

Media Business and Innovation

Paul Murschetz *Editor*

State Aid for Newspapers

Theories, Cases, Actions

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Editor
Paul Murschetz
ICT&S Center
University of Salzburg
Austria

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Preface

“Only a nihilist would consider it sufficient to rely on profit-seeking commercial interests or philanthropy to educate our youth or defend the nation from attack. . . . Just as there came a moment when policymakers recognized the necessity of investing tax dollars to create a public education system to teach our children, so a moment has arrived at which we must recognize the need to invest tax dollars to create and maintain news gathering, reporting and writing with the purpose of informing all our citizens” (Robert W. McChesney and John Nicols 2012).

“Media are normatively expected to provide diverse and pluralistic content that includes a wide range of information, opinions, and perspectives on developments that affect the lives of citizens. Media are expected to mobilize the public to participate in and carry out their responsibilities in society: Media are expected to help citizens identify with and participate in the lives of their community, their state and the nation. Media are expected to serve the needs and represent the interests of widely differing social groups and to ensure that information and ideas are not narrowed by governmental, economic, or social constraints. Simultaneously, they are expected to serve the economic self-interests to produce profits, to grow, and to contribute to national economies” (Professor Robert G. Picard 2005).

“When a government gives funds to the press, it asks in return to exert some kind of control over it” (James Murdoch 2011).¹

¹ James Murdoch in May 2011 at a meeting of young publishers in the Italian town of Bagnai.

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Part I

State Aid for Newspapers: An Introduction

The Context, Purpose, and Structure of the Book

1

Paul Murschetz

Ever since newspaper companies have first turned to their governments for support to halt newspaper mortality caused by mounting economic problems in the 1950s, most continental-style European states have tended to agree upon applying public government-backed support to their print media operations and outlets. In contrast to the liberal Anglo-Saxon approach to press regulation which largely rejects the interventionist approach to providing cash injections to newspapers in need, corporatist-style government authorities in mainland Europe have long adhered to a public policy of granting financial subsidies to their press, according to which their democratic and political function—to guarantee that citizens have access to information, are accurately informed, and actively take part in the democratic political process—is promoted.

Today, significant changes have intensified pressure on the principles and practicalities of these interventionist government schemes (Doctor 2010). These pressures have endangered the secure funding necessary to produce both expansive high-quality journalistic and noneditorial press output. Arguments that exert pressures for change are manifold. On the one hand, state intervention into the economy by means of financial cash subsidies to newspapers has been attacked by political conservatives for offending against the principle of a free and independent press. Likewise, liberal economists have continuously criticized state aid for principally distorting the free functioning of the market. On the other hand, significant questions are now being increasingly raised about the need for and efficacy and future of state aids to the press. The confluence of external factors of change, be they technological, economic, socio-demographic, political, or other in nature, has come to threaten the very legitimacy of interventionist schemes of state aid to newspapers (OECD 2010; PEW 2013; WAN 2012). In gist, emerging end-user technologies and changing social trends, accelerated by the global economic crisis, have changed the commercial context for journalism and news management and continue to disrupt

P. Murschetz (✉)

ICT&S Center, University of Salzburg, Sigmund-Haffner-Gasse 18, 5020 Salzburg, Austria
e-mail: paul.murschetz@sbg.ac.at

the existing business models of traditional newspaper publishing. Many of these factors driving this pattern of industry change may well contribute to public policy reform and strategic repositioning of the newspaper themselves.

In all, that the current news media industry is in crisis originates from the following broad claims (Barthelemy et al. 2011; Currah 2009; Nielsen 2012; Picard 2010): First, the *future business of journalism* is widely held to be in a terminal crisis today. The rise of digital technologies represents a profound change in how we communicate, how we interact, and how we learn about the world (Benson 2011; Benson and Powers 2011; Curran 2010; Kaye and Quinn 2010; Lee-Wright et al. 2012). In many cases, they have severely challenged the inherited journalistic routines and business practices of the media organizations that legacy news industries relied on to keep us informed about public affairs. Journalism today needs to move away from being processors of information to contextualizing information curators in a multi-platform usage environment. The onset of the global financial crisis in 2008, and the dramatic drop in revenue that followed, raised the level of industry turmoil as news organizations slashed staffs and budgets to cut costs (Anderson et al. 2012; Barnett 2009; Levy and Nielsen 2010).¹ But industry observers agree that not everything is doom and gloom: there is plenty to be optimistic about too. Indeed, there are even signs of industry recovery. Advances in technology have enabled journalism to flourish—from instant global distribution to community participation and more powerful storytelling techniques (Stone et al. 2012). And there are already instances where readers have shown they are prepared to pay for digital news content. It is worth remembering that despite these massive upheavals in business models and technology, the centuries-old perception remains widespread that an informed public is an intrinsic social good. How will journalism be funded when the business models that sustained it for centuries are crumbling?²

Second, most of the current challenges faced by news organizations today result from changes in the media environments and markets that arguably have reduced the *value of news* and information and disrupted the existing business models of traditional news producers and distributors. It is widely agreed that the news media landscape in Europe and elsewhere is becoming more chaotic and fragmented due to the confluence of technological, economic, socio-demographic, political, legal,

¹The Pew Research Center, an American think tank organization based in Washington, D.C., provides regular information on issues, attitudes, and trends in USA and the world. The “State of the News Media Report” is the work of the Pew Research Center’s Project for Excellence in Journalism, a nonpartisan and nonpolitical institute that studies the information revolution. See <http://stateofthemedial.org>. The World Association of Newspapers and News Publisher’s WAN-IFRA’s *World Press Trends* survey is the largest of its kind, containing circulation data from more than 150 countries and advertising revenues from more than 90 countries. See <http://www.wptdatabase.org/>.

²In the USA, for example, newspaper newsroom cutbacks in 2012 put the industry down 30 % since 2000 and below 40,000 full-time professional employees for the first time since 1978. Globally, however, newspaper circulation grew by 1.1 % in 2011, to 512 million copies, and 4.2 % between 2007 and 2011. The growing newspaper business in Asia has more than offset circulation losses elsewhere in the world (WAN-IFRA 2012).

and ethical or environmental advances. Importantly, technology-driven innovations such as news mash-ups and social media applications have led to a disaggregation of the news value chain for many news organizations and thus require new business strategies for both the print and online news markets (Currah 2009; Doctor 2010; Picard 2010). Internet and related digital technologies are considerably altering the economics of news publishing in that they provide a “competitive displacement effect” between traditional and online news media (Chyi and Sylvie 1998; Dimmick and Rothenbuhler 1984). This has led news publishers around the globe to continue their transformations in the new media ecosystem, expanding their platforms and product lineups in order to build new revenues and audiences (Foster 2012; Stone et al. 2012).

And, third, *audience fragmentation* for time, content, and media will continue. Individuals are nonetheless confronted with an ever-increasing availability of diverse news. As online news consumption becomes more widespread, usage becomes more ad hoc, irregular, and sporadic than it used to be. Online news readers get a variety of news from different sources, allowing them to mix and compile their own personalized information (OECD 2010). Legacy news publishers face a wide range of new competitors such as news aggregators and digital intermediaries and emerging forms of new journalism all of which devote an ever growing amount of attention to the Internet and the opportunities it offers (Picard 2003). Arguably, the ability of online content to reach a global audience means that the increased competition among news sites publishing stories on the same topics is driving down the value of news.

Hence, these pressures have brought situations which force newspaper executives and publishers to rethink established business parameters, strategies, and behaviors in order to ensure survivability, sustainability, and growth, all in accordance with the dynamic preferences of their consumers.

1.1 Newspapers in Crisis: Can State Aid Turn the Tide?

Above observations raise fundamental issues that policymakers, journalists and news makers, news media aggregators, and publishers must consider when evaluating the roles of news media in advanced democracies, about economic policy and market interventions, and about the very roles of government and self-governed media management activities in liberal societies. Now, can the traditional newspaper industry win the race against the clock for survival? What are the game-winning strategies newspaper publishers need to apply in order to safeguard economic viability and provide new competitiveness vis-à-vis digital online news offers? And, what is central to this book volume, how, if at all, can state aid for newspapers turn the tide?

Taking liberal, free market economics as the dominant governance paradigm and favored regulation model among most current Western-style countries, regulators are today navigating between the contradictions of general cost-cutting public austerity programs, interventionist antitrust laws, and financial subsidy schemes

for their news media industries that aim at engendering economic opportunity and prosperity, editorial pluralism, and a market structure which safeguards the diversity of titles. Worse yet, the appropriateness and legitimacy of public subsidies channeled to news media are further challenged by the inbuilt weaknesses of the current regimes themselves.

As it stands, the issues at stake point out the poles between which government regulators oscillate when asked for policy action to ensure both economic vitality and editorial diversity of the press. On the one hand, they continue to financially subsidize their newspapers as a genuine sociocultural asset worthy of political protection. On the other hand, those who question the value of continued state subsidies to the press not only criticize their political ramifications, but consider subsidies misappropriated as they slip into newspapers' pockets with no obvious return. Ending up as backdoor subsidies with no clear benefits, only artificially keeping alive those who are already economically weak, they do little to balance the structural inequalities of the market.

This book will fill this void. It provides a comprehensive analytical treatment of today's challenges in the printed news media industry's race for survival in a global perspective. It depicts current practices of government-backed state aid schemes to newspapers for political, economic, and sociocultural purposes against the background of declining readership and revenue, increased inter-media competition, austerity budgets imposed on national economies, and shifting audience tastes. Using the insights of theoretical debates within the scientific disciplines of media economics, media governance, the economics of regulation, and media management, this book provides a state-of-the-art analysis of these issues by investigating the powers of state aid policies to newspapers in general and financial subsidies more particularly.

Historically, interest in newspaper subsidies began to gain attention of policymakers and scholars in the 1970s in response to increasing newspaper mortality. One of earliest comparative studies of these support mechanisms was made by Anthony Smith (1977, 1978) and Milton Hollstein (1978) since that time a number of studies have described and compared national press support policies (Picard 1984, 1985; Santini 1990; Holtz-Bacha 1994; Murschetz 1997, 1998; Humphreys 2006). Smith, who conducted a survey of the types of state assistance offered in Europe, stressed the role government plays in safeguarding democratic viability: Newspapers would guarantee that citizens have access to information, are accurately informed, and actively take part in the political process. Smith, a doyen of research on press subsidies, traced the etymology of the word "subsidy" and found that "*the word subsidy has become, in certain times and places, to be used almost synonymously with 'bribery'. Newspaper people themselves have often rejected payments from authorities, when these have been offered, as necessarily undermining the principle of independence. The newspaper, it is traditionally argued, must operate, to be free, entirely in the open market, or rather, in two markets, for, since its very invention, the newspaper has depended on advertising as much as on direct sales*" (p. 1).

Most studies, however, have consisted of mere descriptions of the types of state intervention into print media systems on a national scale. Only a few have gone

further to seek explanations of patterns and causes. Robert G. Picard (1985), one of the leading figures of research into media management and economics in Europe, found patterns of press intervention which were related to national economic and industrial policies rather than in terms of specific press policy, and that the intensity of intervention in newspaper economics differed widely among nations (Picard 1984). These studies attributed differences among national policies to cultural elements and to economic policies toward industries overall.

Later, in the mid-1990s, Christina Holtz-Bacha was first to study measures of state support in Western Europe in international comparison. Adding to the high-impact double-volume book on *Medienmanager Staat* (English: *The State as Media Manager*), edited by Peter A. Bruck, Holtz-Bacha came to conclude – among other things – that cultural differences would play a big role when subsidy schemes were to be applied. Not only would subsidy-promoting political parties be interested in keeping alive their party papers by means of proactive financial assistance, but also would the model of state organization (centralized vs. federal), the size of a country (i.e., the issue of media regulation in small states), the language space (i.e., one or multiple languages spoken in a specific region), and geographic specificities (e.g., of delivery and logistics) be important impact factors informing policy approaches and actual politics. Further, Peter Humphreys argued that governments should turn attention to designing press support schemes in ways that a pluralistic and culturally diverse press sector can be maintained. A diverse press sector would be more important than ever in the Information Age (Humphreys 2006). “*If newspapers are to be competitive with other media in the Information Society they need to invest in restructuring and innovation, including in online activities. This places a heavy burden on smaller, financially weaker, or already struggling newspapers. These therefore deserve to receive continued public support*” (p. 51), Humphreys concluded.

And, lately, a research study published by the Reuters Institute for the Study of Journalism at Oxford University, titled “*Public Support for the Media, A Six-Country Overview of Direct and Indirect Subsidies,*” showed that public subsidies differ greatly in Finland, France, Germany, Italy, the UK, and the USA (Nielsen and Linnebank 2011). The study authors Rasmus Kleis Nielsen and Geert Linnebank revealed that while the US government allocated 16 % of public funds to the media, US newspapers would attract 94 % more readers than Italian ones. Germany spends 40 % less than Italy on press subsidies yet reaches three times the number of Italian readers. Their research also pointed out that, in general, the allocation of public money does not seem to constitute any guarantee for a healthy media market, as public funds are not necessarily invested on innovation or improvements. In all, Nielsen’s and Linnebank’s report stressed the fact that there is no evidence that subsidies actually improve the competitiveness of a country’s media market. Nielsen and Linnebank also elaborated three models in terms of how public support for different media systems is distributed across them. Their nation-specific classification revealed that public support for the media primarily takes the form of license fee funding to public service broadcasting media, and, to a minor degree, state support would be allocated mainly as indirect (and not direct subsidy) support to incumbents of the private print media industry. Both authors identified

the following three models of public support for the media (Nielsen and Linnebank 2011, p. 28):

- Finland, Germany, and the UK all run a *dual model*, combining a high degree of license-fee funding for public service media with considerable indirect subsidies to their private press.
- France and Italy both operate a *mixed model*, combining medium-degree levels of funding for public service media with a blend of indirect and direct forms of support for private sector media.
- The USA remains an exception with its *minimalist model*, combining low levels for public service media with low levels of indirect support and no direct support to private printed media outlets.

1.2 Why Study Press Subsidies?

This is an independent research study to establish an integrated view of academic debates and practical policy case studies on a truly international scale. This book is aimed at a student market, the scientific community of researchers into media management, media economics, and media policy, as well as practitioners in publishing, press regulation, and media governance. The book's main objective is to analyze and discuss state aid for newspapers across and beyond Europe.

The volume brings together experts in the field to combine theory with industry practices. It excels prior publications on government subsidies to newspapers in being more analytical in focus and scientific in approach. It may thus be considered as one of the first books to combine economic and public policy theories with practical issues of print media governance in journalism and the news media publishing domain.

The book project is a joint interdisciplinary effort of a team of many partners, coming from all across Europe (including Switzerland), as well as from Russia, Australia, and the USA. We use a multi-method approach (desk studies and cases) for the analysis. We believe that the single-case study research design depicting current issues and debates around subsidy schemes to newspapers on a national level is best suited to the study of the present phenomena.

State Aid for Newspapers shall deal with a vast area of issues. It is attempting to:

- Explore theoretical issues of government support to print media.
- Discuss the plausibility and rationale for intervention.
- Examine the governance of subsidy schemes and the instruments applied to reach them.
- Broaden the understanding and discussion of the impact of subsidies on press operations, managerial decisions, and the public.
- Study the effects of subsidies on the economic competition of newspapers.
- Analyze the effects of political efforts embodied in the subsidy schemes to halt concentration and stimulate the diversity of opinion.

- Explore deficits endemic in the schemes and the pressures, problems, and dilemmas that surround them.
- Unravel the overall success or failure of the schemes to keep newspapers afloat and to strengthen both their commercial competitiveness and democratic accountability in safeguarding press diversity and promoting plurality of views.
- Consider possible changes to make them more effective.

1.3 How to Read this Book

The present volume is structured into three parts. The book starts with an *Introduction* into its context, purpose, and structure (Paul Murschetz, Chap. 1). Part I will introduce the reader to theoretical concepts surrounding the big issue *State Aid for Newspapers*, supported by explanations from newspaper economics more generally (Paul Murschetz, Chap. 2). There, it will pursue some crucial underpinning issues of a rather wide theoretical canvas. It will predominantly focus on the viewpoint of media economics in explaining the more practical issues that lie ahead.

Part II tackles mid-range theories on state aid to the press. It starts with offering a topography of issues and challenges in the provision of state support for news in general (Robert G. Picard, Chap. 3). Then, it surveys subsidies to various industries including the film industry and the different macroeconomic policy approaches that guide it (Nikolaos Zahariadis, Chap. 4). Further, it enters the effects debate on subsidies and sets up a model of demand for a regional newspaper monopolist by analyzing its profit-maximizing level of journalistic quality (Christian M. Wellbrock and Martin A. Leroch, Chap. 5). The subsidy debate is further widened by a chapter on the effects of European Union (EU) state aid rules on Member States' press support policies (Evangelia Psychogiopoulou, Chap. 6). Theoretical issues are eventually rounded off by discussing the heuristics offered by the theory concept of governance (Hamelink and Nordenstreng 2007). By this, we distinguish different domains of press governance, namely, ownership regulation, press subsidies, limitations to press freedom, and editorial standards (Manuel Puppis, Chap. 7).

Part III features a selected range of case studies on the provision of newspaper subsidies, their governance, and effects on affected markets. We believe that *single-case study* methodology is more than suitable for exploring the question of press support in Europe and beyond. This is because there is no single European-wide (and thus obviously no global) approach to press subsidies. Each nation has developed its own subsidy scheme, reflecting different economic policies, political contexts, and cultural differences. Further, we know that case study research is a popular qualitative method used in media economics and public policy research. And, as far as our research strategy is concerned, we believe that single-case study methodology is the inquiry tool that best investigates our phenomenon within its real-life context, especially when the boundaries between the phenomenon and the context are that complex (Yin 2002).

The case-based part is pragmatic and qualitative in nature. This means that we use case study research to describe an intervention and the real-life context in which

it occurred. The selection of cases was pragmatic in as far as it had to pick cases on the basis of two criteria: (a) *Availability* and *accessibility of data* which was guaranteed by the authors originating from the countries they analyzed and (b) *External validity* (albeit not being comparative and built on multi-case study logic) in order to instances which reveal critically interesting experiences of a nation, i.e., lessons to be learned from different regulatory practices across a wide range of countries. Unfortunately, especially the first criterion denied selecting those countries which we believed would have been best-practice illustrations by history and culture of newspaper subsidy practice.

For this reason, there are a range of countries providing government support to newspapers which are not referred more deeply in this book. A best-practice example is Canada, where subsidies are provided by *Newspaper Canada*,³ which runs the *Canada Periodical Fund*, a subsidy program for community newspapers and magazines. Another interesting case is Denmark, where the current three-party center-left coalition government had reviewed the country's press subsidy scheme in January 2013 and now hands out a 55 million euros to print and online media yearly. Beneficiaries have to offer at least 50 % on editorial content of which one-third has to be produced in-house. Editorial contributions have to be of public interest and need to be produced by three full-time journalists (to be supported by some free-lancing journalists). Subsidies may amount up to 2.3 million euros per applicant or 35 % of total editorial costs.

In addition, Denmark also provides for an "innovation fund" for restoring economically weak newspapers and bringing new publications to market. Further, in Italy, where newspaper readership remains low compared to most of EU countries, an unhealthy dependence on state funding is created through a great amount of public funds granted to the written press, that is, newspapers and magazines linked to a political party, movement, or an individual political figure. Now, with Italy feeling the economic (and political) crisis and the government seizing the scissors to cut public spending, party-owned media organizations, such as *Liberazione*, the voice of the Communist party, are expected to suffer most from subsidy cuts. Norway, which is a nation of avid newspaper readers and also a best-practice country for newspaper subsidies over decades, is currently (albeit only slowly) changing its subsidy scheme for the media. While the government is still handing over ca. 40 million euros to its newspapers in the form of a *direct* "production grants," and monies particularly go to so-called "No. 2 newspapers," i.e., economically disadvantaged newspapers, some changes in the scheme are under way since a committee formed in 2010 found that the newspaper subsidies were better allocated as *media subsidies* more generally such that print newspaper publishers were stimulated to invest more into their electronic outlets (Engebretsen 2009;

³ Headquartered in Toronto, *Newspapers Canada* is a joint initiative of the *Canadian Newspaper Association* and the *Canadian Community Newspapers Association*. The trade association represents over 830 daily, weekly, and community newspapers in every province and territory in Canada.

Østeraas 2006; Skogerbø 1997).⁴ Part III of this book starts with Australia (*Franco Papandrea* and *Matthew Ricketson*, Chap. 8). Australia has one of the most concentrated newspaper industries in the developed world. Policymakers have tended to counter related concerns about diversity of opinion in newspapers with measures promoting diversity of ownership of broadcast media including restrictions on newspaper control of other media. While subsidies to newspaper production have not been a feature of media policy, the industry has benefited from several direct and indirect assistance measures at various times in its 200-year history. As in many other countries, newspaper circulation has been declining for decades, but the primacy of newspapers in the advertising market was not seriously challenged until the recent rapid rise of the Internet as an advertising medium. The consequential structural adjustments have raised concerns about the future sustainability of the crucial role that newspapers play in a democratic society and have led to calls for government assistance. The issue of press subsidies was pushed by a recent federal government-initiated media inquiry into media and media regulation. However, while the inquiry acknowledged the difficulties facing the industry it stopped short of recommending financial assistance.

Next is Austria (*Paul Murschetz* and *Matthias Karmasin*, Chap. 9). Austria has introduced a direct general government subsidy scheme for newspapers already in 1975. Operating across all daily and weekly newspapers, a unique feature in Europe, it was built on the original idea of compensating publishers for the then newly introduced Value Added Tax. While this general scheme is still running and distorts the market structure in favor of the market leading boulevard press, Austria introduced a selective financial subsidy scheme in 1985, the so-called “*special subsidy for the maintenance of variety*,” granted to secondary daily newspapers based on criteria of circulation and advertising volume. Today, the current scheme is set to be overhauled by government, and its future is widely discussed by academics, lobbyists, political party representatives, and NGOs. At stake are principles, design, and total amount allocated to newspapers. While the country continues giving out state money to newspapers, the general purpose to safeguard the future of the press and quality journalism is more than contested.

The Belgian government has long adhered to an *étatiste*-interventionist tradition of promoting diversity and quality in the print media. Consequently, Belgium has developed a support system of the press. Indirect government support, aimed at the newspaper market as a whole, had been organized by the federal government and mainly consisted of favorable rates with the postal service, but also a zero percent VAT rate. Belgium had also introduced a direct subsidy scheme in 1973 a direct subsidy support system, aiming at helping out the ailing party press at that time. The scheme was plagued by party, political, and linguistic strife, however. While the

⁴ Analyses on other countries which have attracted scholarly research interest on the issue and are not covered in this book are covered by a publication of the Netherlands Press Fund (Ed.), *Press and Press Support in a Digital Age. International Conference on Press and Press Support in a Digital Age*, 3–4. October 2007, as well as by an earlier publication by the Autonomous University of Barcelona. See, Fernandez Alonso et al. 2006.

indirect subsidy system was criticized because of its general nature, with the effect of disproportionately favoring the bigger papers, the government decided to phase out the direct subsidy system in 1997 due to ineffectiveness (De Bens 2009; Raeymaeckers et al. 2007).

The next chapter (*Ike Picone and Caroline Pauwels*, Chap. 10) will look into the region of Flanders where the rise of digital media and changing media consumption patterns has had a particular impact on the news market. Flanders, being a small linguistic and cultural community, has built up barriers to market entry for alternative news products. In contrast to the centralized, direct subventions for newspapers published in the French speaking community, government subsidies to the press in Flanders are distributed and managed in collaboration with sector-specific associations such as the *Flemish Association of Journalists*, the *Flemish Association of News Media*, and the *Flemish Association for the Press*. Dedicated press support is limited in scale and scope and mainly aimed at supporting the day-to-day operations of journalistic organizations, on-the-job training of journalists, as well as small-scale research projects into investigative journalism. Support for media innovation, on its part, has been steadily growing over the past decade. Various Flemish institutions have been set up for this purpose, focusing on research and development. These initiatives fit in the strategic policy imperatives of the Flemish authorities that want to turn Flanders into a knowledge economy by 2020. In this chapter, the authors argue that in times where direct subsidies to the press are unlikely to increase, press organizations might need to take a more creative and proactive innovation approach if they intend to benefit from support measures. Innovation grants can be a welcoming source of funding for Flemish press companies.

The chapter on Bulgaria (*Georgi Kantchev and Nelly Ognyanova*, Chap. 11), said to be the poorest of all 27 countries in the European Union, opens another critical debate on press subsidies: Hidden practices and unwelcome side effects of state subsidies handed over to the press in various indirect ways and the social cost that such activities as lobbying, favor seeking, and political parallelism as part of state support to newspapers infer. Their text argues that while current media laws and regulations in Bulgaria do not foresee any direct state aid for newspapers, several mechanisms of indirect help reveal more unofficial, shadowy practices that exert unhealthy influence on the press. Much of this intervention aims at seeking government advantages over other commercial market players, all by means of public money.

Finland (*Hannu Nieminen, Kaarle Nordenstreng and Timo Harjuniemi*, Chap. 12) then addresses the rise and fall of a long-standing government subsidy scheme to newspapers. Historically, the Finnish state has handed out considerable amount of subsidies since the 1960s. Much of it was guided by a consensus across all political parties that the ailing party press had to be helped out financially, newspaper deaths to be averted, and pluralism of opinion safeguarded. The big change came in 2008. Then, the direct state aid subsidy scheme was judged as a violation of the EU State Aid Directive and accordingly completely slashed by the Finnish authorities. Today, the only direct subsidy left is the so-called “*selective subsidy*

granted to newspapers published in national minority languages” (such as Sami, Romany, and Swedish). The annual budget of the aid is a mere 0.5 million euros and maximum aid intensity is 40 % of the newspapers’ operating costs. Today, indirect state support is much more important, i.e., the tax exemption of the newspapers (zero percent VAT, amounting to 313 million euros per year, according to Nielsen and Linnebank 2011) and the reduced charge for postal delivery of newspapers, making home delivery payable for households in remote areas (allegedly amounting to more than 100 million euros per year). In Finland, another landslide regulatory change came in 2012 when the long-standing policy according to which newspapers were exempted from VAT (a zero-rated VAT) was canceled and a VAT of 9 % was imposed for the first time. In all, these governance moves are much in opposition to government policies in a country whose political fundamentals have traditionally been built on the ideas of public interest and the social responsibility of the press.

The next case study chapter is on France (*Matthieu Lardeau and Patrick le Floch*, Chap. 13), the most prominent example for a highly interventionist newspaper subsidy culture. There, government subsidies to newspaper have come to be a *raison d’être* for the newspaper industry. At the same time, critics oppose the scheme for not being effective since subsidies have done little to preserve a vivid, vibrant, and pluralistic press landscape. Even worse, as is argued by the chapter authors, state subsidies have not averted the market from failure.

The book will then focus on Germany, France’s big neighbor and considered to be the strongest economy in Europe. Germany (*Castulus Kolo and Stephan Weichert*, Chap. 14) acts reluctantly to any kind of state interference in media, an attitude which is attributable to the problematic role the press played in the years before and during the Nazi regime. Consequently, the country’s postwar media system is since based on the principle of press freedom as stipulated in the German Constitution of 1949. However, while this disallows for state interference in terms of subsidies, alternative funding models beyond state subsidy are currently debated in order to improve the financial situation of particularly news journalism in the country. Hence, this chapter focuses on these nontraditional funding models such as charity, trust, or cooperative ownership and looks into their potential to ensure that investigative journalism in Germany will survive the structural crisis (Esser and Brüggemann 2010; Weichert and Kramp 2009).

State/media relations in Greece (*Stylios Papathanassopoulos*, Chap. 15) are characterized by political clientelism, that is, patron–client relationships between the ruling elites and the press owners, which seem to reveal a deep-seated ambiguity ingrained in the role definition of the press in Greek democracy. The author explores the roots of this sort of power play in a political system that lacks transparency and accountability regulation. On top, the Greek state is currently challenged even more as the recent financial crisis clamps down on the country as a whole.

Much light has recently been shed on Hungary’s latest moves to restrict press freedom and media pluralism. There, the Hungarian parliament passed a succession of controversial, far-reaching laws which overhauled the regulation of the print,

broadcast, and online media. After a negotiation process between the Hungarian government and the European Commission, several amendments were passed in March 2011, only later to be declared as unconstitutional by the Hungarian regime. The chapter on Hungary (*Agnes Urban*, Chap. 16) will focus on government intervention via indirect subsidies through publicly funded advertisements by government agencies. By this, it is argued, the state exerts significant control over the media and acts as a strong governor which decisively influences the financial results of Hungarian publishers.

The Netherlands (*Lou Lichtenberg* and *Leen d'Haenens*, Chap. 17) is a shining example for a country of high esteem for public intervention into the press. Building on its history of subsidy success of safeguarding media plurality, the authors argue that government should excel its interventionist ethos and also aim at stimulating innovation as a “duty of care” approach, based on freedom of speech and every citizen’s right of seek information and ideas. In this context, the Netherlands Press Fund is scrutinized as change agent and driver of innovation in news publishing of the future.

Some more light shall then be shed on another big Eastern European nation-state: Russia (*Mikhail Makeenko*, Chap. 18). Russia still struggles to build a solid economic base for its newspaper industry. Today, newspapers represent the smallest segment of the total Russian advertising market, but show the lowest growth rate among all media sectors. However, state officials and some parts of the national and regional elites consider newspapers as a crucial element of their propaganda, at the same time they see print media as an instrument of unification of the country’s huge territory. Moreover, state support remains a core element of industry economics and keeps the press alive as a cultural institution. Selective and targeted funding would strengthen the press as an effective means of organizing the public discourse.

The Swedish model (*Mart Ots*, Chap. 19) for press subsidies has attracted considerable international interest in answering this crucial proposition in that it has represented a role model of an active state, having been focusing on direct and selective support to weaker newspapers over decades. In times of declining print markets, however, Swedish legislators seem to seek answers to one pivotal and overarching question: How can the state continue to support a range of channels as diverse as necessary in order to foster societal debate and safeguard the plurality of news provision?

Switzerland (*Alfred Hugentobler* and *Christian Jaag*, Chap. 20), by contrast, is a typical non-interventionist case study country. There, the press benefits from government provision of merely two forms of indirect subsidy: Subsidies to support postal transport prices and a reduced VAT rate applied to specific printed matter. Discussing postal subsidies, this chapter argues that the new Postal Act which had come into effect in 2012 has made the scheme much clearer and more effective in allocation. Discussing postal subsidies, this chapter argues that the new Postal Act which had come into effect in 2012 has made the scheme much clearer and more effective in allocation. However, some regulatory inconsistencies still remain.

Similarly, The United Kingdom (*David Baines*, Chap. 21) is traditionally critical toward all proposals to directly intervene into its press. Apparently, British regulators have proved the most skillful in playing a regulatory system of *official* non-intervention into the press, thus rejecting the interventionist approach to sustaining press diversity by direct subsidies in many other European countries.⁵ Yet, although officially viewed as “tax on knowledge,” substantial indirect support is granted to the press by zero-rating press sales and advertising revenues. Given this milieu, little success can also be reported from the economic regulation of British press monopolies. Although there is a body of law which purports to regulate mergers, monopolies, and anticompetitive practices of newspapers, it has repeatedly been criticized as a somewhat half-hearted and completely ineffective attempt to limit the size and thus power of press companies.⁶ Relying solely on general competition law to protect diversity in the press, British press policies are thus primarily concerned with the operation of the economic markets rather than with the distinctive wider needs of public policy, in particular the need to ensure the expression of a rich diversity of views and opinions. With the “normal” antitrust law considered the most effective policemen for fair press competition in Britain, the unwillingness to intervene is paralleled by a system of voluntary self-regulation by a press watchdog, the UK’s Press Complaints Commission (previously the “Press Council”), established in 1991 and, as indicated above, by the resistance to step into the field of subsidies, itself unequalled in Europe. The chapter on the UK takes another spin on the topic of press freedom in the country. It starts out from acknowledging that commercially independent UK print media companies come to oppose the publicly funded BBC and claim, by virtue of that independence, to act as critical scrutinizers of the political process. Now, the discourse of independence and democratic oversight was recently deployed by the local and regional press in order to avert the expansion of the BBC’s diversification strategies at local level and other print media initiatives by local government. The chapter contests the validity of state independence argument put forward by the commercial press. It uses a case study of a local newspaper organization to demonstrate that the local press does enjoy substantial and significant support from the public purse and that the industry’s claims to act as independent counterweights of the political process only conceal more nuanced and complex relationships.

