The Price of Media Capture in Interwar France*

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Abstract

This paper develops a new insight for the empirical study of media capture. Capture is impossible to observe but its value should be reflected in transactions involving journal stocks. Interwar France provides a unique setting to document this because key newspapers floated voting and non-voting stocks. Combined with takeover prices, this data yields estimates of amounts paid by owners to capture journals and of the time series evolution of this price. Comparison with Britain suggests that Britain protected its newspapers better. These results are also interesting for the light they shed on the French history.

Key words: Media, governance, minority shareholders, control premium, corruption, Interwar, France

JEL: D72, G34, L82, N24, 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 capture. Our contribution is thus both analytic and empirical. 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 to 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 but we suggest that similar ideas might be used in other contexts. We motivate the choice of interwar France, because the period and place are famous for having seen newspapers looted by their owners. This was argued, first by a number of French Resistants or exiles, such as Kerillis, Lazareff, and most famously in the celebrated work by economic historian Marc Bloch *L'étrange défaite* ("The strange defeat"), where Bloch (later murdered by the Nazis) faulted France's debasement of its media for the country's debacle against the German Reich.[1] Subsequent historians have corroborated aspects of this account emphasizing the political trafficking and corrupt habits of French journalism. During the interwar, a cartel agreement between incumbent newspapers (owned and controlled by incumbent politicians) did complicate entry and limited the supply of substitutes, facilitating capture. Jean-Noël Jeanneney, a leading students of

[1] Kerillis, *Voici la vérité*; Lazareff, *Deadline*, Bloch, *Etrange défaite*. Bloch was a resistant and a Jew and was murdered in 1944. A student of medieval history, but as a result of his observations during WWI he had written a noted article on the subject of information repression (Bloch "Fausses nouvelles").

the politics of French newspapers and elites during the interwar has deplored the corrupting power of money, which he sees as the source of much evil.[2]

This unsavory context is a blessing for research: It facilitated looting and enables us to study the mechanics of newspaper's exploitation by insiders in the crudest light.[3] This study is also made possible by the availability of relevant financial series and evidence we collected on takeovers. Indeed, several important French newspapers had floated both voting and non-voting shares on the stock market. By comparing the price of those two shares, we are thus able to identify the premium derived from influencing the news media.[4] Moreover, both *Le Temps* and *The Times* (France and Britain's leading highbrow newspapers) changed hands in the 1920s enabling us to provide a decomposition of their value as both commercial outlets selling news and instruments for securing influence. This data provides a neat empirical way to identify the gains to owners from influencing the policy of a newspaper. It also helps underscore the "time consistency" problem that undermines the operation of newspapers – once it has established its credibility, a journal has the temptation to abuse its readers for political and pecuniary gains. We are not aware that previous economic literature has acknowledged this important point.

Our analysis of journal quality thus presents an addition to and departure from themes in the recent literature on media capture and its emphasis on slanting (see Prat and Stromberg, 2011). Related papers include Besley and Prat (2006) and Anderson and McLaren (2012) who emphasize political motivations for news suppression, Bovitz et al. (2002) who discuss the writers' ideological bias, and Baron (2006) who recognizes the importance of agency, but construes it as one of moral hazard for the low-paid journalists who chooses to distort news for career concerns.[5] A relevant feature of Besley and Prat and Anderson and McLaren is the emphasis on competition and competition

[2] Albert, "La difficile adaptation", p. 487-90 ; Chalaby, "Twenty years" ; Jeanneney, *L'argent caché*.
[3] In a different context and perspective Gentzkow, Glaeser and Goldin "Fourth estate" emphasize the positive effects of competition.
[4] 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.
[5] Prat and Stromberg, "Political economy"; Besley and Prat, "Handcuffs".Anderson and McLaren, "Media mergers", Bovitz, Druckman, and Lupia, "News Organization"; Baron, "Persistent Media Bias".

regulation, which they show may determine the ability of governments or sectional interests to undertake capture. There is, by contrast, little research that has focused on empirics. An exception is McMillan and Zoido (2004) who use judicial evidence to document payments made by Montesinos' regime in Peru to suppress information.[6]

The remainder of the paper is organized as follows. We begin with an intuitive historical discussion of the logic of looting. We then develop our analytical insight from a discussion of the finance literature on the value of control. We provide time-series evidence of the trafficking value of newspapers. We document – using evidence from the sale of media ownership – that, in France, most of the price paid by purchasers did not represent the cost of acquiring rights on the future flows of dividend, but influence rights. Comparison between *Le Temps* and *The Times* underscores the superior performance of Britain. We also find evidence that attempts at looting French journals eventually destroyed their commercial value and show how institutional fixes to deal with the problem of media looting were tried in Britain (but not in France).

1. LOOTING: THE CONTEXT.

The French press was corrupt, by almost everybody, beginning with the French government and parties and French corporate interests. And it did not stop there: During the whole interwar years Italian, Greek, Spanish, Soviet, Nazi governments also paid various French press organs.[7] From time to time, "muckraking" journalists revealed details – and were immediately branded as "sold" to some interest by some other media. Payments made by fascist dictatorships after 1935 occupy a prominent

[6] McMillan and Zoido, "How to Subvert".

