counterpart in the performance of newspapers as businesses, as was the case for *Le Temps* following its purchase by a group of leading industrialists in 1929. Primary material on this transaction (still undisclosed as of the date of this writing) is summarized in Jean-Noël Jeanneney's *François de Wendel*. Analyzing the data in Jeanneney, Patrick Eveno argues that *Le Temps* exhibited poor performance.³⁰ For the year when *Le Temps* was acquired, Eveno reports a modest 0.259% return on 1929 dividend and a Price Dividend Ratio close to 400 – a figure he thinks is out of line with “reasonable” figures.³¹ As Appendix 1 shows, improvements on Eveno's do not alter the basic insight. We find an average 22.8% *real* loss per year on *Le Temps*' (voting) shares during the 5 years that followed the acquisition. Investing in *Le Temps* was a losing proposition.

Eveno brushes aside the finding that a group of powerful men, who “knew the ropes”, could be found on the losing end of the deal, writing pleasantly that “even businessmen can do bad deals” and relating the matter to the general failure of the press.³² Yet this outcome seems to be an enduring feature as we found by exploring other cases when newspapers were acquired. There are not so many cases available but they are consistent with one another. For instance, businessman François Coty purchased *Le Figaro* (before WWI a leading and profitable newspaper) in 1922 for 10.6 million. This

²⁹ Albert “Remarques”, p. 541-3; The share of the local news outlets grew from 40 to 50% and the general interest press lost readers from 138 per 1,000 inhabitants in 1914 to 131 in 1939 (Authors' computations from Albert, *Remarques*, p. 541-2 and 1946 INSEE statistical year-book).

³⁰ See Jeanneney, *François de Wendel*, p. 455-464; Eveno *L'argent de la presse*, p. 89-92. The purchasing group included Comité des Forges, a business association that included all important units of the heavy industry and Union des Mines, that included all the biggest mining interests. *Le Temps* was acquired from Adrien Hébrard Jr., son of the previous owner.

³¹ Eveno, *L'argent de la presse*, p. 90. Eveno incorrectly identifies the price earning ratio with the price dividend ratio. In a year of high retained earning this makes a substantial difference. The correct price earning ratio is 52.76 (against 398.7 if one ignores retained earning, a figure near the “close to 400” reported by Eveno). See appendix 1 for details on computation.

³² “Même les millionnaires peuvent faire des erreurs”, Eveno, *L'argent de la presse*, p. 90, 92. The seemingly inflated prices at which French journals sold has conjured up comparisons with wealthy bourgeois buying “dancers” and is a favourite metaphor by Eveno, an historian and Op-ed writer in France (Eveno “Presse d'influence?”). The dancer metaphor is misleading. A dancer is for fun, an expenditure. A journal is an investment that provides pecuniary and non-pecuniary revenues.

gives a Price Earning Ratio of 80.5 (using 1922 earnings) and a return on 1922 earnings of 1.24%. This was followed by 10.26% real yearly loss in each of the next 5 years when the stock market was booming and it was hard to lose money. Or again, after businessman Patrenôte purchased *Petit Journal* (a founding member of the press cartel) in June 1932 the performance during the next 5 years was a 20.6% real annual loss on initial investment.³³ Businessmen can make bad deals from time to time, but not all businessmen will make bad deals all the time. The market for newspapers may have been depressed and thus the question is why did purchasers pay too high a price given predictably poor subsequent performance?

Our starting idea to resolve this puzzle is that news printing encompasses two forms of business. On the one hand, a journal is about the origination or purchase of “news”, their “analysis” and their distribution. A journal is an intermediary between events and consumers and this role earns the journal visible revenues, from the selling of copies to readers and from the payment of publicity by advertisers. On the other hand, journals are an instrument for “trafficking”. Journals buy entries, secure and protect privileges and positions, give political consideration, reward clients through eulogy, etc. This latter activity gives rise to benefits which are both pecuniary and non-pecuniary and both tend to be absent from the balance sheet. As a result, a proper assessment of the profitability of journals ought to factor in both types of revenues. A suggestive anecdote from Paul Lazareff captures this. He mentions inquiries made with him by a senior French Minister’s regarding the kind of benefits sought by journal owner businessman Prouvost (and Lazareff’s boss): ‘What does your boss really want? It isn’t easy to figure him out. Why, he doesn’t even want the *Légion d’Honneur*! Do you think he bought *Paris-Midi* [a newspaper] with the object of benefiting his textile business?’³⁴ The same logic surfaces from a judgment by the British Ambassador in Paris during the *Gleichshaltung* period

³³ At the time of purchase, *Petit Journal* was loss-making, preventing the computation of a PER. Patenôte was initially associated with Prouvost and Beghin. High prices for loss making newspapers were not unusual: archival evidence on OTC transactions on loss making (non-listed) *Paris-soir* valued the newspaper at “3 to 4 million of French francs”. Sources for this paragraph: Stock exchanges quoted prices for *Figaro*, *Temps* and *Petit journal* from Cote Officielle des Agents de change; OTC transaction (receipt dated 23 July 1929) and accounting data for *Paris-soir* (Archives Nationales 8 AR 418). *Le Temps* purchase prices from Jeanneney (*Wendel*, pp. 456). *Petit journal* purchase price from Kupferman and Machefer (“Presse et politique” p. 10). *Figaro* purchase price from Kupferman (*François Coty*, p. 75). *Paris-soir* purchase price from Albert “Difficile adaptation”, p. 524. CPI is from the NBER Macrohistory database. Details in Appendix 1.

³⁴ Lazareff, *Deadline*, pp. 49-50.

(and himself a user of bribery and trafficking with the press) Eric Phipps, who argued that French newspapers attracted investors who sought both revenue and to “win power and influence”.³⁵

Next, we argue that these benefits are acquired at the expense of three groups of stakeholders: minority shareholders, readers and journalists. Readers get misleading news. This lowers the reputation of the journal, which is bad for journalists, and also for junior shareholders, because readers react by lowering demand and/or willingness to pay, which is bad for profitability. This observation enables us to identify the owners of journals with a firm’s controlling stake, while readers, salaried journalists (including the editor if he is subjected to the owner), and other junior shareholders are the minority stakeholders. When the owner uses the journal for personal profit, he is really exploiting these minority stakeholders. A basic tenet of this paper, therefore, is that readers, journalists and minority shareholders are in the same “interest group” with interests opposite to that of owners.

We can readily see from the above discussion that the “control value” of a journal need not be equivalent to its “economic value”. The control value is essentially what is commonly known as the “goodwill” – perhaps an unfortunate expression given the intentions. But it remains that recognizing this has useful implications: looking at the price of journal stocks should enable to value the “observable” and “unobservable” part of the business.

3. THE VOTING PREMIUM OF A NEWSPAPER: THEORY AND EVIDENCE

The relevant data to price the value of media capture has been hiding in plain sight. It is the so-called “voting premium” which has been analyzed by finance economists (but its sheer relevance to the economics of journalism not recognized yet). We now build on the pioneering work of Kristian Rydqvist and its extensions by Luigi Zingales.³⁶ The voting premium is the percentage difference between the price of voting and non-voting shares. Non-voting shareholders only receive visible revenues (dividends). Voting shares do not confer control but they represent an option to sell to

³⁵ Herman, *Eric Phipps*. Such claims are conventional in the French literature, too.

³⁶ Rydqvist, *Empirical*, Zingales, *Value of voting*. See also A. Dyck, L. Zingales, *Private benefits*.

someone who may need it to acquire control. That person or group will be able to use control for trafficking and as a result, is prepared to pay a premium for the voting share. The intuition is that in a competitive market, outside voting shareholders may expect to obtain part of the trafficking benefits. Thus, the price of voting shares captures at least part of the control value.