Part III closes with presenting possibilities to publicly intervene into American media. Although consensus has been reached that journalism is in crisis, few agree on the nature of its decline or the means of resolving it. After providing an overview of this ongoing debate from an American perspective, the author (*Victor Pickard*, Chap. 22) contextualizes the US journalism crisis within several historical, political, intellectual, and structural processes that help highlight what is at stake and

⁵The government’s aversion for intervention is best set out in the report of the last Royal Commission on the Press. See the Royal Commission on the Press 1974–1977, *Final Report* (RCP 1977), Cmnd 6810, HMSO, London.

⁶This view has been advocated by Curran (1978), Sparks (1992), and Tunstall (1996).

what can be done to support the journalism required for a democratic society in the USA. He proposes to look closer into the issue of press subsidies. It is surprising that subsidies have been relatively common throughout the history of American news media. Postal subsidies, public and legal notices, and tax breaks have been important sources of revenue for the publishing industry throughout American history (Cowan and Westphal 2010; Nilikantan 2010). However, recent market failures in supporting journalism arguably underscore the necessity and legitimacy for implementing targeted subsidies. This final chapter provides an overview of this history, examines the potential for public policy intervention in light of the current journalism crisis, and offers a justification for implementing various forms of subsidies today. In particular, this chapter suggests that as the health of American newspapers continues to decline, it is likely that subsidies will become journalism's last best hope (FTC 2012; Greenberg 2012; Kirchhoff 2010; Schizer 2010; Schmalbeck 2010).

Part IV develops a critical summary assessment of all previous chapter results (Paul Murschetz and Josef Trappel, Chap. 23).

Acknowledgments In keeping with the spirit and theme of this book, this has been a collaborative effort, inadequately accounted for by the editor's name on the cover. We would like to thank all contributors to deliver high-quality input in time. Further, the book's idea was mentored notably by David Hutchison (*Glasgow Caledonian University*), who initiated a first draft of the book in 1997, and Josef Trappel (*University of Salzburg*), who gave much space and contributed with many innovative ideas to this project in its current form.

This book goes back to the author's earlier academic publications *State Support for Daily Press in Europe: A Critical Appraisal* first published in the *European Journal of Communication*, and *State Support for the Press – Theory and Practice. A Survey of Austria, France, Norway and Sweden*, researched for Glasgow Caledonian University (Dept. of Language and Media), published with the European Institute for the Media (*Mediafact*, October 1997). Last but not least, we thank Barbara Fess, editor in business/economics, and Marion Kreisel, editorial assistant, both *Springer-Verlag*, for their patience and great support throughout the editorial consultation and production process.

With the contributions of its many participants, this book attempts to be a first step to an international network of exchanging information and ideas on policy and research on *State Aid for Newspapers* for the future.

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Paul Murschetz

2.1 Subsidies: Conceptual and Definitional Problems

If one first lays aside any definitional problems—the term *state aid* is used within the European Union, and the term *subsidies* the standard expression of the World Trade Organization, while the OECD prefers to use the word *support*—state aid, at a very fundamental level, commonly refers to a cash payment or financial assistance from a government or other public authority to a person or company. State aid for newspapers, more particularly, usually serves two main purposes: They should reduce a person’s or company’s cost of producing and bringing a commodity to market, and, secondly, by reducing the price of the commodity, should increase its consumption beyond what competitive market forces would provide for.

State aid for newspapers in the form of a financial subsidy thus works like a negative tax as they are given (and not taken) by government and, in the most general case, should encourage the production and consumption of a good. In most cases, subsidies are given out to producers in order to encourage supply but, occasionally, government can offer a cash or in-kind subsidy to the consumer which itself aims at boosting demand in a market.¹

Subsidies are a notoriously difficult concept to grasp. They only seem to become more tangible when referring to their main purpose: “*Subsidies are provided to promote media industries, support political activities, spur cultural development, meet the needs of minority linguistic and ethnic groups, assist religious and*

¹ Ross argued that to raise welfare of an individual at the lowest possible cost, cash grants are more efficient than subsidies to the consumption of specific commodities (Ross 1988). Equally, Peltzman (1973) looked into education subsidies and found that an in-kind subsidy, such as below-cost education provided by state universities, replaces more private consumption of the subsidized good than an equivalent money subsidy, such as a scholarship.

P. Murschetz (✉)

ICT&S Center, University of Salzburg, Sigmund-Haffner-Gasse 18, 5020 Salzburg, Austria

e-mail: paul.murschetz@sbg.ac.at

other organizations sanctioned by states, and reward political allies” (Picard 2008, p. 4891).

Subsidies come in a variety of different forms, including direct subsidies such as cash grants and indirect measures such as tax reductions (notably, reduced VAT rates on subscription and single copy sales and advertising revenues) and tax breaks (e.g., for investments), etc. Ronald Steenblik, senior trade policy analyst in the *Trade and Agriculture Directorate* of the *Organisation for Economic Co-operation and Development* (OECD), stressed the importance of direct subsidies but noted that other, indirect subsidies would also play an important role as they would bring regulatory relief to suffering industries: “*Many subsidies are indeed provided in that form, as grants or, more generically, direct payments. Grants are the elephants in the subsidy zoo: they are large and highly visible. But there are numerous other subsidy beasts which are better camouflaged, stealthier, and keep closer to the ground*” (Steenblik 1990). Any of these kinds of financial transfers aim at (re) funding the operational activities of companies the market does not efficiently allocate for, and, importantly, governments and other stakeholders would have an interest in to be supported.

Newspapers, known as the *chroniclers of daily life*, come in different shapes and may differ according to frequency of publication, pitch of editorial content, geographic distribution area, format and layout, etc., and normally attract funding from internal and external sources: They collect revenues from two-sided markets of audiences and advertisers (Rochet and Tirole 2003; Roson 2005). Other funding sources may come from private equity, loan capital, or shareholder equity. Public subsidies, on their part, come as an additional source of funding. All of these financial resources may cover for any financial commitment needs, for example, to newsrooms (Lacy 1992), add to the organization’s survival based on its optimal utilization of both internal and external resources (Pfeffer and Salancik 1978), optimally balance these financial resources in order to relieve from financial distress (Modigliani and Miller 1958), or support the capital structure of the media firm in order to leverage any future investment needs (Myers 1984, 2000).²

In order to treat such complex issues systematically, subsidy definitions tend to make reference to one of the following characteristics of government intervention in order to confine the concept (Steenblik 2003):

- Subsidy types and instruments
- Rationale and design of a subsidy program or scheme
- Effects on the market, the business firm, journalism, the consumer/citizen, and/or the public at large

²For an overview on financial issues of media management, see, Rizzuto (2006), Ozanich (2006), and Picard (2011).

2.1.1 Subsidy Types and Instruments

Indeed, state intervention to help the press can be classified according to whether they are:

- *General* (applying to all papers) or *specific* (intended to help weak papers or certain types of paper with a social, political, or cultural role)
- *Indirect* (e.g., tax concessions) or *direct* (e.g., grants and loans)
- Intended for *existing* (perhaps ailing) papers or designed to help *new entrants* into the market
- Aimed at *local* or *national* press markets
- Governed by *selective* or *mandated* allocation procedure mechanisms

General aid is given to assist a selected range of newspapers, but not for a single use.³ This type of use can be seen in operational subsidies that provide revenue that a newspaper manager can use for any purpose (e.g., tax concessions to newspapers, reduced import duties on newsprint, or reduced postal tariffs).

General subsidies are likely to be allocated according to the “watering can principle,” that is, a procedure of subsidy distribution, with which neither the temporal sequence of the demand submission nor the subsidy urgency, but if necessary the height of the requested subsidies—if at all—is decisive. For the watering can principle it is characteristic that the subsidies without detailed examination of the actual need are distributed evenly over the entire target group, without considering the possible differences in market power and urgency of help of the individual cases.

Specific forms of financial assistance, by contrast, come as a special “capital injection” and include aid that can be used only for a specific purpose, such as grants received to retrain printing personnel in the use of digital prepress equipment. Further, specific subsidies may go to particular groups of beneficiaries, as opposed to the recipient population as a whole. These financial endowments may be paid out on a first-in, first-served basis whereby the requests of subsidy applicants are attended to in the order that they arrived, without other preferences such as, for example, the financial need.

The terms *direct* and *indirect* indicate how the intervention is provided. Direct aid is given directly to specific newspapers, such as a loan provided to purchase new printing presses. Most popular are direct cash payments made to newspapers by governments to help pay their operating expenses, most commonly referred to as *direct operating subsidies*. Direct cash injections also include subsidies for training and research grants, grants to encourage economic improvements in the industry, low-interest loans and loan guarantees, equity injections to avoid bankruptcy, and financial aid to political newspapers and other informational activities of political parties.⁴

³ The term *subsidy* may also refer to assistance granted by other institutions than government, such as individuals or private nongovernmental institutions, although this is more commonly described as charity.

⁴ Picard (1982, pp. 4–5).

Table 2.1 Types of direct subsidies (selection)

General	Selective
Direct operating grants to all newspapers	
Support of cooperations: joint-delivery, printing, advertising acquisition	
Financial grants to all newspapers (equal amount to all)	Financial grants to all newspapers which are in the red
Print-specific subsidies for investment in general (e.g., into new printing technology, innovation subsidies)	Subsidies to newspapers for special investments
General press export subsidies to encourage sales and reading of newspapers abroad	Export subsidies through low-cost loans or tax relief for exporters
Soft loans to all newspapers to stimulate capital investment	Soft loans at below market interest rates based on specific selection criteria (e.g., economic indicators)

Source: the author

Preferably, direct cash subsidies are aligned to specific bright-line selection criteria for subsidization such as news media company size measured by printed circulation, competitive position in well-defined (i.e., geographic, product, or consumer) markets, frequency of publication, or disadvantaged financial position on the advertising market.

Direct selective subsidies may be granted to new market entrants in order to lower entry barriers, restore competition, and reinforce the market system (Gustafsson 1993).

Other forms of direct financial subsidies include support for cooperation in distribution and printing, government loans on preferential terms, and government insertions—if they are explicitly declared to be press subsidies by the authorities—grants for press research and education, and grants for press exports. The following Table 2.1 highlights some general and selective direct subsidies.

While cash grants are most visible transfer payments in the *subsidy panopticon*, other forms of state aid are, as mentioned above, better camouflaged, stealthier, and thus less subject to political or civil society observation and control. For example, tax concessions are common forms of indirect subsidies in many well-developed tax systems. Tax concessions are assistance programs that include tax exemptions (when a tax is not paid), tax credits (which reduce a tax otherwise due), tax deferrals (which delay the payment of a tax), and a host of other instruments.

Most European countries give tax concessions on VAT to the newspaper industry. These advantages may take the form of zero rating, exemption, or the use of a positive rate lower than the standard rate, applied either on newsprint, sales revenues, advertising revenues, purchases of printing equipment, or to any combination of these. VAT reductions are used across a wide number of nations and

represent a significant indirect subsidy of print (and/or online) journalism. However, research on its value and effects on newspaper markets is scarce.⁵

Besides adding complexity to tax systems, tax concessions are often criticized by economists as being less transparent than grants and more resistant to change. In addition, VAT is regressive and is being equally paid by all consumers whether they are rich or poor, young or old.

Another important advantage includes distribution support through reduced postal delivery rates and other transportation concessions. Reduced tariffs of newspapers delivered by postal services, in Sweden to be traced back to the last century, in France even to the French Revolution, and in the USA back to the Postal Act of 1792, are enjoyed by the press in most countries so as to alleviate general distribution costs of newspapers. As a general rule, newspapers with larger distribution, particularly supra-regional and national newspapers, benefit most from these nonselective reduced postal delivery tariffs. Other transportation concessions are rarer and take the form of reduced rates for the carriage of newspapers by rail or airline. Telecommunications support to newspapers is fairly popular and ranges from reductions on telephone charges to a reduction of subscription fees to news services. Furthermore, lower import duties are another form of indirect support and are on occasion levied on the import of newsprint. Grants to journalists, research and innovation subsidies, and cooperation grants for printing and distribution may also alleviate the cost pressures.

Further, news agencies may be promoted and subsidies to newsprint export may help reading abroad. On top of that, government advertising in the press represents another important yet much hidden form of indirect support to newspapers. To my knowledge, however, scholarly research on types and effects of this important issue is absent. The following Table 2.2 collects these indirect types of subsidies (general and selective).

While these types of indirect subsidies are more or less known, there are also more hidden, below-the-line subsidies and other shadowy practices of public support which are not only difficult to detect and in the absence of an official scheme act beyond legal governance and control. However, they may give rise to adverse effects of market distortion in many ways. While above-the-line subsidies act to distort specific submarkets deliberately in order to support needy beneficiaries, these other forms of support deliver grounds for suspicion of corruption, political lobbying seeking protection, and even practices of subsidy abuse. Because research has shown that a free press may be a powerful control on corruption (Ahrend 2002; Brunetti and Weder 2003; Lindstedt and Naurin 2005), state subsidies may come as subtle instruments that subvert this freedom in many ways. It is both political influence over media content which puts pressure on the

⁵Timo Toivonen, researcher at Turku School of Economics in Finland, calculated the value of VAT reductions in three nations and found that VAT reductions for circulation sales in 2010 amounted for by 525 million euros in Germany, 250 million euros in Italy, and 748 million euros in the UK [Toivonen, as cited in Nielsen and Linnebank (2011), pp. 31–32].

Table 2.2 Types of indirect subsidies (selection)

General	Selective
Reduced postal tariffs for newspaper delivery and delivery by train	Reduced postal tariffs for newspaper delivery and delivery by train based on specific criteria (e.g., low circulation)
Telecommunications support	
Subsidies for newsprint, partly combined with the incentive to prefer domestic newsprint in order to support the domestic industry	
Reduced import duties on newsprint	
General tax reliefs, e.g., reduced VAT rate on newsprint, sales revenues, advertising revenues	Reliefs up to a specific circulation or advertising revenue level
Tax exemption for reinvestments	
Special support to news agencies or measures taken to increase their number	
State control on advertising volume in other media, e.g., TV	
Reallocation of advertising revenue from other media (e.g., TV to print)	
Education and further promotional subsidies to journalists	
Subsidies to promote reading	Subsidies to promote reading of migrant inhabitants

Source: the author

day-to-day conditions in which a journalist works and economic influence to exert competitive pressures that distort reportage. Economic favoritism or reprisals by government for unwanted press coverage are further critical instances that endanger press freedom.

In referring to the administration of assistance, the terms selective and mandated are often employed. Selective intervention refers to advantages, subsidies, or other types of regulation in which an administrative body independent from government regulates as to who should be provided with funds and how the allocation procedure is to be organized in detail. Selective funding is awarded to subsidy applicants according to a series of qualitative selective criteria and generally involves a more rigorous selection process. Mandated intervention, by contrast, is regulation mandated by a state in order to organize the allocation procedure by an agency automatically and by transparent rules so that no discretion or even *agency capture* to provide or withhold the assistance should rest within a regulatory agency respectively. Such regulatory agencies are set up and the task of regulation deputed to it because government intervention has been mandated by a law that clearly defines which beneficiary should receive the assistance and under which circumstances. These regulatory agencies may be set up from outside an industry in order to remain independent and thus ring-fenced against state intervention, or use may be made of self-regulation by bodies representing firms in an industry. The advantage of self-regulatory organizations is that while industry practitioners can

be expected to be aware of its problems they may tend to identify the public interest with the interests of producers in the industry, rather than the interests of its customers, or the general public.

Principally, nonmarket or *government failure* is the case when the costs of intervention are greater than the benefits. This type of failure may occur when the costs of setting up, operating, and controlling the scheme exceed the benefits (Stiglitz 1989). *Regulatory capture*, a form of government failure, refers to collusion between firms and government agencies assigned to regulate them (Dal Bó 2006; Laffont and Tirole 1991; Zerbo and McCurdy 1999). Here, rent-seeking behavior is an important explanatory concept in economics. In public choice theory, rent-seeking is the attempt of people to obtain economic benefit for themselves through lobbying the government for privileges.⁶ They typically do so by getting a subsidy for a good they produce or for belonging to a particular group of people, by getting a tariff on a good they produce, or by getting a special regulation that hampers their competitors. In fact, from a theoretical standpoint, the moral hazard of rent-seeking may considerably endanger any potential efficiency gains public subsidies are about to initiate in the first place (Buchanan et al. 1980; Congleton et al. 2008; Tullock 1967, 1987). There are various instances of government-beneficent relations which result in a negative net effect of rent-seeking. Then, total social wealth is reduced, because resources are spent wastefully and no new wealth is created. When applied to state aid for newspapers, if lobbying for a favorable regulatory environment is cheaper than building a more efficient production, a newspaper may opt for the latter, and money is thus spent on lobbying activities rather than on improved business practices. The main source of inefficiency caused by subsidies, besides their possible wasteful nature, is that they tamper with market signals. This means that when state aid targets specific firms they alter the self-regulating mechanism of the marketplace (a phenomenon that Adam Smith referred to as the *invisible hand of the market*) by which resources are allocated to the most efficient firm.

And, additionally, there is another possible adverse impact effect of state aid: the so-called *soft budget constraint* (Kornai et al. 2003; Kornai 1986). The “softening” of the budget constraint appears when the strict relationship between the expenditure and the earnings of a firm is relaxed because excess expenditure will typically be paid by a paternalistic state.

If the subsidy is soft it is negotiable, subject to bargaining, lobbying, etc. as a result of which it becomes a source of the inefficiency as it raises expectations among potential applicants that failing firms could be bailed out and subsidized. More generally, a firm’s incentives to become more efficient so as to cut costs, raise quality, or innovate are likely to be dampened if it expects that the resulting competitive advantage will be offset by the granting of aid to its lazier rivals. All in all, the power of government to effectively govern state aid is seen as

⁶Gordon Tullock, who originated the idea in 1967, was first to point to the negative externalities through rent-seeking behavior (Tullock 1967).

significantly reduced as it is susceptible to capture by special interests through activities such as lobbying and favor seeking (Becker 1983; Peltzman 1976; Stigler 1971).

2.1.2 Subsidy Rationale and Design

When society's goal is to raise the welfare of an individual, household, organization, industry, or society at large, regulatory action may be taken by a government in order to affect or interfere with decisions made by individuals, groups, or organizations regarding social and economic matters.

Theoretically, when discussing the rationale of government intervention into the press, three main theoretical conjectures emerge:

- The *public interest theory of regulation*, which assumes that the “free play of market forces” of supply and demand would be the most efficient organizing principle of exchange and lead to a welfare-optimizing allocation of resources without government intervention (Hantke-Domas 2003; Pigou 1932; Posner 1974).
- The *paradigm of market failure*, a doctrine within economics which explains the notion that self-regulated markets reveal structural and behavioral instances that lead to their failure in working efficiently as a result of which corrective government action seems warranted (Bator 1958; Cowen 1988; Cowen and Crampton 2002).
- Traditions in the *political economy of the media* which look into the issue of government control over the media whereby government may seize the media and induce bias such that media misreport the news in favor of government interests. Subsidies to these favorable media may be the price to pay for such covert government control (Gehlbach and Sonin 2011; Prat and Strömberg 2011; Strömberg 2004).

In what follows, I shall track these trajectories in more detail. Special focus shall, however, be given to economic theories of market (and government) failure, notably through the lens of the “market failure” paradigm from a media economics point of view. Other theories are more briefly referred to as supporting theories. Public interest theory, for example, was first developed by Pigou (1932) and holds that regulation is supplied in response to the demand of the public for the correction of inefficient or inequitable market practices. Certainly, effective governance plans for supporting a whole industry will first have to identify the big picture when aiming to resolve an ailing or otherwise to be supported industry, all the way from setting clear and realistic objectives to measuring subsidy-impacted industry performance and output. Naturally, effectively designing these schemes is a very difficult task. Originally, press support was indirectly distributed through the political parties to their supporting news media—mainly newspapers and other periodicals, but today subsidies are more direct in form and are tied to certain requirements. If support to newspapers is politically approved—and market imperfections are not, in itself, a sufficient condition for concluding that public

financial support is warranted—regulators face the obvious choice of tax-financed subsidy approaches, either through direct cash injections or indirect cash advantages, or antitrust policies as means of regulatory state action, or, most likely, a combination of these.

While it is notoriously difficult to strike this balance in an ever changing and highly dynamic media environment, policymakers may need to conciliate between the following motives—among others—behind public press policy and the subsidy rationale that emanates from them (Baldwin and Cave 1999; Baldwin et al. 2010; McChesney 2008; Seabright and von Hagen 2007):

- Curbing the market power of dominant firms (e.g., by handing over subsidies to “weaker” newspapers)
- Enabling market access for new entrants (e.g., of nonprofit or not-for-profit organizations)
- Relieving financial distress to keep companies alive
- Supporting market exit (e.g., of failing companies)
- Supporting a political purpose (which need not be in the public interest)
- Supporting a national/regional/local culture and its linguistic representations
- Enabling growth and innovation plans of a media company
- Improving journalistic quality for general public benefit
- Encouraging political discourse and the formation of public opinion
- Protecting vulnerable values and groups in society (e.g., linguistic plurality and ethnic diversity)
- Strengthening of the national industry and offering incentives for newspapers not to relocate
- Safeguarding political plausibility and civic support

2.1.3 The Subsidy Effects Debate

State aid for newspapers via financial subsidies is public monies intended to maintain and increase the revenues (incomes) of producers and whole industries during times of special difficulties, by guaranteeing supply of products offered by these companies. They may smooth or slow down the process of long-term structural decline of an industry. Yet, they may also aim at improving the competitiveness of market players in a healthy industry by supporting those products in a market which are said to confer properties of merit goods in the sense that their provision and use benefit society at large such that the provision of high-quality objective information, high culture, and education are promoted (Musgrave 2008). Further, state aid may target activities that would otherwise not take place, such as investments on innovation.

When considering competition effects of state support, public subsidies might come to adversely affect competition. Here, the UK’s economic government

regulator, the *Office of Fair Trading* (OFT), has developed a guidance on how to assess the competition effects of subsidies in general (OFT 2004, 2006). Accordingly, subsidies may:

- Change the behavior of the recipient to the detriment of social welfare. While full competition, through efficient markets, delivers lower prices, greater choice, and more popular products to consumers, subsidies have the potential to cause firms to produce at higher costs or sell their products at higher prices than it had actually cost to produce them.
- Impact on the recipient's costs (either fixed, variable, or total) and so will affect its decisions concerning what to produce, how much to produce, how to produce it, and what to charge for it. Such a change is likely to have an immediate effect on the competitive process, including the relative strengths of firms receiving and not receiving subsidies.
- Force efficient firms out of the market, or reduce their long-term investment or reduce employment, for example, in order to ensure their short-term survival.
- Reduce the future incentives of firms to act efficiently. If firms anticipate that poor performance might be compensated for by subsidies, they will have less strong incentives to be efficient. The dynamic profit incentive at the heart of the competitive process will be suppressed.
- Prolong the time an inefficient firm is able to stay in the market directly and distort a firm's incentives to innovate. For example, an R&D subsidy that benefits just one firm in a market may reduce the incentives of their competitors to invest in research and development (R&D).
- Drive competing firms to react by adjusting their behavior. In response, subsidy recipients may adjust their behavior again prompting second round and third round effects.
- Encourage firms to use time and resources in trying to obtain subsidies whereby such resources are unlikely to be directed in an efficient manner.

Hence, subsidy design can help determine whether the subsidy will have a material effect on competition. In particular, the magnitude, in both absolute and relative terms (i.e., in relation to the costs of the subsidized activity), and the structure of subsidy payments (i.e., periodical or one-off) all may have potential effects on recipients as well as the competitors' behavior.

In this context, Robert Picard's analytical framework of 1991 of analyzing competitive effects resulting from state press policies is still valid today. Picard followed Nobel Prize winner Ronald H. Coase (1974) in claiming that newspapers serve two different markets: the information/ideas market (i.e., the editorial content production and services side of the market) and the economic market for goods (i.e., the revenues-creating side of audiences and advertisers' markets) with one and the same product. As a result, public policy choices must sometimes be made in favor of the press as such that promote competition in one market while harming competition in the other. General policy goal is, as Picard put it, that "*creating and adjusting press policies should be that no negative effect from state activity occurs in either the economic or the information/idea market*" (Picard 1991, p. 3).

As for selected state press policies, aimed at reducing the production costs of newspapers, they can have different effects on the economic and journalistic competition of newspapers. What may have positive effects on the economic competition may have negative effects on the information/idea market, and vice versa, or have no effect at all respectively. If one follows Picard (1991) further, the “*selective production subsidies, that is cash payments made to specific papers to help cover their costs (...) and ownership regulation, that is legal efforts to limit the number of publications or the amount of circulation that may be owned or controlled by a single publisher*” (Picard 1991, pp. 6–7), best promote competition both in the economic and in the information/idea market. On the other side, nonselective tariff discounts on the postal delivery of newspapers, for example, promote the information/idea market, but harm economic competition because they consolidate the financial resources of high-circulation newspapers and thus lower the costs of doing business even further for the market leaders instead of singling out specifically the smaller newspapers for special aid. Picard leaves no doubt that only a balanced and coherent set of public press policies may best promote overall competition, so stressing the need to conform to the general economic policies of the nation in which they are proposed (Picard 1985).

2.1.4 Subsidy Effects Through a Game Theory Lens

Now, let us consider the issue of subsidy effects on pricing competition between two newspapers competing for readers in a predefined market for news. Here, it is helpful to apply a noncooperative pricing game based on simple game theory logic (Carmichael 2005; Fuldenberg and Tirole 1991; Rasmusen 2007). Let me model a two-player, two-strategy choice, single-episode, noncooperative pricing game in a duopoly market for printed news. For this, I assume that:

- There are two market players: *Newspaper A* and *Newspaper B* which are perfect substitutes, i.e. consumers perceived them as being homogeneous goods.
- Newspaper A does not receive government subsidies while *Newspaper B* is granted specific financial aid.
- Newspaper B passes (some or all) of the subsidy on to the consumer, resulting in a lower end-cover sales price per copy.
- Consumers prefer to read the lower priced paper.
- Each of the players competes in the same market for, say, printed quality news (e.g. regional daily newspapers), and they offer a homogeneous (i.e. undifferentiated) product, and thus do not cooperate in any way.
- Both players compete by setting prices simultaneously are decision-makers and must choose between two pricing strategies: (*low price*) and (*high price*).
- One player’s performance is directly related to decisions made by another player, no unilateral decisions are made (i.e. A guesses what B will do by guessing what B will guess A will do, *ad infinitum*).

		<i>Newspaper B (Subsidized)</i>	
		<i>{high price}</i>	<i>{low price}</i>
<i>Newspaper A</i>	<i>{high price}</i>	60, 60	60, 0
	<i>{low price}</i>	0, 60	0, 0

----->

Nash equilibrium

Matrix 2.1 Newspaper pricing game payoff matrix. Source: the author

- Both players tend to act non-co-operatively since it is the individual maximization, and not the joint maximization, of utility that determines their individual choice.
- Their plans result into behavioral actions and the dominant strategy chosen will be the one with the highest expected payoff (or utility).
- Both players know all the rules of the game and the preferences of the other player for each of the outcomes. Each player is fully informed about all prior choices when it is time to decide.

By using game theory design, we can now set up the payoff matrix with possible strategies and the respective payoffs in order to find a solution to this game. Some more data is needed for this. We assume that *Newspaper A* and *Newspaper B*'s production costs are 1.00 euros per copy (i.e., per unit cost) and their price is either 1 euros or 2 euros. Readers love to purchase the cheaper newspaper. In case of a same price they split among the paper equally. For a price 1 euro 1,100,000 newspapers are sold, for 2 euros only 60,000. Now the solution looks as follows (see, Matrix 2.1):

Overall, there is a big incentive to cooperate in this (Bertrand) duopoly model (Bertrand 1883).⁷ First, if both newspapers colluded and charged the high price, they would share the market equally and at highest payoff each [60, 60].⁸ This would be the best decision both newspapers could choose in this setup. However, if the government-subsidized newspaper (*Newspaper B*) went for the (*low price*) strategy, while *Newspaper A* remained unimpressed, it would sell more copies but accrue higher marginal costs as a result of which it would achieve zero payoff. While readers would prefer to read *Newspaper B*, *Newspaper A* would have to follow lowering its price to the level of *Newspaper B*. If both players decided for the (*low price*) strategy, we would arrive at the Nash equilibrium (Nash 1950). This

⁷ This duopoly game model is inspired by the model of competition used in economics, named after the French mathematician Joseph Louis François Bertrand (1822–1900).

⁸ If *Newspaper B* chooses a low price its payoffs is calculated as follows: $(1 \times 100,000 \text{ euros}) - (1 \times 100,000 \text{ euros}) = 0$. In this competitive pricing scenario, *Newspaper A* would have to expect the same zero profit payoff in this equilibrium.

equilibrium is the solution of this noncooperative pricing game. There, each newspaper is assumed to know the equilibrium strategy of the other, and no player has anything to gain by changing only its own strategy unilaterally. Still, this Bertrand–Nash equilibrium is only a weak one. This means that the other game’s equilibrium where both players play the (*high price*) strategy may well be sustained as an equilibrium of a repeated game. If both firms agreed to deviate from the competitive price they would make a profit, and only the readers would lose.

What does this solution imply for public subsidy governance? Clearly, in the duopoly model scenario shown above, government subsidies which aim at lowering prices drive both competitors to reduce their prices at the cost of their individual payoff. If government-subsidized Newspaper B offered a competitive price below the equilibrium pre-subsidy price, Newspaper A would be better off entering into a price war in order to not lose readers to the rival. Yet, at the Bertrand equilibrium zero profits are made. A government subsidy to one market player would, following this model’s logic, lead to Pareto-efficient market result where price equals marginal costs. In order to achieve this result, governments are thus advised to offer *selective* subsidies to homogeneous newspapers on the basis of specific criteria (e.g., market position). However, there is still the danger that the subsidized newspaper would not lower its end-cover price but instead invested into cost-reduction policies in order to drive down costs.

If we applied game theory to real-life situations we would probably come to a different conclusion: Newspapers are rarely identical goods because readers add to their meaning in very specific ways. They consume and interpret news content fairly individualistically and develop preferences for rather specific bundles of information (Lacy 1993, 2004). In this second scenario, let me thus argue that each player’s level of product differentiation is not decided in isolation but with respect to the strategy of its opponent. Publishers, it is assumed, will be best able to produce high-quality news when they are most insulated from competitive market pressures. Increases and decreases in competitive pressure, the argument goes, are commonly associated with increases and decreases in the quality of news (Picard 2004; Waterman 1991; Zaller 1999). When tackling product differentiation print news managers may differentiate their products according to periodicity or feature frequency, revenue model, geographic focus, editorial orientation, news style, visual complexity, content organization, or newsprint quality, or most commonly a combination of them (Reddaway 1963; Picard and Brody 1997).