[7] 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.

place, although they were not the only ones as Sabine Dullin's work on Stalin's Ambassadors shows.[8] A well-informed source was British Journalist 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 later stated that £2'000'000 had been distributed by the Nazis to French journals during the "greater part" of year 1938 (in relation to Munich-related international tensions).[9] Werth famously 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).[10]

Readers would have realized this but they could not switch easily to other newspapers because as mentioned earlier, interwar France was characterized by the existence of a powerful, politically connected press cartel, created in 1916 and reflecting cooperation between governing parties (an arrangement known as "*Union Sacrée*" – Sacred Union). The cartel, which lasted until WWII involved leading Paris mass newspapers as well as influential high brow papers such as *Le Temps*.[11] Leading newspapers that had supported the executive's propaganda effort during WWI were discredited and risked serious revenue losses when the war would end while the executive saw the benefits of maintaining its control of the press. As a result, both the distribution of newspapers and the availability of substitutes (such as the radio) were controlled by the cartel, the executive, or the agencies specially created to enforce insiders' cooperation.[12]

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[8] Dullin, *Ambassadeurs de Staline*.

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

[10] Werth, *Twilight of France*. 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 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; Lacroix-Riz, *Choix*.

[11] 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.

[12] Albert, "La difficile adaptation". 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). According to earlier literature, the cartel's powers were far reaching: It restrained newspapers' ability to differentiate products,

In a famous discussion in *L'étrange défaite* Bloch provided a scathing criticism of the impact of this debilitating set-up (debilitating because it dissipated rents accruing to quality). He delivered an indictment of *Le Temps*, France's leading conservative high brow newspaper commonly seen as a counterpart to Britain's *Times*: "Both journals respond to, and cater, for similar interests, [yet] 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*]".[13] This remark is interesting and inspiring as it suggests that one key issue with media quality is not so much the "bias" which a partisan press is bound to have (on this account, conservative, "pro-business" *Le Temps* and *The Times* would *not* be different). What Bloch is pointing at is something that has to do with the "depth" of information. As in Anderson and McLaren (2010), what politicians pay for is not so much biased coverage or "slanting" but rather, non-coverage, or blurred coverage.

A suggestive (but not isolated) anecdote summarizing the state of things during the interwar (how stories were *not* written) is provided in the memoirs of the editor in chief of one leading newspaper of the time Pierre Lazareff (*Deadline*, 1942).[14] As he explained in the book, Lazareff lost his illusions when, as a young journalist, he was briefed by his boss at *Le Soir*:[15]

> "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

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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 (Amaury, *Petit Parisien*, vol. 1 p. 333-348). Agreements were enforced through penalties. 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 (E.g. see Kupferman, *François Coty*, p. 130-40.). 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 European currencies, the government decided to impose new custom duties on pulp to "compensate" for the competitiveness of imported paper. For details on pulp see Archives Nationales, *Journal*, 8 AR 326.

[13] Our translation from Bloch, *Etrange défaite*, p. 163

[14] 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"Lazareff, *Deadline*, p. 359.

[15] Lazareff, *Deadline*, p. 29-30.

> 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 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"

While Lazareff's boss is trying to persuade his employee that the racket money is put to "good" use ("I'll be able to pay your salary"), the obvious inference is that there was really little control as to what journal proprietors did with the money and the suggestion is that influence money benefited owners, not 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".[16] The opinion of external observers such as the British Ambassador in Paris during the *Gleichshaltung* period Eric Phipps (himself a user of briberies), is that French newspapers attracted a peculiar class of "investors" who sought both revenue and to "win power and influence", rather than recycle the money with their journalists.[17] This is in line with another anecdote by Paul Lazareff who mentions inquiries made with him by a senior French Minister (Malvy, a central player of the *Union Sacrée* during WWI) regarding the kind of benefits sought by journal owner and businessman Prouvost and Lazareff's boss at the time of the story: '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?"[18]

This suggests that news printing encompassed 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

[16] Koestler, *Scum*, p. 53
[17] Herman, *Eric Phipps*. Such claims are conventional in the French literature, too.
[18] Lazareff, *Deadline*, pp. 49-50.

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. Such benefits are also 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 (non-voting, or minority) shareholders, because readers react by lowering demand and/or willingness to pay, which is bad for profitability. When the owner uses the journal for personal profit, he is really exploiting these minority stakeholders.

The rest of the paper unpacks this intuition by providing empirical proof that the influence money left traces in a number of relevant places. The proof is administered in four steps. First we compute post-acquisition performance and acquisition premia to show that minority and majority shareholders had opposing interests. Second we study the time series behavior of the value ascribed by investors to the marginal ability to influence a newspaper's policy. Third, we compute an estimate of goodwill (the extra amount of cash paid at acquisition). Last, we relate the different record in France and Britain to show how a "governance pill" prevented those who controlled British journals to "cash-out" their goodwill investment, thus protecting accumulated reputation. This underscores that the problem with France's media industry was not one of poor management but one of looting the reputational capital of journals.