In general, however, the voting premium will capture a fraction only of the control value: If a voting shareholder already controls 51% the firm, she will not be prepared to give a cent for any additional voting share. The voting premium is informative of the value of control when the ownership of the firm is unstable so that sub-groups of shareholders want to buy out others to secure majority. This is the case, when there are disputes between controlling shareholders, when there are rules diluting the power of majority shareholders and thus forcing sub-groups of shareholders to enter into (by definition, unstable) coalitions, or when the shareholding of family-owned firms is split as a result of death of the majority owner.³⁷

Formally, the voting premium may be written as the percentage price difference between voting and non-voting shares:

$$VP = [P_v - P_{nv}] / P_{nv}$$

(P_v is the price of voting shares and P_{nv} the price of non-voting shares). Now let's call B the present value of visible income (news printing) and V the present value of the invisible income (political trafficking). If the benefits of the invisible income from the firm are distributed equally among all voting shareholders then the ratio of the present value of the visible income to the present value of the invisible income is equal to the product of the voting premium by the proportion of voting shares in all

³⁷ There are reasons to believe that the voting premium is informative in our case. The appendix reports cases showing that the effective control premium (the price paid to acquire control) when it can be measured was between 2 to 5 times bigger than the voting premium. Moreover, evidence from previous work and stock market intelligence suggests that the ownership structure of the two newspapers we focus on met some of the requirements for the voting premium to be informative. The shareholding of *Le Temps* was not 100% stable throughout the period (for instance mentions are made of tensions within the de Wendel-led controlling group) suggesting that the voting premium is informative; Jeanneney, *François de Wendel*, pp. 460-4, See Appendix for voting rules. *Petit Parisien* was family owned and it appears that ownership was more or less stable during the 1920s (and this may lead to underestimate the control premium) but Francine Amaury reports increasing family disagreements during the 1930s, and this may have affected the control premium. Amaury, *Petit Parisien*, volume 2, pp. 1318-9. A rigorous study of the structure of ownership for both journals from primary sources will require the opening of the archives on the capital of the two journals, close as of the time of this paper writing.

company shares (N_v is the number of voting shares and N the total number of shares – voting and non-voting):

$$B/V = VP * (N_v/N)$$

Previous studies of the voting premium in different countries and industries emphasize that large premia invariably reveal poor governance.³⁸ The reason is that the premium measures the extent to which insiders can expropriate outsiders. For instance, Luigi Zingales explains the record high voting rights for firms listed on the Milan Stock Exchange during the 1990s (about 80%) by arguing “whoever controls a company can dilute minority property rights to a greater extent in Italy than in other countries.” Based on studies for modern non-press groups, we take high voting premia (above 20%) as evidence of weak protection of outsiders against insiders. In our case, however, outsiders are both minority shareholders and *readers*. Therefore the beauty of the theory of the voting premium, when applied to journalism, is that it enables one to construct an indicator of reader protection, which has deep historical significance: For the exploited outsider here, is information in a democracy.

In order to compute the voting premia of French journals, we need prices of voting and non-voting shares. The material needed for that kind of computation is available for two journals only. The good news is that they were very relevant journals. Indeed, some special features of the financial design of *Le Temps* (which Bloch told us was infinitely less informative than *The Times*) and *Petit Parisien*, detailed in the appendix 2, enable one to identify the voting premium with the price difference between so-called profit shares (“*parts bénéficiaires*” or “*actions de jouissance*”) which original sources show were without voting rights and ordinary shares (*actions de capital*).

As said, *Le Temps* had the reputation for being the leading highbrow, with the required boring style, stilted and solemn tone and small print. Before WWI it had established itself as the mouthpiece of conservative interests and the place of choice for the executive to distil its official views (explaining

³⁸ Small reported contemporary voting premia include 5.4% in the United States (Lease, McConnell, and Mikkelson 1983); 6.5% in Sweden (Rydqvist 1987); 20% in Switzerland (Horner 1988); 13.3 percent in England (Megginson 1990). Medium to large voting premia include 23.3% in Canada (Robinson and White 1990); 45.5% in Israel (Levy 1982), and 82% for Italy: (Zingales 1994).

the conventional comparison with *The Times*).³⁹ The other newspaper for which the relevant information is available is *Le Petit Parisien*, the only pre-1914 leader that still enjoyed a circulation above one million on the eve of World War II. *Le Petit Parisien* was a mass daily known as the “janitors’ newspaper” or *journal des concierges*. Contemporary Lazareff describes *Petit Parisien* as a journal with several assets such as some famous reporters (Albert Londres) a “not too definite political stance” which he relates to a concern with its own “independence”.⁴⁰ A member of the cartel, it fought it in several times, and invested in its own distribution system. However, we know from *Petit Parisien*’s historian that, after 1935, the journal started a decline, which coincided with evidence of traffic with Mussolini.⁴¹

Figure 1 shows the adjusted voting premiums 1900-1940. They are consistently high. The premium of *Le Temps* was already substantial before WWI (averaging 33.1%, min: 6.7%; max: 75%). After the war, it did reach new heights (on average 101.8% in the 1920s) and a peak at 180.3% in 1920-21. There is a second hike when the journal was purchased in 1929. Yet this 100% premium is nothing compared to the explosion observed during *Gleichshaltung* (1935-40). Then the average voting premium increased to 374%. When the Munich crisis erupts in 1938 (which is when, Werth says, the Nazis were pouring money) we see that for the first time the premium exceeds 500%. A maximum is reached after the annexation of Czechoslovakia by Hitler and before the declaration of war (June 1939 a staggering 578%). This is when the legendary (among French people) episode of *Le Temps*’ Prague correspondent Beuve-Méry’s resignation occurred. Beuve-Méry, who is reported to have opposed the line of the newspaper (which concealed Czechoslovakia’s pathetic calls to Western European leaders) would later become a star of post-WWII French journalism -- as chief editor of *Le Monde* (a newspaper created after WWII).⁴²

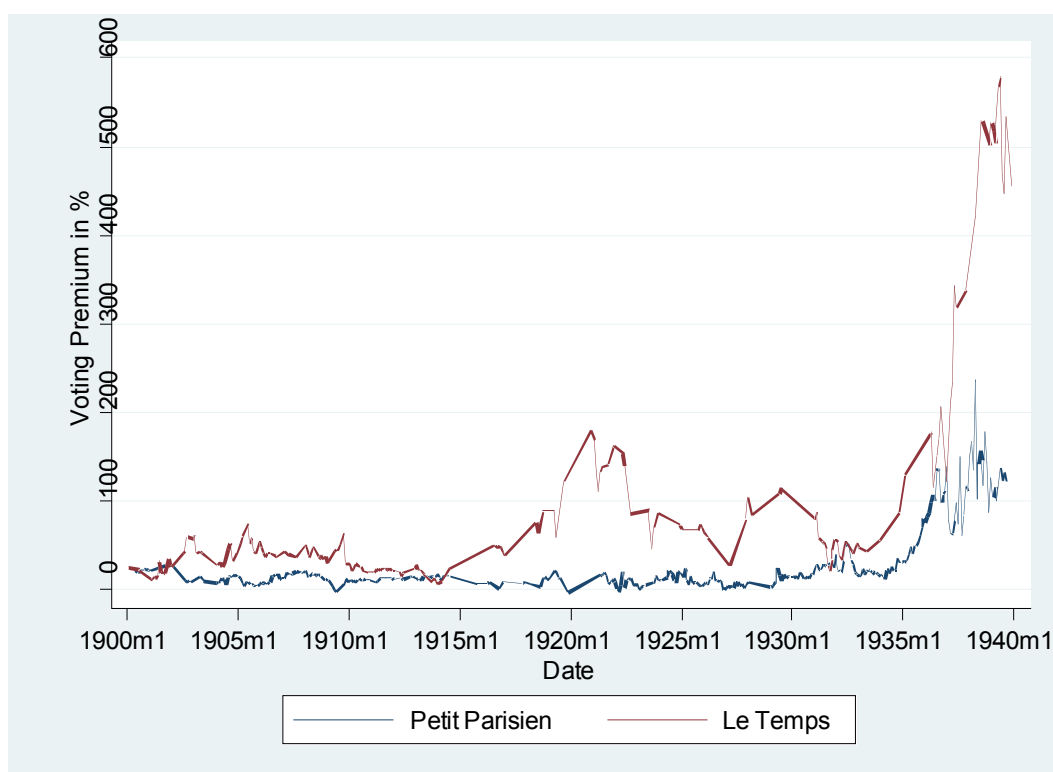
³⁹ According to Lazareff, *Deadline*, p. 52, “Former and future diplomats, professors, men with political inclinations – all these considered it a great honor to appear in *Le Temps*, even anonymously. Every self-respecting upper middle class Frenchman was automatically a subscriber to *Le Temps*. And, outside of France, *Le Temps* was mentioned and quoted more than any other French newspaper”.

⁴⁰ Lazareff, *Deadline*, p. 61 ff.

⁴¹ Lazareff, *Deadline*, p. 61 ff. Amaury, *Petit Parisien*, vol. 2 p. 1199ff

⁴² Compare with Jeanneney, *Wendel*, p. 458-ff and his lukewarm defence of *Le Temps*.