Hence, I assume the following game settings for this new scenario. Applying the PAPI framework reveals the following results:

1. *Players*: Two newspaper firms, the entrant (B) and the incumbent (A).
2. *Actions*: In the first stage, the players simultaneously decide on either offering a high-quality newspaper {*high quality*} or a {*low quality*} one, indicated by a high sales cover price or a low one, respectively. In order to invoke an analogy from Hotelling’s geographic location model, both newspapers simultaneously choose locations x_i along an interval [0, 1], with 0 and 1 corresponding to maximum distance levels. We model that both firms compete on the quality

Matrix 2.2 Newspaper quality game payoff matrix. The *arrows* indicate how a player can increase its payoff

		Newspaper A	
		<i>{high quality}</i>	<i>{low quality}</i>
Newspaper B	<i>{high quality}</i>	$-50, -50$	$b_2 \rightarrow 200, 100$
	<i>{low quality}</i>	$b_1 \downarrow 100, 200$	$-50, -50$

characteristic as an alias for their geographic location. Readers are supposed to be uniformly distributed along the interval and have no preference for any newspaper. As the game is simultaneous, each player can choose to go for the high-end *{high quality}* or the low-end product market *{low quality}*. If we look at B, it has two options: Either it decides for a high-end *{high quality}* strategy and attacks the incumbent with an editorial quality which is close but not identical to it, or it bargains on a position at the long side of the market in order to avoid the incumbent’s response.

3. *Payoffs*: Suppose market profits are 300 at the monopolist quality. Market profits under duopoly competition are split by 1/3 to 2/3, depending on who triggers which differentiation strategy. If both players decide for a uniform strategy, total market profit will drop drastically and a market loss of -100 will be incurred, which is assumed to be split evenly.⁹ Suppose Newspaper B decides to offer *{low quality}* and differentiates maximally, the incumbent’s best response would be to offer *{high quality}*. Similarly, the game is played back-to-front when A started off.
4. *Information*: The simultaneous game is one of imperfect information. This means that if a player does not know exactly what actions the other player takes.

Graphically, the solution to this game can be shown by the following Matrix 2.2.

As shown in Matrix 2.2 above, newspaper B has got the following options: it could offset Newspaper A’s market-leader advantage by offering a low product quality which would, all else equal, be indicated by a low price. If A was to remain delivering a high-quality paper, B’s plan was to steal readers and corresponding market share from A (move b_1). This could, in theory, end up in a retaliatory measure by the market leader as a result of which both newspapers would end up in a loss (as shown by the payoff in the *{low quality, low quality}* profile).

Equally, in order to maximize expected payoff, B could be positioning itself in the high-end segment of the market and, if A offered a low quality product, was

⁹Of course, this is a stark simplification as, under such conditions, numerous external factors influencing demand, such as population and tastes, and the quality of the newspaper from the point of view of the reader are assumed away.

better off by delivering a horizontally (e.g., distinct political orientation) and/or vertically (e.g., more accurate news) differentiated substitute product, which, when indicated by a higher sales price, would achieve a higher payoff (move b_2).

As shown in the following Matrix 2.1, the Nash equilibrium solution is back-to-back pairing at the median of the reader distribution, a result christened as the principle of minimum differentiation. This is where both newspapers face the “dilemma of opposites” of producing a “cheap” newspaper at a high level of quality. Naturally, the challenger may want to gain market share and profit and commit to a low-cost, low price differentiation strategy, where its payoff of 100 is positive, while the market leader would still be able to reap a profit of 200. It is up to both players to resolve this dilemma. Once they fail to do so and imitate each other’s quality, their profit situation will turn negative ($-50/-50$). Obviously, the market trick is to be perceived as both identical and different at the same time.

Again, what does this solution mean for subsidy governance? The situation is quite dilemmatic. When subsidies are given out to the market challenger in order to improve its content quality with a view to improving its market position against the leader, the only opportunity of the weaker paper is to offer a price inferior to that of the market leader in order to remain profitable. But as consumers may miss information other than the price as quality indicator and may thus be confused about on the small rivals’ actual quality offered (Zeithaml 1988), the subsidized *Newspaper B* is forced to master this price-quality gap by offering a *relatively* lower price at a *distinctively* better quality. In order for the subsidy to have a positive market effect, the beneficiary will need to know more about the price elasticity of demand for its product in order to find out how relative price changes would affect demand. Alternatively, it could only cheat, for example, as part of a marketing and branding campaign, and pretend to offer a high-quality product while, in fact, it would offer a lower-quality newspaper, banking in on cost-reducing measures in order to improve its payoff.¹⁰

2.1.5 Identifying Indicators for Measurement

A further exiting issue refers to identifying indicators for measuring the effects of newspapers to be subsidized (Jung 2003). This, again, is not a pedestrian question. Technically, in order to be eligible for state funding, quality criteria, for example, must be identified which can be measured over time without any bigger data acquisition problem. But while the direct measurement of product-related quality criteria such as objectivity (accuracy, truth, separation of news and opinion, etc.) or timeliness is a high-effort and time-consuming exercise, indirect indicators for quality may prove less demanding but are yet more intuitive.

¹⁰ On the upside, incomplete information about vertical quality signaled via price would soften price competition (Daugherty and Reinganum 2008).

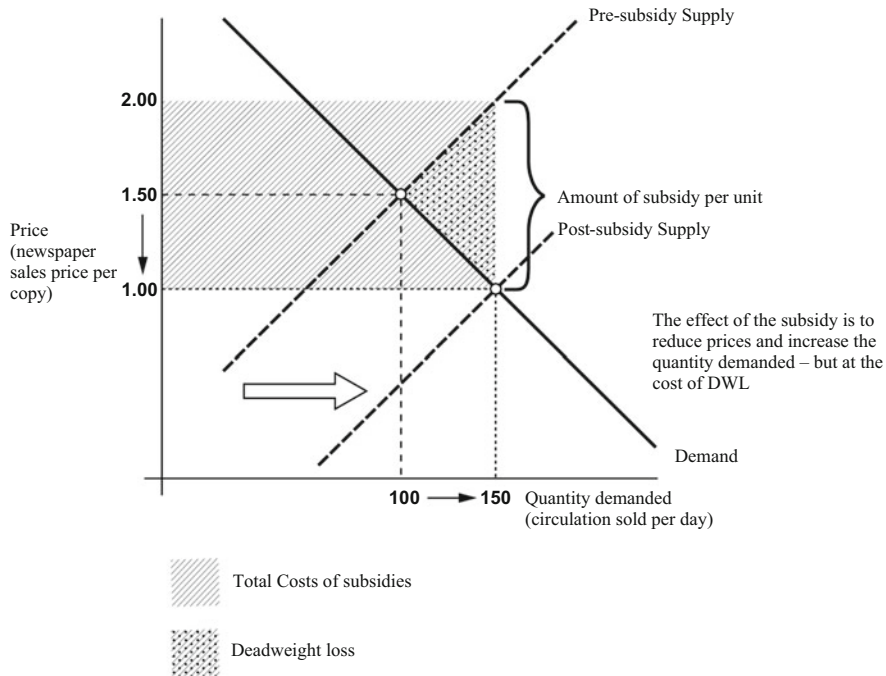


Fig. 2.1 The effect of a newspaper subsidy and deadweight loss. Source: the author

Hence, the usage of the following quality indicators seems advisable:

- Number of editors compared to the volume of editorial pages
- Level of education and job experience of full-time editors and free lancers
- Level of editorial budget in relation to the total budget
- Number of subscribed news agencies and in-house correspondents
- Prizes and awards granted to journalists
- Expert evaluations to set up minimum quality standards as benchmark

Another index is newspaper readership or reach as benchmark against which the effects of subsidies to newspapers can be measured. Arguably, newspaper demand is higher to lower priced newspapers so nations that give higher subsidies to their newspapers experience higher demand, all other things being equal, than nations that give small subsidies. Let us state an example: In Denmark, public press subsidies amount to 54 million euros a year. With its 5.5 million inhabitants, the state thus subsidizes a Dane with 9.8 euros per head. Austria, in comparison, would only show a subsidy per head (Fig. 2.1).

Another difficulty that must be dealt with when balancing the positive and negative impact of subsidy measures is that the analysis of market failure to warrant intervention is mainly a prospective one. As such, the objective of ex ante regulation would be first to identify which market failure needed correction. Alternatively

or in addition, ex post assessment mechanisms may also be put in place in order to limit the negative impact of state aid and subsidies (OECD 2010).

Finally, this combination of instruments of state subsidies to the press and the principles of intervention applied has various effects on the business operations of newspapers themselves. When subsidies relax cost pressures on printing and distribution of physical copies, for example, their effects are relative to the cost structure of the respective beneficiary. In France, for example, a report (the so-called *Cardoso plan*) on reforming public government support to the press found out that—by comparison—the left daily *Libération* would benefit from a mere 0.09 euros from direct aid per copy on its sales cover price, while *France Soir*, a French daily newspaper that prospered during the 1950s and 1960s but went online only on December 14, 2011, would receive a share of 0.52 euros per copy out of the public hand, still failing to survive its printed editions. Obviously, different cost structures can reduce the efficacy of subsidies to zero (Truffly 2011).

To my knowledge, little theoretical reasoning has been applied to study the impacts of government subsidies on the editorial work of journalism within a media economics or communication studies research domain. However, one may import organizational theories as conceptual frameworks in order to explain issues of *internal market failure* as diagnosis tool for firm inefficiency (Vining 2003). This may validly widen the canvas of media economics research towards the effects of subsidies as tools of intra-organizational incentives for journalists to achieve higher firm efficiency and improved organizational performance. Alas, the literature has yet to treat such questions more systematically.

2.1.6 State Aid as Antidote to Market Failure?

From the neoclassical economics perspective, government intervention in private markets is justified to enforce property rights, correct market failures, reign in the market power of monopolies, or address inequity by redistributing resources. Standard examples of interventions motivated by market failures include the use of taxes and subsidies to correct externalities, to organize the provision of public goods, or to redistribute resources in order to improve welfare.

Market failure can be defined by multiple institutional weaknesses to coordinate economic activities efficiently and equitably. Markets may fail when competition cannot unfold or is organized deficiently.¹¹ Market failure describes situations where economic efficiency is *greatly* constrained (i.e., market imperfection or partial market failure) or is not being provided by the market *at all* (i.e., *pure market failure*) (Murschetz 2008). Market failure can be defined by multiple

¹¹ In economic theory, the first fundamental theorem of welfare economics describes an idealized system of equilibrium conditions to efficiently coordinate economic activity (Pareto 1971/1927). Markets that do not achieve this Pareto optimality are said to result in market failure.

institutional weaknesses to coordinate economic activities efficiently and equitably. It may reside in:

- Product and cost characteristics of media goods, (e.g., lack of property rights, public and merit goods, high first-copy costs, high costs of production, distribution, and marketing),
- Forces towards imperfect competition which may themselves have supply or demand-side origins, such as market power achieved through monopolistic or oligopolistic market structure (Robinson 1933; Chamberlin 1962/1933; Rosse 1967) or a low-price elasticity of consumer demand for newspapers (Blair and Romano 1993),
- Constraints embedded in the organizational structures of markets which become manifest in high barriers to entry by means of economies of scale and brand loyalty (Bain 1956; Baumol et al. 1981; Demsetz 1982; Heinrich 1984; Stigler 1968; von Weizsäcker 1980),
- The existence of externalities; Pigou 1932/1920 and transaction costs (Coase 1960; Williamson 1979)
- Media customer-side specifics (e.g., asymmetric information; Akerlof 1970, intransitive preferences; Tversky 1969, irrational behavior; Kahneman 2003).

Additionally, dominant firms may raise market entry barriers or try to control successive value stages under their single roofs through means of ownership concentration and vertical integration. This gives rise to costs to the economy and society at large (Bator 1958; Cowen 1988; Cowen and Crampton 2002).¹²

From a publishers' point of view this means that if firms are not rewarded for making the right decisions, or are rewarded for making the wrong decisions, then resources are used inefficiently. This gives rise to costs to the economy and society.

Subsidies are possible regulatory tools that may correct market failure and work as one-way financial transfer payments that are payments of income which are not redeemed by any current factor services from the beneficiary. Although a number of other industries have been quiet victims of cyclical and structural industry changes, newspapers are a special case. Since the industry exhibits increasing returns to scale, high fixed and sunk costs, and significant economies of scope, setting prices equal to marginal cost will generally not recoup sufficient revenue to cover the fixed costs. And the standard economic recommendation to set prices at marginal cost will fail to cover total costs, thus requiring a subsidy, albeit not necessarily from the public purse (Ludwig 2000). However, with the news industry struggling to find new revenue streams that can reshape their broken business model, the industry's future seems to be predominantly defined by experiments in news media monetization

¹² Arthur Cecil Pigou has been called the father of the market failure paradigm. Indeed, he argued that “*in any industry, where there is reason to believe that the free play of self-interest will cause an amount of resources to be invested different from the amount that is required in the best interests of the national dividend, there is a prima facie case for public intervention*” (1932, p. 331). He suggested that taxes could be used when external diseconomies are present and that the existence of external economies would warrant the use of subsidies.

by the industry players themselves. As such, pricing and output decisions are accompanied by strategies of product and business model innovation.

In any case, government cash subsidies are linked to prices in that they act as deficiency payments for producers to deliberately regulate for the differences between a sales price of a good or service and the actual price received for it in the market.

Economic theory shows the effect of a subsidy on the sales price and quantity demanded. Following the law of supply and demand, subsidies are external benefits that lower the cost of production and shift the supply curve (S_1 -curve, pre-subsidy) vertically downwards by the amount of subsidy provided (S_2 -curve, post-subsidy). The vertical shift to the right is equal to the subsidy being given by unit. Consequently, a subsidy may lead to an increase in producer revenue as the post-subsidy price is lower than the pre-subsidy equilibrium price and more units of quantity are sold at each price. The following Fig. 2.1 illustrates the potential effects of a newspaper subsidy on the equilibrium market price and quantity demanded.

In our example, we can see that with no subsidy newspaper publishers produce 100 copies per day (in 1,000) at a sales cover price of 1.50 euros a copy. A government subsidy of 1.00 (in euros) per copy would shift the supply curve rightward from the pre-subsidy supply curve S_1 to post-subsidy supply curve S_2 . The equilibrium quantity increases to 150 (in 1,000) copies sold a day, the price falls to 1.00 euros per copy, and the price plus the subsidy received by publishers rises to 2.00 euros per copy. The entire subsidy does not fully get passed on to the consumer as the publisher will keep some of it. This creates deadweight loss (DWL) from a subsidy, a measure of the welfare that is lost when the equilibrium in a market is not market-made but government-supported. Consequently, the magnitude of this loss is dependent on the size of the government subsidy. In other words, the higher the subsidy given, the larger the DWL, and the bigger the market failure or inefficiency caused by the subsidy. Graphically, DWL is represented by the shaded triangle in Fig. 2.1. In other words, government has to trade-off between a welfare loss to society of that money—in the new equilibrium, marginal social cost (on the supply curve) exceeds marginal social benefit (on the demand curve, which results in inefficient overproduction)—and the benefit the subsidy provides to readers (as the subsidy has reduced the sales cover price per copy).

Of course, the impact of subsidies on readers will depend on the *price elasticity of demand*. Price elasticity of demand (PED) shows the relationship between price and quantity demanded and provides a precise calculation of the effect of a change in price on quantity demanded.¹³ There are several reasons why consumers may respond elastically or in-elastically to a price change, including:

¹³ A PED is easily calculated. For example, if the price of a daily newspaper increases from 1.00 euros to 1.20 euros and the daily sales fall from 500,000 to 250,000, the PED will be $-50\% \div 20\% = (-) 2.5$. The negative sign indicates that P and Q are inversely related, which we would expect for most price/demand relationships. This is significant because the newspaper supplier can calculate or estimate how revenue will be affected by the change in price. In this case, revenue at 1.00 euros is 500,000 euros (1 euros \times 500,000) but falls to 300,000 euros after the price rise (1.20 euros \times 250,000).

- The number and “closeness” of substitutes which means that a unique and desirable product is likely to exhibit an inelastic demand with respect to price.
- The degree of necessity of the good (i.e., newspapers are no necessity like bread and will thus be demanded elastically with respect to price).
- Whether the good is habit forming whereby consumers are relatively insensitive to changes in the price of habitually demanded products (e.g., subscribed newspaper).
- The proportion of consumer income which is spent on the good (which means that the PED for a daily newspaper is likely to be much lower than that for a new car).
- Whether consumers are loyal to the brand (brand loyalty reduces sensitivity to price changes and reduces PED).
- The life cycle of a product e.g., when new products are launched, there are often very few competitors and PED is relatively inelastic. As other firms launch similar products, the wider choice increases PED. Finally, as a product begins to decline in its life cycle, consumers can become very responsive to price; hence discounting is extremely common.

What does this imply for government subsidies? In effect, this would mean that a subsidy-driven decrease in the sales price of a newspaper will lead to a proportionate change in the quantity sold. Importantly, when newspapers show a low PED, the subsidy effect in increasing newspaper circulation and readership will not be too strong as the quantity demanded is relatively inelastic. This must be considered as a strong point against stimulating competition through subsidies in specific segments of a news market, particularly when print readers face a lack of substitute news sources (e.g., online news).

When government identifies newspaper reading as an activity that carries *positive consumption externalities*, i.e., readers receive pleasure, get educated, and take part in public affairs etc., all for no extra costs to them, government may want to internalize these externalities by subsidizing the publishing activities that have this positive externality.

Still, the state may interfere in order to offset *information deficits* of newspaper readers who cannot evaluate the differences in the quality of information in order to provide all citizens with the same quality of information and opinion. With publishers tending to trade inferior information as quality and readers only aware of average qualities, an asymmetry in available information for quality newspapers may develop, with the effects of finally ceasing trade and driving quality newspapers out of the market.¹⁴ In these circumstances, the state can act to even out the *quality uncertainty* in the market by reducing the incentive for either the publisher to oversupply low-quality or the reader to under-demand high-quality

¹⁴ If, on the information readily available to them, readers can discriminate between prices but are not able to discover quality and thus will not rationally price trade-off against quality, publishers with high-quality newspapers will be driven out of the market, and there will be a general lowering of standards (Akerlof 1970).

newspapers. Building intervention on the differences in quality of information is, however, difficult because the regulator itself may find it difficult to access information other than prices whereby quality can be conveyed in economic systems.¹⁵

In real terms, however, subsidies to newspapers are controversial in themselves. Robert Picard, media economist and director of research at the *Reuters institute for the Study of Journalism* at the University of Oxford, argued that the ability of public subsidies to solve current pressures in print media is limited (Picard 2006). Picard's *subsidy-failure hypothesis* is built on the following propositions:

- Subsidies do not avoid the fundamental economic problem of market failure in the print media industries.
- The number of newspapers has continued to decline as the state aid pays for variable costs rather than fixed costs, the latter of which weigh heavy on publishers' business operations.
- Public intervention into press markets is generally bad as "free markets" work more efficiently. Intervention leads to net welfare losses to society.
- Subsidies to newspapers for which there is a lack of audience interest are futile. These subsidies are a waste of taxpayers' money, i.e., cost to taxpayers exceeds benefit to consumers and producers.
- Although subsidies help newspapers to survive by means of a financial prop they do little to help newspapers adapt to future changes needed to get them suited to the needs of the market. The lifeboat of subsidies can thus be leaky at best.
- Selective subsidies are considered to be politically unacceptable as far as they require consent across opposing political forces backed up by a solid and impartial method of selecting companies and channeling the money to the papers.
- Subsidies cannot create long-term sustainability but instead create dependence on the annual handout of subsidies.

Arguably, another bigger problem seems to be that when print media publishers receive subsidies they may not necessarily be "passed through" to the end consumer, i.e., have a lowering effect on the sales price of the newspaper. Although this assumption may not always hold, and pass-through may be a matter of degree, it is conceivable that at least part of a subsidy is put to entirely different uses. And, worse yet, when the industry is experiencing an economic crisis and legacy newspapers have to see a painful and ongoing decline in advertising revenues, publishers are forced to react strategically by driving up their cover prices and thus sales revenues. This move, in turn, will effectively thwart the potential price-lowering effect of a subsidy.

Overall, when coming back to the big issue whether public subsidy payments can ban the specter of market failure or give in to agency capture and government failure is highly contested. Naturally, discussions about market failure reflect

¹⁵ Such means are, for example *signaling*, whereby information is distributed by sellers to buyers by way of quality monitoring systems, whereas "screening" refers to the buyers acquiring information by the help of consumer protection groups. The aim is identical: removing the asymmetry in information.

disputes among scholars of different schools of economic thought, notably between doctrinaire positions of the “free market school” versus the market-interventionist axis of scholarly reasoning. As it stands, the academic debate about the paradigm of market failure is complex and rather confusing. It originates from the paradigm’s hybrid intellectual architecture and results in competing scholarly discourses. Here, two dominant schools fight for scholarly hegemony: On the one hand, the *Harvard–MIT* axis of scholarly reasoning in economic theory argues that in case of market failure government is to intervene in the economy to correct for those and to restore the conditions for welfare optimization (Samuelson 1954; Musgrave 1959; Musgrave and Peacock 1958).¹⁶ Counterarguments on that way of thinking come from the neoclassical *Chicago school* of economic thought (Reder 1982; Stigler 1988).¹⁷ Their fundamental tenet is that competition within a perfect market will lead to efficiency, which is the desirable normative goal of the legal system. According to the Chicago analysis, intervention within the market is justified only when there is a market failure. For them, such failure exists when there are no multiple players on both sides of the market (the problem of monopoly), when these players do not have symmetric and full information relevant to their market activities, when any of the players bypass the market through involuntary actions, or when the traded commodity is a public good. The general orientation of the *Chicago school of economics*, however, is that these circumstances are rare and that in the real world there is too much central intervention. Media markets would thus have strong tendencies towards failure. Now, these are opposing schools of thought. But is their explanatory power still strong enough today?

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¹⁶ Paul Samuelson (1954) and Richard A. Musgrave (1959) and others consolidated the market failure paradigm in the 1950s. However, this paradigm was contested since its inception.

¹⁷ The term was coined in the 1950s to refer to economists teaching in the Economics Department at the University of Chicago, such as Frank Knight, Ronald Coase, and Milton Friedman.

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Part II

Theoretical Explanations for State Intervention

State Support for News: Why Subsidies? Why Now? What Kinds?

3

Robert G. Picard

3.1 Introduction

Subsidies in liberal democratic societies are a classic policy response to market failures, to inefficient industries and firms, or to desires to preserve domestic employment in the face of external competitors. They are a form of state economic intervention used in industrial policy to shore up existing industries or to promote new ones and in cultural policy to promote domestic objectives related to national artistic expression, identity, and facilitation of social and political development (Picard 2008b).

Contemporary arguments for subsidies for news media maintain that intervention is necessary to support journalism that holds power to account and to support both international and national journalism—types of news that are not now well supported by existing financing of news operations. This interest in subsidies coincides with financial turmoil in European and North American news industries created by changes in society, technology, market structures, the dominant business model of news, and the economic crisis that have ensnared Western economies for the past 5 years (Levy and Nielsen 2010; Picard 2010a, b). Because of turmoil in the news industry—particularly in the newspaper industry—there is a growing chorus of voices that some sort of action is necessary to support news production (Downie and Kaiser 2002; Meyer 2004; Jones 2009) and that states should develop and implement interventionist policies to support original news gathering and distribution (Nordenson 2007; Fernández Alonso et al. 2007; Currah 2009; Downie and Schudson 2009; Picard et al. 2009).

These suggestions raise fundamental issues that policymakers must consider about the roles of news in democracies, about economic policy and market interventions, and about the very roles of government in liberal societies. These are not pedestrian questions and force contemplation of the political economy of

R.G. Picard (✉)

Reuters Institute for the Study of Journalism, University of Oxford, Oxford, United Kingdom
e-mail: robert.picard@politics.ox.ac.uk

society, the roles of traditional institutions in contemporary society that is decentralising and diffusing authority and decision making, and whether efforts should be made to support decaying institutional arrangements or to develop new arrangements that may hasten that degeneration. Consideration must also be given to the thorny question of whether expanding the role of government—an institution of political and social power—is the best solution for addressing the challenges of news in contemporary society.

These are not simple questions. Those who address the issues of state support for news as a simplistic dichotomy between remaining free of government favors or becoming puppets of those who control government do a great disservice to the contemplation of the broader issues and the development of effect policies. The press has never been fully free and independent from government or other major institutions in any democratic society; nor can it be because to do so would destroy the social arrangements that make society possible (Picard 2005). The market cannot function without the state and states have not been very successful without the market. The market requires the state because market participants require currency, legal recognitions of property and contracts, and protections against market manipulation. The state thus plays fundamental roles in organizing and directing markets and in creating conditions that support media operations (Mosco and Wasko 1988; Dyson and Humphreys 1990; Garnham 1990; McChesney and Schiller 2003). Consequently, media markets are subjected to a variety of political and legal influences and controls as well as social, cultural, and economic influences and controls exercised in their environments (Picard 1985a, b; Altschull 1994).

The real questions in contemporary liberal society are not whether the state or the market should dominate but, rather, what arrangement of influence of among the state, the market, and social/cultural institutions will produce the most desirable outcomes, what roles does communication play in creating and maintaining the optimal symmetry of their influences, and where do organized news activities—a particular form of communication—fall into the functioning of those arrangements. Answering those questions is fundamental to determining whether and what types of state intervention are desirable and useful in the new industry in specific countries.

3.1.1 The Historical Role of Subsidies for News

The question of whether the state should subsidize news must be considered in a historical context or one risks misunderstanding the needs for news and financial arrangements that have supported its provision until now. State intervention is not novel; subsidies and other supportive measures have been employed to influence and support media since the beginnings of the press. Subsidies were first provided as support from religious and authoritarian leaders, then from political parties and their supporters, and later through democratic governments transferring tax revenue or providing fiscal advantages to the press.

Although the current accumulation of conditions promoting a reconsideration of subsidies is unique, the financial challenges facing newspapers are not exceptional.

These challenges have appeared regularly as social and economic conditions have changed and altered existing demand for or revenue sources of the press. The fundamental problem for news providers is that news itself has never been financially viable as a market-based good. It has always been primarily financed by arrangements based on income derived from sources other than selling news to consumers.

In ancient times, funding for news collection and dissemination was provided by emperors and kings, who employed officials throughout their dominions to collect news and information and send it to the capitol; consuls and ambassadors collected news and information in other countries and sent it home. Ultimately, news would be redistributed back to officials in the realms. This imperial finance model was based on official financial subsidy because it served the interests of the state. It was not designed to inform and empower the public, but to preserve the power of the state.

As wealthy merchants developed from international trade in spices, porcelain, linen, wines, and spirits in the Middle Ages, these traders needed information about economic and political developments from the lands and city-states with which they traded. They hired correspondents to observe and send that information, thus creating a subsidy for news financed by commercial elites who would gain commercial advantage from the information. This information was never widely distributed and was used to accrue rather than diffuse economic power.

As the merchant classes and landed gentry grew in the eighteenth and nineteenth centuries, their needs for, and interest in, domestic and foreign news increased. Richer consumers paid high prices for news and wider distribution was made by making papers available in taverns, restaurants, and cafes—a subsidy from proprietors who made it available to their patrons as a value-added service. Despite the growing market, news was not economically viable and publishers also subsidized some production through profits from commercial printing activities. In addition, merchant associations, political parties, and governments provided subsidies to finance competing newspapers supportive of their interests. Despite this social elite financing model and multiple sources of revenue, newspapers remained financially weak and unstable. The arrangements, however, made news much more widely available than before—reducing some power that information had previously provided to elites—and leading to democratic ideas that an informed public could govern itself.

The social changes created by the industrial revolution, wage earning, urbanization, and the production of finished good by other industries in the nineteenth and twentieth centuries spurred the mass production of news and the development of the newspaper industry as we have known it. It solidified the idea that news was central to democratic governance and facilitated emergence of social movements, political parties, and liberal democracy. Despite these developments, the public exhibited unwillingness to pay much for news, leading to the development of the mass media finance model that was based on generating large audiences by keeping newspaper prices low and subsidizing costs with advertising income that supported the sale of consumer goods. In order to create interest in newspapers and produce the necessary audiences, large amounts of non-news content—features, sports, entertainment, and lifestyle

materials—were added. The arrangement thus supported economic/business institutions of society and to some extent reduced emphasis on its support of the state.

When radio and television appeared in the twentieth century the problem of consumer payment for news, information, and general entertainment was recognized early—leading companies and governments to decide it should be funded by advertising or licence fees (a form of public taxation). In the 1970s, the development of all-news channels on television in the USA was made possible by public policies requiring all cable systems to pay for a news channel (a form of structural intervention) and later by advertising. In other countries the development of these channels was supported by licence fees, advertising, and cable/satellite subscriptions.

During the late twentieth century when the commercial mass media model was at its height, the model clearly revealed its limitations: Because of cost-effectiveness, advertisers favored the largest newspapers in markets and leaving secondary newspapers in markets in a pattern of demise in which lower revenues reduced the amount and quality of news they provided, reducing circulation further, and thus making the papers even less attractive to advertisers. Swarms of newspaper deaths resulted in the 1950s and 1970s across North America and Europe taking secondary newspapers out of markets in a “winner takes all” phenomenon produced deep concern over the importance of plurality in news providers and the dangers of the narrowing of voices and opinions on public engagement and democratic processes (Picard et al. 1988).

Press Commissions, parliamentary inquiries, and public discussions urged nations to take actions to support the press. Governments responses developed varied in line with national economic and political philosophies and patterns of intervention in other domestic industries (Picard, 1985b). Some responded through special tax advantages and regulatory exemptions; others through direct financial subsidies (Smith 1977; Picard 1985a, 1987, 1988; Santini 1990; Busterna and Picard 1993; Murschetz 1997). Some nations took highly planned approaches coordinating different types of state aid; others engaged in a piecemeal approach.

By the late twentieth century, however, it became increasingly clear that the state intervention was not serving its fundamental purposes of preserving the press and, despite significant support in many nations, newspapers mortality steadily continued. In the Nordic nations—which had the strongest interventionist policies—the political press system of multiple papers supporting different parties effectively disappeared (Picard and Grönlund 2003; Picard 2007c). In the USA, exemptions to antitrust laws to allow competing newspapers to cooperate economically failed to preserve the secondary newspapers (Picard 2007b). Across Europe the numbers of newspapers steadily declined, often as the political will to continue levels of subsidization waned (Picard 1986; Picard and Grönlund 2003).

This, of course, raised the question of whether the state intervention was useful. Leading commercial players often perceived it as intrusion that distorted the markets; recipients saw it as a lifeline; media economists tended to see it as ineffectual in addressing the fundamental economic challenges of the industry—high fixed costs, significant advantages from economies of scale, and the

disproportionate influence of advertisers that kept the dual product market (advertising and consumer sales) from operating efficiently and in some cases led to dependency (Picard 2003, 2007a). Despite the differences in approaches, and corroboration that it could not provide salvation for newspapers in the long run, most observers agreed to evidence that indicated state intervention was providing short- to mid-term relief for the industry's financial challenges. They tended to differ, however, on whether the benefits primarily accrued to owners or society.

3.1.2 Contemporary Debates Over State Intervention

Today, the newspaper industry in the West is clearly in decline and multiple factors have played roles in its deterioration. Some have been resulted from technological advances, others from social changes, and others from the underlying economics of media and communication.

The advent of television and television news, 24-hour news channels, and ultimately digital news provision on the Internet and mobile devices progressively led the public to move away from newspapers as their primary news source. Advertisers have followed audiences, progressively shifting more of the advertising and marketing expenditures to other media and contact with the public. This pattern has been evident for a half century in most developed countries and reached a critical point with the development of digital news provision (Picard 2008a). The Internet was and is not the fundamental cause of newspapers' problems, but it compounds it (Küng et al. 2008). The central problem is that the public now has many choices where to get news and information and many people are choosing to use them rather than newspapers.