2. THE MARKET FOR CORPORATE CONTROL OF NEWSPAPERS

The market for corporate control of newspapers was not overly active during the interwar, but journals occasionally changed hands (typically, they went from one insider to the other) which allows comparing post-acquisition performance with the price paid. Typically, post-acquisition real return of newspapers are negative for any takeover of the Interwar period as previous researchers have noted.

Consider, for instance, *Le Temps* which was purchased by a group of leading industrialists in 1929.[19] Using figures from Jeanneney, Patrick Eveno reports a nominal 0.259% return for the purchase year (1929) -- a Price Dividend Ratio close to 400 – and concludes correctly that the price paid was out of line with "reasonable" figures.[20] As Appendix 1 shows, improvements on Eveno's do not alter the basic insight.[21] This investment in *Le Temps* was a losing proposition.

How can we explain that a group of powerful men, who "knew the ropes", could be found on the losing end of the deal? Eveno brushes aside the finding writing that "even businessmen can do bad deals".[22] Yet this outcome seems to be an enduring feature as we found by exploring other cases of newspapers takeovers. For instance, businessman François Coty purchased *Le Figaro* (before WWI a leading and profitable newspaper) in 1922 for 10.6 million, a Price Earning Ratio of 80.5 and a return on earnings of 1.24%. This was followed by 10.26% average real yearly losses in each of the next 5 years when the stock market was booming and it was hard to lose money. Or again, after businessman Patenôtre 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.[23] Businessmen can make bad deals from time to time, but not all businessmen will make bad deals all the time.

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[19] Primary material on this transaction (still undisclosed as of the date of this writing) is summarized in Jean-Noël Jeanneney's *François de Wendel*, p. 456.

[20] 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. 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.

[21] We find an average 22.8% *real* loss per year on *Le Temps*' (voting) shares during the 5 years that followed the acquisition.

[22] "Même les millionaires 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.

[23] At the time of purchase, *Petit Journal* was loss-making, preventing the computation of a PER. Patenôtre 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

Previous historians have occasionally rationalized these numbers by relating them to the general failure of the press (Eveno 2003, p. 92). For instance, the market for news may have been depressed by a change in taste of customers (say, reduced demand for newspapers). But in this case (since this was understood by rational investors) the acquiring party must have been compensated by a discount in the purchase price (Barclay and Holderness, 1989). To test this hypothesis we compute the acquisition discount as the difference between the share price paid by the acquiring party and the listed share price. This exercise gives actually a *premium* of at least 300% (appendix A1). This shows that the purchasing stake, rather than asking for a compensation, was ready to pay extra, and cast doubt on the conventional interpretation of poor financial performance as reflecting economic hurdles.[24]

In view of the existence of a systematic willingness to pay a premium, the more reasonable interpretation is that the expensive price secured the right to manage a journal and that this management was valuable. In other words, purchasers of newspaper did not require a discount to purchase loss making journals, because the losses were "paper" losses, fully compensated by expected trafficking profits. The influence money was not accounted in the legal accounts (thus providing a gloomy picture of the newspaper's performance) but acquiring control had nonetheless value and was priced accordingly. The divergence between the incentives of minority shareholders and the acquiring majority was complete. A change in management did not herald improved performance for junior shareholders, because the new controlling party was primarily concerned with revenues located off the balance-sheet.

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

The previous reasoning and evidence suggests that relevant data to track the evolution of the price of media capture has been hidden in plain sight. To show this, we now build on the pioneering work of Kristian Rydqvist on the so-called "voting premium" and its extensions by Luigi Zingales.[25] The

adaptation", p. 524. CPI is from the NBER Macrohistory database. Details in Appendix 1.

[24] This compares with the 40% average over all industries for the 1976-1990 period (Jensen, 1993).

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

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 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 part of the control value discussed earlier.

That the voting premium does capture a fraction only of the control value is straightforward. 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 (which measures the controlling value of owning a *marginal* stock) is informative of the (full) value of complete 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.[26]

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

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

[26] 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 required the opening of the archives on the capital of the two journals, close as of the time of this paper writing.

(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 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.[27] 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.[28] 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. The good news is that they were very relevant journals.[29] 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*,

[27] 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).

[28] Nenova "Value of corporate".

[29] The choice of having dual class share was made before the war. The debasement was possible without causing bankruptcy because the cartel protects insiders from external competition. Because the creation of dual class shares occurs before the creation of the cartel, we find it unlikely that the journal choose a system of dual class shares because it increases its capacity to cash in its influence.