FIGURE 1: VOTING PREMIUM OF TWO LEADING FRENCH NEWSPAPERS, 1900-1940



Source: Authors, from database. See text and appendix 1.

The record for *Petit Parisien* is less dismal. Before WWI, voting premia range from 0.4% to 27.2% with an average of 13.1%. They stay constant in the 1920s with an average of 10% and a maximum at 24.7%. This contrast with *Le Temps* may be put in relation to Lazareff's assessment on *Petit Parisien* being comparatively a more serious newspaper and its position as the less corrupt newspaper in the cartel.⁴³ However, over time, the premium gradually rose. It averages 25.4% between 1930 and 1934 to an average of 101.5% between 1935 and 1939. This is when *Petit Parisien* got involved with Mussolini (and probably not only Mussolini). The hike in the spring of 1938 (236.4% in April 1938) when the Czechoslovakia crisis is building suggests forces at work very similar to those for *Le Temps*. In both cases, informed traders were picking something – the same thing as *Manchester Guardian*'s journalist Alexander Werth or as historian Lacroix-Riz emphasize, when they describe newspaper corruption accelerating after 1935.

⁴³ Alternatively, this may only reflect stable ownership and understate the extent of corruption.

4. THE PRICE OF GOODWILL: *LE TEMPS* VS. *THE TIMES*.

How bad was France in comparative terms? To answer this question, cross sectional evidence is needed. In this section we compare France with Britain. This comparison is natural and is also relevant given the historical parallel between the attitudes of two countries' political establishments. As shown by Richard Cockett, British Conservatives too had a soft spot for Hitler and *The Times*' has been criticized for supporting Chamberlain's Appeasement.⁴⁴ While, as far as we can tell, data necessary to compute voting premia is not available for British newspaper groups, both *Le Temps* and *The Times* changed hands in the 1920s, making it possible to compare rigorously the value of control (the price of goodwill) in both journals.⁴⁵

a) *Le Temps*

Le Temps was acquired in 1929. The purchasing group bought 50.76% of voting shares and left the non-voting shares with the public. At market prices, the total value of the newspaper at that time of the purchase is equal to the price paid by the group, plus the market price of the voting and non-voting securities not purchased by the group. This total value can be decomposed into a commercial or economic value and a control value. The economic value includes the value of non-voting shares (about 5.04 MFF) plus the dividend rights in the voting shares (about 1.86 MFF) or a total of 6.9 MFF. The control value is the premium paid by the acquiring group on top of the price of the dividend rights (or 23.4 MFF), plus the voting premium on the voting shares not purchased by the acquiring group (4.1 MFF), or a total of about 27.5 MFF (details on computations in the appendix 3).

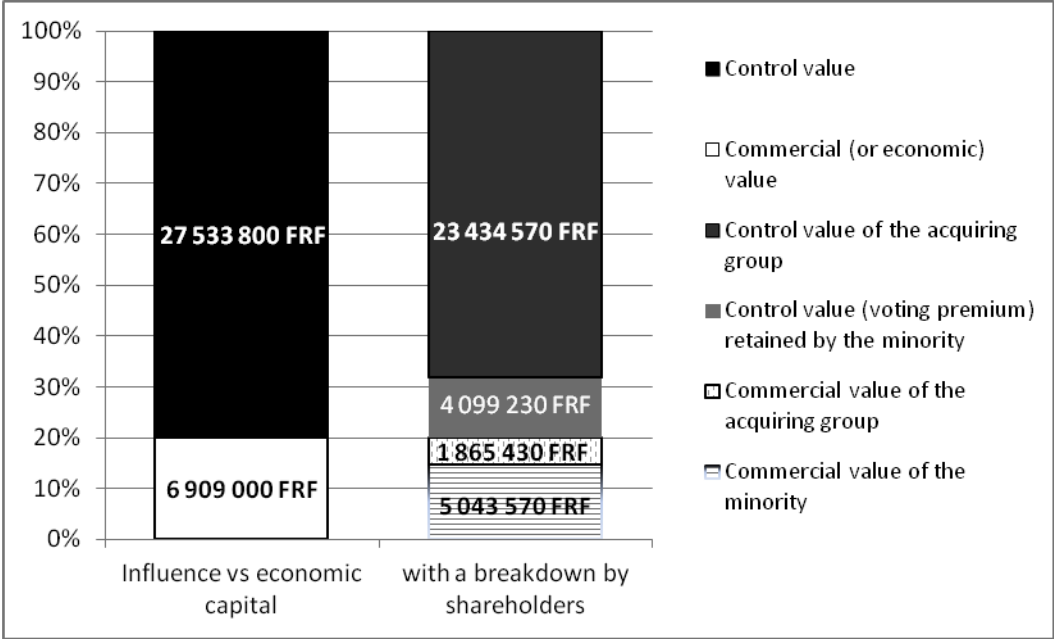
Figure 2 shows the resulting breakdown. The first column reports the total share of the influence capital and economic capital and the second column breaks down those numbers by types of shareholder (acquirers vs. the rest). As seen, the economic value was only 20% of the total price. Thus, even as early as 1929, 80% of the business of *Le Temps* was about something other than the selling of news underscoring that the bleak picture from the voting premia is really too optimistic. Now the

⁴⁴ Cockett, *Twilight of Truth*.

⁴⁵ Several newspaper groups, including *Times Ltd* had voting and non-voting shares but such "preferred shares" essentially gave right to a fixed coupon and thus did not have the same dividend rights as ordinary shares.

experience of *Le Temps* must have had significance for this was supposed to be the serious journal, the prestigious one *par excellence*, the one towards which elites would turn for enlightened information. Could the rest fare well, when this was the leader?

FIGURE 2: DECOMPOSING THE ECONOMIC AND CONTROL VALUE OF *LE TEMPS* (1929)



Source : Authors. See text and appendix.

b) The Times

Following the death of controlling stake owner Lord Northcliffe *The Times* was acquired in 1922 by John Astor (a wealthy investor and member of the Conservative party) in conjunction with Ralph and John Walter (from the Walter family which had owned the *Times* until 1908).⁴⁶ Northcliffe died on August 14, and the Administrator of the Estate George Sutton set to work on the sale of the property. The Northcliffe’s controlling stake of 78% of the voting shares – known as “Northcliffe’s interest”— were sold in bulk with John Walter having purchase option that practically gave him the right to match the “best price”, whoever would provide it.⁴⁷ Various approaches and more or less formal bids were made to purchase this stake. Initially, John Walter and Astor’s banker thought they would pay “in the neighbourhood of one million pounds” but the stakes were raised when (on October

⁴⁶ The following narrative is based on the detailed account in the *History of the Times*.
⁴⁷ On Walter’s option and its subtleties, see *History of the Times*, Chapter xvii and in particular p. 720.

19th) Northcliffe's own brother, press tycoon Rothermere came up with £1,350,000.⁴⁸ This price was then matched by Astor-Walter and they thus acquired the *Times* newspaper on October 23rd.⁴⁹

If we go by the language used in contemporary accounts, the impression is that the value of goodwill was very large. All the other purchase schemes which other potential bidders had worked upon ranged between £900,000 and £ 1,050,000.⁵⁰ According to W. B. Peat (the Chartered Accountant Sutton had hired to assess the property) £1,350,000 was a “fancy” price. Surrounding correspondence reported in *The History of the Times* refers to the purchase price as a “stupendous sum” and “a figure that no business man, no banker, no investor would for a moment think of equaling”.⁵¹ Astor's banker reported being shocked.⁵² Peat related the price to “peculiar political circumstances”.⁵³ *History of the Times* (p. 757 ff) argues that the price was intended to discourage Walter's whose financial backer (Astor) was unknown to Rothermere. The higher bid, Astor's banker and counsel emphasized, made “all the difference between buying *The Times* as a business and buying it as something else”.⁵⁴ The conventional reasoning was that the price Rothermere had pushed for was not “a commercial price” – and thus there would have been a very large influence premium. But how large? Was it larger, as a share of total value, than for *Le Temps*?

Measurement of the control premium in the case of *The Times* raises further complications compared to *Le Temps*. First, unlike what was the case for *Le Temps*, there were no pure dividend rights, and thus no simple way to assess the commercial value of the newspaper.⁵⁵ Second, Northcliffe was a professional trader in influence (he was famous for having said that when he wanted a peerage he “would buy it, like any honest man”). He is described by critics as having undertaken before his death a process of transformation of the newspaper that precludes a simple assessment of its economic

⁴⁸ From *History of the Times*. Astor-Walter bid: p. 747

⁴⁹ *History of the Times*, p. 766.