Social and lifestyle changes related to urbanization have reduced time spent at home and increased commuting time, leisure time use has shifted heavily to television and related audiovisual media, increased equality for women has created opportunities outside the home, and globalisation has altered work and the necessity of global connectivity. All of these have reduced the effectiveness and centrality of newspapers in meeting the news and information needs of the public.

The changes have created pressures on newspapers and provided advantages to other news platforms because of the economics of media. Because of the production and distribution structures required for physical production, newspapers live in a unit cost economy in which declining circulations strip away economies of scale that make printing a viable news distribution mechanism. The loss of these economies creates significant financial pressures on the enterprises. This is particularly problematic because the primary competitors in news and information delivery—broadcasters and digital news providers—operate in relatively fixed cost economies where the number of users does not significantly affect costs (Picard 2011).

These underlying economic challenges have been greatly compounded by the dramatic fall in newspaper advertising during the past decade. Some of that drop is the result of classified advertising migrating to the web, but the effects of the recessions in 2001–2003 and economic turmoil from 2008 have had more significant effects (Picard 2008a; OECD 2010; Nielsen 2012). They not only led

advertisers to reduce expenditures but to rethink their entire marketing activities and much of the expenditures away from traditional media advertising. Although there are variations among countries, some newspaper industries have seen one-third to one-half of the advertising expenditures disappear.

The consequence of that loss has been a wholesale restructuring of newspaper industries in North America and Europe, accompanied by the losses of tens of thousands of journalistic positions, closure of news bureaus, reductions in the number of pages produced, and bankruptcies of newspaper firms (Nielsen 2012). The rapidity of the change in fortunes led journalists and newspaper proprietors to use their communication skills and platforms to create a moral panic over the conditions in the industry. Research has shown that they typically covered the issue with little context, shifted blame for the developments, and argued—often with clear self-interests—that some type of public support for newspapers and journalism was needed (Chyi et al. 2012). Others say it is a way of remaking journalism in a new non-commercialized form that reduced influence of commercial media companies (McChesney and Nichols 2010; McChesney and Pickard 2011).

More measured analyses of the industry have noted that the most important contribution of large, legacy newspapers was their ability to create and support large news gathering and production activities and that digital news producers have not been able to financially support similar reportorial resources (Currah 2009; Downie and Schudson 2009; Levy and Nielsen 2010). Newsrooms in newspapers have always been far larger than those in broadcasting and very little news gathering and production is done by even large digital world players. Research has shown that broadcasters, digital aggregators, bloggers, and social media users heavily rely upon news and information provided by newspapers. The result is that society remains dependent on newspapers for breadth and depth of news and information.

Declining journalistic employment in the newspaper industry and difficulties supporting journalists in digital media has led many to assert the need for governments to consider expanding existing support or providing new state intervention to support newspapers and/or digital news production.

The newspaper-oriented approach is an industry and enterprise tactic designed to support a declining industry and many of the suggestions involve protectionism and public funds replacing declining market income. Most of the proponents—generally newspaper proprietors and newspaper and journalist associations—have called for legislation providing special protections in competition and copyright law, more fiscal advantages (tax reductions, reductions in charges for public services), direct subsidies, or creating mechanisms to transfer of wealth from aggregators, search engines, and Internet users to newspapers. This latter effort is designed to induce policymakers to make a choice between the economics of an existing industry and economics of the developing industry.

The digital news production approach—seeking support for online journalism operations—is generally argued more on social needs and democratic principles and seeks to induce government to support news and information. Supporters generally portray a market failure in digital news provision and argue that society should facilitate news gathering and production—whether by legacy enterprises or

new enterprises arising on digital platforms—to serve the information needs of communities and societies.

The industry approach is protectionist of existing news structures; the social function approach is designed to create fresh news structures.

3.1.3 Is Intervention Warranted?

Whether or not government should intervene must be addressed by individual states because debates vary depending upon local economic conditions of the news industry, existing economic, industrial and media policy trajectories, and the degree that newspapers still influence policymakers. What is clear and common across countries is that the functions of news remain vital to society and that there are benefits from ensuring that information needs of communities are met in democratic societies. We all need to understand our communities and the world around us. We need forums for serious political and social debate. We need people who will pursue accountability of governmental and social institutions.

However, in considering intervention, deciding where and how to intervene are central questions. Doing so cannot merely respond to the news industry but must actually meet the needs of society.

Policymaking produces the best policies when they are based on clear identification of problems, when policies address the roots of the problem not merely the symptoms, and when they have more than short-term effects. In this case, great attention will need to be paid to the economics of media, but commercial imperatives of existing media should not be permitted to dominate discussions. Policy initiatives to overcome the limitations of contemporary commercial news provision are imperilled if economic factors are ignored, however. Even not-for-profit, charitable, and public service news enterprises are affected by economic factors so they cannot be ignored if effective mechanisms to support them are desired.

It is likely that daily news and information delivered on newsprint will disappear in the long term because it makes diminishing economic sense. We have not yet reached the point, however, so it is not unrealistic to address print news providers as part of policy. But the policy should not be made with the purpose of supporting the profits of existing enterprise, but rather to ensure social needs for news are met. Thus policymakers need to take care in targeting the effects of policy measures on the enterprises.

Policy should also seek to develop alternatives to existing news provision, whether by seeking to develop and support noncommercial forms of ownership and operation for news organizations (Levy and Picard 2011) or by using support—much as in industrial policy—to promote development of emerging digital news enterprises.

Some countries have already taken policy steps to support news provisions and others are considering mechanisms for doing so. There is a clear reason for concern over news provision, but it remains to be seen whether intervention being implemented is useful and effective in pursuing the fundamental objective and addresses the underlying challenges.

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Nikolaos Zahariadis

4.1 Defining Industrial Subsidies

Subsidies are a notoriously difficult concept to grasp. Policymakers normally do not want to define them in specific terms because they then become identifiable budget items which could prove politically embarrassing. In addition, unlike other items, there is no agency responsible for identifying, monitoring, or allocating subsidies. Different agencies call subsidies different things and insert them under different names at different times and places in the annual government budget. For this reason there is no widely accepted definition.

There are currently three international organizations that define subsidies in different ways depending on the legal regime under which they are subject and the mandate of each organization. The three definitions have implications for the way numbers are collected and reported. The most widely accepted definition is the one used by the European Commission. The *Directorate General for Competition* (DG Competition) systematically collects the most complete database of subsidies, using a common methodology for all national sources. The term that is used is state aid and it is defined as all competition-distorting assistance given by the public purse to national companies. The key element is competition-distorting aid. The reason has to do with the Treaties of Rome, which generally prohibit state aid unless it is justified by reasons of general economic development (Articles 107–109 of the *Treaty for the Functioning of the European Union*, TFEU). For this reason, certain types of aid, such as unemployment benefits, general tax exemptions which apply to all companies, or benefits provided to consumers, are not considered to be harmful and are therefore not categorized as state aid. Examples of state aids include rescue and restructuring assistance to companies in financial straits, energy savings, export promotion subsidies, research and development aid, and others. They may come in

N. Zahariadis (✉)

Department of Government, University of Alabama at Birmingham, Birmingham, AL 35294,
USA

e-mail: nzaharia@uab.edu

various forms, such as budget outlays, grants, subsidized loans, government equity holdings, tax incentives, and generally any kind of preferential treatment by the state.

DG Competition applies three criteria to determine whether money transfers from the state treasury to individual companies or groups of companies constitute state aid and are therefore incompatible with the TFEU. They are (DG Competition 2012):

- Does the state intervention confer an unfair advantage to the recipient on a selective basis?
- Has competition been distorted?
- Has trade between member states been adversely affected?

If the answer is yes to any or all three of the above criteria, then assistance may constitute state aid and be prohibited under TFEU.

The *Organisation for Economic Co-operation and Development* (OECD 2005) provides another definition. It defines a subsidy as “*a result of a government action that confers an advantage on consumers or producers, in order to supplement their income or lower their costs*” (p. 16). It is obvious that this definition is much broader than that of the European Commission and essentially implies a political choice made by government. It goes beyond competition distortion and includes many different kinds of aid as subsidies, such as all government assistance that implicitly or explicitly alters or hides the full cost of producing a product or a service. Such aid requires considerable knowledge of demand, supply, and price elasticity of a series of inputs relative to outputs, making the process of collecting data extremely laborious, knowledge and time intensive, and ultimately politically contestable. The OECD (1998) found it is easier to identify such aid from below, i.e., through individual projects which are then aggregated at the national level, rather than seek to explore every output in every sector from above through budget outlays. Given that different agencies may define subsidies differently, each to suit its own purpose, it is obvious that a cross-national exercise of this sort will likely run into political opposition. Not surprisingly, despite pledging strong support for vigilance and discipline (Pretchker 1998), the OECD (1998) database on industrial subsidies was abandoned a few years after its inauguration for lack of funding despite its obvious economic value.

A third international organization that provides yet another definition and collects data on subsidies is the *World Trade Organization* (WTO 2012). Its founding treaty contains an Agreement on Subsidies and Countervailing Measures. In it, subsidies are defined as financial contributions by governments or public bodies within the territories of member states which confer a benefit. All three elements must be present in order for assistance to be defined as subsidy. There must be an element of specificity in the subsidy, that is, contributions must be given to specific firms or industries. It is important to note two controversies with the WTO definition. Given the organization’s mandate, only two types of subsidies are prohibited: subsidies conferred for reasons of export performance and subsidies requiring local content (*Article 3*). Beyond those, actionable subsidies, such as

production subsidies, are not necessarily illegal but they are subject to challenge. If the state contesting these subsidies can demonstrate injury to trade, then it may be able to win adjudication in multilateral panels or be legally entitled to countervailing measures to redress the injury.

4.2 Macroeconomic Motives for Subsidization

The discussion of definitions above clearly suggests there is no widespread agreement on definition primarily because of political repercussions. The fact that aid, be it a financial contribution, tax incentives, or equity, is allocated by the state suggests a political choice to help one company or industry over others within a national economy or against other companies across national economies. They include employment, market failure, asset specificity and globalization, and partisan benefits.

- Employment
- Market failure
- Asset specificity and globalization
- Partisan benefits

4.2.1 Employment

Most policymakers rationalize preferential treatment to companies on the basis of job creation. The idea behind company assistance is to create or maintain jobs that would have been otherwise lost (Aydin 2007; Wren 1996). This makes aid more palatable to voters without requiring an explanation of whether there are actually gains from doing so and how they relate to cost. Dixit and Londregan (1995), and Findlay and Wellisz (1982) specify formal median-voter models that translate subsidies into jobs. The point behind either model is that protection (or subsidies) is a function of the push and pull of various groups. The choice is a function of the intensity and group size of supporters for subsidies, measured by the costs and benefits of lobbying against the costs and benefits if the measures are implemented. The equilibrium level is the one where politicians determine the Pareto-efficient median-voter preference.

4.2.2 Market Failure

Subsidies are usually allocated on the basis of market failure. Economists generally agree that sometimes markets fail to provide optimal outcomes due, among other factors, to incomplete information. Incomplete information has been identified as an obstacle to developing small and medium-sized enterprises (SMEs). They encounter difficulties in research and development (R&D), especially because of their limited research expertise and access to inexpensive capital. Incomplete information in labor markets also mean that SMEs face increased “search costs” assessing new technologies and accessing skilled labor.

Perhaps the most frequently researched question related to subsidies and market failure refers to the issue of support for research and development. All governments pay lip service to the idea that some projects and technologies have long time horizons and will not be well funded by the private sector. Therefore for reasons of bringing those technologies as quickly as possible to the market, government undertakes the task to fund basic and sometimes more commercially related research that may cut across industries. For example, this is the argument used by the French and German governments when they set up EADS, the parent company of *Airbus*. The technology needed to build an aircraft good enough to compete with *Boeing* simply required government support, especially in facilitating commercial applications of basic defense-related research. Some analysts, e.g., Yager and Schmidt (1997), and Klette and Møen (1999) doubt the ability of government to adequately fund worthwhile projects the private sector cannot. Others (e.g., Branstetter and Sakakibara 1998) find some government subsidy programs do indeed achieve their objectives of reducing R&D costs and making the firms employing them more profitable. Still others (e.g., Klette et al. 2000) point to significant measurement and sampling threats, making evaluation studies of this topic highly suspect. Yet other analysts find that effects differ by country and institutional dimensions (Czarnitzki et al. 2007). Despite these issues, governments continue subsidizing R&D with varying zeal in the hope of giving their companies a commercial edge.

4.2.3 Asset Specificity and Globalization

There are two facets to this approach (Zahariadis 2008). The first seeks to explain the demand for subsidies by examining global pressures. The second looks at government willingness to provide subsidies. These pressures identify the types of actors that seek subsidies and the intensity with which they lobby for more protection.

To understand what motivates actors to act, analysis must specify the type and level of exposure to global markets. Not only does globalization provide powerful incentives for domestic groups to act, but it also affects the ability of governments to respond favorably to these demands. Greater exposure to the world economy shapes the preferences of social actors. An exogenous easing of international economic exchange, i.e., a decrease in the costs or increase in the rewards of such exchange, increases international, as opposed to domestic, returns of economic activity, creating domestic winners and losers at least in the short run. Some groups will profit from reducing the return differential while others will not. The losers are more likely to demand protection.

Of course, not all globalization is created equally. The dimensions of globalization have contradictory effects. While trade and foreign direct investment positively affect the propensity of policymakers to disburse more subsidies, portfolio investment has the inverse impact (Zahariadis 2008). The difference is attributed to barriers to entry and exit. Because short-term investment, such as portfolio investment, involves fewer sunk costs and can move more easily in and out of national

borders, it has a negative effect on protection. In this case, governments in more heavily exposed economies disburse on average fewer subsidies.

Economic exchange is driven primarily by return on assets. The greater the returns on assets in a given activity, the more likely actors are to favor continuing the activity. Specific assets tend to have high rates of return; otherwise, their owners would redeploy them in a different activity. The greater the ability to move assets, the lower the incentive will be to ask for more subsidies. Quasi-rents refer to income from engaging in high sunk-cost investments beyond the opportunity cost, i.e., the best alternative use. Specific assets tend to have high rates of return; otherwise their owners would redeploy them in a different activity. More asset specificity implies larger quasi-rents. For example, a machine that is highly specific and makes only *Ford Escort* engines is highly valuable to *Ford* but only so long as *Ford* makes *Escorts*. Once *Ford* abandons the *Escort* line, the machine's alternative use may be as scrap because it cannot be used to make engines in other car models. Under these conditions, the rate of asset return is high and so are the quasi-rents (Frieden 1991).

Owners of the factors of production have an incentive to lobby for policies that keep quasi-rents high. Under threat of international competition, that is, when imports increase relative to domestic production, revenues are likely to decline all else being equal. Assuming production stays the same, the rate of asset return declines causing an exit of mobile factors to other parts of the economy. The factors that remain fixed face higher adjustment costs leading to an overall decline in income. But rational actors will go to great lengths to lower costs. Owners of more specific assets have a greater incentive to spend more resources to avert this economic loss (Alt et al. 1999).

If actors stand to lose from economic exchange, they will try to lobby politicians to enact policies that favor current activities that increase quasi-rents. In the case of firms this means they are more likely to lobby for subsidies, which lower costs and increase firm profitability. Losers are more likely to lobby for subsidies than winners (Baldwin 1994, pp. 71–72). This is because gaining from subsidized exports increases profits. This in turn attracts entry by new competitors which depresses profits and lowers the gains from lobbying and subsidies. Firms that stand to lose, however, will fight harder for subsidies to increase their below market returns. They are not likely to face new competitors until their profit rates return to normal market levels. In a more recent paper, Alt and his colleagues (1999) test the hypothesis that asset specificity leads to greater demand for subsidies. Providing evidence from a survey of Norwegian firms in 1988, they find that asset specificity increases the likelihood of lobbying activity when other factors, such as firm size and export share, are taken into account. But the generalizability of their findings may be limited due to the single national context at only one point in time.

Protectionist coalitions tend to inflate prices and profits. Subsidies raise final product prices, causing shifts upward along the supply curve. This argument points to two implications. First, incentives for higher returns increase the likelihood that economic actors will use more resources to capture higher rents, generating waste for society as a whole (Tullock 2005). Second, protection fosters redistributive

inefficiencies. Higher returns encourage the entry of producers in areas of comparative disadvantage, taking resources out of productive uses and allocating them to unproductive ones. Rent-seeking, in short, has costs that go beyond the actual amount of subsidies.

There are two aspects of specificity: *labor* and *capital specificity*. Although both have implications for protection, specificity among workers affects subsidies more than specificity among capital asset owners. Higher levels of specificity among workers have consistently positive effects on subsidy disbursement. Capital specificity has a positive impact on subsidy disbursement but only at different levels of exposure to global economic forces. Zahariadis (2001, 2008) examined OECD and EU members and found labor specificity is more likely to result in higher subsidies than capital specificity.

4.2.4 Partisan Benefits

Analysts espousing this approach usually link partisan beliefs about the state's proper economic role to policy action via political cleavage theory. In its simplest form, political cleavage theory maintains political party systems are shaped by historical conflicts about state building, religion, and class (Lipset and Rokkan 1967). Over time, conflicts crystallize in distinct preference functions and party preferences (Hibbs 1992). Traditionally, labor movements have identified largely with parties of the left, while industrialists and other capitalists have identified largely with parties of the right. Parties of the left in government adopt protectionist policies for ideological reasons and because they wish to save worker jobs. Conversely, right-wing parties are predisposed toward free trade policies.

Looking at party positions on protectionism and trade in 25 OECD countries over 53 years, Milner and Judkins (2004, p. 108) find that after taking openness into account, "the more left-wing their general ideological position is, the more protectionist they are, *ceteris paribus*. . . Partisanship seems to have an important effect on trade policy." On an empirical level, Dutt and Mitra (2005) find a consistently strong positive relationship between left parties and trade protection (tariffs, quotas, and import duties). Obinger and Zohlnhöfer (2007) concur, but find that the effect has disappeared since 1990. However, because their analysis is strictly cross-sectional with only 18 observations, the results could be biased. Concluding that "*left-wing governments are more interventionist*," McGillivray (2004, p. 140) finds that movement from left to right in the ideological axis of government reduces stock-price dispersion, which is her measure of industrial support. Zahariadis (1997) similarly confirms the argument using state aid data from the European Commission in the 1980s. Looking at subsidies in nine EU members over the period 1981–1986, he finds that governments dominated by parties of the left disbursed more total subsidies and loans, but not budget outlays, tax incentives, or grants.

But in a more recent study of 14 EU members with a longer time horizon (1992–2004), Zahariadis (2010) finds the opposite holds true: right-leaning parties are more likely to subsidize their industries than left-leaning parties [see also Neven

(1994)]. He offers three reasons for this paradoxical effect. First, industrial subsidies involve greater political payoffs to right-wing parties because they are a direct and visible help to their core business owner and shareholder constituents. Conversely, the left may find that welfare measures are preferable instruments under the same conditions (Cao et al. 2007). Second, left-wing parties are more likely to engage in blame avoidance. To gain credibility, particularly among independent voters, left-leaning parties employ a vote-maximization strategy to shake their “*union-loving, tax-and-spend*” image. While this is an electorally risky policy, the benefits are considerable because of approval by financial markets, especially in times of heavy government borrowing. Parties of the right engage in vote buying and subsidies with fewer adverse consequences because they enjoy the image of fiscal responsibility. Third, partisan membership has changed. As the number of low-skilled workers has shrunk over the years in Europe because of job outsourcing and upgrades in skills and technology, left parties are increasingly favoring policies affecting higher-skilled middle classes, who are more likely to favor free trade.

4.3 Conclusion: Are There Differences in Effects?

Are there enough differences between industries to suggest motives that seem to work in one industry are not applicable in the other? In other words, can we generalize about motives and effects across the industrial spectrum? To conclude, I shall examine two sectors, agriculture and film, and lastly draw implications for print media.

4.3.1 Agriculture

There are many reasons why subsidies to agriculture may be a special case. For one, agricultural interests are well organized and very powerful on national and international levels (Keeler 1996). Manufacturers are far less organized, with considerable variations across industries. In the light of the declining share of agriculture in the national economy, farmers organize to become disproportionately politically powerful. Manufacturers do not have such incentives. One should, therefore, expect political power to be much more concentrated and more pronounced as an explanatory variable in agricultural as opposed to manufacturing subsidies.

Second, farmers normally have somewhat similar interests (low level of differentiation) and a vested interest in perpetuating the system. Manufacturers are not as homogeneous as a group in terms of economic interests. Their gains (and losses) are more differentiated than those of their agricultural counterparts, making factory workers and bosses much less inclined to coalesce in pursuit of common objectives. Because the cost of lobbying is high and strong incentives to coalesce are absent, the likelihood of subsidization is lower. Farmers in various developed countries seek to encourage, to an extent, the establishment of new farms by lowering barriers

to entry (Coleman et al. 1997). Manufacturers generally tend to demand the opposite; they argue for higher barriers to ensure high profits. The politics of subsidy allocation may, therefore, differ.

Third, farm subsidies are an institutionalized form of welfare in ways that subsidies to manufacturing are not. For example, the *Common Agricultural Policy* (CAP) in Europe has long been considered to be a highly inefficient way of redistributing resources to farmers at the expense of taxpayers across Europe (e.g., Moyer and Josling 1990).¹ Originally, the CAP was conceived as a way of guaranteeing food production in the light of wartime experience. Article 39 of the European Economic Community Treaty calls for increasing agricultural production through the pooling of technical expertise, stabilizing markets, assuring adequacy of supplies, ensuring a fair standard of living for farmers, and ensuring that supplies reach consumers at adequate prices. All this was achieved through guaranteed prices, import quotas and tariffs, and export subsidies. CAP over time acquired significant welfare functions (Rieger 2005). Guaranteed prices and other similar measures were replaced in 1992 with direct income support measures. To avoid overproduction and storage costs caused by the CAP, it was decided that guaranteed prices in some products, for example, beef, would be lowered to levels closer to those of the world market while direct payments were introduced to farmers in certain sectors. All this meant that the objectives of the CAP shifted from encouraging production to protecting farmers' income. Following major reforms in 2003, member states were given options to decouple direct subsidies from production. The payment scheme began in 2005 at a 90 % level, gradually decreasing payments over a transition period of 7 years (Dwyer 2007, p. 78). Although it is too early to judge the success of the reforms, EU farmers continue to oppose major shifts in subsidies, as the recent failure of the WTO's Doha Round clearly attests. The same story applies to the USA where the origins and rationale of many farm subsidies and other aid schemes go as far back as the Great Depression. Manufacturers cannot point to the same degree of policy continuity or welfare-enhancing experience.

Nevertheless, the empirical record is mixed. Examining subsidies and price controls in OECD countries, Thies and Porche (2007) find that political and trade-related approaches work as well in industrial subsidies as they do in agricultural ones. Zahariadis (2008) examines the implications of asset specificity for the allocation of agricultural and manufacturing subsidies and finds that despite some similarities, agriculture contains significant differences to warrant separate examination. For example, he finds that agricultural subsidies are "stickier" over time, which essentially means they are not prone to large declines as manufacturing subsidies are. This may be partly due to the EU system of allocating agricultural subsidies and partly due to the strong organization of farmer interests. Farmers tend to "punch above their weight" so to speak despite their small numbers. Moreover,

¹ Bagwell and Staiger (2002, p. 179) conclude that on a general level agricultural export subsidies may not be beneficial to importing countries because agreements at the WTO to limit them restrict trade and increase prices. They do, however, benefit exporting countries.

trade has less influence on allocating agricultural as opposed to manufacturing subsidies. Moreover, different countries exhibit preferences for one instrument and volume of subsidy against others. For example, the British government systematically subsidizes its industry far less than the Italian government does (Zahariadis 2013). All this implies effects are not generalizable to agriculture.

4.3.2 Film Subsidies

The film industry has long been the receiver of generous subsidies across the developed world although less in the USA than elsewhere. In the UK, for example, £256 million went to the UK film industry during 2008–2009, including £110 million in tax relief (Adams 2011, p. 112). France’s *Centre Nationale de la Cinématographie* (CNC) had earmarked 261 million euros in 2005 to support French films (Economist 2005). As Thomas Langmann, the producer of *The Artist*, a French Academy Award winner, complained: the CNC is an agency based on cronyism and it gives money to movies which, without it, would never have had a chance to be produced (Charat 2013). The main argument is that culture is part of the country’s heritage and it cannot survive the onslaught of globalization (in most instances meaning American productions) without public funds. In fact, in its draft proposals on state aid for films the European Commission (2012, p. 1) explicitly endorses state aid because of the “high risk associated [with the film business] together with the perceived lack of profitability of the sector.”

Some of the same arguments about globalization mentioned above appear to be invoked in support of film subsidies. The main idea is to protect and promote local culture and artistic expression and save or create jobs. In particular, Article 106 of TFEU stresses the importance of supporting culture while Article 107(3) exempts culture from its general prohibition of aid as long as it does not adversely affect competition and trade. Moreover, the Commission stresses the appropriateness of aid to cover the entire project, from story concept to final delivery. Indeed, “*promoting and protecting Europe’s cultural diversity through audiovisual works can only be achieved if these works are seen by audiences*” (European Commission 2012, p. 3).

But individual member states apply this criterion unevenly. For example, the *British Film Institute* explicitly supports film production and less distribution and marketing in regional clusters, designed to encourage the production of meritorious British films that would not be otherwise made under strict market criteria (Adams 2011). The development of clusters of ideas, technology, and human capital to support the film industry, however, might involve broader characterizations of localism. For example, shooting the film might take place in one region and editing might happen in a different part of the world. This point is important because the rationale for saving or creating nationally based jobs through public money might be affected by the long-term sustainability of this strategy. Should public money be used to fund potentially money-losing projects? The answer seems to be yes on cultural reasons despite the fact they remain losing propositions. For example,

based on business forecasts only one in ten of current French films would be made without public subsidies (Charat 2013). If jobs are not created in sufficient quantity or quality over a period of time, then the impetus for generous subsidies shifts dramatically to a whimper of particular groups (of actors, investors, etc.) to receive income because “they deserve” it.

Globalization in the form of American film hegemony is critical in assessing the politics of subsidizing the film industry. When do films become sufficiently “domestic” to deserve public funding and how much should be given and to whom? Subsidies are set aside for domestic films to maintain presence in light of cheap production facilities in the USA, Canada, Australia, and New Zealand. But recent trends point to European Commission (2012, p. 6) concerns that member states “increasingly use public funding to compete with each other and not only with third countries to attract film productions to their territories.” It is noteworthy that the 2001 Cinema Communication in Europe allowed member states to impose 80 % of the production budget as territorial spending obligation for aid eligibility. A study carried out in 2008 proved inconclusive as to the positive effects of this obligation (European Commission 2012, p. 5). Nevertheless, even in a country as proud of its heritage and as generous with its subsidies as France, 50 % of national screenings and 90 % of national film revenues in 2004 were made by American blockbusters (Economist 2005). Moreover, the criteria by which funding is allocated is less transparent and more politically contested. Direct subsidies and indirect mandatory investments by private TV channels in France go to offset general production costs or a small group of favored actors (Brody 2013). For example, French actor Dany Boon received \$4.6 million a fee that exceeded ticket sales (Charat 2013).

In short, film subsidies seem to follow a different trajectory from agriculture and are somewhat similar to industrial subsidies. They are less about political power but very much a response to globalization. The arguments are reminiscent of the old-import substitution debate where subsidies were encouraged to promote nascent domestic industries. Such politics continue to the very day even though there is sharp criticism and acrimony about whether such ways of using public funding constitute an efficient or effective way to maintain cultural presence in a global environment.

4.3.3 Implications for Print Media

So what do these cases tell us about subsidies to print media? In the name of maintaining cultural diversity, plurality of opinion, and breadth of accessible sources of information, many governments subsidize their print media. The level of support is not insignificant. In a report published by the *Reuters Institute for the Study of Journalism*, Nielsen and Linnebank (2011), for example, estimated that British newspapers enjoy benefits of zero VAT per capita, which comes out to an annual subsidy of a considerable £594 million.

Some arguments in favor of subsidies to print media seem to be the same as those of industrial subsidies, but there are significant differences. First, there is a need to maintain a distinct voice in a globalized world where information serves to homogenize cultural identity. As shown above, protectionist subsidies to counter effects of globalization are used, but yet have to be seen critical in their rationale. Second, employment and investment in human knowledge are also rationales that could easily traverse from manufacturing to the print media. According to McChesney and Nichols (2010), 16,000 journalists had lost their jobs in 2008, and 17,000 lost their jobs in 2009 (McChesney and Nichols 2010, *supra* note 12, pp. 19–20). Funding the preservation of jobs that are actually at risk is a policy option well worth considering for the print media industry.

But there is an additional dimension with print media: that of political power and the ability to shape opinion for political gain. It is quite evident from cases like that of Silvio Berlusconi in Italy or Rupert Murdoch in the UK that ownership of newspapers (in addition to television and other news sources) brings political power that can be used for private gain. Consequently, maintaining a business for private gain with public money raises a host of thorny questions that go beyond usual arguments about asset specificity, economic efficiency, or political ideology. These are not merely questions of concentrating benefits and dispersing costs: they are critical political questions that go to the heart of democratic governance. Public money can be used to alter not only the range of beneficiaries from the public purse but also the rule that the system uses to create beneficiaries in the first instance. Subsidies to (not only print) media are thus used to create and perpetuate the same actors in power, undermining democratic efficacy and perceptions of accountability.

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Good Intentions, Bad Results: The Effects of Newspaper Subsidies on Journalistic Quality

5

Christian M. Wellbrock and Martin A. Leroch

5.1 Introduction

News media play an irreplaceably important role in the successful working of democratic societies: they guarantee that citizens have access to information, are accurately informed, and actively take part in the political process. A crucial factor for the effective fulfillment of these democratic functions is an adequate level of journalistic quality.

In this chapter, we analyze how different forms of subsidies affect a newspaper's provision of journalistic quality and hence its ability to fulfill its democratic tasks. We focus on a regional newspaper monopolist and thus basically follow similar research designs such as those of Blair and Romano (1993), Dewenter (2003), and Tag (2009). We make use of a conception of journalistic quality that significantly differs from the standard economic definition which is based on consumer preferences. There, quality is defined as increasing customer utility and, as a result, is therefore most likely also to increase consumers' willingness to pay.

By contrast, we will focus on a different conceptual approach and define *journalistic quality* by criteria which are commonly used to characterize the democratic tasks of the news media: Truth, correctness, relevance, neutrality, impartiality, immediacy, and diversity (Anderson and Gabszewicz 2006; Crampes et al. 2009; Mantrala et al. 2007; Westerstahl 1983). Consequently, one may further assume that an increase in journalistic quality does not necessarily imply a strictly higher level of utility for *all* consumers. Certain readers might simply prefer entertainment to news. As a result, the number of people being able to derive

C.M. Wellbrock (✉)
University of Hamburg, Von-Melle-Park 5, 20146 Hamburg, Germany
e-mail: christian.wellbrock@uni-hamburg.de

M.A. Leroch
Institute of Politics and Economics, Johannes-Gutenberg-Universität Mainz,
Colonel-Kleinmann-Weg 2, 55128 Mainz, Germany
e-mail: leroch@politik.uni-mainz.de

satisfaction from reading a newspaper may well decline as the level of journalistic quality rises.

On a fundamental level, our assumption of defining quality in this way is based on Becker and Stigler's (1977) *theory of consumption capital*. In brief, this theory states that an individual's present demand for a good depends on its past consumption by increasing the consumer's knowledge in this particular domain. This historically built knowledge enables the then experienced individual to derive more satisfaction from consuming the particular good than would other less or inexperienced consumers do. Applied to newspaper readership, we believe that the interested public with an antecedent and sound knowledge of the political system in a country and its ongoing political debates obtain higher levels of utility from consuming high journalistic quality offered than those who do not share this kind of prior knowledge.