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 the conventional comparison with *The Times*).[30] 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" (*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".[31] 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.[32]

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

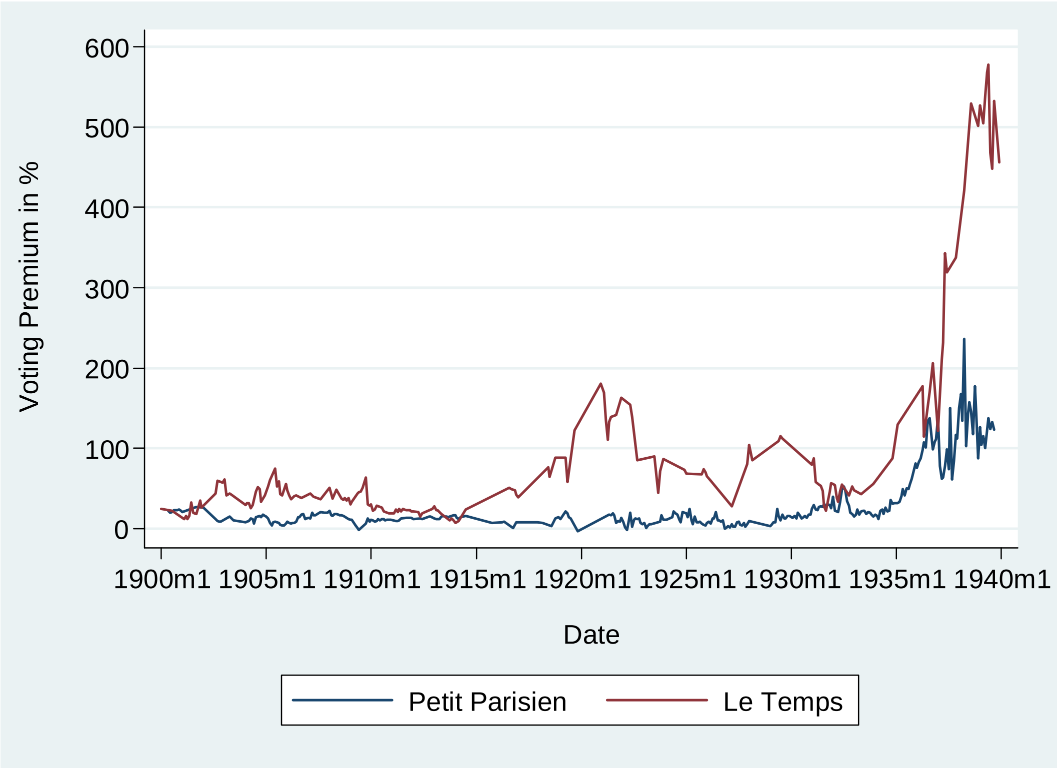
[30] According to Lazareff, *Deadline*, p. 52, "Former and future diplomats, professors, men with political inclinations – all these considered it a great honor to appear in *Le Temps*, even anonymously. Every self-respecting upper middle class Frenchman was automatically a subscriber to *Le Temps*.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

[31] Lazareff, *Deadline*, p. 61 ff.

[32] Lazareff, *Deadline*, p. 61 ff. Amaury, *Petit Parisien*, vol. 2 p. 1199ff

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).[33]

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.[34] 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)

[33] Compare with Jeanneney, *Wendel*, p. 458-ff and his lukewarm defence of *Le Temps*.
[34] Alternatively, this may only reflect stable ownership and understate the extent of corruption.

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 emphasized, when he described newspaper corruption accelerating after 1935. This bears witness of the relevance of our tool as an instrument to probe historical narratives.

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

As stated above (and as the finance literature recognizes) the voting premium captures the control value of a marginal vote. Another possibility is to look at what happens when a journal changes hands – i.e. cases when someone acquires full control. Such events are less frequent (by definition) and as a result we think of their study as complementary to that provided in the previous section. Another advantage is that it turns out to provide a convenient way to make international comparisons. Several British newspaper groups, including Times Ltd had non-voting ("preferred") shares but these gave right to a fixed coupon and thus did not have the same dividend rights characteristics as ordinary shares making the computation of a voting premium as we did in the previous section for France dependent upon heroic assumptions. However it turns out that we have detailed information about a takeover of The Times that took place at about the same time as that of Le Temps enabling pairwise comparison. This comparison is natural (given Bloch's emphasis on the difference between France and Britain) and valuable and is also relevant given the historical parallel between the attitudes of two countries' political establishments. As shown by Richard Cockett, British Conservatives, like their French counterparts at *Le Temps* had a soft spot for Hitler and *The Times*' has been criticized for supporting Chamberlain's Appeasement and thus being in some sense "looted" as Le Temps was. But we'll see that the mechanics through this could or did happen must have been quite different.[35]