⁵⁰ *History of the Times*. Ellerman (a minority shareholder) had a £1,050,000 scheme (p. 717). The Lloyd George-Lord David Davies bid set the property of the Northcliffe's interest to £900,000. (p. 719). See appendix 4.

⁵¹ *History of the Times*, p. 764.

⁵² *History of the Times*, p. 764.

⁵³ *History of the Times*, p. 758.

⁵⁴ *History of the Times*, p. 764

⁵⁵ *The Times*' preference shares gave rise to a fixed coupon and a fraction of the profits. Extracting the value of the dividend right from the price of preference shares requires non-trivial assumptions about risk aversion. Moreover, data for preference shares is scarce.

value based on recent experience. For that reason, we conservatively provide benchmarks – boundaries within which the true value of the business, and thus of influence, must lie.

In the first scenario, we set the value of a right to future dividends using the price of OTC (over-the-counter) transactions in voting shares that occurred just before the death of Northcliffe. As Northcliffe fully controlled *The Times* and these transactions could not possibly help secure control, they may be taken as a good proxy for dividend rights. Based on this reasoning, which sets the pure dividend right somewhere around £1, we obtain a (in round figures) 52-48 breakdown between commercial and control value at the time of the purchase (see table A.4 in appendix 4 for details).

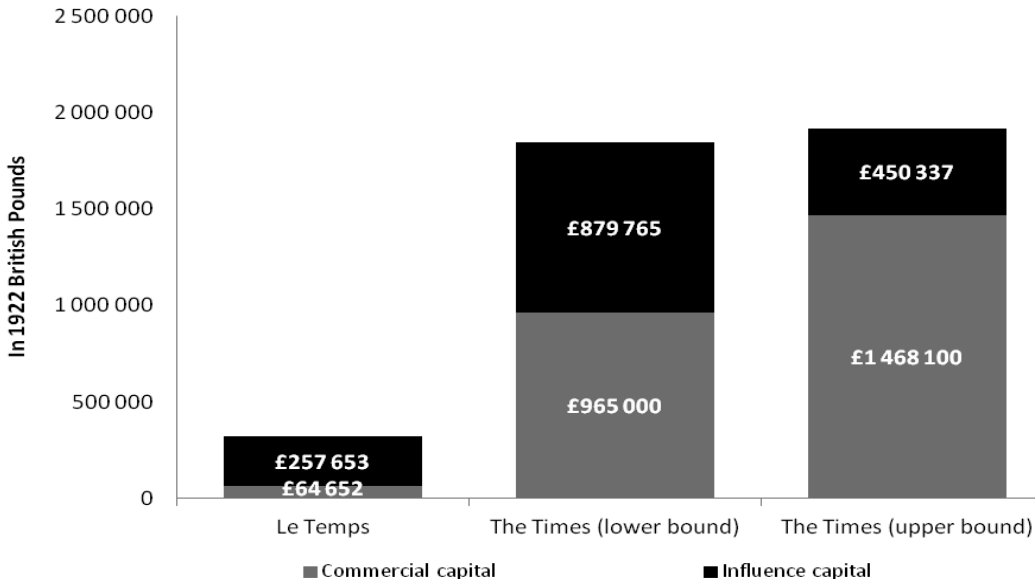
On the other hand, the very involvement of accounting experts (such as Howard Frank, land adviser to the Ministry of Munitions or the accountant W. B. Peat) in the valuation of *The Times* at the time of the purchase suggests a concern with the economic returns and this is setting the value of dividend rights higher. (Incidentally, this underscores a striking difference with *Le Temps* for whose valuation no technical expert was involved. But is a professional accountant the right person to ascertain the price of future bribes?). Bids were discussed in relation to expected *visible* dividends to shareholders, which auditors took as the primary source of revenue and the sole basis for assessing *The Times* (reflecting the concerns potential acquirers of *The Times* had regarding getting the economic profitability right).⁵⁶ In setting his “high price” Rothermere appears to have also considered the commercial value. He expected large revenues from *The Times* (mention was made of £250’000 as the newspaper’s potential net annual earnings).⁵⁷ In the end, it is obvious that a proper measure of the price of goodwill is what we need. Additional evidence in support of the view that the dividend right might have been higher is found in the fact that the price paid did not make the investment a financial disaster. For instance, only two years after the purchase (1924), the 505,997 ordinary shares purchased at £2.67 a piece would pay-out £63,250 a price-earnings ratio of 21.4 and results would further

⁵⁶ For instance, Ellerman thought he could buy Northcliffe’s stake for about one million, pay a fixed 10% dividend, and still leave an upside for himself. *History of the Times*, p. 717.

⁵⁷ *History of the Times* p. 748, “Rothermere’s plans were well laid. He knew better than any man what *The Times* was worth and what could be done with it. Rothermere, with his unique experience of newspaper management and knowledge of finance had satisfied himself that, conducted without extravagance, *The Times* would average a yearly profit of a quarter of a million”.

improve later.⁵⁸ This provides foundations for a second scenario with higher dividend rights. To be on the safe side, computations are made using the most conservative offer at £1.78 (the Lloyd George-Davis bid). With such numbers, we get an influence premium of about 25%. And thus we conclude that, whatever the exact share of influence capital within the 25%-50% bracket, *The Times* stands in contrast with the estimate reported above for *Le Temps*, where influence dominated (80%).

FIGURE 3: THE COMMERCIAL VS. THE INFLUENCE VALUE OF *THE TIMES* AND *LE TEMPS*⁵⁹



Source: Authors; See Text.

Figure 3 now plots the resulting breakdown of the value of *The Times* between the commercial and control capital and compare them with those computed for *Le Temps* (converted in 1922-pound sterling). As seen, the two journals were about different trades. Another striking difference is the relative sizes of the total capital (economic and goodwill). Tall *Times* towers over tiny *Temps*, as if to illustrate Bloch’s statement that *The Times* was “infinitely” superior to *Le Temps*. A consequence of this is that the *total value* of political influence was much bigger for *The Times*. This is intriguing,

⁵⁸ Authors calculations based on *History of the Times*, pp. 711, and 765-766, as well as dividend data collected from Burdett, *Stock Exchange Official Intelligence*.

⁵⁹ To obtain the value in British Pounds in 1922, numbers for *Le Temps* were converted into 1929 £ (*Statistical Year-Book* of the League of Nations) and then into 1922 British prices using the consumer price index in Mitchell *International Historical Statistics*, p. 842. The converse operation would give a “bigger” total capital for *Le Temps*, owing to the well known problem of the under-valuation of franc Poincaré, without altering conclusions.

important, but not surprising: Influence comes from greater credibility, which is itself supported by a larger readers' base. You cannot publish crap and sell it to readers, too.

5. TIME INCONSISTENCY (NO PUN INTENDED)

We now extend the discussion by opening new perspectives on the governance of newspapers. Comparison between *The Times* and *Le Temps* shows that the “universal” trade-off between visible and invisible revenues can have dramatically different results. All journal owners face the temptation to use the journal to secure influence. We found that if a journal has a large readership, it does enjoy greater credibility, which also increases the incentives for exploiting readers.

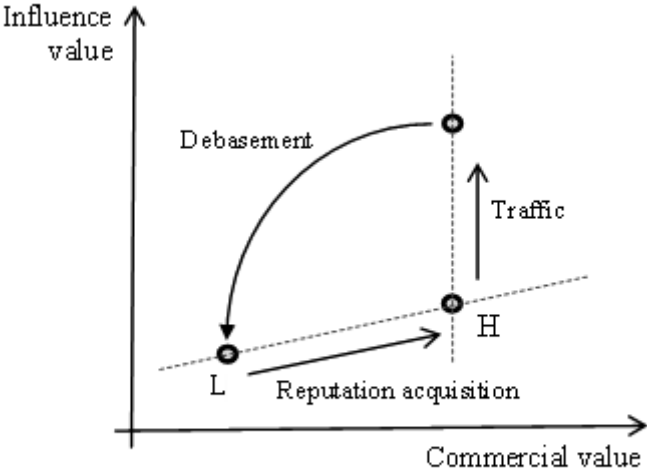
The problem, in essence, is similar to that studied in classic treatments of monetary policy credibility and the study of the anchoring of inflation expectation. The journal owner, just like the central banker who is tempted to make an “inflation surprise”, faces an incentive to establish credibility and then use it through trafficking. While this will inexorably destroy reputation, it may still be worth doing because of the short run benefits created by the very nature of newspaper business. News are an experience good because information asymmetry resolves through time and years may be needed before the occurrence of events that contradicts openly the distorted facts flagged in some media. It took the 1940 defeat for Frenchmen to realize that France was not in so good shape, it took the Soviet-German pact of 1939 for Frenchmen to realize that Soviet Union was not a natural ally of France, etc. One needs to see how situations evolve to learn how good or bad a newspaper is. An interesting issue therefore is the reasons that determine a journal's ability to resist the temptation. This is a vast and unexplored topic, which we approach through two focused variations.

a) A debasement cycle: Evidence from Le Petit Parisien.