Generally, the reason why we focus on the effects of newspaper subsidies on journalistic quality is motivated by recent industry trends. Newspapers face massive economic woes as both circulation and advertising revenues are continuously decreasing on a global scale. Although this development has been observed ever since the 1950s, it gained additional relevance with the introduction of the Internet. Some democratic governments—predominantly in France, Italy, and Scandinavia—have tried to countervail the collapse of newspapers and their potential to offer journalistic quality by introducing government-mandated subsidies. In order to capture the effects of various types of newspaper subsidies we will model a regional newspaper as a monopolist and determine its optimal choice of quality. Our aim is to address the question of how the state can positively influence journalistic quality, a question which has already been explicitly raised in the media economics literature as in the case of TV broadcast content quality, such as by Anderson and Gabszewicz (2006).¹

Hence, we address the following question: What are the effects of different kinds of newspaper subsidies on the *optimal* level of journalistic quality a newspaper monopolist will offer? We analyze four types of subsidies (1) *Quality-related subsidies* directly aiming at a newspaper's level of journalistic quality (i.e., rewarding journalistic quality offered), (2) *per-copy subsidies* based on the number of copies sold (e.g., distribution subsidies for every newspaper sold), (3) *indirect subsidies* which are based on a newspaper's sales revenues (e.g., through a reduction on VAT on sales), and (4) *lump-sum subsidies* (i.e., fixed-sum subsidies where money is paid in one single amount irrespective of the recipient's behavior).

In the following section, we model the structure of a newspaper market and the demand for journalistic quality. In the next section, we introduce a model of a newspaper monopolist facing a specific kind of market demand in order to analyze the paper's optimal choice of quality and quantity offered. In Sect. 5.4, we focus on

¹“Another issue of cultural concern is the “quality” of programming defined from the perspective of the local community. [. . .] If an objective such as protecting community identity is valued, then it would presumably need special protection (or subsidy) when faced with a lowest common denominator type programming of mass appeal. The appropriate policy stance in this regard remains an open research issue” (Anderson and Gabszewicz 2006, p. 606).

effects of government intervention analyzing the four types of subsidies stated above. More specifically, we evaluate how the choice of a specific type of subsidy affects the profit-maximizing level of journalistic quality. We will then offer a conclusion.

5.2 A Model of Demand for Journalistic Quality

The demand for newspapers depends on both its price and its level of quality. We define journalistic quality as the degree to which the newspaper fulfills the mass media's functions in a democratic society. The degree of quality, in turn, depends both on the amount of news and discussion on specific democratic affairs in the newspaper and on the objective quality of these items (i.e., their truth/correctness, relevance, neutrality, impartiality, immediacy, and diversity).

Theoretically, there are two polar opposite forms of editorial content: *top*-quality news content on the one side and *pure* entertainment content on the other side, the latter of which makes no single contribution to the democratic function of the newspaper. Accordingly, a newspaper that consists only of high (i.e., top) quality news and information features would therefore be denoted with $q = 1$, while a newspaper consisting only of pure entertainment content would be denoted with $q = 0$. We assume that a newspaper would also be able to provide any level of quality between these two extremes and hence offers any quality $q \in [0, 1]$.²

Further, we choose a monopoly framework out of empirical concerns. In many Western countries there is often only one regional newspaper available to citizens in the region. Correspondingly, a frequently made assumption is that newspapers are regional monopolies (e.g., Blair and Romano 1993; Dewenter 2003; Tag 2009). In what follows, we will share this assumption.

Our regional newspaper monopolist offers one type of newspaper. In contrast to related models dealing with consumer goods such as Mussa and Rosen (1978) or Maskin and Riley (1984), we therefore do not consider product differentiation, which includes the provision of different quality levels of the same product for different consumers or consumer groups. Instead, we assume that the monopolist may choose only one level of quality to be offered to all consumers. In a second step, consumers choose whether or not to buy the newspaper, a choice that is made on the basis of the journalistic quality and price. Moreover, we assume that each consumer only buys one newspaper and that even the poorest consumer has sufficient income to purchase one.

Each potential consumer is assumed to have a utility function $u_n(q, n)$, related to the direct utility of reading the newspaper. The variable $n \in [0, N]$ uniquely identifies each consumer according to his/her "taste for journalistic quality". The (potential) market size is therefore N . This setup implies that each customer uniquely maximizes his utility for one specific level of quality. The net utility

² A table summarizing all variables used in our model is provided later in the text (Table 5.1).

that consumer n enjoys from consuming a newspaper with quality q is then derived from the product's utility minus the price he/she has to pay:

$$U_n = u_n(q, n) - p(q). \quad (5.1)$$

We assume for all $n \in [0, N]$ that for any given level of quality, \bar{q} , and any $m < n$, $u_n(\bar{q}) < u_m(\bar{q})$ as well as $u'_n(\bar{q}) < u'_m(\bar{q})$. This means that consumers are ranked according to consumption capital from highest to lowest. Formally, the inverse demand of consumer n may therefore be represented in a similar manner to Mussa and Rosen (1978), as

$$p_n = a + g(q) - nh(q), \quad (5.2)$$

with $g'(q) > 0$, $g''(q) < 0$ as well as $h'(q) > 0$, $h''(q) > 0$.³ The variable a indicates the willingness to pay for zero quality, i.e., *pure* entertainment only. The second and third terms capture the idea of consumption capital. More specifically, the second term, $g(q)$, represents a potentially positive impact of quality, if the consumer had a sufficient level of consumption capital. Put differently, it is the willingness to pay of the consumer with the highest consumption capital ($n \rightarrow 0$). The third term, $-h(q)$, includes the idea that the other potential consumers have less consumption capital.⁴ Multiplied with the factor identifying each consumer individually, n , we therefore yield an individual willingness to pay for all potential consumers.⁵

5.3 Profit Maximization of the Newspaper Monopolist

The profit function of the newspaper monopolist takes the following form:

$$\pi = np(n) - k(n) - c(q) + r(n). \quad (5.3)$$

The costs for providing a quality level of q are summarized in the cost function $c(q)$, where $c'(q) > 0$ and $c''(q) \geq 0$. In terms of the number of copies, these are fixed costs, because the production of content is independent of the number of customers the newspaper is sold to. The costs for producing a number of n copies of the newspaper are taken to be $k(n)$, with $k'(n) > 0$ and $k''(n) > 0$.⁶

³ We denote first- and second-order derivatives with prime and double prime, respectively.

⁴ The introduction of the negative third term, $-nh(q)$, constitutes the most important difference to models based on conventional quality definitions (e.g., Spence 1975), where the relationship between quality and “*dollar benefits for the marginal consumer*” is strictly positive.

⁵ Recall that the higher n , the less consumption capital the individual possesses and thus the less he or she is willing to pay for the newspaper, given a certain amount of quality.

⁶ Although marginal printing costs could be thought of as decreasing due to fixed costs, e.g., for printing machines, we assume marginal distribution costs to be increasing since reaching an additional reader becomes more and more costly as, e.g., sales points have to be opened in more remote areas and distributors have to drive longer distances.

In addition to generating revenues in the reader's market, media companies are typically also active in the advertisement market, captured by the term $r(n)$, where $r'(n) > 0$. The demand for advertising space depends on the number of readers the newspaper reaches. Since advertisers are generally interested in reaching as many people as possible in their target group, the more people are reached the higher will be the advertiser's demand. Thus, we have positive marginal rates of return. We also assume that the amount of advertising space is fixed ex ante and does not affect quality q .⁷

We ranked individuals according to their consumption capital. Thus, the variable n in the individual demand function (5.2), which determines a unique consumer, is equal to market demand. If individual n chooses to purchase the newspaper, all other individuals with higher consumption capital will do so as well, as their willingness to pay always exceeds that of n .⁸ Hence we can reformulate the profit function as

$$\pi = np(n) - k(n) - c(q) + r(n) = ng(q) - n^2h(q) - k(n) - c(q) + r(n). \quad (5.4)$$

In order to maximize profits, the monopolist varies both quantity and quality. The respective first-order conditions (FOC) are therefore:

$$\frac{\partial \pi}{\partial n} = g(q) - 2nh(q) - k'(n) + r'(n) = 0, \quad (5.5)$$

$$\frac{\partial \pi}{\partial q} = ng'(q) - n^2h'(q) - c'(q) = 0. \quad (5.6)$$

From Eq. (5.5) it follows that the optimal number of copies sold is given by

$$n^* = \frac{g(q) - k'(n) + r'(n)}{2h(q)}. \quad (5.7)$$

By applying the *Implicit Function Theorem* to Eq. (5.6), we find that an increase in the number of copies can go along with either an increase or a decrease in quality. It will lead to a decrease in quality if:⁹

$$n > \frac{g'(q^*)}{2h'(q^*)}. \quad (5.8)$$

⁷ We also omit an indirect network effect from the advertising market to the recipient market, since it will not affect our general findings. The sign of this effect is disputed (Sonnac 2000) and the positive impact of the number of readers on the demand for advertisement space can be considered to be the decisive link between the two markets (Corden 1953; Blair and Romano 1993).

⁸ Recall again that $n \rightarrow 0$ represents the consumer with the highest level of consumption capital and $n \rightarrow N$ the consumer with the lowest.

⁹ See Appendix 1 for the derivation of this result.

Inequality (5.8) constitutes a condition on the threshold level of consumption capital in society. If this threshold is reached, the media company therefore not only faces a trade-off between costs for and revenues from quality [as in Spence (1975)], but also between quantity and quality. That is, beyond this threshold, an increase in quality will, *ceteris paribus*, reduce the monopolist's readership.

We now turn to a discussion of the impact of the advertising market on the optimal level of quality, q^* . From Eq. (5.7) we know that marginal revenues from the advertising market have a positive effect on the optimal number of copies sold, n^* . Thus, the higher the marginal returns from advertisement, $r'(n)$, the more likely it is that the relationship between the optimal level of quality and marginal revenues is negative. This is due to the fact that n will increase, and hence the threshold condition specified in Eq. (5.8) will more likely be reached. Further, a population with low consumption capital [i.e., high values for $h'(q)$ and low values for $g'(q)$] is likely to imply a negative relationship between marginal returns from advertisement and quality. The economic intuition is the following: increasing marginal returns per reader from advertisers make it more attractive to sell many copies. Wanting to sell more copies, however, might lead to a reduction in quality, *ceteris paribus*. This is due to the specifications of the demand function, in which not all consumers value journalistic quality. Hence, increasing marginal revenues from the advertising market might have a detrimental effect on the profit-maximizing amount of journalistic quality. We can also state that in a world with no revenues from the readers market, the impact will be even more likely to be negative. The reason is that there are no positive marginal revenues from readers [represented by $g'(q)$] that will have a potential direct counter-effect on profits. Only an indirect impact via advertisement revenues, $r(n)$, exists.¹⁰

5.4 The Effects of Subsidies

Now, we turn to our main question: What is the effect of a subsidy on the provision of an optimal amount of journalistic quality? As mentioned above, we discuss four specific types of subsidies (1) *Quality-related subsidies*, (2) *per-copy subsidies* (based on the number of copies sold), (3) subsidies based on a newspaper's *sales revenues* (e.g., through a reduction on VAT), and (4) *lump-sum subsidies*. Formally,

¹⁰These findings are in line with those of Spence and Owen (1977), who analyzed television markets from an allocation efficiency perspective and an overview of program choice models by Owen and Wildman (1992). They find that biases against minority programs—characterized by small demand groups with relatively high willingness to pay—are greater in a free advertising environment (where the media product is available to the consumer for free and revenues are only generated on the advertising market). Although these authors do not explicitly address quality issues, our model is based on a similar concept: that high-quality content is more likely to be consumed by a small portion of the population with high willingness to pay. Additionally, a lack of minority programs implies negative effects on diversity and completeness of arguments which are important journalistic quality criteria.

these forms of intervention change the profit function as follows (the Greek variables represent the parameters of political choice):

$$\pi = (1 - \tau)(ng(q) - n^2h(q)) - k(n) - c(q) + r(n) + \gamma q + \kappa n + \lambda. \quad (5.9)$$

Quality subsidies are included by the term γq , with γ representing the subsidy rate granted for each additional marginal amount of journalistic quality. According to data from the European Newspaper Publishers' Association (ENPA), a reduction in the value-added tax (VAT) rate is quite common as an instrument of newspaper subsidy policy, practiced in most European countries. We introduce the term $(1 - \tau)$ to represent sales taxes and will analyze a reduction of τ in order to address this type of subsidy. The term κn incorporates constant *per-copy subsidies*. Finally, λ depicts a *lump-sum* subsidy. In order to investigate the effects of the various types of subsidies on the optimal level of quality, we follow a similar approach as to that of the previous section. For the sake of clarity, we analyze each subsidy separately.

We start off with *quality-related subsidies* (i.e., government aid for journalistic quality), γ , and assume that increasing subsidies for increasing levels of journalistic quality at a constant rate. We find that the first-order conditions are no different than the ones of the basic model [Eqs. (5.5) and (5.6)], except for the fact that the term γ is added to the left-hand side of Eq. (5.6). Consequently, and as one should expect, quality-related subsidies are associated with an increase in quality.¹¹

Somewhat less intuitive, we find that the introduction of a *per-copy subsidy*, κ , has an ambiguous effect on the optimal level of quality (q^*). Per-copy subsidy means that the newspaper company receives aid for every newspaper that is being sold (e.g., distribution subsidies). In comparison to the basic model, the first FOC of Eq. (5.5) is changed by adding the term κ . Taking this into account we obtain:

$$n^* = \frac{g(q) - k'(n) + r'(n) + \kappa}{2h(q)}. \quad (5.10)$$

Thus, the optimal number of copies sold (n^*) varies positively with positive changes in κ . Consequently, if condition (5.8) holds, changes in the subsidies will have an inverse effect on the provision of journalistic quality. That is, the lower the level of consumption capital [i.e., the higher $h'(q)$ and the lower $g'(q)$], the more likely it is that per-copy subsidies will reduce quality for a profit-maximizing monopolist newspaper. The reasoning is in line with the one on marginal advertising revenues: reducing marginal costs makes it more attractive to sell more copies. This might lead to a reduction in quality, because not all readers may value journalistic quality.

A similar result is obtained when considering a *reduction of sales revenue tax* (e.g., VAT), modeled by the introduction of τ into the profit function. Following the same routine as before, we obtain

¹¹ See Appendix 2 for the formal derivation of this result.

Table 5.1 Model variables (in order of appearance)

Variable	Description
<i>Basic model</i>	
q	Level of journalistic quality of the newspaper
u_n	Utility of consumer n from consuming the newspaper
N	Market size
n	Individual consumer; quantity sold
p	Price of newspaper
U_n	Net utility of consumer n from reading the newspaper
a	Constant term
$g(q), h(q)$	Parameters/functions accounting for consumption capital in a society
<i>Profit maximization</i>	
Π	Profits
k	Marginal cost for producing a newspaper (printing and distribution)
c	Marginal cost for producing journalistic quality
r	Marginal revenues from the advertising market
<i>Analysis of subsidies</i>	
γ	Quality-related subsidy rate
τ	Sales revenue tax rate
κ	Subsidy rate per copy sold
λ	Amount of lump-sum subsidy

$$n^* = \frac{g(q)}{2h(q)} + \frac{r'(n) - k'(n)}{(1 - \tau)2h(q)}. \quad (5.11)$$

Again the impact of subsidies on journalistic quality is negative if $n > g'(q)/h'(q)$. Here as well, a sufficiently low level of consumption capital [i.e., high values for $h'(q)$ and low values for $g'(q)$] will result in a decrease in journalistic quality.

Finally, we take a look at *lump-sum subsidies*, represented by λ in profit function (5.7). Lump-sum subsidies are a fixed amount of money irrespective of the number of copies sold, the amount of sales revenues, or the amount of journalistic quality. It is easy to verify that there is no effect on the optimal level of quality. Such a subsidy would only add a constant term to the profit function that disappears in both FOCs. While having no effect on the quality, this form of subsidy does increase the probability of the newspaper supplier to break even. Put differently, in regions where a newspaper is not profitable, the subsidy may now push it into profitability. Insofar, as one newspaper is socially preferable to having none, this outcome can be considered to be socially advantageous. To put in a nutshell: *quality-related* subsidies appear to serve the intention of supporting quality best, if the newspaper is a monopolist—which we consider to be a reasonable assumption.¹²

¹² This is in accord with the findings from Spence and Owen (1977) who argue that programs that are inefficiently not provided by the market (e.g., due to information asymmetries or cross-financing) should receive subsidies. Although we do not argue along market efficiency arguments,

Conclusion

Our main finding is that *per-copy subsidies* as well as a sales revenue tax reduction can be detrimental for journalistic quality. Although such practices are widespread, governments should refrain from using them. While such subsidies raise profits and therefore encourage companies to enter the market, the benefits of competition, e.g., to induce product diversity, are set off by a reduction of journalistic quality. Governments should instead focus on either *quality-related* or *lump-sum subsidies*. However, the effect of lump-sum subsidies on journalistic quality is discrete. That is, this form of subsidy only increases the probability for the newspaper to reach at least zero profits. Yet, in times where some counties do not have a single local newspaper, this should be considered socially valuable. *Quality-related* subsidies, on the other hand, have the same effect as *lump-sum* subsidies and, in addition, a positive impact on the profit-maximizing level of journalistic quality. In practice, however, quality-related subsidies bear the potential problem of state influence on media content, as journalistic quality is difficult to measure objectively.

From a more general perspective, it appears promising to implement incentives to raise the population's consumption capital. For example, by improving sensitivity about political systems and values and enhancing political knowledge in schools. This should enable citizens to understand what we defined as *high-quality* content. Additionally, unconventional forms of subsidies like supporting newspaper distribution to young people (as practiced in France) might be a way to improve the chances of high journalistic quality to succeed in media markets. This conclusion is, of course, not limited to printed newspapers, but also applies to all forms of distribution of journalistic content.

Building on the model presented in this paper, we currently see two lines of future research. The first concerns an empirical estimation of consumer demand for journalistic quality. A precise estimation of the crucial parameters would help substantiating our findings and validate more precise policy implications. A second line of future research should focus on extending the analysis to different forms of competition. Although we gave good reasons as to why a monopolist model is adequate to represent regional newspaper markets, this does not necessarily hold for metropolitan regions. There, the sheer market size appears to allow more than one firm to survive.¹³

but rather apply the normative need to have high-quality media, our results appear to support those of Spence and Owen.

¹³ In the case of a newspaper duopoly, similar outcomes to those derived in Peitz and Valletti (2008) should be expected. Although they analyze a Hotelling model, the basic assumptions are very similar: consumers have different tastes and the less their tastes are met, the less the consumption probability or the less they are willing to pay for the product. Peitz and Valletti (2008) predict separating equilibria for the case of two competing media firms. That is, one firm will choose to provide relatively high quality whereas the competitor will choose to provide relatively low quality. These findings would also go in line with empirical observations, as regional newspaper markets with more than one media firm tend to split up the market, one firm

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Appendix 1

Equation (5.6) is an implicit function of the optimal level of quality, q^* . We define this function as

$$f(q) := \frac{\partial \pi}{\partial q} = ng'(q) - 2nh'(q) - c'(q) = 0. \quad (5.12)$$

Before proceeding, it may be helpful to state the second-order condition for a profit maximization is that the Hessian be negative semi-definite. This will be the case if

$$\frac{\partial^2 \pi}{\partial n^2} \frac{\partial^2 \pi}{\partial q^2} - \left(\frac{\partial^2 \pi}{\partial n \partial q} \right)^2 > 0, \quad (5.13)$$

because, under given assumptions, $(\partial^2 \pi / \partial n^2) = -2h - k''(n) + r''(n) < 0$. It thus follows, if an interior maximum exists, that $(\partial^2 \pi / \partial q^2) < 0$.

By application of the *Implicit Function Theorem* to Eq. (5.12), we therefore find that

$$\frac{\partial q^*}{\partial n} = - \frac{\frac{\partial f}{\partial n}}{\frac{\partial^2 \pi}{\partial q^2}} = - \frac{g'(q) - 2nh'(q)}{\frac{\partial^2 \pi}{\partial q^2}}. \quad (5.14)$$

Clearly, Eq. (5.14) is negative if $g'(q) < 2nh'(q)$ or $n > (g'(q^*)/2h'(q^*))$.

Appendix 2

Quality-related taxes change the first-order condition of profit maximization with respect to the choice of quality to:

offering a high-quality newspaper, and the other being rather down-market. Germany's largest cities Berlin, Hamburg, Munich, and Cologne, for example, each have at least two major regional newspapers, at least one always clearly being yellow press and one being considered good quality (Wellbrock 2011, p. 28).

$$f(q) := \frac{\partial \pi}{\partial q} = ng'(q) - n2h'(q) - c'(q) + \gamma = 0. \quad (5.15)$$

Again, Eq. (5.15) constitutes an implicit function of the optimal level of quality. Applying the *Implicit Function Theorem* yields:

$$\frac{\partial q^*}{\partial \gamma} = -\frac{\frac{\partial f}{\partial \gamma}}{\frac{\partial^2 \pi}{\partial q^2}} = -\frac{1}{\frac{\partial^2 \pi}{\partial q^2}} > 0. \quad (5.16)$$

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Evangelia Psychogiopoulou

6.1 Introduction

The press sector plays a fundamental role in the diffusion of news and information and the fostering of debate on matters of public interest. For this reason, many European Union (EU) Member States have adopted, in the context of their media policies, a broad array of support measures targeted at the press. Although the measures introduced have displayed considerable variance in accordance with domestic sociocultural features and the differences that characterise European media markets in terms of language, size, structure, and levels of media development and media use, the objectives pursued have for the most part been similar. State support has sought to ensure widespread dissemination of news and information, promote a diversity of voices and opinions in the press, and generally guarantee a viable press sector.

Introduced in the 1950s, press support measures in Europe have been direct or indirect, selective or automatic (Picard 2007). They have ranged from preferential value-added tax rates and advantageous telecommunications and postal tariffs to operating subsidies in the form of loans or cash transfers, distribution grants, credit facilities, and several forms of fiscal relief (Humphreys 2006). Usually, they have been established to sustain new titles and publications in difficulty, promote editorial quality, enhance content diversity, and support minority group publications. More recently, aids have sought to compensate for decreasing sales and advertising revenue, promote capital investment and/or restructuring, foster journalists' training, especially in new technologies, stimulate the development of innovative information services, and enhance research that is of relevance and importance to the press industry.

The aim of this chapter is to explore the interaction of Member States' press support policies with EU law, particularly the EU rules on competition. Pursuant to

E. Psychogiopoulou
Hellenic Foundation for European and Foreign Policy (ELIAMEP), Athens, Greece
e-mail: epsychogiopoulou@eliamep.gr

Article 107(1) of the *Treaty on the Functioning of the European Union*, “any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the internal market” (Treaty on the Functioning of the European Union, TFEU 2008, p. 91). However, the state aid prohibition of Article 107(1) TFEU is not an absolute one. Article 107(2) TFEU and Article 107(3) TFEU lay down provisions for specific types of aid that are or may prove to be compatible with the internal market.

Entrusted with the exclusive task of verifying national support measures’ compliance with EU law, the European Commission (EC) seeks to ensure effective management of state aid control through a complex balancing of different policy goals: preventing undue distortion of competition and intra-EU trade resulting from the selective grant of state funds to specific undertakings and safeguarding the public interest objectives that Member States, in principle, purport to achieve through the granting of public resources. The EC’s assessment is based on a system of state aid notifications, complaints, and *ex officio* enquiries. In more detail, Article 108 TFEU requires the Member States to notify the EC of all planned state aid measures and obtain its approval before implementing them. The EC may decide that such measures do not constitute state aid, approve them or launch a formal investigation when it has doubts about their compatibility with the internal market. Also, competitors and interested parties that consider certain support measures to be state aid may lodge complaints with the EC. Additionally, the EC may decide, on its own initiative, to launch an investigation into an alleged state aid measure.

The following paragraphs discuss the EC’s approach with respect to the evaluation of Member States’ press support schemes, drawing on a series of cases that have been brought to the EC’s attention. By exploring the assessment practice of the EC, the analysis identifies the considerations that guide the EC in the enforcement of EU state aid rules towards the press and explores the effects of EU competition law on Member States’ policies aimed at ensuring a sustainable press and pluralism of information.

6.2 The Application of the EU State Aid Rules

Support measures for the press may fall into the scope of the EU state aid rules. To be covered by the state aid prohibition of Article 107(1) TFEU, a national measure must fulfil the following cumulative conditions:

- (a) Involve a transfer of state resources
- (b) Be selective, conferring an economic advantage to its recipient
- (c) Distort or threaten to distort competition
- (d) Affect trade between the Member States

Regarding the last two conditions, in particular, in accordance with settled case law (Court of Justice of the European Union 2004, para. 44, 2005, para. 111), it is not necessary for the aid to have a *real* effect on competition and intra-EU trade.

To suffer the state aid prohibition, an aid must have a *potential* effect on competition and trade between the Member States.

Nevertheless, not all aid schemes in support of the press fall into the ambit of Article 107(1) TFEU. Often the limited amount of the funds provided constitutes *de minimis* aid,¹ which is not considered to be state aid within the meaning of Article 107(1) TFEU. Further, aids to the press may fall into the scope of the *General Block Exemption Regulation* (European Commission 2008a) and therefore be deemed compatible with the internal market, without prior notification and EC approval.² More importantly, support tools to the benefit of the press may not cumulatively fulfil all the criteria listed in Article 107(1) TFEU. The case of *Jornal da Madeira* sheds light on this issue (European Commission 2012a). In 2011, *Empresa Diário de Notícias da Madeira* (EDM), the owner of the daily newspaper *Diário de Notícias Madeira*, published in Madeira, Portugal, lodged a complaint with the EC against the public funding provided to *Jornal da Madeira*, a head-to-head competitor published by *Empresa do Jornal da Madeira* (EJM). EDM alleged that *Jornal da Madeira* had been financed by the Autonomous Region of Madeira (which controlled 99.98 % of EJM's shares) via subsidies and shareholders' loans for the periods 1993–1995 and 2000–2010, respectively. According to EDM, the negative development of its business, reflected, among other issues, in its decreased average daily print run, declining sales, and reduced subscriptions, was due to unfair competition by EJM, which, on the basis of the financial assistance received, had been able to undercut prices and distribute *Jornal da Madeira* free of charge on specific locations since 2008.

In response to EDM's complaint, the Portuguese authorities counter-argued that the financial measures at hand did not constitute state aid within the meaning of EU law. *Jornal da Madeira* was published solely in Portuguese, contained only regional content, was distributed exclusively in the Madeira archipelago, and benefited from no distribution agreement for any other country within the EU. As a result, any advantage to EJM could not affect trade between the EU Member States.

Examining whether the financial support reviewed fell into the scope of Article 107(1) TFEU, the EC first investigated whether the aid was liable to affect intra-EU trade. Only insofar as this criterion was met, could the public funding examined be considered as state aid, provided that all other conditions of Article 107(1) TFEU were also met. Taking note of the arguments put forward by the Portuguese authorities, the EC found that EJM pursued its media business on a local basis. Hence, the aid granted was not liable to enhance its ability to compete with news media in other Member States. This applied in both the offline and the online environments. Regarding EJM's online activities, in particular, the online version

¹ These are aids of no more than 200,000 euros granted over a period of 3 years, which do not require prior notification to be given to the EC (see European Commission 2006a).

² For instance, aids to the publishing sector that favour small and medium-sized enterprises, research, innovation, regional investment, training, employment, or entrepreneurship can benefit from automatic approval, provided that they fulfil the specific conditions set out in the General Block Exemption Regulation.

of *Jornal da Madeira*—similar to its offline counterpart—was available in the Portuguese language and focused only on matters of local interest.

Given the local profile of *Jornal da Madeira*, in the EC's view, the aid was also unlikely to entail any appreciable effect on the ability of the newspaper to attract advertising revenue that would have otherwise been available to competitors in other Member States. In fact, given the modest advertising revenue of *Jornal da Madeira* in general, any effect of the aid on the advertising market was negligible. Additionally, in view of the substantive debt that EJM had accumulated over the years, it was implausible that the aid would be used to expand EJM's activities outside the local market. In the light of these considerations, the EC concluded that although the aid could strengthen the position of *Jornal da Madeira* on the local market, it was not liable to affect trade between the Member States and, therefore, did not constitute state aid within the meaning of Article 107(1) TFEU.

In a number of other cases, aid measures in favour of the press were found to be state aid within the meaning of Article 107(1) TFEU. Notwithstanding, on most occasions, domestic support received the EC's accord. Two TFEU provisions proved of particular use in this regard: Article 107(3)(c) TFEU and Article 107(3)(d) TFEU. The former, known as the "industrial" state aid derogation, concerns "*aid to facilitate the development of certain economic activities or of certain economic areas*", whereas the latter pertains to "*aid to promote culture and heritage conservation*" (p. 92). Both types of aid can be permitted on condition that they do not affect trading conditions and competition to an extent that is contrary to the common interest. Broadly speaking, in assessing whether domestic aid measures qualify for a derogation under these two provisions, the EC examines, first, whether the aid measure reviewed is aimed at a well-defined objective of common interest, second, whether the aid is an appropriate instrument and proportional to the objective pursued, and, third, whether the distortion of competition and the effect on intra-EU trade are limited.

6.3 State Aid to the Press as Industrial Aid

In many cases, national measures devised to promote democratic debate through the press and pluralism of information were authorised on the basis of Article 107(3)(c) TFEU. One of the most important cases in this regard concerned two aid measures envisaged by the Italian authorities for the entire media sector, including the press (European Commission 2004a). The first scheme, with a total budget of around 77 million euros, consisted of contributions on interest payments on 10-year loans granted by banking institutions to publishing undertakings for projects concerning technical and economic restructuring, the acquisition and modernisation of equipment, and vocational training. The second scheme, enjoying a budget of 102 million euros, concerned the provision of a tax credit, deducted from fiscal liabilities, equal to 15 % of total investment costs for the acquisition of instrumental goods for the production of publications in the Italian language, over a period of 5 consecutive years. The Italian authorities claimed that both schemes could qualify for a

derogation under Article 107(3)(d) TFEU as mechanisms in support of the Italian language and thus of the Italian culture.

Inquiring whether the measures under review fell into the scope of the state aid prohibition, the EC paid particular attention to their effects on trade between the Member States, taking the position that these should not be ruled out. Despite the limited circulation of Italian publications outside the national market, publishing firms competed for publishing rights and advertising, especially when operating in different Member States and languages. From this perspective, the measures examined could have an impact, albeit limited, on intra-EU trade and therefore should be considered as state aid, in principle prohibited by the TFEU. Verifying then whether they could benefit from a state aid derogation provision, the EC took the position that both principally sought to boost investment in publishing in the Italian language and enhance pluralism of information—an objective expressly enshrined in Article 11 of the *Charter of Fundamental Rights of the European Union* (CFR). Accordingly, resort should be made to the industrial state aid derogation of Article 107(3)(c) TFEU rather than Article 107(3)(d) TFEU. Building on the statistical information provided by the Italian authorities, the EC confirmed that the measures were necessary and proportional to their stated objectives and that their effect on intra-EU trade would be limited, sanctioning both of them.

Similar considerations guided the EC's evaluation of two press support schemes foreseen in Belgium and Denmark (European Commission 2004b, c, 2006b). According to the information provided by the Belgian authorities, subsidies, amounting to 7 million euros over a period of 5 years, would seek to foster the editorial quality of the Flemish press. Granted by the Flemish Community via an open call for proposals, the subsidies would provide assistance covering a maximum of 50 % of total eligible costs for projects designed to expand editorial capacity.