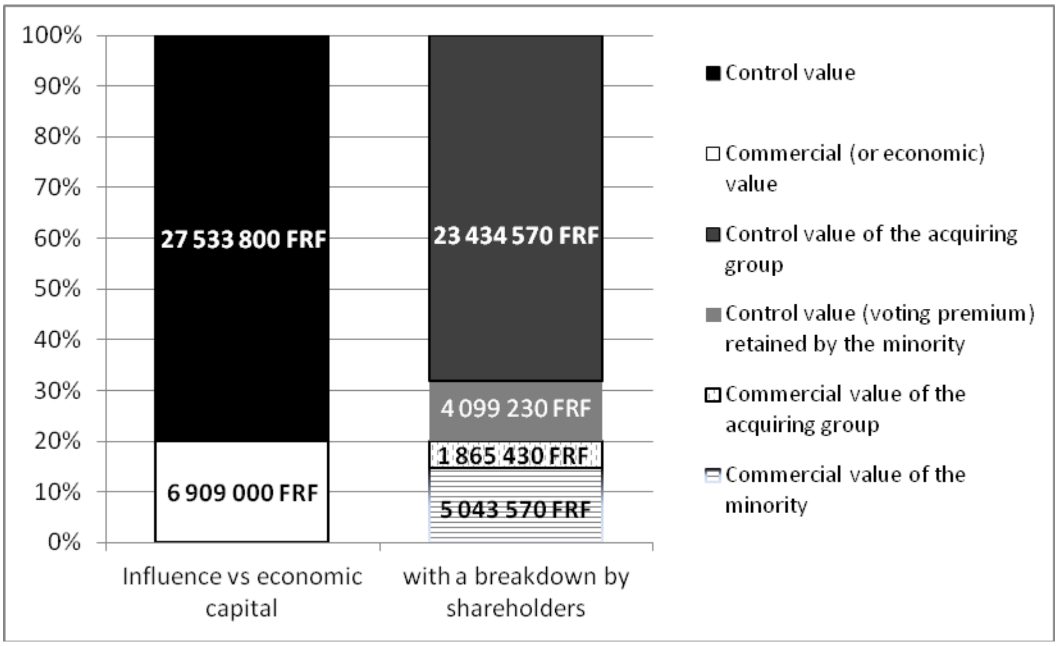
a) Le Temps

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

[35] Cockett, *Twilight of Truth*.

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



Source : Authors. See text and appendix.

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 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.

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).[36] The Northcliffe's controlling stake of 78% of the voting shares – known as "Northcliffe's interest"— were sold in bulk with John Walter having a purchase option that practically gave him the right to match the "best price", whoever would provide it.[37] Various 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 19th) Northcliffe's own brother, press tycoon Rothermere came up with £1,350,000.[38] This price was then matched by Astor-Walter and they thus acquired the *Times* newspaper on October 23rd.[39]

The language used in contemporary accounts suggests 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.[40] 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".[41] Astor's banker reported being shocked.[42] Peat related the price to "peculiar political circumstances".[43] *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".[44] The conventional reasoning was that the price Rothermere had pushed for was not "a commercial price" –

[36] The following narrative is based on the detailed account in the *History of the Times*. Northcliffe died on August 14, and the Administrator of the Estate George Sutton set to work on the sale of the property.
[37] On Walter's option and its subtleties, see *History of the Times*, Chapter xvii and in particular p. 720.
[38] From *History of the Times*. Astor-Walter bid: p. 747
[39] *History of the Times,* p. 766.
[40] *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.
[41] *History of the Times,* p. 764.
[42] *History of the Times,* p. 764.
[43] *History of the Times,* p. 758.
[44] *History of the Times,* p. 764

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.[45] 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 value based on recent experience. For that reason, we conservatively provide benchmarks – boundaries within which the true value 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 pure dividend rights. Based on this reasoning, which sets the dividend right somewhere around £1, we obtain a (in round figures) a 50%-50% 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 an understanding by accounting experts that the value of dividend rights was somewhat higher. (This underscores a striking difference with *Le Temps* for whose valuation no technical expert was involved).

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

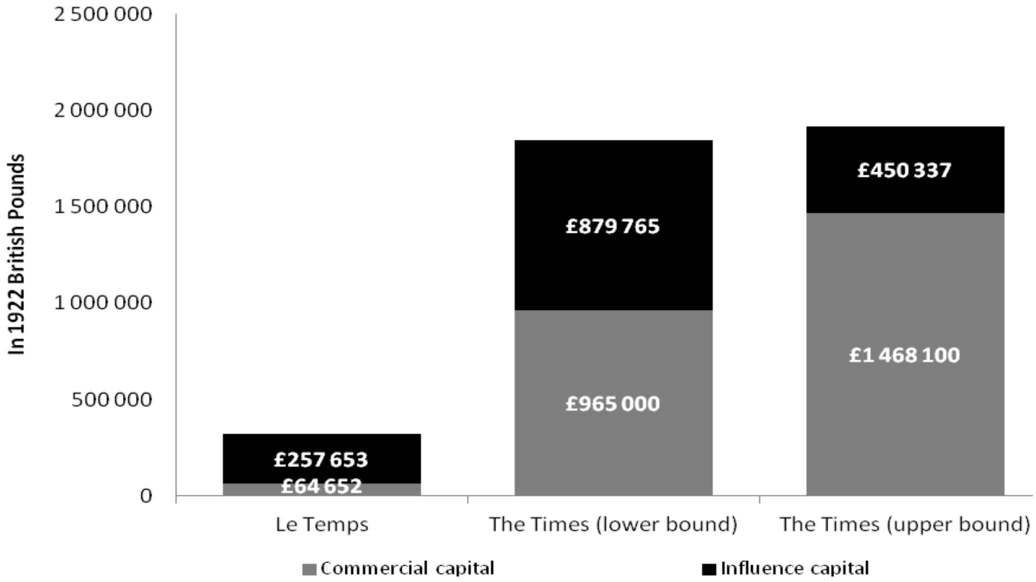
[45] *The Times*' preference shares gave rise to a fixed coupon and a fraction of the profits. Extracting the value of the dividend right from the price of preference shares requires non-trivial assumptions about risk aversion. Moreover, data for preference shares is scarce.

potential acquirers of *The Times* had regarding getting the economic profitability right).[46] 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).[47] 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 improve later.[48] 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 now plots the resulting breakdown of the value of *The Times* between the commercial and control capital and compares 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). The *Times* towers over *Le Temps*, as if to illustrate Bloch's statement that *The Times* was "infinitely" superior. A consequence of this is that the *total value* of political influence was much bigger for *The Times*.