The above comparison between the journal owner and the central banker translates into some simple hypotheses or predictions regarding the mechanics of debasement. We start from a situation in which a journal aimed at selling news to readers, which come naturally with the ability to influence them, too. But it did not exploit this ability too much. If the journal increases its reputation, it may attract more

readers and this will also increase its influence value. There should therefore be a positive relation between commercial value and influence value as in Figure 4. Now suppose that, at the origin of time, the newspaper is located in a high credibility equilibrium (point H). Now starting from there, suppose that the journal owner starts selling its influence, thus looting the newspaper. As long as he is not found out, he manages to improve his situation, by increasing revenues from trafficking while revenues from the selling of news are stable: There is vertical relation between commercial value and trafficking value (for a given commercial value, increasing traffic increases returns). However, sooner or later he is found out with the result that readers reduce their demand (thus reducing the commercial value) while the ability of the journal to traffic declines dramatically (precisely because it has been found out). Eventually, the journal reaches a low credibility equilibrium characterized by reduced sales (lower commercial value) and reduced ability to traffic (point L). It may also be, as we saw earlier, that at this new point the share of traffic in total value is higher than for the high credibility point (think of it in terms of the contrast between *Times* and *Temps*).

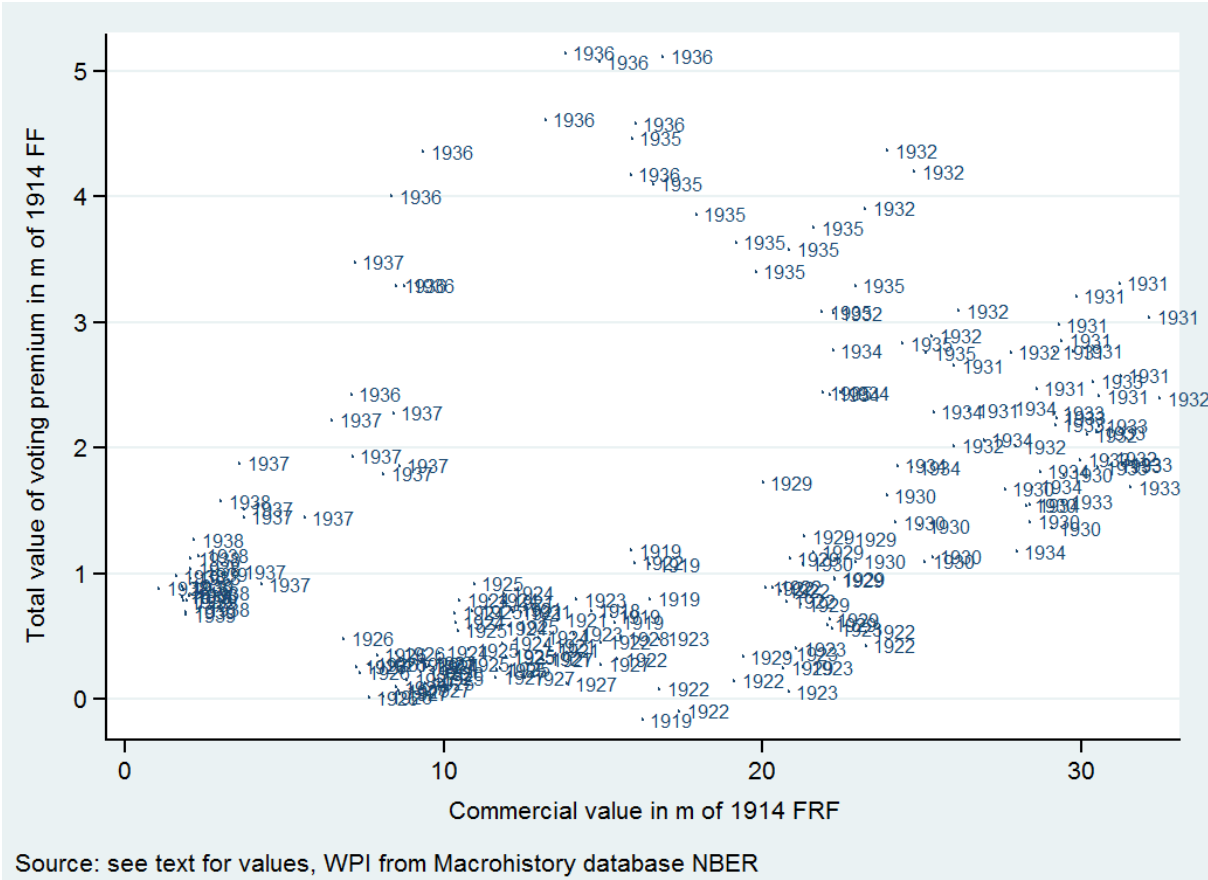
FIGURE 4: THE LOGIC OF JOURNAL DEBASEMENT



Now, suggestive evidence supporting the logic of this “debasement cycle” may be garnered from the experience of *Petit Parisien*, which as we suggested, was probably more credible at the beginning of the period, as a former leader and successful journal, than at the end, when it surfaced that it had dealt with some foreign powers and began losing readers at an increased rate. Using the same

background data as in Section III on pure dividend rights and the voting premium (used as a proxy of the influence value), figure 5 provides a scatter plot of commercial and total voting premium for the interwar period (1919 to 1939). Each observation corresponds to a given month in that period. To ease reading, we only print the year label. Four phases are identified and they nicely “circle” counter-clockwise, as suggested by the debasement story. First, during the initial period (the 20’s), we observe a stable positive relation between commercial value and influence value. With the beginning of the 1930s however, our indicator of the control value begins to rise “alone” (suggesting looting) and after a vertical increase, starts being negatively correlated with the commercial value (because people begin to figure out what is happening). After 1936, debasement accelerates: both the commercial value and the total value of the voting right decline dramatically. The new equilibrium is reached in 1938-1939 (last phase), when a debased *Petit Parisien* is found living on subsidies and traffic.

FIGURE 5: *PETIT PARISIEN*, BUSINESS AND INFLUENCE FROM DEC. 1918 TO DEC. 1939



As indicated, in the final phase, the trafficking share becomes very high. This is consistent with the idea that the newspaper is living on a kind of subsidy explaining why the relative share of control value increases as we saw in an earlier section. This can be understood in relation to our argument on the role of repressed competition. Members of the cartel protected one another, so that although French journals ended up in bad informational shape, and thus commercial shape, they nonetheless retained some of their entries. Another related interpretation would emphasize the role of foreign subsidies. Indeed, it may be optimal for foreign powers to keep debased journals in business through bribes and other subsidies, so as to delay the emergence of new journals. Obviously, these two interpretations complement one another.⁶⁰

b) Constitutions and commitments

Another suggestion that arises naturally from recasting the problem in the language of central bank credibility and time consistency of monetary policy is the relevance of institutional fixes. This can be used to reinterpret the discussion we found in the *History of the Times*, of the emergence, following the purchase of *The Times* in 1922 by the Astor-Walter partnership of an original constitution. The process had three milestones. First, on September 27th 1922, when the pair between Astor and Walter was formed with the goal to secure control of *The Times*, Walter brought into the discussion the suggestion to introduce a form of divorce of ownership and control. Editorial responsibility being shared by both Walter and Astor, but with appeal to a “Board of Governors”. Financial control would be “with the majority of shares” (meaning Astor, at least, to begin with).⁶¹ The idea that an original constitution was needed stabilized when it turned out that Astor had to put out additional cash to defeat the Rothermere offer. Grant (his banker) then declared that the *Times* could no longer be bought as a business but “perhaps, as a trust”.⁶²

⁶⁰ The reader should keep in mind that prudence is required in drawing such interpretations this since we are dealing with the voting premium, not the pure control value.