In Denmark, two subsidy schemes for sociocultural journals and periodicals issued by non-profit associations as well as the weekly press would seek to reduce distribution costs by covering 50 % of the publications' actual distribution expenses. As explained by the Danish authorities, the low circulation of the publications of non-profit organisations, often without a subscription fee, undermined their commercial viability. The costs related to the distribution of the weekly press, through subscriptions, on the other hand, were significant, as the population was widely spread in the country, which undermined the sustainability of newspapers.

The two schemes were assessed on the basis of Article 107(3)(c) TFEU, the EC ascertaining that both were necessary to maintain pluralism and ensure the provision of varied information while being proportional to the objectives pursued. Regarding the Belgian measure, in particular, the EC disagreed with the Flemish authorities that had favoured the use of the cultural state aid derogation, observing that the aid was directed at the written press in general and not at publications specifically concerned with culture. According to the EC, the scheme sought to improve Flemish editorial practice and, quite importantly, would not lead to a significant distortion of competition between the Member States. This was because

linguistic and cultural differences in Europe substantially limited competition and cross-border trade in the field of publishing.

The same line of reasoning was followed in the Danish case. Concerning the financial assistance provided to non-profit associations, in particular, the EC expressed doubts as to whether the aid could be considered to be state aid within the meaning of Article 107(1) TFEU in the first place. Bearing in mind that the beneficiaries of the scheme were essentially active at the local level, it was highly unlikely that the aid would provide them with a significant advantage in competing for readership and advertising revenue with commercial publishers. At any rate, the EC noted, should the aid be considered as state aid within the meaning of EU law, Article 107(3)(c) TFEU (and not Article 107(3)(d) TFEU as advocated by the Danish authorities) applied because any distortion of intra-EU trade and competition in the subscription and advertising markets would be marginal. The funded publications were not substitutes for the publications without access to support, while most of them would be published in Danish and thus would be of relevance to the national market only.

Significant EC attention was also given to the modification of one of the most long-established aid measures for the press in Europe, the Finnish press support scheme. This had generally consisted of selective subsidies to newspapers, available for subscription and published at least three times a week, with a view to reducing their publishing, transport and distribution costs, and subsidies channelled to political parties represented in parliament for subsequent distribution among the press. According to the changes notified in 2007 to the EC (European Commission 2008b), parliamentary subsidies would be abolished while selective subsidies, covering a maximum of 40 % of eligible newspapers' operating costs, would henceforth be allocated to small circulation newspapers, in both print and electronic format, published in Swedish and national minority languages (i.e., Sámi and Romany).

The EC found that the revised scheme fell into the scope of Article 107(1) TFEU. This was the case despite the fact that a significant impact on trade and competition was improbable as eligible newspapers occupied a marginal position in the national press market and no direct competitors operating in the Finnish language existed. Opting subsequently for the application of the industrial state aid derogation, the EC observed that the Finnish aid sought to promote media pluralism and diversity of opinions while preserving the Swedish and minority languages in Finland, which was in line with the CFR requirements for respect for media freedom and pluralism and for cultural, religious, and linguistic diversity, as laid down in Articles 11(2) and 22 CFR, respectively. Moreover, the aid was necessary to ensure the economic viability of small circulation newspapers; proportional to the objectives pursued, as primarily evidenced by the limited readership of the subsidised newspapers and their constrained ability to attract advertising and subscription; and unlikely to impact intra-EU trade significantly given that the funded newspapers merely circulated at the local/regional level.

6.4 State Aid to the Press as Industrial and/or Cultural Aid

The preceding analysis clearly shows that the EC is unwilling to make use of the cultural state aid derogation when support measures targeting the press seek to promote pluralism and access to varied sociopolitical information. For the EC, the social and democratic needs that are catered for by Member States' aid measures are distinct from the promotion of culture, including when press support schemes assist in the diffusion of information in regional or minority languages. Nevertheless, the EC has occasionally built on the cultural state aid derogation—alone or in conjunction with Article 107(3)(c) TFEU—to approve state aid measures directed at the press that were considered to have a cultural component.

Telling is a scheme devised by the Spanish authorities for the publication of cultural magazines in Spanish and the official languages of the Spanish Autonomous Communities, which was approved by the EC solely on the basis of Article 107(3)(d) TFEU (European Commission 2012b). Designed to support publications of “*outstanding cultural significance*” in the field of literature and the arts, the scheme, which should operate with resources amounting to 8,760,000 euros over a period of 4 years, foresaw the provision of support grants to periodic publications, in both paper and electronic format, enjoying a minimum volume of 1,500 copies (or at least 1,500 subscribers in the case of electronic publications). According to the Spanish authorities, the amount of aid would not exceed 50 % of total publication costs (covering production, distribution, and marketing costs) while resources would be awarded via a selection process, to be carried out by an evaluation committee involving state and non-state officials, which would assess the cultural merits of the concerned publications on the basis of predetermined cultural criteria.

Having confirmed that the measure reviewed constituted state aid within the meaning of Article 107(1) TFEU, the EC held that the Spanish measure supported a well-defined cultural objective, that is, the promotion of culturally valued magazines in Spanish, Basque, Catalan, Galician, and Valencian, which enriched the Spanish cultural heritage and thus cultural diversity. Promoting cultural diversity, the EC stressed, was in line with Article 22 CFR, Article 167(1) TFEU, which states that “*the Union shall contribute to the flowering of the cultures of the Member States while respecting their national and regional diversity and at the same time bringing the common cultural heritage to the fore*” (p. 121), and Article 167(4) TFEU, which provides that “*the Union shall take cultural aspects into account in its action under other provisions of the Treaties, in particular in order to respect and to promote the diversity of its cultures*” (p. 122). Also, it was congruent with the requirements of the *UNESCO Convention on the protection and promotion of the diversity of cultural expressions* (UNESCO 2005) to which the EU is party. Taking note of the limited commercial potential of the magazines involved and their poor financial viability, the EC found that the measure was necessary to pursue its proclaimed objective. Without the aid, the targeted cultural magazines would not be able to maintain their volume or periodicity while some of them would be required to exit the market. In view of the aid's intensity, the safeguards in place to pre-empt over-financing, the arrangements made to ensure an open, non-discriminatory

selection of beneficiaries, and the fact that other available magazines were not substitutes of the funded publications, the EC held that the aid was also proportionate to the objective pursued and that its effect on competition and intra-EU trade would be limited. On this basis, it approved the scheme.

In a number of other instances, both Articles 107(3)(c) and 107(3)(d) TFEU have served for the authorisation of state aid schemes for the press. In 2005, for instance, the EC sanctioned a Slovene scheme envisaging the granting of subsidies for projects targeting the creation of media content, including those for the printed press and electronic publications (European Commission 2005a). With a total budget of approximately 5.8 million euros for a period of 6 years, this scheme would cover total production costs at a rate ranging from 20 % to 50 %, with the exception of projects of particular relevance for the promotion of culture, science, and education, for which the amount of aid could reach an upper limit of 80 %. Selection would be made by means of public tender on the basis of predefined criteria concerning, among others, the importance of the project for the development of the Slovenian culture; the quality and the originality of the content produced; the promotion of media diversity; and the contribution of the project to journalists' employment and training.

Affirming that the aid constituted state aid within the meaning of Article 107(1) TFEU, the EC examined whether it could qualify for derogation, drawing a distinction between the subsidies directed at the production of cultural content and those for the creation of non-cultural content. For the former, which were assessed on the basis of Article 107(3)(d) TFEU, the EC based its evaluation on the criteria used for the assessment of state aids to audiovisual production. According to the *Communication on certain legal aspects relating to cinematographic and other audiovisual works* (European Commission 2001), these are the following: in addition to conforming to TFEU provisions in fields other than state aid (for instance, the principle of non-discrimination), support to audiovisual creation must be directed at the production of a cultural product, verified on the basis of precise criteria established by the Member States; the beneficiary must be free to spend 20 % of the project's budget in a Member State other than that providing the aid without suffering any reduction in the amount of aid; the amount of aid must not exceed 50 % of the total project costs, with the exception of "difficult" and low-budget audiovisual production projects, determined according to national parameters; and aid supplements must not be allowed for specific audiovisual production activities. According to the EC, the Slovene scheme fulfilled all these conditions: it was non-discriminatory; it was directed at the production of cultural content; it did not constrain expenditure in other countries than Slovenia; it was limited to covering 50 % of the production costs, with the exception of specific projects; and it contained no aid supplements. Turning then to the subsidies concerning the creation of non-cultural content, the EC drew on Article 107(3)(c) TFEU, declaring that the scheme pursued a legitimate objective, namely the promotion of scientific and educational material in the media, covering also the press. The aid was necessary and proportional to the objective pursued and would not affect competition and intra-EU trade significantly. Accounting for this was the

limited spread of the Slovenian language and the fragmentation of media markets in Europe.

The industrial and cultural state aid derogations have also been applied in a series of individual subsidies provided to single publications in Slovakia.³ The case of *Os-Fórum občianskej spoločnosti*, in particular, concerned a subsidy of approximately 35,000 euros, which would cover 71 % of the publication costs of a periodical reporting on the sociocultural situation in Slovakia, Poland, Hungary, and the Czech Republic (European Commission 2006d). In examining this case, the EC initially raised doubts as to whether the subsidy fell into the scope of Article 107 (1) TFEU given the limited amount of the financial aid envisaged, the modest number of the editions of the periodical (six in total), and its publication in the Slovak language. Stressing, however, that the periodical could also target readers from Slovak minorities outside its place of establishment, especially in the Czech Republic and Hungary, the EC did not exclude the possibility of intra-EU trade being affected. Examining then whether the aid could qualify for a derogation, the EC noted that the aid could partly benefit from an application of Article 107(3)(d) TFEU because it sought to support the provision of information on cultural topics. At the same time, the funded periodical also reported on sociopolitical issues and therefore contributed to democratic debate and media pluralism. According to the EC, this rendered an examination of the applicability of Article 107(3)(c) TFEU necessary. Taking into consideration the limited readership and the circulation of the periodical, the modest amount of the aid foreseen, and the limited spread of the Slovakian language, the EC concluded that the aid was proportional to the objective pursued and that any potential distortion of trade and competition would be negligible, and approved the scheme.

6.5 Evolving Evaluation Patterns

While it is evident from the analysis in the previous sections that the EC has generally developed a favourable approach to press aid schemes supporting democratic debate and pluralism of information, its recent assessment practice might denote a more interventionist stance with respect to the principal features and characteristics of Member States' aid measures, particularly as regards compliance with the principle of proportionality. The Swedish aid scheme, introduced in the early 1970s for the so-called “*secondary newspapers*”, that is, the second largest and smaller circulation newspapers in a city/county, merits particular attention (European Commission 2010a). In 2008, following complaints concerning its operation, the EC initiated an investigation into the scheme. Having established that excessive amounts were directed at metropolitan newspapers enjoying a wide circulation without a specific threshold in relation to their total publication costs, the EC held that the aid was not compatible with EU competition rules and

³ See for instance European Commission (2005b, 2006c).

suggested a series of modifications to bring it into conformity with EU law. In particular, the EC advocated a decrease in the amount of aid for metropolitan newspapers, arguing for a progressive revision of the applicable aid ceiling, and called for the establishment of a specific aid amount threshold in relation to the total publishing costs of the funded newspapers. Whereas low-frequency newspapers could benefit from a rate of 75 %, aid directed at high- and medium-frequency newspapers should not exceed 40 % of publication costs. Further, the EC advised on limiting the duration of the scheme to 6 years and reviewing its impact on both media pluralism and competition before deciding on possible renewal.

In the light of the EC's proposals, the Swedish authorities suggested a gradual reduction in the maximum aid assistance channelled to metropolitan newspapers from 63.9 million Swedish *Kronas* (SEK) to 45 million SEK (approximately 4.8 million euros) during a period of 5 years, starting from 2011; agreed on the introduction of a 40 % cap on the total operating costs for the publication of high and medium frequency newspapers; and accepted conducting an evaluation of the scheme before introducing any changes in 2017. Regarding metropolitan newspapers, however, the Swedish authorities argued for the aid covering, in addition, up to 40 % of the extra costs incurred for the publication of a wider volume of content, when compared with provincial papers, 7 days a week. As for the introduction of a control system, they informed the EC of their intention to mandate beneficiaries to annually inform the granting authority, the *Press Subsidies Council* (PSC), on the use of the aid. The PSC should then examine aid usage and report to the EC on an annual basis.

The EC took the position that the proposed aid ceiling for metropolitan newspapers set at 40 % of their operating costs and at 40 % of their additional costs was rather high, yet accepted the arguments advanced by the domestic authorities for its establishment: metropolitan newspapers had to comply with increased requirements on daily output of high editorial quality. Considering then that the scheme, as modified, prevented undue distortion of competition and trade, the EC authorised it, noting that although in the era of online news, "traditional newspapers are still important for media pluralism and for the cultural, democratic and public debate in Europe, running a newspaper is also a commercial activity", which has to be carried out in compliance with EU law (European Commission 2010b).

Compared with past evaluation practice, the Swedish case discloses a refinement of the EC's assessment procedures towards stricter control of the compatibility of press support schemes with the principle of proportionality. Although the EC did not challenge the objective of media pluralism as a legitimate policy goal pursued by the Swedish aid, it requested substantive modifications before approving the scheme to prevent disproportionate distortion of competition and intra-EU trade. At the same time, it is plain that despite initial strong pressure, the EC eventually sided with the Swedish position, accepting that the changes made reflected its observations. This arguably shows that although committed to ensuring respect for the EU state aid rules, the EC does not feel particularly at ease when questioning Member States' press support measures and in any case does not wish to contest

them outright. The economic crisis plaguing Europe, which has markedly affected the press, and the opportunities and challenges posed by technological developments and the broad uptake of online information services, might explain the EC's reluctance to fundamentally dispute the Member States' aid measures. Indeed, while there exists a variety of national support measures for the press in Europe, many of which are presently subject to reappraisal on account of technological innovations and the harsh economic conditions characterising the press market, in the wake of the Swedish case the EC has generally abstained from openly disputing the Member States' press support strategies. Aware of the fact that a viable press sector contributes to media pluralism and the effective exercise of the right to free speech and the freedom of information, the EC has been rather hesitant to systematically address the issue, opting for ad hoc interventions following specific scheme notifications or complaints.

Conclusion

Over the years, the EC has ascribed substantial weight to the Member States' efforts to formulate and implement policies in support of the press and pluralism of information. On a number of occasions, the EC has examined and approved aid measures designed to stimulate the press, so as to foster democratic debate and promote media pluralism. In authorising national support measures, the EC has generally drawn on the industrial state aid derogation of Article 107(3)(c) TFEU. State measures in support of newspapers and other information material are usually assessed as industrial aid facilitating the development of the economic activity of publishing. True, the EC has occasionally based its assessment on Article 107(3)(d) TFEU alone or in conjunction with Article 107(3)(c) TFEU. In interpreting and applying the cultural state aid derogation, however, it has generally followed a narrow approach. Only aid schemes that are specifically intended to promote the diffusion of cultural information can qualify for an exemption under Article 107(3)(d) TFEU. Press support measures underpinned by democratic and sociopolitical policy considerations cannot be treated as cultural.

Although favourably disposed to national action aimed at strengthening the press, the EC has generally displayed an expansive attitude when investigating whether press support measures fall into the scope of Article 107(1) TFEU. In a number of cases, the EC has contentiously concluded that state support constituted state aid within the meaning of Article 107(1) TFEU, despite having unclear views as to whether the measures concerned distorted or threatened to distort competition and affect intra-EU trade. Linguistic barriers, as repeatedly recognised by the EC itself, have essentially confined the press within national frontiers. This is a factor that largely undermines the potential of state support measures to affect competition and trade. Rather than leading to the conduct of a controversial legal test, failure to meet all Article 107(1) TFEU criteria should preclude EC intervention.

Besides this expansive approach, the EC's recent evaluation practice also provides indications of a stricter control of the Member States' support schemes, particularly as regards compliance with the principle of proportionality. The Swedish case examined above is illustrative. Contrasting earlier practice, in this case, respect of proportionality became the object of rigorous investigation and the aid was approved by the EC only after the Swedish authorities had agreed to substantive modifications, intended to counter undue distortions of competition and trade. At the same time, it is clear that the EC is hesitant to compellingly dispute the Member States' press support policies. The economic downturn that has profoundly impacted the press, coupled with the challenges brought by technological developments and the absence of a comprehensive EU policy on media pluralism, mainly due to subsidiarity concerns, might explain the EC's stance. In a period of profound reflection about the new environment in which the press functions, reconciling competition objectives with policy considerations pertaining to the democratic role of the press might indeed be a particularly thorny exercise.

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Manuel Puppis

7.1 Introduction

For several years now, the term *governance* enjoys great popularity among researchers and practitioners alike (Benz 2004; Bevir 2009; Kersbergen and Waarden 2004; Kooiman 2003; Mayntz 2004; Pierre and Peters 2000; Rhodes 1996; Schuppert 2005; Treib et al. 2007). Communication scholars use the term *media governance* in order to describe changes in policy-making and regulation in the media sector. Given societal and media change, they call for regulatory reforms such as implementing self- and co-regulation, strengthening citizen participation or developing processes of informal decision-making in (global) networks [for a detailed discussion, see, for example, the special issue of *Communication, Culture and Critique*, edited by d’Haenens et al. (2010), or Donges (2007a)].

This chapter makes use of the concept of media governance to better understand policy options and policy-making in the press sector. In the following, I will first summarize the argument that governance is more than a label for new forms of regulation. Rather, it is an analytical concept that offers a new perspective and allows for seeing aspects of media policy and regulation so far overlooked. I will then focus on press governance by discussing different domains of governance and arguing that a more active media policy is needed in light of what scholars call a “crisis of journalism.”

M. Puppis
Department of Mass Media and Communication Research, University of Fribourg, Fribourg,
Switzerland
e-mail: manuel.puppis@unifr.ch

7.2 The Dual Meaning of Media Governance

7.2.1 Definitions of Governance

As discussed more extensively elsewhere (Puppis 2010a), governance as a scientific term developed within the discipline of economics. At the beginning, the term was used in new institutional economics (Benz et al. 2007, p. 11). Nowadays, however, governance in economics normally refers to corporate governance, raising the question of how management can be controlled and held accountable for its actions (Kersbergen and Waarden 2004, p. 147). Naturally, issues of corporate governance also apply to media companies listed on the stock exchange (e.g., Arrese 2005). Alternate roots of governance can be found in political science. Initially, global governance was used in order to describe power structures in the power vacuum of international relations (e.g., Rosenau 1992). In Europe, another use of governance attracts growing interest: In relation to the European Union, the term multilevel governance is used to describe and analyze the interplay between different levels of decision-making (e.g., Kohler-Koch 1996). In contrast, democratic governance discusses ways to improve regulation and government by involving civil society in decision-making (Benz et al. 2007, pp. 14–15). More recently, regulatory reform is described as a move from government to governance: As the state is confronted with numerous societal changes that are said to limit its capacity for regulation, a type of *new governance* is deemed necessary (critically, see Black 2001, pp. 106–111, 2002, pp. 3–6).

In the media sector, the state's possibilities to regulate are said to be challenged even more due to media change brought about both by the liberalization of broadcasting and the Internet. Not only did traditional regulation by the state come under pressure due to ideological changes and economic interests in the 1980s, but its shortcomings in coping with technological changes and commercialization became apparent as well (Dyson and Humphreys 1989). The introduction of private broadcasting in Western European countries ("dualization"), the globalization of the media industry, as well as the digitization and convergence of media technology cast doubt that the state alone can effectively regulate the media. Additionally, statutory media regulation has problems to cope with new media. New forms of governance like self- and co-regulation are often believed to be better equipped to shape media systems.

Aside from these uses of governance in economics and the social sciences, governance is heavily used in politics as well (e.g., The World Bank uses the term *good governance*).

Evidently, there are a variety of different governances and governance is discussed in different disciplines and in political practice. When interested in changes in policy-making and alternative possibilities of regulation, the more recent governance debates associated with regulatory reform seem particularly helpful. Yet, what is regulation? Statutory regulation refers to a deliberate state influence and "*covers all state actions designed to influence industrial or social behavior*" (Baldwin and Cave 1999, p. 2). This does not encompass command and control regulation alone but also positive and negative economic incentives and

forms of persuasion—or, as legal scholar Julia Black (2001) tellingly put it, “*the stick, the carrot and the sermon*” (p. 126). Whereas command and control regulation tries to exercise influence by imposing standards backed by sanctions, incentive-based regulation uses rewards and penalties to encourage or discourage certain types of behavior and persuasion aims at changing behavior by supplying information to the regulated industry. Consequently, press subsidies can be understood as a form of incentive-based regulation.

Governance goes even beyond these substantial regulatory possibilities that governments (and regulators) have at their disposal. Scholars usually distinguish between narrow and broad definitions of governance. While narrow definitions stress the difference between government (i.e., traditional regulation) and governance (supposedly innovative forms of regulation), broad definitions [most prominently by Mayntz (2004, p. 66)] point out that governance refers to the regulatory structure as a whole, encompassing the entirety of forms of collective rules in society, emphasizing that governance is not taking place beyond the state (as governance as a label for new forms of regulation insinuates). In line with such a broad definition, Freedman (2008) stressed that media governance “*refers to the sum total of mechanisms, both formal and informal, national and supranational, centralized and dispersed, that aim to organize media systems*” (p. 14). This definition promises to be of substantial value for media policy research. Yet, in addition to collective rules, there is a need to take forms of governance existing at the level of single media organizations into consideration as well. In this respect, Lange and Schimank’s (2004, p. 19) more general definition of governance as patterns of coping with interdependencies between actors is particularly helpful. It emphasizes that governance refers to all patterns of rule and explores the construction of social order and social coordination (Bevir 2009, p. 3). Focusing on the media, we can thus define media governance as the regulatory structure as a whole, i.e., the entirety of forms of rules that aim to organize media systems, covering both collective and organizational governance [for a more detailed discussion, see Puppis (2010a)].

7.2.2 Media Governance as an Analytical Concept

However, governance is more than just another term for rules. Rather, it has a dual meaning (Benz 2004, p. 13) which may best be put as follows: “*That is, as well as being ‘something’, governance is a way of viewing the world of politics and government*” (Pierre and Peters 2000, p. 24). As an analytical concept, media governance offers a new perspective: It sheds a different light on politics, politics, and policies. The term *polity* refers to the political order, the structures and institutions. Metaphorically speaking, it is the river bed in which the policy-making process (*politics*) flows. *Policy*, finally, focuses on the resulting decisions of this process of cooperation and conflict between different actors with their respective ideas and interests (Puppis 2010b). In other words, the governance concept is a new way of describing, explaining, and criticizing the entirety of forms of rules that aim to organize media systems—whether these polities, politics, and policies are changing or not.

Governance understood as such an analytical concept offers two advantages. First, it is theoretically open and can be used “*within various theoretical contexts*” (Bevir 2009, p. 29). Depending on research objectives and questions, scholars may link the media governance concept to different theoretical frameworks. For instance, governance can be connected to theories of regulation (e.g., public and private interest theories), policy analysis, critical political economy, or approaches in organization theory.

When interested in how the regulatory structure affects media organizations, new sociological institutionalism in organization studies seems particularly well suited, as has been discussed elsewhere (Puppis 2010a; Donges 2007b). In the perspective of new institutionalism, regulatory structures are institutions. Media organizations are not conforming to governance because of its punitive quality (i.e., coercion and sanctions) alone. Rather, governance has normative and cultural-cognitive dimensions as well. The ordering force of common beliefs and binding expectations is crucial in order to explain the way media governance affects media organizations (Edelman and Suchman 1997; Gunningham and Rees 1997; Suchman and Edelman 1996). At the same time new institutionalism also focuses on the question of how media organizations respond to rules (e.g., Oliver 1991; Goodrick and Salancik 1996; Goodstein 1994). Another option is to focus on the politics of media governance and to connect the concept with approaches that scrutinize the role of media organizations in media policy-making (see below).

This theoretical openness of the governance concept makes it possible to see and explain different aspects of the rules that aim to organize media systems. At best, governance may act as a bridge between disciplines, enabling scholars to connect various streams of research (Kersbergen and Waarden 2004, pp. 143–44).

Second, in contrast to regulation which “*remains a concept tied inherently to the state*” (Black 2002, p. 17) and which finds other forms of rules “*hard to understand, if indeed we recognise them at all*” (Black 2002, p. 17), governance allows for an integrated view, encompassing all forms of rules that aim to organize media systems. On the one hand, this takes note of the importance of organizational governance, i.e., internal rules and control mechanisms (sometimes called “self-organization”) tailored to single media organizations. On the other hand, the concept allows for discussing a horizontal as well as a vertical extension of government and thus to distinguish different forms and levels of *collective media governance* (see Fig. 7.1).

Regarding the *horizontal extension*, media governance covers statutory regulation as well as self- and co-regulation (Baldwin and Cave 1999, p. 63; Black 1996, pp. 26–27, 2001, pp. 117–20; HBI and EMR 2006; Jarren et al. 2002; Latzer et al. 2002; Schulz and Held 2004). Self-regulation, by definition, implies a regulation by non-state actors and involves “*an industry-level [. . .] organization sets rules and standards [. . .] relating to the conduct of firms in the industry*” (Gunningham and Rees 1997, pp. 364–365). Co-regulation then refers to mandated self-regulation or industry self-regulation with some oversight by government. As for the vertical extension, governance draws our attention to different levels of regulation. On the one hand, national regulation was supplemented by global media governance, i.e., the international cooperation of nation-states, early on (Ó Siochrú and

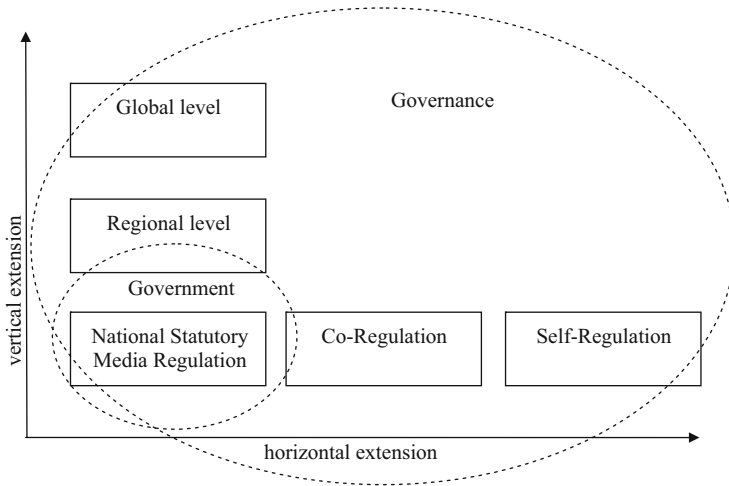


Fig. 7.1 Media governance as horizontal and vertical extension of government. Source: Puppis (2010a, p. 140)

Girard 2002). On the other hand, particularly in Europe, regional integration gave rise to a whole new level of governance.

With its integrated view, the governance concept allows for discussing the interplay between statutory regulation and self-regulation, among the national, the regional, and the global levels, and between collective and organizational forms of rules. Governance allows scholars to describe, explain, and criticize the blurring of boundaries between the private and the public sector and between different political levels.

By providing a valuable heuristic for describing the regulatory structure, the governance concept also points to questions of regulatory choice and design (Latzer 2007). As there is no regulatory design adequate for the media sector as a whole it seems useful to distinguish between different media (e.g., press, broadcasting, and the Internet) and different domains of media governance. McQuail (2005, p. 235), for instance, differentiates between the regulation of structure, conduct, and performance.

7.3 Governance of the Press

7.3.1 Domains of Press Governance

Using this heuristic offered by an analytical governance concept, it is possible to distinguish different domains of press governance (see Fig. 7.2). To this day, the press is subject to less statutory regulation than broadcasting and the regulation of content is mostly left to the industry itself—at least in democratic states (e.g., Künzler 2007; Puppis 2007, 2010a).

	Press
Structure	statutory regulation: <i>Ownership concentration</i> statutory regulation: <i>Press subsidies</i>
Conduct	statutory regulation: <i>Limitations to press freedom</i>
Performance	self-/co-regulation: <i>Industry-wide editorial standards (press councils)</i> self-organization: <i>Internal editorial standards</i>

Fig. 7.2 Domains of press governance

Ad *Ownership concentration*: Mergers between media companies are subject to the same regulations as mergers in any other sector of the economy (Puppis 2010b, pp. 274–282). In a so-called “relevant merger situation” (i.e., if the turnover of the merging companies exceeds certain thresholds) the competition authority investigates whether the merger leads to a substantial lessening of competition in the relevant market. However, most newspaper companies are too small to pass this turnover test and, as a consequence, media mergers are only rarely investigated. Yet in some countries, lower thresholds for media mergers exist. Moreover, defining the relevant market is complex especially in situations of cross-media ownership. Mostly newspaper, radio, and television markets are looked at separately. Finally, even if all these problems can be overcome, merger control focuses on the economic aspects of mergers alone. Thus, competition legislation is often considered insufficient to protect media diversity. This is the reason why several countries have adopted media-specific ownership regulations: “*Media ownership restrictions are generally intended to protect political and cultural pluralism which, as a policy objective, is quite different from promoting competition*” (Doyle 2002, p. 169). These restrictions may apply to horizontal, vertical, and multimedia concentration. However, in the last decade many existing regulations have been dismantled, especially in relation to cross-media ownership.

Ad *Press subsidies*: The financial incentives offered by press subsidies are thought to promote media diversity and improve the economics of the press. Yet, it is necessary to distinguish between direct and indirect subsidies as well as between general and selective aids (Holtz-Bacha 1994; see the contribution by Murschetz in this volume, Chap. 2). While direct subsidies refer to direct financial payments to publishing houses, indirect subsidies try to create a more favorable economic environment (e.g., tax reliefs like VAT exemptions and reduced prices for postal distribution). General aids benefit all companies in a given market. In contrast, selective aids aim more openly at maintaining and promoting structural diversity and fighting media ownership concentration by favoring only economically weaker publications with low circulation and/or small advertising revenues in order to safeguard their survival (e.g., secondary newspapers). “*Direct aid [...] tended to be far more selective than indirect aid in that it was directed towards financially weak papers or papers handicapped by their non-commercial*

character” (Humphreys 1996, p. 103). While indirect subsidies exist in all Western European countries, direct subsidies are most common in the Nordic countries, the Benelux countries, France, Austria, and some Mediterranean countries.

Ad Limitations to press freedom: Press freedom is subject to certain limitations, particularly when it conflicts with other values or rights. Such limitations are for instance defamation (libel and slander), privacy, hate speech, or the publication of classified information. However, concerning public figures the press is granted greater latitude when it comes to infringements of privacy, honor, and reputation.

Ad Industry-wide and Internal Editorial standards: Like limitations to press freedom, editorial standards are related to both conduct (journalistic work processes) and performance (editorial content). They exist at the industry level and within single media organizations. At the industry level, press or media councils deal with violations of a code of ethics by the media, mostly based on complaints from the public. Despite their name, most councils do not limit their activities to the printed press but deal with the electronic media as well (e.g., news programming in TV and radio or online editions of newspapers). Such councils are a typical example of self-regulation which is often considered to be both a possibility of reregulation and a solution for the dilemma of how to reconcile media regulation with media freedom. However, press councils were mostly created and reformed in response to a threat of regulation and their codes apply to areas without statutory control (Tambini et al. 2008; Puppis 2009). And their success is contested: Press self-regulation is heavily criticized for its failure to make newspapers adhere to editorial standards, as the example of the Press Complaints Commission and its supersession in the wake of the phone hacking scandal in the UK shows (Fielden 2012; Puppis et al. 2012). Within single media organizations, self-organization in the form of codes of conduct and ombudsmen may exist in addition to industry-wide self-regulation.