FIGURE 3: THE COMMERCIAL VS. THE INFLUENCE VALUE OF *THE TIMES* AND *LE TEMPS*[49]

[46] 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.
[47] *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".
[48] 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.*
[49] 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



Source: Authors; See Text.

This is intriguing, important, but not surprising and in fact this simple chart captures a lot of the underlying dynamics of that era: Influence comes from greater credibility, which is itself supported by a larger readers' base. By contrast, trafficking and corruption leads to economic hardships and decline because as suggested in models of rational inference and as emphasized by economic historians and observers such as Bloch, readers would react in an intelligent way to "insincere advice". They would reduce demand and oppose to traffickers a "waterproof attitude".[50] One tactic, Bloch suggests, was to just pore over newspapers and do exactly the opposite of advised. This went along with a reduced willingness to pay, and eventually led to the economic debasement observed in Figure 3.[51] When French readership of journals had been among the highest in the world before WWI (when media competition was vibrant), it stagnated during the interwar (despite progresses in instruction and literacy).[52] You cannot publish crap and sell it to readers at a high price, too.

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conclusions.

[50] See Bloch, *Etrange défaite*, p. 163.

[51] Journals were 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" Political and Economic Planning, Report, pp. 53, 82 and 54 respectively

[52] 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. *Matin* became what a recent book called a "racket sheet" (Pinsolle, *Matin*); Hence while in 1914 the estimated daily circulation put France on par with English

5. TIME INCONSISTENCY

We now extend the previous 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. It can be neatly summarized, again using Bloch, who discussed the inconsistency in which he found corporate elites locked, 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.[53] 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.

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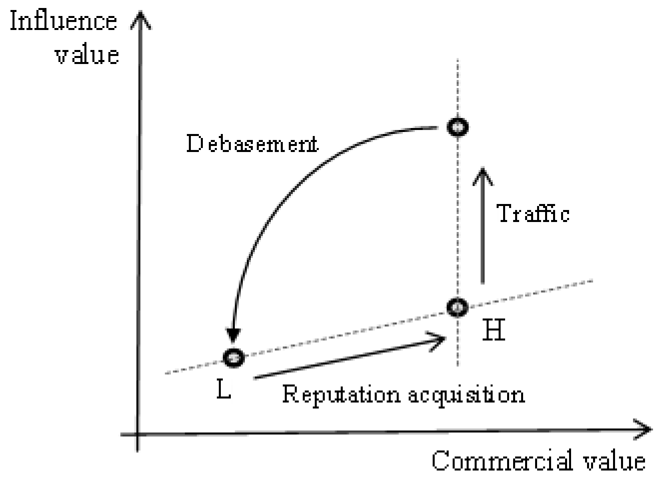
speaking democracies (244 in France, 220 in the UK; 255 in the US), France started lagging behind in the interwar and in 1939, the estimated total circulation was only 280 copies per 1000 inhabitants while the ratio had grown to 360 and 320 for the UK and US respectivelyAlbert "Remarques", p. 541-3; 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).

[53] Bloch *Etrange défaite*, p. 101.

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.