⁶¹ *History of the Times*, p. 747.

⁶² *History of the Times*, p. 764.

As discussion went on regarding the proper form of the Trust and the corresponding constitution, the next milestone was provided by the *Memorandum* which Geoffrey Dawson transmitted to the new proprietors as a condition for his accepting the job of Editor. The *Memorandum* separated the newspaper into a money making and a “public guidance” function and stated that the two objectives could only be addressed if the Editor, while responsible “in bulk” before the Proprietors who could hire and fire him, would retain, as long as he would be in charge, a seat in the board and full control over the entire editorial line including news, letters, pictures, captions, supplements, appointments of journalists as well as “final authority to strike out any advertisement whatever which in his opinion is mischievous” – in sum, as Dawson himself put it, a “free hand policy”.⁶³ (We are told that the goal for Dawson was to make his position “bomb-proof” – he had been Editor under Northcliffe and had repeatedly clashed with him on these matters).⁶⁴ Upon written acceptance of those terms by Walter and Astor, Dawson assumed editorship.

Finally, after a somewhat drawn out process, the new constitution of the *Times* was publicly announced on August 7, 1924. The central feature of the new Constitution was the creation of a Committee of Trustees comprising, *ex officio*, a number of members of the British (Conservative) Establishment.⁶⁵ The trustees, who had no role in the management of the newspaper, had full control over the transfer of shares. They were instructed to approve share transfers subject to two conditions “a) maintaining the best traditions and political independence of the *Times* newspaper and national rather than personal interests and b) eliminating as far as reasonably possible question of personal ambition or commercial profit”.⁶⁶

Put together these elements implied a clear delineation of a predominantly financial interest (the proprietors, mostly Astor) and a “readers” interest. The financial interest had control over the choice of the Editor, but the Editor, once appointed, had a free hand over the newspaper. Astor was not expected to interfere with editorial policy. The Editor was supposed to deliver a good quality product that would

⁶³ *History of the Times*, p. 779-80.

⁶⁴ Taylor, “Northcliffe and Dawson”.

⁶⁵ The Lord Chief Justice, the Warden of All Souls, the President of the Royal Society, the President of the Institute of Chartered Accountants, and the Governor of the Bank of England.

⁶⁶ *History of the Times*, p. 791, Royal Commission on the Press, p. 236.

attract readers and deliver value. It was recognized that Astor's capital outlay deserved a protection of his capital (this was especially so, given the extra financial effort that matching Rothermere's bid had required). The Board of the newspaper saw to it that the newspaper would have to be profitable – through visible revenues -- explaining why subsequent financial reports recorded the yield on Times Publishing Cy, Ltd, as a share of “the capital [initially] invested by the Stockholders and Shareholders of The Times Holding Company Limited”.⁶⁷ On the other hand, attempts by Astor to try to “cash-in” the value ownership of *The Times* by selling his shares were made impossible by the existence of the committee of trustees with veto right over share transfers.

In a sense, one unintended consequence of the large Rothermere bid had been, by forcing Astor to come up with more money, to create a kind of pre-commitment. The expenditure made to purchase the *Times* was acting as the sunk cost of standard industrial organization theory, now forcing the purchasers to come up with a successful product. Given the high price, efforts would have to be made to raise revenues, explaining why what Bloch called the “more informative” *The Times* has been observed to be more capitalized, too (Figure 3). Since Astor could not cash in his “ownership” of *The Times* except through visible revenues, he was firmly enlisted in the cause of profitability. And sure enough *The Times* managed to reach satisfactory levels profitability, even considering the high purchase price. Ten years after the purchase, Astor and Walter had recovered 42.67% of their initial investment through dividend payments (or 62.1% if the newly retained earnings of this decade are included).⁶⁸ Dividend payments represented an annual real return of 3.62% during the 1923-1932 period (or 4.95% if newly retained earnings are included). These achievements may be compared to those of the purchasers of *Le Temps* who lost most of their initial investment.⁶⁹

⁶⁷ See “Directors Report and Accounts to 30th June 1928” Guildhall Library, 1928: “These rates of dividends represent a return of approximately 5 ¼% on the capital invested by the Stockholders and Shareholders [in 1922]”

⁶⁸ The yearly flow of dividends was deflated using the CPI published by Mitchell, *International Statistics*, p. 849 and sums over the 1923-1932 period to give a total of 575'991 Pounds. This amount was then divided by the purchase price of the 505'997 shares bought in 1922. Dividend payments and retained earnings published in various issues of Burdett and the Financial Times. Retained earnings accrued to ordinary shares only (Burdett, 1931, p. 1046).

⁶⁹ Dividend payments brought back 0.95% only of initial investment. This is an average annual real return of 0.09% per year (0.41% if we take into account newly retained earnings held in the reserve constituted). The collapse of stock prices following debasement of the newspaper was the main source of losses. Sources for this:

While *The Times* and *Le Temps* were only two journals, their experience was not only emblematic (as Bloch believed), but also representative. The mechanics we have unpacked may be extremely general and applied to the two countries' respective presses at large. As the British Royal Commission on the Press of 1947-1949 argued the "trust" arrangement adopted by *The Times* was not an isolated solution: "One of the most interesting developments of the last 25 years has been the appearance of what The Daily News Ltd. D [whose managers had been interviewed by the Commission] described as 'voluntary agreements of owners to limit their own sovereignty in the public interest'". In France, by contrast, as far as we can tell, such schemes intended to reduce the power of owner and promote the interest of readers were the exception, and in any case short-lived.⁷⁰

Of course, the British "solution" did not safeguard from the tractions of Nazi Germany. Cockett's discussion of Dawson (still the editor of *The Times* during Appeasement) shows this clearly.⁷¹ To continue with the monetary policy metaphor, independence of the conservative central banker does not prevent the central banker from falling in love. But it protected information production, and the desire to maintain high standards with the result that even when Dawson preached Appeasement and limited the visibility of articles by anti-Appeasement journalists, the *Times* newspaper released information that could help think against Appeasement. This was certainly much better than the situation in France, and offered Britain, in addition to the Channel, another line of defence against Nazi Germany.

CONCLUSIONS

This paper studied the combined effects of a very general problem with journals and a very specific problem with France. The general problem is that those who control journals are tempted to loot them. Journals are about information provision but as they acquire readership, they are about influencing opinion, too. There is a temptation to debase newspapers for personal gains. "Institutional fixes" do help to refrain owners from being tempted by guaranteeing the independence of the editorial line and

Dividends and retained earnings from *Annuaire Desfossés*, deflated using the CPI published in Mitchell, *International Statistics*. Details of computations available from authors.

⁷⁰ Dubasque, *Hennessy* describes the attempt by *Quotidien* to safeguard quality using institutional fixes.

⁷¹ Cockett, *Twilight*, p. 27-30, 64-6.

by creating the incentives to promote the commercial value of newspapers. The specific problem with France was the existence of a press cartel, which aimed at checking the emergence of competitors. The cartel helped to make things worse, by extending the period during which journal owners enjoyed debasing their paper (since they could do that for a longer time before triggering the entry of competitors). This explains why interwar France is an especially suitable case study of media capture.

Building on this “favorable” context we have argued that readers and the minority shareholders of journals are in the same incentive group. This led us to recognize that the control premium is a valid indicator of the exploitation of journals by their proprietors and discovered that the situation deteriorated during the 1930s exactly as described qualitatively by earlier authors and contemporary observers. Further elaborating on our theoretical insight we decomposed the value of the then leading French and British conservative newspapers according to commercial capital (entitled to dividend only) and influence capital. We found that the share of influence capital was much bigger in France but more importantly, we saw that this went along with a much smaller total capital value in France. This makes perfect sense, because who would invest in a newspaper when the name of the game is looting and debasement? In other words, what our analysis suggests is that the newspaper industry can exhibit significant differences in capitalization across countries, which may be taken as indicators of the underlying health of political systems.

This economic analysis provides a new insight on the problems of interwar France -- one that differs from the conventional wisdom. The key difficulty was not “money” and its “corrupting power” as historians such as Jeanneney argue. Money might have been helpful and more money beneficial, if it had been parked in the books of newspapers and had led to hiring well-paid journalists, or if the papers had been in a position to use pressure from one part to resist the other. But this is not what happened. Instead, those who run the journals put the money into their pockets. The reason for this was the combination of the incentive to debase, of the inability to design institutional fixes and finally of the cartel, which led to the eventual quality disaster. In sum, the problem was governance within a context of repressed competition.