7.3.2 Press Governance in Times of Crisis

In light of ongoing processes of ownership concentration and of downsizing journalism as well as of massive failures of self-regulation in some countries, media reform movements, with the support of prominent communication scholars, call for regulatory reform with respect to ownership regulation, press subsidies, and editorial standards.

Focusing on press subsidy issues, the currently debated “crisis of journalism” arguably raises the stakes of regulation—or non-regulation for that matter—tremendously. Due to both a recession and a profound structural crisis intensified by the advent of the Internet, the resources available to news organizations are shrinking, bringing about repeated buyouts and even newspaper closures. For the USA, the websites *Newspaper Death Watch* (<http://www.newspaperdeathwatch.com>) and *Paper Cuts* (<http://www.newspaperlayoffs.com>) document the ramifications of the crisis. Yet the crisis is also noticeable in Europe. As layoffs at big newspapers like *El País* or the recent closure of the *Financial Times Deutschland* show, many newspapers are struggling. While many publishers still

insist that journalism is merely undergoing a well-managed transition, many scholars are voicing concerns about the repercussions of this journalism crisis for democracy (Curran 2010; Franklin 2010; Jarren et al. 2012; McChesney and Nichols 2010; McChesney and Pickard 2011; Meier et al. 2012): “*As journalists are laid off and newspapers cut back or shut down, whole sectors of our civic life go dark*” (Nichols and McChesney 2009). They argue that it is simply impossible to deliver the same quality and to do even more with fewer resources: “*You do less with less and more with more. That’s why they call it more*” [David Simon, quoted in Lanahan (2008, p. 31)].

Yet, the view that journalism is in crisis is challenged by practitioners and scholars alike that see the problems limited to newspapers and trust in a renaissance made possible by the Internet [for a critique see Curran (2010, pp. 466–467)]. Without any doubt, the Internet and especially so-called *social media* hold many promises for enhanced democracy. They offer citizens new possibilities for information and debate and groups normally neglected by the mainstream media access to the public sphere. Notwithstanding their actual influence (or lack thereof) on decision-making, these new online platforms deserve scholarly attention. However, few websites are journalistic in nature. Moreover, the most popular journalistic websites are owned by existing media corporations, extending their brands to the online world (Curran 2010; Franklin 2010; Simon 2009). And most importantly, journalism both offline and online is expensive (Jarren et al. 2012; Puppis 2012). Regardless of the medium, “*credible independent news reporting cannot flourish without news organizations*” (Downie and Schudson 2009, p. 29). However, so far there is no indication that the Internet will solve the funding problem of journalism. On the one hand, online advertising, which pays a mere fraction of traditional paper-based advertising, has shifted to parts of the web that have little to do with journalism, like search engines or social networks (Curran 2010, p. 468). On the other hand, while more and more news organizations try to make readers pay for their content, it is still unclear whether new business models and paywalls will generate enough revenue for news organizations (Curran 2010; Franklin 2010; McChesney and Pickard 2011). In many Western countries the free websites of public service broadcasters make it even harder for publishers to implement paywalls (Franklin 2010, pp. 447–448). As they fear competition for audiences and potentially also advertising online, publishers fiercely oppose the development of public service broadcasters (PSB) into platform-neutral *public service media* (PSM) that serve citizens with a broad range of programming on all platforms in order to create public value (e.g., Lowe and Bardoel 2008).

With no sign that journalism will be paid for by advertisers or subscribers, public financial press subsidies have become more widely discussed again. Given the concentration of newspaper markets and the existence of no-newspapers towns, the reform of existing funding schemes is under discussion. Moreover, scholars propose new funding mechanisms that benefit not only traditional newspapers but also new independent journalism on the Internet. The money for such regulation could be generated, for instance, by a tax on spectrum use or advertising (Curran 2010, p. 473; Downie and Schudson 2009, pp. 49–50; Jarren et al. 2012; McChesney and Nichols 2010, pp. 200–206; Meier 2012; Puppis 2012).

7.3.3 Public Versus Private Interests

So far the response of policy-makers, newspaper proprietors, and journalists to proposals for reform and new subsidies has been lukewarm at best. Thus, it is far from given that media reform movements will be successful in their attempts to change regulation as other actors involved have strong incentives in maintaining their power. New regulation seems to be at odds with industry interests. On the one hand, media organizations rely on lobbying efforts to prevent regulation that would interfere with their economic interests (Freedman 2008, pp. 93–97). In addition, many politicians are quite reluctant when it comes to stricter media regulation as they have no desire to “*antagonize powerful newspaper proprietors or media commentators and risk unfavourable coverage*” (Freedman 2008, p. 88). On the other hand, the so-called “second face of power” comes into play (Bachrach and Baratz 1962, p. 948), which focuses on “*means by which alternative options are marginalized, conflicting values delegitimized, and rival interests derecognized*” (Freedman 2010, p. 347). The ideas and arguments by proponents of media reform are virtually nonexistent in mainstream media. As has been shown for other areas (e.g., Beck 2001; Herkman 2004; Kemner et al. 2008; Kepplinger 2000; Turow 1994), it can be expected that news coverage of media policy will be biased. Indeed, there is a conflict between the stance of media organizations towards particular laws or regulatory measures and their coverage of these issues (Freedman 2008, p. 87; McChesney 2008, pp. 349–350). The few existing studies found systematic evidence that newspapers owned by companies with substantial investment in broadcasting were more likely to favor regulatory change beneficial to broadcasters (Gilens and Hertzman 2000; Pratte and Whiting 1986; Snider and Page 1997; Weiß 1986). Consequently, policy inaction and non-decision-making suppress new regulation in the public interest (Freedman 2008, p. 29), and attempts at regulation are often discredited by claiming an infringement of media freedom. By characterizing new proposals for media regulation as incompatible with a free press, any attempt at supporting reform is delegitimized. Following Keane (1991), it can however be argued that today not regulation but “*communications markets restrict freedom of communication*” (p. 89). Moreover, Cuilenburg and McQuail (2003) remind us that “*there is no intrinsic reason for the variations in the degree of freedom or the strict allocation of different means of distribution to different forms of control*” (p. 191).

Media governance as an analytical concept can be of great value for describing, explaining, and criticizing policy-making in the press sector. The case of press subsidies, on the one hand, shows that a broad definition of governance that both includes government and offers an integrated view is necessary. Restricting governance to its use as an ideologically laden label for non-statutory forms of regulation that supposedly lead to superior outcomes is in line with a neoliberal narrative distinguishing between “bad” government and “good” governance involving a minimal state (Bevir 2009, p. 5). In other words, abstaining from statutory regulation in favor of self-regulation (or even a so-called free market without any regulation) is not necessarily the best solution and not always in accordance with

the public interest. The crisis of journalism highlights that there is a legitimate and necessary role for statutory regulation in the media sector.

On the other hand, the governance concept's openness allows for linking it to theories that help in understanding policy-making processes and the ensuing outcomes. Such an approach to governance interested in politics makes it possible to transcend not only assumptions that governance is inherently more democratic and participatory than traditional policy-making but also the so-called problem-solving bias (Mayntz 2004, p. 74, 2005, p. 17; Meier 2007, p. 217; Puppis 2010a, p. 145) which insinuates that governance is necessarily in the public interest. If communication scholars are able to embrace this analytical concept of media governance, they can truly benefit from this integrated and theoretically open view on rules in order to better understand politics, politics, and policies in the media sector.

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Part III

Case Study Evidence and Government Actions

Franco Papandrea and Matthew Ricketson

8.1 Introduction

State subsidies for the production of newspapers have not been a major issue in the development of the Australian newspaper industry even though the industry has benefited from a variety of direct and indirect forms of government assistance during its 200-year history. Some of the measures sought to assist industry development while others sought to support access to a diversity of news and opinion. While the potential effects of heavy concentration of media ownership on the diversity of news and opinion have been a major preoccupation of Australian policymakers in recent decades, subsidies to the newspaper industry have rarely been an issue of public debate. Nonetheless, a consideration of support to news activities was included in the terms of reference of a federal government-initiated media inquiry in 2011. The inquiry's report, however, stopped short of recommending newspaper subsidies but did acknowledge the difficulties facing the industry as it grapples with structural changes to the business model that has sustained it for many years.

This is not the first time the industry has had to adjust to competitive pressures emanating from technological change. However, pressures from previous technological changes were not as intense. While the introduction of radio broadcasting in the 1920s, and television in the 1950s, eroded the dominance of newspapers in both the news and advertising markets, the consequential structural changes did not pose grave risks to the industry. Despite the current intense pressures, the newspaper industry strongly rejects calls for government support to help it adjust.

In this chapter we review the changing structure and performance of Australian newspapers in response to competitive challenges from other media. We start with a brief historical overview of the changes that have led to the current high level of concentration in the industry. We then discuss the issue of media diversity and

F. Papandrea (✉) • M. Ricketson

Faculty of Arts and Design, University of Canberra, Bruce, ACT, Australia

e-mail: Franco.Papandrea@canberra.edu.au; Matthew.Ricketson@canberra.edu.au

related policies. This is followed by an analysis of the industry's performance with a focus on the past decade to highlight the impact of the internet. We then discuss the issue of government assistance, before we present a concluding note.

Historically, from its modest beginning in colonial times with the founding of the *Sydney Gazette and New South Wales Advertiser* in 1803, the industry gradually amassed considerable economic strength. Diversity of ownership of newspapers reached its peak in 1923 with 21 independent owners publishing 26 daily newspapers in the capital cities of the six states of Australia (Mayer 1964, p. 31). Daily newspapers were also published in many regional cities. Competition between the owners of major titles in the state capital cities was vibrant.

Broadcast radio, which started in the 1920s, began to develop as a significant source of news during World War II. Until then most radio stations relied on agreements with newspapers to compile their news bulletins which seldom involved more than the reading of local and foreign news items from newspapers (ABC 2011; Griffen-Foley 2005).

Major newspapers sought to use their commercial strength to establish prominent positions in radio, and subsequently also in television, to both diversify their activities and curb the competitive threat posed by the developing broadcasting media. In 1935, acting to avert concerns about the concentration of radio licences held by newspapers, the federal government introduced limits on the number of commercial radio licences that could be held by a single entity (Joint Parliamentary Committee on Wireless Broadcasting 1942). Ownership limits were also imposed for commercial television licences when the medium was introduced in 1956.

Common ownership of daily newspapers in more than one state capital city began to emerge in the wake of the Great Depression when the *Herald and Weekly Times Limited* which owned *The Herald* and *The Sun News-Pictorial* in Melbourne purchased *The Advertiser* in Adelaide.¹ At that time there was also a small decline in the number of daily titles published in state capital cities as a result of some closures and mergers (Kirkpatrick 2012). Goot (1979, p. 2) noted that there were 19 capital city dailies and 14 owners in 1936 and highlights the accelerated pace of concentration of ownership which occurred in the subsequent 40 years. While “the number of papers stayed more or less the same” (declining from 19 to 17), only three independent owners of capital city dailies remained by 1976.

A further significant concentration of ownership occurred in 1987. In 2012, the main metropolitan press is made up of 11 major daily titles (including two with national circulation—*The Australian* and *The Australian Financial Review*²) published in the six state capital cities and in the national capital. Only Sydney and Melbourne (the two biggest cities in Australia) have competing daily newspapers.

¹ The group was managed by Sir Keith Murdoch (father of Rupert).

² *The Australian Financial Review* was first published in 1951 and converted to a daily in 1963. *The Australian* began in 1964 (Kirkpatrick 2012). *The Northern Territory News* published in Darwin, the Territory's capital city, is usually not included as a capital city newspaper.

After the Depression the industry enjoyed a long period of buoyant circulation growth aided by increased interest in news in the War years and by high population growth in the post-war period. However, from the mid-1950s the rate of growth in aggregate daily sales slowed and fell well behind population growth. According to Goot (1979), “in 1933 there were about 30 papers sold for every hundred people aged 15 or more. Between the mid-forties and the mid-fifties this rose to 52, dropped to 46 by 1961 and declined steadily thereafter to be less than 42 in 1976” (p. 8). Subsequently, aggregate circulation of daily newspapers declined steeply in the 1980s with the closure of several newspapers in state capital cities and then entered a period of gradual decline that has continued up to the present day. In terms of copies per hundred people, the decline has been much more dramatic.

Outside the capitals, there is a long-established provincial press made up of 36 daily newspapers of varying size and quality and a substantially larger number (estimated at more than 300)³ of non-daily and weekly local newspapers. Most of these newspapers were established as local independent initiatives. The number of regional dailies has been relatively stable over the past half century notwithstanding a small number of closures and some transformations to non-daily or weekly publications. However, ownership of the regional press has changed dramatically and is now dominated by newspaper conglomerates. Currently only two of the regional dailies and a small proportion of the non-dailies retain their independent status (Guide to Australian Newspapers 2012).

As already noted, ownership of the Australian newspaper industry has progressively become increasingly concentrated. Today it is one of the most concentrated markets in the developed world with only four significant publishers. Rupert Murdoch’s *News Limited* is the dominant player controlling six of the 11 metropolitan/national dailies accounting for 65 % of the related aggregate circulation. Overall, it controls 23 % of all daily newspapers and 58 % of all daily newspaper circulation. The second largest group, *Fairfax Media*, publishes four of the 11 metropolitan/national titles (25 % of circulation). Its overall share of the aggregate daily newspaper circulation is 28.6 %. The third significant player is West Australian Newspapers (part of Seven West Media Limited) which owns *The West Australian*, the only daily newspaper published in Perth, and several regional newspapers in Western Australia. Its share of aggregate daily circulation is 8 %. The remaining significant publisher is APN News and Media, controlled by the Irish interests headed by Tony O’Reilly, which owns several provincial daily newspapers in New South Wales and Queensland with a combined share of aggregate daily circulation of approximately 5 %.

³ A 1999 National Library of Australia (NLA) staff paper reports there were 315 regional non-daily newspapers at the time (NLA 1999). A small number of closures have been reported since.

8.2 Media Concentration and Diversity

Media concentration has been a contentious issue since the early days of radio broadcasting in Australia. After an ill-fated attempt to establish radio as a purely commercial activity governed by a regulatory regime with two types of licences that allowed stations to be funded exclusively by either the selling of advertising or by the collection of subscription fees from listeners, the government took over the subscription licences and established a public broadcasting service funded by the collection of listeners' licence fees. Soon after the *Australian Broadcasting Commission* (ABC)—later corporation—was established as a public broadcaster in competition with commercial (advertiser-funded) radio services. In 1935, acting on concerns about increasing concentration of newspaper ownership of commercial radio licences, policymakers enacted regulations restricting ownership of multiple radio licences at the local, state and national levels. Restrictions limiting commercial television licences to no more than one in a licence area and no more than two nationally were imposed for similar reasons when the dual public–commercial system was extended to television in 1956.

Stricter cross-media controls were enacted in April 1987 in the wake of extensively increased concentration in newspaper ownership. Initially, the controls applied to cross-ownership of commercial radio and television licences in the same area and to cross-ownership of a commercial television licence and a newspaper associated with the television licence area. A year later, the prohibition was extended to cross-ownership of a commercial radio licence and an associated newspaper. In justifying the cross-media restrictions, the then Minister for Communications maintained they were needed to “*curb major expansion in television by existing newspapers and radio interests which already have considerable influence over the formation of public opinion*” (Duffy 1987, p. 2194).

Easing of restrictions on the number of commercial television and radio licences that could be held by a single entity followed the introduction of the cross-media restrictions. For television, while retaining the prohibition of multiple stations in a single licence area, the “two stations” nationally rule was replaced by a “population reach” rule allowing common ownership of any number of stations up to an aggregate reach of 60 % of the national population. The population reach limit was increased to 75 % with the enactment of the *Broadcasting Services Act 1992* (BSA). State and national limits on the ownership of radio stations were relaxed in 1987 and were subsequently abolished by the BSA in 1992, which retained only a single restriction on owning more than two radio stations in the same licence area.

These cross-media restrictions had dramatic effects on the Australian media landscape as existing owners of commercial media moved quickly to secure their positions under the new regulatory regime. Notwithstanding “grandfather” provisions in the legislation which sanctioned pre-existing breaches of the new rules, virtually all cross-ownership of newspapers and television was quickly eliminated—by November 1987, 13 of the then existing 19 metropolitan newspapers and 11 of the 17 metropolitan commercial television stations had

already changed their owners. The ownership changes resulted in a major restructuring of commercial television with the creation of three networks covering the major metropolitan centres, three regional networks and two remote area networks. Although independently operated, much of the programming schedule of regional and remote area networks is a retransmission of programmes supplied under affiliation agreements by the urban networks. Extensive restructuring of commercial radio followed the 1992 legislative changes.

Furthermore the cross-media rules were politically controversial and their retention was imperilled by the election of a conservative government in 1996. After several years of debate, and an earlier attempt in 2003 which failed to secure passage in the Senate where the government then lacked a majority, legislation abolishing the rules was enacted in 2006. The amending legislation introduced the concept of media diversity limits in local media markets designed to prevent concentration of independent media voices to below five in metropolitan areas and below four in regional areas. The new rules provided little effective additional restraint on increased concentration over and above prevailing restrictions on commonly owned radio or television licences in individual local markets (Papandrea 2006). Major cross-media groups that have emerged since the removal of the cross-media rules include *Fairfax Media* (newspapers and radio), *APN News and Media* (newspapers and radio), *Seven West Media* (television and newspapers) and *Southern Cross Austereo* (television and radio).

Because of government-introduced constraints designed to protect commercial broadcast television, development of pay television was a latecomer to Australia. After the beginning of services in 1995, the industry developed slowly and current take-up is around 33 % of households (ASTRA 2012). While there are now no major restrictions on pay television ownership, there are some considerable barriers to entry. Control of the output of several major Hollywood producers has enabled *Foxtel* to establish a dominant position with little significant competition from other providers. Since its takeover of the regional satellite pay TV operator *Austar* in 2012, *Foxtel* has a virtual monopoly of the pay-TV market.⁴ Pay-TV news and information services are supplied by *Sky News Australia* (owned one-third each by BSKyB and the operators of the *Seven and Nine* Australian commercial television networks).

Public broadcasting is a key feature of the Australian media landscape and a crucial element of ensuring diversity of views. It is not as well funded on a per capita basis as the BBC in the UK but is substantially better funded than public broadcasting in the USA (Finkelstein 2012, p. 456). Since its establishment in 1932, the *Australian Broadcasting Corporation* (ABC) has developed a mixture of several national and regional/local radio networks and a comprehensive national television service with state-based news and current affairs programmes. A separate (independent of the ABC) national public service broadcaster, the *Special Broadcasting Service* (SBS), was established in 1978, initially as a multilingual and

⁴ It faces localised competition from a couple of very small cable operators.

multicultural radio service. Gradually it developed into a national radio and television network. SBS radio is devoted to multilingual services in 68 languages including two, 1-hour long, news bulletins in English each day. While its television service broadcasts a variety of foreign language films and television drama with English subtitles and devotes a significant part of the morning schedule to the rebroadcast of foreign news bulletins in several languages, the rest of its schedule is broadcast in English. Its news and current affairs programming, in particular, is aimed at a broad cross section of the community and is a significant contributor to diversity of opinion in Australia. The ABC is not permitted to sell or broadcast advertising. The overwhelming proportion of its funding is in the form of government appropriations (\$996 million in 2012) with the remainder (126 million) coming from revenue generated by its ancillary business activities (ABC 2012). The SBS also receives most of its funding (70 % in 2012) from government appropriations (\$223 million in 2012), but is allowed to supplement its income through the sale of a limited amount of advertising (SBS 2012).

Community broadcasters provide an outlet for special interest programming including local community interest. Community broadcasters receive limited financial support from the federal government via a related grants programme administered by the non-profit *Community Broadcasting Foundation* (CBF). In 2012, the Foundation received over \$15 million in grants for various forms of assistance to some 580 community radio services, including indigenous and ethnic services, over 70 % of which were located in regional and remote areas (CBF 2012). The stations typically have low power transmitters with limited geographic coverage.

Conversion of free-to-air television (public and commercial) from analogue to digital commenced in 2001 and is scheduled to conclude in 2013. Under recent amendments to the conversion plan incumbent operators are required to broadcast two additional digital channels as supplementary services to their main channel. The supplementary channels are subject to less stringent regulatory requirements for local content including news and information programmes. Table 8.1 provides a summary of the diversity of traditional news and information sources available to Australians.

Australian broadcasting policy and the related regulatory regime seek “to promote the availability to audiences throughout Australia of a diverse range of radio and television services offering entertainment, education and information” (*Broadcasting Services Act 1992*). All sectors of broadcasting, Public, Commercial and Community, have specific obligations to contribute to a diverse range of radio and television services responsive to audience needs. The obligations and responsibilities of the ABC and SBS are specified in their respective enabling legislation and include the provision of adequate news and information services. Those of commercial and community broadcasters are in the form of licence conditions enforceable by the regulator (i.e. the Australian Communications and Media Authority). Commercial radio and television licensees are required to provide services “that, when considered together with other broadcasting services

Table 8.1 Diversity of sources of news and information in Australia

Locality	Sources of news and information
Urban areas	Public Television: ABC and SBS services 3 commercial TV services Pay TV service (Sky News) Public radio: several ABC services and one SBS service Commercial radio: number of services is related to population size and ranges from 3 (in Hobart) to 11 (in Sydney and Melbourne) Community radio: several (up to more than 30 in each area) At least one local and two national daily newspapers Free suburban newspapers
Regional areas	Public Television: ABC and SBS services 3 commercial TV services Pay TV service (Sky News) Public radio: 2 or more ABC services and one SBS service Commercial radio: 2 or more depending on areas population Community radio: available in most areas Two national daily newspapers, a local daily or non-daily available in larger population areas Free weekly newspaper available in most areas
Remote areas	Public Television: ABC and SBS services one commercial TV services Pay TV service (Sky News) Public radio: 2 ABC services and one SBS service Commercial radio: 2 in most areas Community radio: available in some areas Two national daily newspapers nominally available Free weekly newspaper available in some areas

Source: Compiled by authors

available in the licence area of the licence (including another service operated by the licensee), contributes to the provision of an adequate and comprehensive range of broadcasting services in that licence area” (clause 7(2)(a) Part 3 and clause 8(2) (a) Part4, Schedule 2 of the *Broadcasting Services Act 1992*). According to the Australian Broadcasting Authority (ABA), the former broadcasting regulator, this requirement includes “*adequate coverage of local news and current affairs*” and justified the imposition of specific obligation in that regard on regional commercial television licensees (ABA 2004). Community broadcasters do not have specific obligations to provide news and information services.

8.3 The Issue of Newspaper Industry Performance

The beginning of a continuing long-term decline in the consumption of daily newspapers in Australia can be traced back to mid-1950s when sales per one hundred persons began to decline after reaching a peak of 52 copies/100 persons (Windschuttle 1985, p. 37). Because of the effect of population growth, it took some years for the declining consumption rate to manifest itself as a drop in total

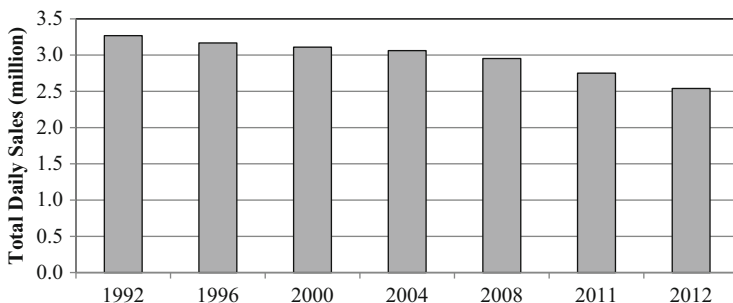


Fig. 8.1 Circulation of Australian daily newspapers, 1992–2012. Source: Audit Bureau of circulation

circulation (annual total sales) of all daily newspapers. The decline in total circulation began in the mid-1970s and suffered a steep drop with the closures of several newspapers in the late 1980s and early 1990s (Kirkpatrick 2000). Since then the decline, although ongoing, has been more subdued. Figure 8.1 provides details of the declining circulation of daily newspapers over the past two decades.

In 2011, total revenue of the Australian newspaper market was \$4.91 billion of which \$3.37 billion (68.6 %) was derived from print advertising, \$1.27 billion (25.9 %) from circulation sales and approximately \$264 million (5.4 %) from digital advertising and subscriptions. After peaking at \$5.70 billion in 2008, total revenue fell sharply (–11.4 %) to just over \$5.0 billion the following year. Although it staged a small recovery in 2010, it fell again in 2011 and is anticipated to decline further in subsequent years (PWC 2012).

Depressed economic conditions appear to have been the main contributor to a substantial decline in revenue in 2009. Although aggregate advertising in main media generally was 9.3 % lower than in 2008, the drop in newspaper advertising was much sharper (15.7 %). In 2010, the overall market reversed the fall and returned to the 2008 level, but the growth of advertising in newspapers recovered only part of the loss suffered the previous year. When the overall market slowed once again the following year, half of the total decline was accounted for by reductions in newspaper advertising which dropped to \$3.4 billion—\$100 million below the 2009 level and \$700 million below the 2008 peak (CEASA 2012). Figure 8.2 provides comparative data on media industry advertising revenues by genre from 2001 to 2011.

The growth of online advertising has intensified competition within the advertising market and is having a major impact on its structure. Of the main media, newspapers have suffered most from the growth of online advertising. Over the past decade the share of advertising revenue attracted by traditional newspaper advertising has shrunk from 36.9 % to 25 %. Printed classified directories and magazines were also significant losers of market share. The winner was online advertising which grew from a very small presence in the market to be the third largest player with almost 20 % of all advertising. Television's market share, albeit with some

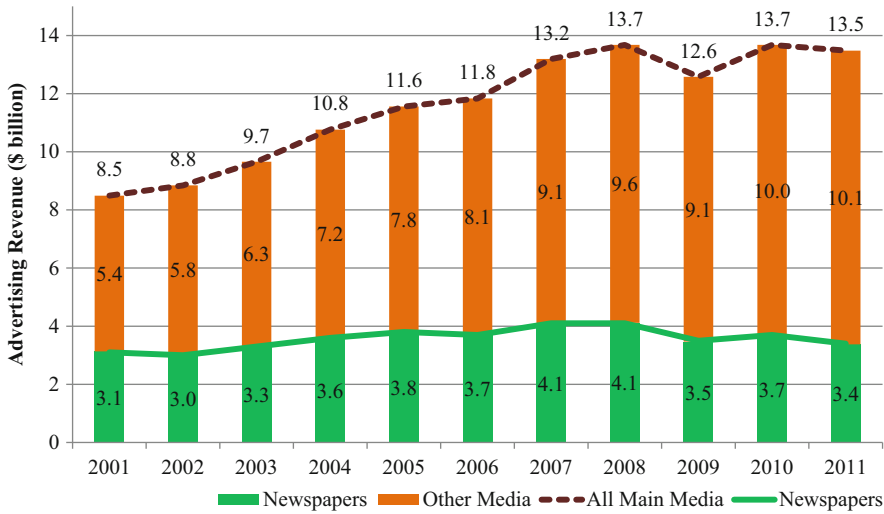


Fig. 8.2 Main media advertising Revenue, 2001–2011. Source: CEASA: “Advertising expenditure in main media” (various years)

variations over the years, finished the period with the same market share it had at the beginning (29.3 %), but within the sector, broadcast television lost some ground to pay television. Radio’s share declined gradually over the period from 8.2 % to 7.5 % (CEASA 2012).

Delving a little more deeply into advertising in traditional print media (Newspapers, Magazines and Directories), which have been bearing the brunt of online competition, provides somewhat clearer picture of the structural changes under way in the industry. Overall (see Fig. 8.3a) the size of the combined print and online advertising pool peaked in 2008 before slumping by almost 9 % in 2009 and with only a minor recovery since. Online advertising has grown every year since 2002 and even managed a small increase in 2009 before resuming its strong growth trend the following 2 years. This was in sharp contrast with the experience of its traditional print media competitors which continued to lose ground.

A similar picture emerges for each of the broad categories of advertising presented in Fig. 8.3b–d. Online display and classified advertising have registered very similar (in terms of both magnitude and rate) growth patterns over the period. The impact on print competitors, however, has been much more evident in classified advertising because of the substantial contraction that set in 2009 and was responsible for most of the slump in the combined print and online advertising pool. In other words, online classified has managed to gain a larger share of a significantly shrunk pool, but nonetheless, print still remains the dominant player controlling almost two-thirds of the category. In Search and Directories, the superiority of online advertising has outshone the print counterparts. By 2011, online commanded over 56 % of the “search and directories” advertising category.

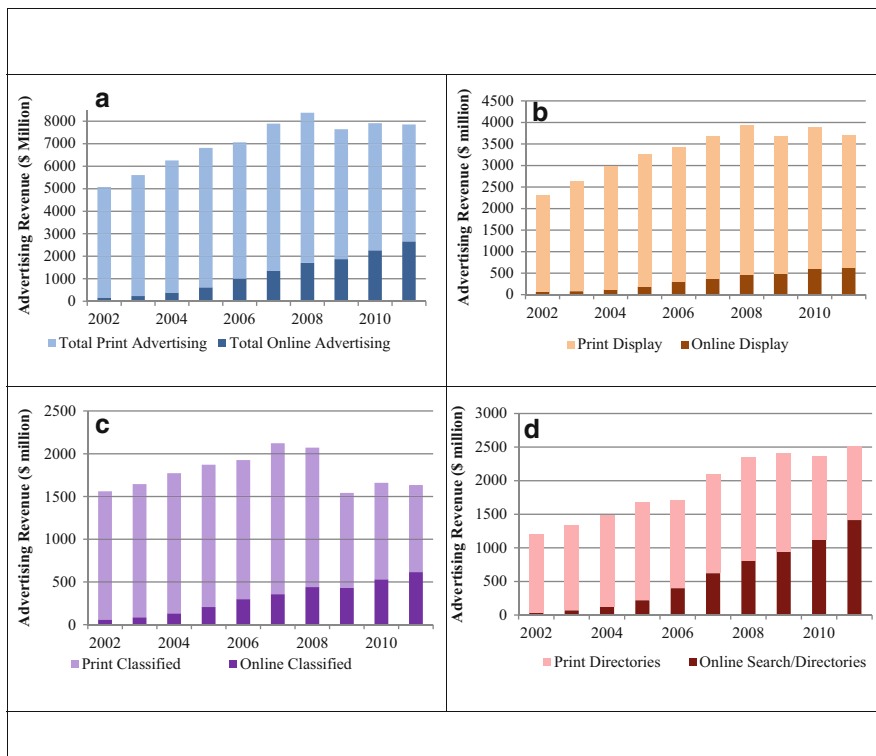


Fig. 8.3 Print and online advertising, 2002–2011. (a) Total print and online advertising. (b) Print and online display advertising. (c) Print and online classified advertising. (d) Print and online “Search and Directories” advertising. Source: CEASA (various years)

While the preceding analysis could be seen as painting a grim picture for traditional print media, in reality, although serious, the situation is unlikely to prove life-threatening in the near future. Like elsewhere in the world, Australian newspapers have had to confront the sustained and continuing threats of a world-wide economic downturn and intense competition from Internet sources of news and information and advertising. Although wounded by the experience, the severity of the damage was dampened by a fortuitous conjunction of several favourable factors. In fact, the effect of the Global Financial Crisis (GFC) was much more moderate in Australia than in most other advanced countries. After falling sharply in the December quarter 2008 economic activity rebounded quickly rising the following quarter and continued to grow solidly thereafter. Both business and consumer confidence also rebounded quickly to long-run average trends (McDonald and Morling 2011). Reflecting economic conditions, advertising in main media dipped significantly in 2009 but recovered to earlier levels the following year. However, as noted above, newspaper advertising only partially recovered from the steep drop in 2009 further losing market share to online advertising.