FIGURE 4: THE LOGIC OF JOURNAL DEBASEMENT

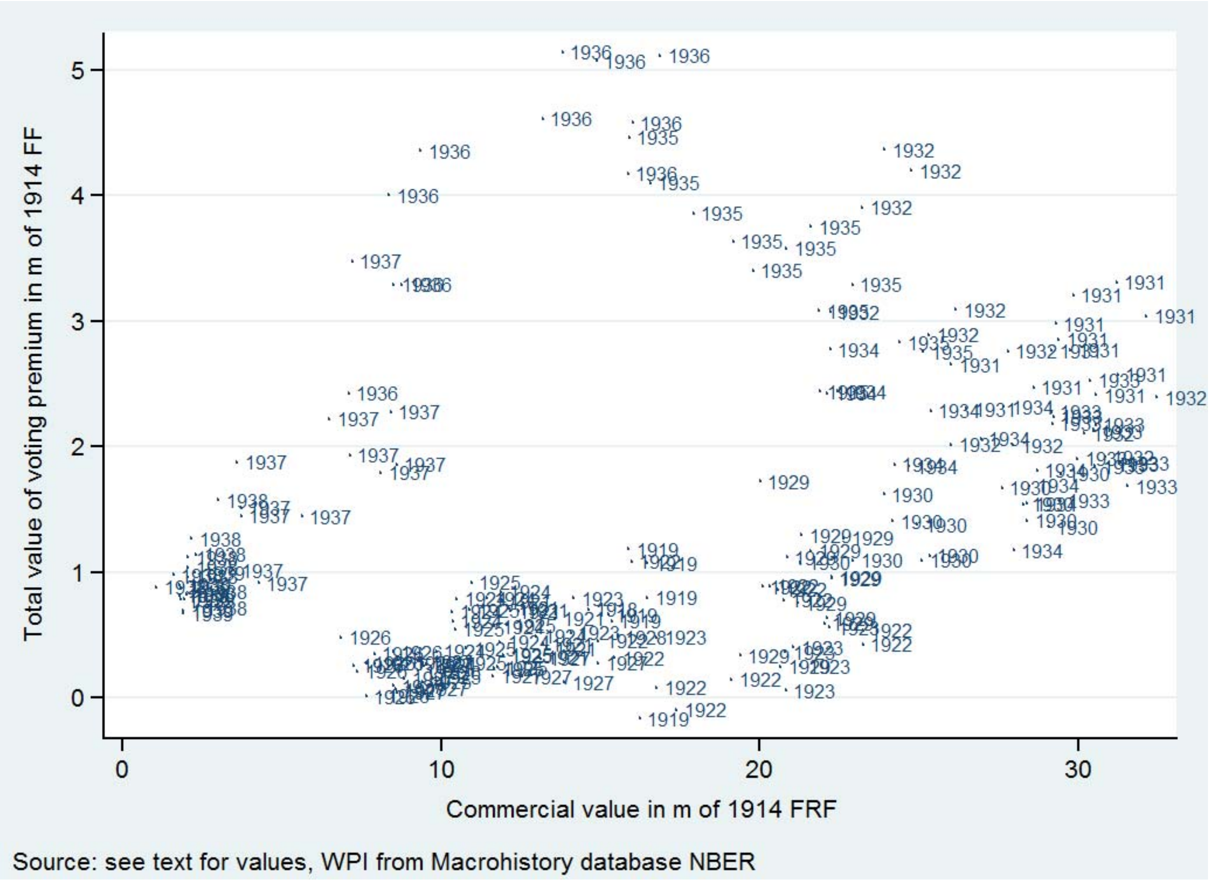


Now suppose that, at the origin of time, the newspaper is located in a high credibility equilibrium (point H). Now starting from there, suppose that the journal owner starts selling its influence, thus looting the newspaper. As long as he is not found out, he manages to improve his situation, by increasing 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*).

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.

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.[54]

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



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

[54] 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.

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).[55] 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".[56]

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".[57] (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).[58] 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.[59] 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

[55] *History of the Times*, p. 747.
[56] *History of the Times*, p. 764.
[57] *History of the Times*, p. 779-80.
[58] Taylor, "Northcliffe and Dawson".
[59] 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.

rather than personal interests and b) eliminating as far as reasonably possible question of personal ambition or commercial profit".[60]

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 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".[61] 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

[60] *History of the Times*, p. 791, Royal Commission on the Press, p. 236.

[61] 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]"

included).[62] 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.[63]

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'".[64] 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.[65]

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.[66] 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.

[62] 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).

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

[64] Royal Commission on the Press, p. 24.

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

[66] Cockett, *Twilight*, p. 27-30, 64-6.

CONCLUSIONS

As this paper has repeatedly emphasized, 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. Building on the context of the well-known France's media debacle during the interwar, we have provided ample empirical evidence to substantiate this intuition.

In particular, we have provided four types of proofs to support our claim. First, we showed that newspaper acquirers were prepared to pay a premium that cannot be rationalized with reference to the newspaper's visible revenues: Even when they lost money (negative real returns), newspapers were still valuable, because they were political instruments. Second, we showed how the voting premium (the difference between the price of voting and non-voting shares in secondary markets) can be used as a reliable instrument to explore the value of controlling a newspapers. We found huge numbers (several hundred percent in the late 1930s). Third, comparing France and Britain, we decomposed the trafficking and commercial value of the two countries' leading conservative newspapers (*Le Temps* and *The Times*) and found that France's highbrow was mostly about securing influence (80% of the total value). Last, we emphasized that the resulting problem (journal owners are encouraged to accumulate reputational capital in order to use it later as a political weapon) led in Britain to institutional innovation destined to handle the time inconsistency, but not in France.

While this paper is primarily about the empirics of looting, it has also in its background some important historical issues. For instance, building on our measure of "looting" in two leading French newspapers, we discovered, strikingly, that the situation deteriorated during the 1930s exactly as described qualitatively by current historians, such as Lacroix-Riz or contemporary observers, such as Werth. Consistently, our findings, while not primarily construed as a history lesson, ought nonetheless to serve as a basis for future historical investigation. Indeed, the previous analysis may serve to renew the study of political difficulties in interwar France. In particular, a key insight is that at the heart of the difficulties of French newspapers was an organizational (corporate and political) failure and not some kind of “cultural” problem with money unlike what historians such as Jeanneney have argued. We are left wondering with Bloch, how come French corporate leaders failed to implement the sort of institutional solutions that their British counterparts identified. Various groups and constituencies might have had an interest in a high quality press, but it seems that the corporate sector and the political elite of France were not among them -- something Bloch had been puzzled by in the aftermath of France’s debacle of 1940.

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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.[67]

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.