There are other questions whose study should be motivated by the findings in this paper. In particular, we wonder how come that French corporate leaders failed to implement the sort of solutions that their British counterparts adopted. Answer to this question may hold the key to the more difficult issue of ascribing responsibilities for, and passing judgments upon, the origins of France's 1940 debacle against Nazi Germany. Various groups and constituencies might have had an interest in a high quality press, but it seems that the corporate sector was not among them (unlike the situation in Britain). This failure of France's corporate interests to address the governance problems of its press is particularly strange in view of the creativity that existed in this country when it came to tailoring corporate charters to address incentive problems and the consequences on management of asymmetric information. In other words it is not that they could not adopt arrangements in the British style, rather that they would not. Mediocrity, it seems, was their chosen strategy.

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Appendix 1: Returns on newspaper acquisition.

The financial performance of journals is measured using three indicators. First, we compute the price earning ratio using the reported earnings per share of the year of acquisition and the price per share paid by the acquirer. Second we compute the price-to-dividend ratio using the accrued dividend during the year of acquisition and the price per share. Finally, we compute the average real return during a five-year period from the purchase of the journal using the stock market price of a share.⁷²

TABLE A.1. PERFORMANCE OF NEWSPAPERS

	Le Temps	Le Temps (Non voting)	Le Figaro	Petit Journal	Petit Journal	Petit Journal
Year of purchase	1929	1929	1922	1919	1932	1937
Purchase Price (current MFF)	25	--	10.6	Unknown	33 (a)	9-23 (b)
Price at purchase Earnings Ratio	52.76	NA (c)	80.5	NA (d)	NA (d)	NA (d)
Price at purchase Dividend Ratio	398.7	NA (c)	75.7 (e)	NA (d)	NA (d)	NA (d)
Dividend return on purchase price	1.9%	NA (c)	1.24%	NA (d)	NA (d)	NA (d)
Annual real return	-22.78%	-11.72%	-10.26%	-11.63%	-20.60%	-21.16%

Sources: See text; *Le temps*: Jeanneney (*Wendel*, p. 456); *Figaro*: Albert (“Difficile adaptation”, p. 539); *Petit Journal* 1919, Kupferman and Machefer (“Presse et politique”, p. 10); *Petit Journal* 1932 (“Presse et politique”, p. 10); *Petit Journal* 1937: Albert (“Difficile adaptation”, p. 518) and Kupferman and Machefer (“Presse et politique”, p. 37).

Notes:

- (a) This comprises the purchase price (17 MFF) and a capital injection of 16 MFF; Kupferman and Machefer (“Presse et politique”, p. 10).
- (b) Kupferman and Machefer (“Presse et politique”, p. 37) provide two diverging contemporary sources proposed 9 m or 23 m (4.8 or 12.2 m of 2009 Euros).
- (c) Non-voting shares were not purchased by acquirers.
- (d) One element of the ratio is not available.
- (e) The reserves was lowered to increase the dividends paid in 1922 (by 40,000 FF on top of the 632,000 1922 earnings), explaining a price dividend ratio lower than the price earning ratio.

Appendix 2: Characteristics of the various equities of *Petit Parisien* and *Le Temps*.

The 1867 established the “one share, one vote” principle as the default rule for shareholders’ general assembly (GAs) of joint stock companies (*Sociétés par actions*) but did not restrain the freedom of the company promoters to write constitutions organizing voting rights in as they wished. For instance,

⁷² . This measure is different from the two previous ones, which compare performance to prices paid to secure control (as opposed to market price). When available, prices paid to secure control would magnify losses.

limits could be put on the minimum and maximum number of votes per groups of shares. It was possible to create shares without voting rights.⁷³ Voting rights and decision-making for listed companies had to be disclosed. We collected them from *Annuaire Desfossés*.⁷⁴ For both *Le Temps* and *Petit Parisien*, two types of stocks coexisted. One type had voting rights while the other was non-voting but both entitled the holder to the exact same amount of dividend and both limited the liability to the same extent.⁷⁵ Ten *Petit Parisien*'s ordinary shares gave one vote.⁷⁶ Non-voting shares were known as “profit shares” (*parts bénéficiaire*⁷⁷). For *Le Temps*, one voting right was given to every two ordinary shares (“*actions de capital*”) and until 1931, there was a limit of 20 votes which was subsequently removed.⁷⁸ Non voting shares are represented by *Le Temps*' “*actions de jouissance*” which were converted in 1931 into new non-voting shares now called “profit shares” (*part bénéficiaire*).⁷⁹ Other characteristics of these non-voting shares remained unchanged.⁸⁰

⁷³ Lyon-Caen et Renault, *Droit commercial*, p. 330-2 ; Percerou, *Droit Commercial*, p. 406 ; Hannah, “Divorce”, p. 409-10.

⁷⁴ Besides the provision of the status on which we relied to derive the rights of each share, it is possible that some further arrangements existed between shareholders. This may matter for the valuation of stocks and voting rights, but, as no information is available, we abstain from this complication.

⁷⁵ One difference between both types of share is that in case of liquidation of the company, the voting share were senior and the nominal capital of the share had to be reimbursed before the sharing of any liquidation surplus. Notice that when the liquidation ended up with negative net assets, then both types of shares did not get anything from the procedure.

⁷⁶ See for example *Annuaire Desfossés*, 1923, p. 1132. The voting right did not change during the period.

⁷⁷ Article 1 of the 1929 law proposed a definition of *part bénéficiaire* as being shares materialized in negotiable certificates that entitle to a share of the profit without granting any right in the capital of the company nor the status of partner (*associé*). Percerou (1931, p. 405), in his comment of the 1929 law, noted that this provision essentially regulate an already existing institution. He further added that the fiscal jurisprudence considered their holder as equivalent to bondholders (which reflect the fact that they were not partner in the company) although they gained in 1929 the right to attend GMs (but not to vote). They were also entitled to veto change in the legal status of the company (such as change from limited partnership to public company); See Desfossés, *Annuaire*, 1939, p. 2189.

⁷⁸ Before 1909 only 1,800 capital shares existed.

⁷⁹ *Actions de jouissance* had no right to vote at GMs of the shareholders, see *Annuaire Desfossés*, 1931, p. 1254 (“Il a été créé en outre 2,500 actions de jouissance, sans valeur nominale, n’ayant pas droit d’assister aux assemblées générales”). On the characteristics of non-voting shares after 1931, see *Annuaire Desfossés*, 1933, p. 1294 or 1937, p. 1478. Exactly as in the case of *Petit Parisien*, the status were amended so that only “*actions*” and not “*parts*” were entitled with the right to vote.

⁸⁰ Cf. for exemple *Annuaire Desfossés* 1907 (p. 656) or 1910 (p. 770), 1929 (p. 1222) “The actions de jouissance ne donnent pas droit d’assister aux Assemblées générales”. On post-1931 change, see *Annuaire Desfossés*.

Appendix 3: Computation of the control premium of *Le Temps* and other journals

Calling P_v the price of a voting share in the transaction that gave some control right to the buyer, P_{nv} the price of a non-voting share and N_v (resp. N_{nv}) the number of voting (non-voting) shares, we have

$$N_{nv}P_{nv}+N_vP_v=V+B$$

where V is the present value of the verifiable income and B the present value of the non-verifiable income (“political rents”). Since $V= N_{nv}P_{nv}+N_vP_v$ the present value of visible income equals the number of non-voting shares times the price difference between voting and non-voting shares:

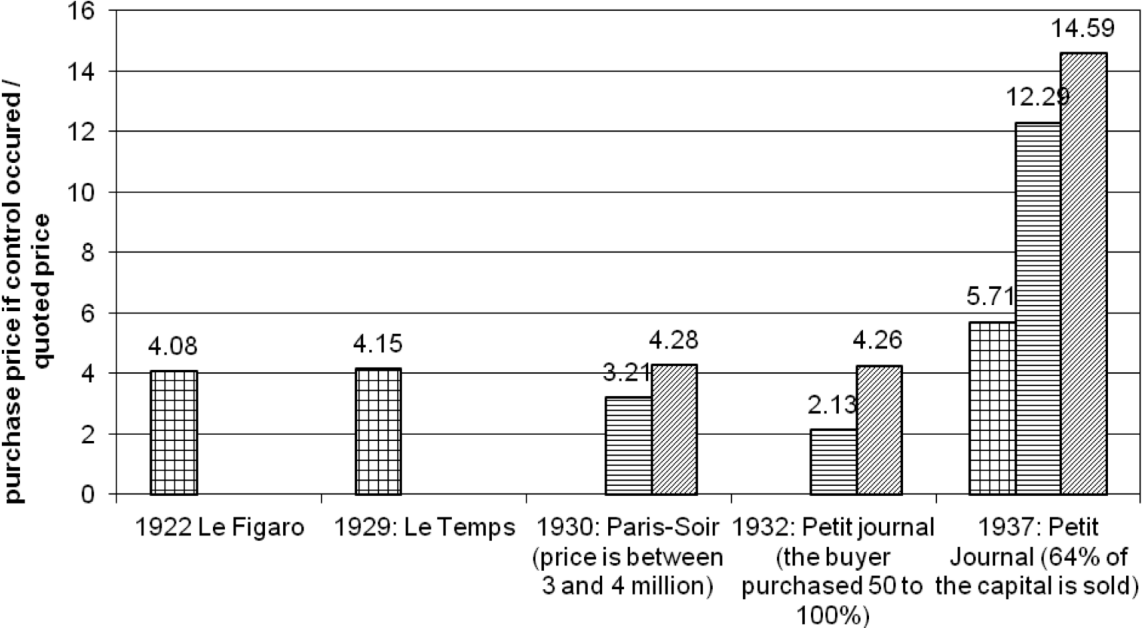
$$B=N_{nv}(P_v-P_{nv})$$

In April 1929 1269 ordinary shares (50.76% of the capital) of *Le Temps* were sold for 25 million of Francs, including 8 million paid on credit remunerated at 5% (Jeanneney, page 456). The purchase price in this transaction was then 19,937 FF while one of those share for 4,800 FF on the market and profit shares (*actions de jouissance*) for 1,470. The price of the voting right on the market was then equal to 3,330 Francs per share which valued the influence capital retained by the public at 4.1 million (1231*3330) while the voting right of the controlling stake is valued at 4.226 million. Acquirers bought a commercial capital equaled to 1.865 million (1269 shares times 1470 FF) and the public retained a commercial capital of 5.04 million. The commercial capital held by all shareholders was then valued 6.9 million. The control premium – the price paid by the Consortium for deciding the paper policy – is derived as the difference between the price at purchase (19,937) and the price of this share on the market (4800). It equaled to 15,137 Francs per share or 19.2 million for the 1269 shares.⁸¹ The control value is derived as the sum of the control premium and the value of the voting rights. It totaled at 23.43 million (19.2+4.23). Summing this number to the commercial capital and the value of voting right retained by the minority gives the total value of *Le Temps* (34.443 million). The commercial capital represents 20% of this sum.

⁸¹ The ratio of the control premium over the voting premium equaled to 4.54 (15,137/3330) and the ratio of the control premium over the price of a voting share equaled to 3.15 (15,137/4800).

This exercise cannot be replicated to other newspapers because they did not have issued non-voting shares. A comparison can however be attempted by computing the ratio of the price of an ordinary share during take over with its price during normal period. We labelled this ratio the control premium.⁸² Figure A.1 presents the control premium and shows that it amounts at a minimum of two while the mode levelled at 3. Listed prices of ordinary shares are from *Cote Officielle de la Bourse*, purchase prices from appendix 1 except for the *Paris-soir* take-over by Prouvost, which was “between 3 and 4 million” (Albert, 1972, p. 523-4) while normal price come from a July 1929 over-the-counter transaction of a minority stake at 340 FRF (Archives Paris-soir in Archives *Le Journal*, 8AR 418).

FIGURE A.1. : THE CONTROL PREMIUM OF VARIOUS NEWSPAPERS



Sources : authors’ computation, see text for references.

⁸² Here normal period referred to a period during which the sales of the stock was not accompanied by a change of the majority.

Appendix 4: The sale of *The Times* in 1922

TABLE A.2. SHARE OWNERSHIP BEFORE/AFTER SALE

	At Northcliffe's death	After purchase is completed
Total ordinary shares ^(a)	645'000	645'000
	(100%)	(100%)
Northcliffe's Estate	505'997	0
	(78.5%)	(0%)
Ellerman	128'424	0
	(20%)	(0%)
Walter-Astor ^(b)	400	634'821
	(0%)	(98.5%)
Unaccounted for ^(c)	10'179	10'179
	(1.5%)	(1.6%)
Total preference shares ^(a)	320'000	320'000
Northcliffe's Estate	20'986	n.a.
Ellerman	46'095	n.a.
John Walter	41'502	n.a.
Arnholz, Sutton & Ellis	51'500	n.a.
Others ^(d)	68'166	n.a.
Unaccounted for ^(c)	91'751	n.a.

Source: Authors from *History of the Times*, p. 711 and *Stock Exchange Official Intelligence* (SEOI), 1922, p. 956-7. Notes: (a) From SEOI. (b) at Northcliffe's death, number of ordinary shares corresponds to John Walter's own; afterwards, number corresponds to the Astor-Walter acquisition. (c) Difference between SEOI and breakdown in *History of the Times*. (d) Total others from *History of the Times*.

TABLE A.3. DATA ON OTC SALES OF VOTING SHARES

Seller	Buyer/Bidder	Price per share (£)	Number of shares	Date
Before Northcliffe's Death				
John Walter	Ellerman	1.125	10'700	June 15, 1922
After Northcliffe's Death				
Ellerman	Stuart [for Astor-Walter]	1.25	128'424	Oct. 7 & 10, 1922
Auctioning "Northcliffe's Interest"				
Northcliffe's estate	Cowdray	1.97	505'997	Sept. 8, 1922
Northcliffe's estate	Ellerman	2.07	505'997	Sept. 8, 1922
Northcliffe's estate	Lloyd George-Davis	1.78	505'997	Sept. 21, 1922
Northcliffe's estate	Astor-Walter	1.97	505'997	Oct. 23, 1922
Northcliffe's estate	Rothermere	2.67	505'997	Oct. 23, 1922

Source: Authors from *History of The Times*, p. 717, 719, 735, and 743. The Cowdray, Ellerman, and Lloyd-George bids were never formally communicated. There was also a sale from Walter to Northcliffe on June 15 1922, which occurred at par value reflecting underlying agreements between the two men and not "market" price. For details on this transaction and background see *History of Times*, p. 126, p 643, in return for chairmanship.

TABLE A.4. DECOMPOSITION OF THE TIMES' VALUE IN 1922

	Value of Capital (with dividend rights of voting share @ £1)	Value of Capital (with dividend rights of voting share @ £1.78)
Total Commercial Capital of which	965'000	1'468'100
645'000 voting shares (ex voting rights)	645'000	1'148'100
320'000 preference shares at £1 (a)	320'000	320'000
Total Influence Capital of which	879'765	450'337
Northcliffe's Interest (505'997 shares) @ [2.67 minus price of dividend right]	845'015	450'337
Ellerman's share (128'424 shares) & Rest (10'579 shares)	34'750(b)	0 (c)
Total Capital	1'844'765	1'918'437
Share commercial (%)	52.5%	77%
Share influence (%)	47.5%	23%

Source: Authors' computations, see text.

Notes

- (a) Price suggested by letter to Astor, in *History of Times*, p. 731, where reference is made to "one hundred thousand shares" paid for "one hundred thousand pounds" in the form of "5 per cent. Preferred Ordinary shares". Market prices for preference shares reported in *Financial Times* of Tuesday, June 10, 1919 (Unquoted Securities section, p. 10) gives s 16 1/8 per share or about £ 0.81, making the figure we use a reasonable guess.
- (b) Ellerman's shares and Rest are priced at premium over reported OTC price in the only post-Northcliffe's death, pre-purchase transaction for which we have evidence or £0.25 (£1.25-£1). We might set it at zero (as in (c) below) without this affecting the flavour of the result.
- (c) For the second scenario, we lack a reasonable counterfactual OTC price for voting non-control shares (we cannot use a price below 1.78, and thus 1.25 is not a reasonable benchmark). The scenario assumes that since the Northcliffe's interest gives full control the voting premium of all other voting shares is zero. An alternative would be to set the voting premium at the control premium (£ 2.67). This would give commercial capital 1'468'100, influence capital 574'049 (=450'337+123'712), total capital 2'042149, share influence 28%. The truth is between these extremes and the difference is immaterial.