Acquisition premia were computed using the formula:

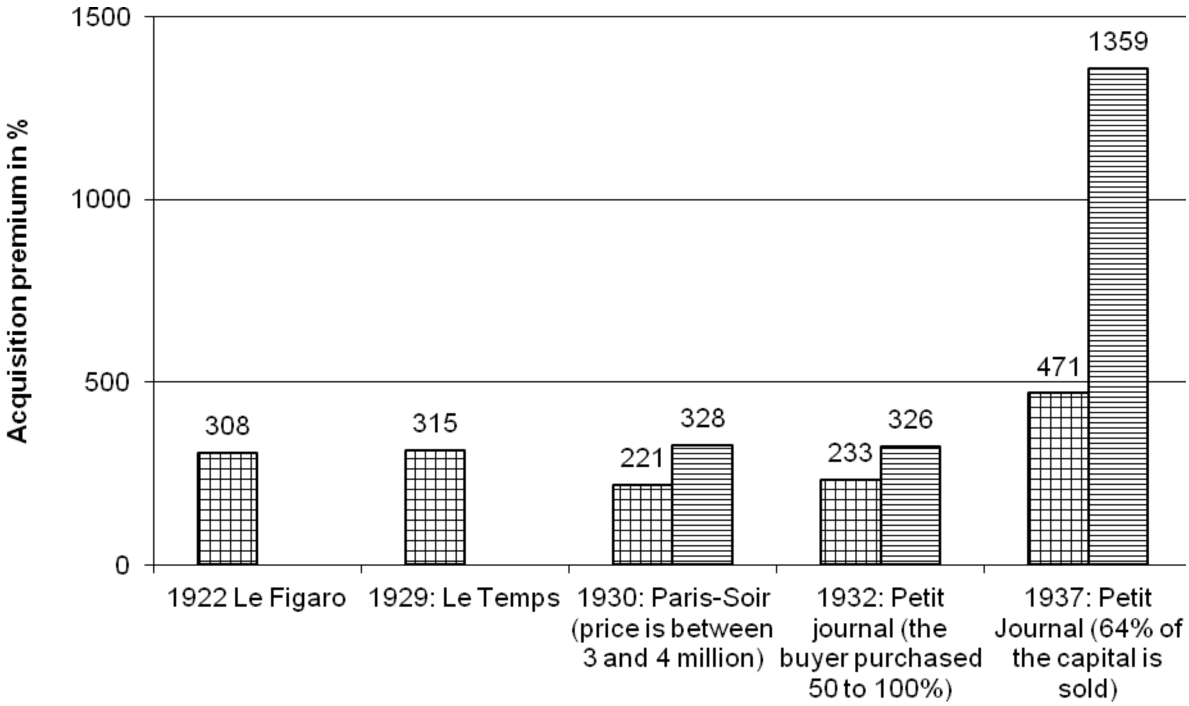
$$AP = \left(\frac{Price^{takeover} - Price^{market}}{Price^{market}}\right) * 100$$

In which $Price^{takeover}$ is the price paid by the acquirer and $Price^{market}$ is the price of the share on the stock market *before* the announcement of the takeover bid. Figure A.1 presents this premium for

[67] . 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.

the five takeovers of journals listed on the stock market. Listed prices of ordinary shares are from *Cote Officielle de la Bourse*, purchase prices from table A.1 except for the *Paris-soir* purchase by Prouvost, which was "between 3 and 4 million" (Albert, 1972, p. 523-4) while "market" price come from a July 1929 over-the-counter transaction of a single sale occured at 340 FRF (in Archives *Le Journal*, 8AR 418).

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



Sources : authors' computation, see text for references.

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

The French law of 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 as they wished. For instance, 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.[68] But voting rights and decision-

[68] Lyon-Caen et Renault, *Droit commercial*, p. 330-2 ; Percerou, *Droit Commercial*,p. 406 ; Hannah, "Divorce", p. 409-10.

making for listed companies had to be disclosed. We collected them from *Annuaire Desfossés*.[69] For both *Le Temps* and *Petit Parisien*, two types of stocks existed. 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.[70]

Details were as follows. Ten *Petit Parisien*'s ordinary shares gave one vote.[71] Non-voting shares were known as "profit shares" (*parts bénéficiaire*[72]). For *Le Temps*, one voting share was given to every two ordinary shares ("*actions de capital*") and until 1931, there was a limit of 20 votes which was subsequently removed.[73] 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*).[74] The other characteristics of these non-voting shares remained unchanged.[75]

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

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[69] 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.

[70] 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 got anything from the procedure.

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

[72] Article 1 of the 1929 law proposed a definition of *part bénéficiaire* as being shares materialized in negociable 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.

[73] Before 1909 only 1,800 capital shares existed.

[74] *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.

[75] 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*.

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

where V is the present value of the verifiable income and B the present value of the non-verifiable income ("political rents"). Since V= $N_{nv}P_{nv}+N_vP_{nv}$ 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. 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.

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** (100%)	**645'000** (100%)
Northcliffe's Estate	**505'997** (78.5%)	0 (0%)
Ellerman	128'424 (20%)	0 (0%)
Walter-Astor [b]	400 (0%)	**634'821** (98.5%)
Unaccounted for [c]	10'179 (1.5%)	10'179 (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.