Circulation continued its long-term gradual decline with little aggravation by weakened economic conditions. In part this is a reflection of the high level of concentration in the industry and the absence of choice of daily newspapers in all but the two largest cities—an outcome of the extensive restructure which cut the daily newspaper sector to the bone in the 1980s. While readership of printed newspapers has declined, combined print and online readership (adjusted to exclude double counting of those that read both versions) of newspapers has generally held up, and in some cases increased, over the 5-year period to 2011 (Roy Morgan Research 2012).

Websites of the main newspaper publishers are among the most popular sources of news and information on the Internet. Included in the top ten most popular news websites are six associated with newspapers and four associated with television broadcasters (three Australian networks, including the ABC and two commercial, and the BBC) (Nielsen Media Research 2011). All the major publishers have been active on the web for several years and have successfully adapted some of their activities to the online environment. Notwithstanding some serious erosion of their classified advertising stream, newspapers continue to perform well in display advertising including being leaders both in print and online in some major areas such as real estate and motor vehicles sales.

The *Roy Morgan* newspaper readership survey data reported in *Australian Communication and Media Authority* (ACMA 2011) show that in 2010–2011, an average 72 % of Australians (aged 14 or more years) had read a newspaper (excluding local and community newspapers) in the 7 days preceding the survey, and 43 % had read a local or community newspaper. The corresponding rates in 2006–2007 were 82 % (i.e. 10 percentage points higher) for newspapers (excluding local and community newspapers) and 43 % (7 percentage points higher) for local and community newspapers. Readership is positively correlated with age. In 2010–2011, the rate was highest for those aged 65 or more years (86 %) and lowest for those aged 14–17 (52 %). Also, older people had recorded the lowest decline in readership rates since 2006–2007. The rate of decline was inversely correlated with age and was highest for the 14–17 age group (–17 percentage points for newspapers other than local and community newspapers and –14 percentage points for local and community newspapers).

Revenues from online activities have not so far been sufficient to make up for the decline in print. Although growing, online revenues contribute less than 10 % of total operating revenues. *Fairfax Media* (2012), which claims to be “in the front of the pack”, reported that its digital revenue grew 20 % and reached \$250 million (some 10.7 % of total revenues) in the financial year ending June 2012. *Fairfax Media* also provides a good example of the structural changes occurring in the industry.

The enormity of the change that has taken place in *Fairfax Media* is reflected in the drop of its market capitalisation from \$4.1 billion in 2008 to \$1.4 billion in 2012. After several years of rising revenues and healthy profits up to and including 2008, the corporation’s fortunes began to wane. Notwithstanding the high growth in its digital revenue in more recent years, the corporation’s operating revenue, which

stood at \$2.9 billion in 2008, declined 10.7 % in 2009 and has continued to decline gradually thereafter reaching \$2.3 billion in 2012 (20.7 % below 2008). The earlier solid profit performance also dissipated. In the 4 years up to 2012, a net profit was registered only in 2010 with significant losses in the other years including a massive loss of \$2.7 billion in 2012 following a write down of almost \$2.9 billion in the intangible value of mastheads and other items. If significant write downs of intangibles and other items are taken into account, however, the corporation reported an operating profit of at least \$205 million in each of the past 4 years. *Fairfax* has embarked on a 3-year strategy of “changes to its business designed to support a sustainable cost base and to move along the journey from print to digital publishing” and ensure that it becomes “a dominant force in what (it expects) will be a predominantly digital future”. The changes include closure of some of its printing facilities and rationalisation of its workforce. Along the way to the digital future, the corporation states that: “We remain committed to print for as long as it remains profitable” (Fairfax 2012). Eventual closure of some of the *Fairfax* mastheads is already been anticipated by Financial some analysts (Goldman Sachs 2013).

8.4 Government Assistance and Proposals for State Aid

The *Independent Media Inquiry*,⁵ established by the Australian Government in September 2011, made a detailed examination of the state of the newspaper industry as it adjusts to threats posed by the rapid growth of online sources of news. From the evidence collected in the course of the inquiry and from its own analysis, the inquiry concluded that “*despite the intense pressures facing it, the Australian press is in no immediate danger of collapsing. The main media companies appear to be reasonably capable of dealing with the pressures facing them at least over the immediate medium term*” (Finkelstein 2012, p. 101). But it also noted that “some potential pressure points” were emerging. Given the uncertainty of developments, the inquiry was of the view that it could reach “*only tentative conclusions about the future health of journalism in Australia. The necessary restructuring to adjust to the digital environment will not be smooth sailing. Both threats and opportunities are present. Much will depend on the ability of established newspapers to develop viable business models that will enable them*

⁵The Hon Raymond Finkelstein QC was appointed by the Australian Government in September 2011 to conduct an independent inquiry into media and media regulation which presented its report to the government at the end of February 2012. Matthew Ricketson, one of the co-authors of this chapter, was appointed by the government to assist Mr. Finkelstein. The other co-author of this chapter, Franco Papandrea, was a consultant to the Inquiry. The inquiry’s terms of reference included the effectiveness of media codes of practice; impact of technological change media on organisations, quality journalism and production of news and ways to support such activities and strengthening of the independence and effectiveness of the Australian Press Council (Finkelstein 2012).

to continue playing a major role in the industry. Their confidence that they will be able to do so is noted. Nonetheless, it might be prudent for policy makers to maintain a watching brief to ensure that future developments do not endanger the effectiveness of the role newspapers play in democratic functioning of society” (Finkelstein 2012, p. 316). Such prudence was advisable as within months of the report’s delivery, the nation’s two major newspaper media companies, *News Limited* and *Fairfax Media*, announced large-scale redundancy programmes, with an estimated 750 journalists’ jobs being shed (Dyer 2013).

Debate and commentary preceding the establishment of the Independent Media Inquiry included concerns about the impact of the Internet on the press which led to some calls for government support to sustain independent quality journalism and diversity of production of news. The inquiry received 12 submissions calling for government assistance, from the journalists’ union, several small independent publishers and from a number of journalism academics. None of the established newspapers lent support to any form of financial assistance arguing that restructuring of the news industry should be left to market forces. Nevertheless, the inquiry found that through their history Australian newspapers have received some direct and, more importantly, a significant amount of indirect financial or fiscal assistance from federal or state governments through a variety of measures including government advertising, special postal rates for the distribution of publication, legislated requirements for publication of public notices and orders for public notices issued by courts and regulatory authorities (Finkelstein 2012: Annexure K, pp. 437–439). The following discussion of assistance by means of indirect government-mandated subsidies to newspapers is drawn primarily from the inquiry’s report.

Historically, legislation in 1825 that set up a postal office in New South Wales enabled newspapers to be delivered at a heavily discounted rate. Colonial authorities recognised the contribution the press could make to an emerging society by promoting improved literacy and disseminating news and information. Further legislation passed in 1835 was aimed at overcoming newspapers being delivered late, irregularly or “*well fingered by those who had read them en route*”; the act meant newspapers could be posted for free. The subsidy “*greatly aided*” newspaper production, according to one historian quoted in the inquiry report. In 1828, around 35,000 newspapers had been distributed inland from Sydney; two decades later the figure was 1.3 million.

At first, the revenue foregone by the *New South Wales Post Office* was a modest £430 annually, but by 1890 it amounted to £40,000 annually. This aggrieved the Post Office which described the subsidy as “*manifestly unjust*”. By 1962 the bulk rate concession for newspapers, periodicals and books was worth £2.5 million annually, and in the mid-1980s (after which Australia had switched to decimal currency), the estimated revenue foregone for subsidising newspapers alone was \$4.2 million.

Subsidised delivery of newspapers extended to the railways in 1874 when by ministerial arrangement the NSW *Post Office* paid the *Railways Commissioners* so that newspapers could be delivered direct to the railways and freighted free of

charge throughout the colony. In 1881 the *Southern Railway* was extended to Albury so that newspapers from Melbourne could reach places such as Junee, in NSW, before those arriving from Sydney if special early morning trains could be scheduled and freight provided free to the newspaper companies. This spurred interstate rivalries as well as arguments about free trade and protection. Estimates of the revenue foregone ranged between £40,000 and £100,000 annually, leading to the abolition of free carriage in 1901. This was replaced by discounted rates the following year when owners of newspapers published in Sydney paid a third of the standard price for deliveries that arrived by rail.

In the nineteenth century development of the telegraph cable rapidly improved the speed of communications within Australia and between Australia and other countries. The cables were funded by governments and, to an extent, by private entrepreneurs. Like post and rail, the newspapers benefited from large discounts on the rates they paid for cable transmissions. Early charges of 10 shillings a word gradually dropped to one shilling a word by 1902. Where in 1872 the newspapers had been able to afford to receive 50 words a day, by 1908 the average newspaper could receive 700 words by telegraph.

By 1909, the newly federated commonwealth government was so concerned about arrangements for cable services, all of which were controlled by a cartel of Australian newspapers in conjunction with the Reuters Telegraph Company, that it set up a Select Committee of Inquiry. It found the arrangements to be “*a complete monopoly*”. In 1910, the newly elected Labor government passed legislation enabling government to subsidise a second “*independent news service over the Pacific cable*” (Putnis 1999, p. 139).

The biggest single cost of production for newspapers has been newsprint. In Australia, the newsprint industry was set up with substantial government assistance in the form of forest concessions in Victoria and Tasmania, capital investments in South Australia and Tasmania and, in Queensland, a subsidy to build a weir to supply water to a mill. Starting in 1976 the federal government introduced a subsidy on the cost of transporting newsprint from Tasmania to the mainland. Under the freight equalisation scheme, the cost to newspaper companies of shipping newsprint from Australian Newsprint Mills in Tasmania or transporting it by land over comparable distances was equalised. According to the Department of Transport the value of the payments for newsprint shipments was \$2.9 million in 1976–1977 and had risen to \$4.3 million in 1982–1983. The assistance continued under the “Tasmanian Freight Equalisation” scheme.

After considering the history of various kinds of support to newspapers and the potential threat to what is termed “*accountability journalism*” and the production of news in the changed media environment, the Independent Media Inquiry (Finkelstein 2012, p. 11) concluded that “*at this stage there is not a case for government support*”. Although acknowledging that rationalisation of resources to traditional news production activities was a part of the industry’s readjustment to the rapidly evolving market environment, it felt that fears about the demise of investigative and public interest journalism were likely to be an overreaction unsupported by the available evidence. The situation, however, was fluid and changing and warranted “careful and continuous

monitoring”. On this basis the inquiry recommended that “*within the next two years or so the Productivity Commission be issued with a reference to conduct an inquiry into the health of the news industry and make recommendations on whether there is a need for government support to sustain that role. It should also consider the policy principles by which any government support should be given to ensure effectiveness, as well as eliminating any chance of political patronage or censorship*” (p. 11).

The report also highlighted several modest potential options for assistance that could be considered by the government and the recommended inquiry by the Productivity Commission in the event adoption of initiatives to support production of news becomes necessary. One of the suggested measures was intended to enhance local news and information in small regional and remote areas that had been previously identified as not being well served by the press and main broadcast media (ABA 2002; Flynn 2008). If adopted, the measure would provide small grants to “*community radio station in local regional communities to establish and maintain a news website dedicated primarily to the reporting of local news as part of their coverage of local affairs . . . in areas where a local newspaper is not published*” (Finkelstein 2012, p. 331).

Other policy initiatives suggested for future consideration in the eventuality of an identified need for support of news activities included (pp. 332–333):

- Strengthening the news capacity of ABC.
- Providing incentives for private/philanthropic investment in news.
- Subsidising investigative and public interest journalism.
- Subsidising the professional development of journalists.

At the time of writing (early 2013) the federal government has yet to respond to the recommendations of the Independent Media Inquiry.

Conclusion

While the future prospects of printed newspapers are not rosy, the industry will continue to play a crucial role in the provision of news and information services but not necessarily in their traditional form. The industry is undergoing extensive restructuring to adapt to the new competitive environment and the newspaper of the future may well be considerably different in both form and content. As noted above, some analysts are already predicting the closure of print editions and publishers do not entirely discount such a possibility as part of their online migration of services.

The two largest publishers, *News Limited* and *Fairfax Media*, are in the process of establishing paywalls to restrict access to popular online content. Given the high level of concentration in the Australian newspaper market and the scarcity of alternative unpaid sources of domestic news content, the strategies might have modest success. Access to the free online news websites of public and commercial free-to-air broadcasters will act as a substitute source of news for a large section of the audience and will consequently constrain the demand for online newspaper subscriptions.

On their own online subscription revenues are unlikely to outweigh revenue losses from declining print circulation and further migration of advertising to online media. Both corporations are also cutting back staff levels and restructuring their production processes to reduce operating costs. Some commentators have expressed concerns that substantial cutbacks in the employment of journalists will reduce the investigative journalism capacity of the news media. In this context, it is worth noting that the Australian Broadcasting Corporation has recently received additional funding from the federal government to enhance its news output (ABC 2013).

Notwithstanding the current difficulties, newspaper publishers have been adamant they will be able to adapt to the new competitive environment and reject calls for government aid to the industry. As noted earlier, the Independent Media Inquiry examined the matter but did not recommend immediate action by the government. Consequently, it is highly unlikely that state aid to newspapers will be a feature of the Australian newspaper industry in the near future. Should gaps develop in the availability of a diverse range of news sources there may be some scope for the introduction of indirect government assistance measures to other media.

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Paul Murschetz and Matthias Karmasin

9.1 The Austrian Print Media Landscape

Media in Austria have to cope with two basic and obviously unchangeable conditions: (a) the limited size and shortage of resources of the national and regional domestic markets and (b) Germany as large neighbouring country with a highly developed range of media products belonging to the same language area. Austria itself is a small market with about eight million inhabitants and it is divided into even smaller regional markets (with only one exception—the Viennese region with two million inhabitants). And it is part of the German language area, which means that a great number of widely read special interest magazines and some weekly magazines are produced and published in Germany. The same goes for the television sector.

The Austrian print media market is characterised by the following structural features (Trappel 1991a, b, 2007, 2010a, b; Steinmaurer 2002, 2009):

- A small number of daily newspaper titles, i.e. 18 (in 2012), 7 out of which are distributed on a national scale. Four of these seven titles are tabloid-style papers, while the remaining three titles (*Presse*, *Standard* and *Wiener Zeitung*) compete within the quality newspaper segment in Vienna.
- A regional press ecosystem which is characterised by strong regional players, dominating up to 90 % of the regional market. With the exception of two provinces, each province (*Bundesland*) is dominated by one regional publisher, typically controlling one, two or even three smaller newspapers. These secondary papers do not sell more than 10,000 copies each and are hardly profitable. But they

P. Murschetz (✉)

Center for Advanced Studies and Research in ICTs and Society, University of Salzburg, Salzburg, Austria

e-mail: paul.murschetz@sbg.ac.at

M. Karmasin

Institut for Media and Communications, Universität Klagenfurt, Klagenfurt, Austria

Table 9.1 Number of daily newspapers in Austria—Data for 2012

	2012	2011	2010	2009
Dailies (total)	18	18	18	19
Paid-for	15	15	15	15
Free	3	3	2	3
Hybrid		0	1	1

Source: VÖZ—Austrian Newspaper Publishers Association (2012), <http://www.voez.at/b200m30>

help consolidate the regional market and prevent competition. The strong position of the regional publishers is challenged by the regional editions of the *Neue Kronen Zeitung*, which competes fiercely with the traditional regional press barons in these markets (e.g. *Tiroler Zeitung* for Tyrol, *Salzburger Nachrichten* for Salzburg, etc.). In eight (out of nine) provinces, the *Neue Kronen Zeitung* has either taken the lead or is as strong as the respective regional paper. Further, the *Krone* has even gained more power in economic terms as the daughter-in-law of the *Krone's* long-time editor and shareholder manages the free sheet *Heute*.

- The market dominator *Neue Kronen Zeitung* (commonly known as *Krone*), Austria's far biggest-selling national tabloid and, measured by population size, with one of the world's highest reach. According to *Österreichische Auflagenkontrolle* (ÖAK), the industry watchdog to control and publish print circulation figures in the country, the average daily readership of the *Krone* was 2,724,000 (14 years or older) in 2011 (i.e. 818,859 copies sold, thus reaching more than 40 % of all readers).
- A strong orientation towards boulevard newspapers, i.e. *Krone* to fight against *Österreich* which was launched in September 2006. *Österreich* is a free and partially paid-for tabloid daily.
- A high degree of ownership concentration, mainly exerted through the *Krone-Kurier* subsidiary *Mediaprint*, Austria's second biggest publishing house to belong to *Westdeutscher Allgemeiner Zeitung*, *Raiffeisen* and the *Krone* publisher Hans Dichand (Seethaler and Melischek 2006).

The following Table 9.1 depicts the number of daily newspaper in Austria (as of 2012). Table 9.2 shows daily newspaper by title, circulation and reach.

The *Handbook of the Austrian Press*, edited by the *Austrian Association of Newspaper Publishers* (VÖZ—*Verband der Österreichischen Zeitungen*), lists 263 weekly newspapers. Most of them are free regional and local papers with focus on advertising or special interest. In some provinces, especially in those without a regional daily newspaper, regional weekly papers are read by a remarkable number of people.

The following chapter profiles the government-mandated subsidy regime to the daily press in Austria. First, we shall present the historical framework on press subsidies in succinct terms, introducing the main mechanisms and instruments of subsidies to dailies. We shall then look more closely into current structural changes of annual appropriations, their costs for the Republic and their effects on the economic competition in the daily newspaper market segment. In the final part of this chapter, we shall present critical results of the press subsidy scheme. Attention

Table 9.2 Daily newspapers, circulation and reach (year average 2011)—Austria

Dailies	Printed	Sold	In 1.000
<i>Der Standard</i>	109.128	72.693	359
<i>Die Presse</i>	95.757	74.032	263
<i>Kärntner Tageszeitung</i>	^a	^a	45
<i>Kleine Zeitung</i>	309.815	280.983	806
<i>Kronen Zeitung</i>	931.559	818.859	2.724
<i>Kurier</i>	206.629	158.469	575
<i>Neue Vorarlberger Tageszeitung</i>	12.292	0	39
<i>Oberösterreichische Nachrichten</i>	134.946	109.441	355
<i>Salzburger Nachrichten</i>	87.953	69.867	240
<i>Tiroler Tageszeitung</i>	104.800	87.149	277
<i>Vorarlberger Nachrichten</i>	68.518	62.762	168
<i>WirtschaftsBlatt</i>	32.433	0	65

Source: *Österreichische Auflagenkontrolle—ÖAK* (i.e. Austrian Audit Bureau of Circulation), yearly average 2011, *Media-Analyse (MA) 2011*

Nota Bene: Only 12 out of 15 paid-for daily newspapers are listed here. The dailies *Neues Volksblatt*, *Salzburger Volkszeitung SVZ* and *Wiener Zeitung* are not covered due to the fact that they do not deliver any figures on printed or sold circulation to the Austrian Audit Bureau of Circulation (*Österreichische Auflagenkontrolle—ÖAK*). The working group *Media-Analyse* offers the largest study on reach of print media in Austria (*Media-Analyse 2011*)

^aThe daily *Kärntner Tageszeitung* did not participate in the ÖAK survey of 2011

shall only be given to subsidies to *daily* Austrian newspapers given out by the Austrian Federal Government (*Bundespresseförderung*). Thus an account of subsidies to weekly newspapers and periodicals (the so-called “*Publizistikförderung*”) shall not be offered. Subsidies granted by local authorities (*Landespresseförderung*) shall not be considered either.¹

Here, we hypothesise that the current scheme of government subsidies to Austrian daily and weekly newspapers needs to be radically redesigned. Its guiding principles, the direction of impact, the total amount spent and its general purpose to safeguard the future of news and quality journalism are to be radically questioned. Although there is no *magic bullet solution* to all these complex issues, this chapter presents further solutions.

9.2 Press Subsidies: The History

Financial government subsidies to the press were introduced in 1975 by the Social Democratic Party—single-government party under Chancellor Bruno *Kreisky*. Further amendments to this law with different motivations were enacted in the years

¹These subsidies are covered by various regional Acts and, as regards weeklies, by a special Federal Government Act (*Bundesgesetz über die Förderung staatsbürgerlicher Bildungsarbeit im Bereich der politischen Parteien und der Publizistik*), commonly referred to as “subsidisation of periodicals and other printed matter” (*Publizistikförderung*).

1976, 1980, 1985, 1992 and 2004, whereas from 1985 to 2004 the scheme remained largely unchanged. The *Press Subsidy Act* in its current version is thus a historical reflection of the prevailing market conditions and all other contextual changes (Bruck 1994; Fidler 2008; Steiner 1972; Murschetz 1997, 1998, 2009; Trappel 2005).

In 1972, the influential Austrian Printer and Publisher Association (VÖZ—*Verband Österreichischer Zeitungen*) addressed the federal, regional and local authorities with a wish for exempting their newspapers from tax cost increases arising through a newly introduced value-added tax system which imposed additional costs on newspapers in the form of a tax payable on sales revenues.² Economic and financial problems of Austrian print media companies and an ongoing decline in the number of daily newspapers led the newspaper companies to oppose this additional strain on their economies.³ A compromise was found 3 years later when the federal government under the then Prime Minister *Bruno Kreisky* set up a bill on press subsidisation to daily and weekly newspapers as a means of financial compensation for the value-added tax.⁴ As political parties and various interest groups then controlled a considerably high share of the Austrian print media market, the introduction of public press subsidies in Austria was inextricably linked with public financing of the then existing political parties (Schmolke and Feldinger 1995). As stimulated by the federal government, the management of economic problems of the press was coordinated with the solution of the financial problems of the political parties. Consequently both acts, the *Federal Government Act on tasks, finance, and canvassing of political parties* and the *Federal Act on Press Subsidies*, were passed *en bloc* in the lower House of the National Parliament (*Nationalrat*) in 1975 (*Republik Österreich 1975a, b*).⁵

Since then, subsidies are given to daily and weekly newspapers which meet the following conditions:

- Subsidised papers are eligible for grants so long as they concern themselves with affairs other than of local interest in the areas of politics, economics or general culture and thus serve the political, general economic and cultural information and formation of opinion.
- Subsidised press products must not be mere advertising brochures (*Kundenpresse*) or press organs of interest groups.

² Additionally, the newspaper lobby called for an exemption of local business taxes, payroll tax, advertising tax as well as reductions in postal delivery and rail transport fees.

³ Journalistic titles fell from 27 units in 1961 to 20 units in 1972 and are referred to as full journalistic units, indicating institutionally independent editing as well as journalistic independence.

⁴ Reasons for newspapers in crisis were seen in the structural difficulties of Austrian media companies, low capital equipment, dependence on foreign countries and overall macroeconomic situation at the end of the 1960s, small internal market and deficits of qualifications of media personnel (see Fabris 1976).

⁵ Additionally, periodicals were already subsidised since 1972, when a federal government bill was passed in the National Parliament.

- They must not merely be of local interest and must at least have distribution and importance in one province.
- They must be printed and published in Austria.
- They must at least be published 50 times a year and mainly sold on a single copies basis or on subscription.
- They must have been issued regularly since 1 year at the time of application and must have met the conditions of subsidisation in that previous year.
- Weekly newspapers must have a proven minimum of 5,000 copies sold per issue, dailies 10,000 and both must at least employ two or three full-time journalists.
- Above-mentioned conditions are not applicable for the promotion and preservation of non-German-speaking ethnic groups (*Republik Österreich 1975a*).

While the original idea of subsidisation was equal treatment of all daily and weekly newspapers by means of a *watering can principle*, further strains on the costs of newspaper publishers made necessary major changes of the 1975 *Federal Press Subsidies Act*. When a constitutional commission reported the need for splitting the bill into a general section of subsidisation (*Presseförderung I*), representing the regulations of the previous bills enacted, and a new section of selective subsidies (*Presseförderung II*) was introduced, the so-called special subsidy for the maintenance of variety, granted to newspapers which promoted the formation of political opinion, but were economically weaker newspapers, that is to say, only “secondary” papers at their place of issue. While the original idea of the Act was to support newspaper companies in equal proportion, under the provisions of the new Act in 1985 economically suffering newspapers were to be supported selectively to guarantee press diversity within an advanced democracy. Specifically, the then existing daily newspapers of political parties represented in the parliament and major regional daily newspapers were to be supported selectively (*Republik Österreich 1985*).⁶ After consulting the seven members of the commission, selective subsidies were granted to newspapers and other press products with the following conditions of eligibility:

- The daily newspaper to be subsidised should be of special importance for the formation of political opinion in at least one province with a minimum circulation of 1 % and a maximum circulation of 15 % of the population in the province of origin.
- The newspaper to be subsidised should employ full-time journalists (editors).
- The newspaper to be subsidised should not be a monopolist in the specific market (should not dominate the specific market under consideration); a dominant market position was reached by a circulation exceeding 15 % of the total circulation in the province of origin or 5 % in the whole of Austria.

⁶ The new government bill was initiated by a controversial parliamentary debate on various models of promoting press diversity and curbing processes of concentration in Austria. Explicitly, the press subsidies model of Sweden supported the foil of argumentation for the Austrian considerations. It can only be suspected whether personal political contacts between the two countries had any influence on setting up the bill in its present form.

- The newspaper should not be eligible for subsidisation if the editor or publisher applying also publishes press products with major stress on advertising, calculated by volume of advertising space (by pages) of the previous year, or if there is any other economic or organisational closeness to the editor or publisher of these products.
- The selling price of the newspaper to be subsidised should not differ widely from comparable newspapers' prices.
- A newspaper is not considered as being eligible to subsidisation if more than 20 % of its yearly volume of pages is accounted for by advertising (*Republik Österreich 1985*).⁷

Direct subsidies are not the only financial support to daily newspapers in Austria. Generous and highly controversial subsidies have flown to some printing houses for the building of printing plants and premises or buying new machines and technical equipment under the title "subsidies for the promotion of the labour market" since the mid-1980s.⁸ Initiated rather late in European comparison, both independent and explicitly political printing houses were encouraged to create new jobs.⁹ Granting investment help to independent newspapers without their own printing plant was originally triggered by concerns of the intention of the Vienna-based daily *Kurier* to move to the province of Lower Austria near Vienna for reasons of tax avoidance. After political bargaining, the *Kurier* then eventually decided to stay to build its printing plant near Vienna for which it was granted 80 million Austrian schillings (2013: ca. 5.8 million euros) by the *Federal Ministry of Social Welfare*. Not only did *Familiapress*, the publishing house of Kurt Falk, was granted ca. 66.7 million schillings (2013: ca. 4.7 million euros) by the regional government in Vienna and an additional considerable amount of 133.3 million schillings (2013: ca. 9.6 million euros) by the *Federal Ministry of Social Welfare* in order to build a new printing plant near Vienna, but also did its market dominant counterpart *Mediaprint*, the joint subsidiary of the *Krone-Kurier* merger, receive 180 million schillings (2013: ca. 1.3 million euros), of which 2/3 were financed by the Federal Ministry and 1/3 by the local City Council of Vienna (Holtz-Bacha 1994, p. 531). Once granting these subsidies was started, a controversial *domino effect* of subsidisation was stimulated, which was inherently led by political consideration. Likewise, the regional print barons in the regions received considerable sums of cash grants as well.

Finally, the graphical industry was filled with indignation when government support was granted by the *Federal Ministry of Social Welfare* of another 68 million schilling (2013: ca. 4.9 million euros) to a new printing house in Salzburg (*Druckzentrum West*), enforcing the market power of media giant *Mediaprint*.

All in all, roughly 1 billion schillings (2013: ca. 72 million euros) were granted to Austrian publishing houses by the *Federal Ministry of Social Welfare* and

⁷ A new provision of the Press Subsidies Act in 1992 lifted this yearly volume of advertising pages to 22 %. See *Republik Österreich, Bundesgesetz, mit dem das Presseförderung 1985 geändert wird*, 31/7/1992.

⁸ For the following, see Holtz-Bacha (1994), and Schmolke (1995).

⁹ Sweden had already adopted similar subsidies in the mid-70s.

regional and local authorities to set up new printing plants and modernise existing equipment since 1984. Paradoxically, actual employment effects of new printing systems and technology were never evidenced (*Rechnungshof* 1992).¹⁰

As regards tax relief, the national Austrian tax authorities charge a VAT rate on newspaper sales revenues of 10 % in Austria, a somewhat reduced rate compared to the standard rate of 20 % on other goods and services. However, this is actually a top rate in European comparison. Moreover, 20 % VAT is imposed on advertising revenues. On top of that, regional and local authorities benefit from huge tax revenues from regional and local advertising taxes.

Austria is one of the few countries in the world and the only OECD country that collects this nationwide tax on advertising, leading to drastically high advertising rates in international comparison. These taxes are highly criticised by Austrian newspaper publishers (VÖZ 1995).

9.3 The Current Subsidy Scheme

The *Austrian Communications Authority (KommAustria)* was set up in 2001 in order to regulate the broadcasting sector. Since 2004, it has also been responsible for the federal press subsidy, whereas previously the power of decision lay within the federal government. Before taking a decision as well as before the yearly publication of detailed guidelines the *KommAustria* has to consult an advisory commission which is made up of seven persons: two members are appointed by the Prime Minister, two members by the Austrian Newspaper Association and another two members by the trade union responsible for the journalistic staff of daily and weekly newspapers. These six persons settle on a chairperson.

Although conditions of eligibility are established for the general as well as for the selective subsidies, drawing a definite line between “beneficiaries” and “non-beneficiaries” is not an easy exercise. So it is not only the expertise which makes up the importance of this advisory board, but also the fact that the professional groups of the sector are being represented. This helps to find wise solutions for difficult questions and makes sure that they are widely accepted.

9.3.1 Conditions of Eligibility

The general criteria for daily and weekly papers are designed in a way that only free papers, papers owned by regional or federal authorities, press organs of interest groups (as regards ownership—not to mention political parties and religious communities) and mere advertising vehicles are excluded entirely.

¹⁰ Grants for the establishment of new printing plants provided by the Ministry of Social Welfare were sharply criticised by the Austrian Audit Office (*Rechnungshof*) as both an incentive to distort competition by crowding out small private print media businesses and needlessly subsidising excess capacities.

Eligible newspapers must provide political, economic and cultural information. At least half of the editorial section of a daily and weekly newspapers must consist of contributions created by the newspaper's own editorial staff. Eligible newspapers must show a regular circulation and importance in at least one federal province (only local interest and distribution is not enough). The selling price must not differ widely from comparable newspapers—it has to remain a “fair” market price, thus excluding newspapers practising price dumping. When filing an application, daily and weekly newspapers must have been published regularly for 6 months and must have met the conditions for subsidy during that period.

9.3.2 Additional Premises for Daily Papers

- Minimum of 240 issues per year
- Proven minimum of at least 6,000 sold copies per issue in one federal province or 10,000 in Austria as a whole
- At least six full-time journalists

9.3.3 Additional Premises for Weekly Papers

- Minimum of 41 issues per year
- Proven minimum of 5,000 sold copies per issue
- At least two full-time journalists

Newspapers of the non-German-speaking national minorities (native ethnic groups) do not have to meet these additional conditions: Croatian, Slovenian, Hungarian, Czech, Slovak and Roma minority. In fact, no dailies in a minority language exist, but several weeklies in Croatian and Slovenian language do.

9.3.4 General Subsidy for Daily and Weekly Newspapers

As mentioned before, the general subsidy dates form the original idea of compensation. Thus all daily papers which meet the above-mentioned conditions get the same amount of money—with the exception that this sum is cut by 20 % in case that more than one daily of a publisher or publishing house is eligible. The subsidy for weekly papers is calculated according to the number of sold copies by subscription up to 15,000 and the number of issues per year. Due to the automatism of this subsidy, it is highly calculable for publishers. In 2012, the Austrian Federal Government handed over a total sum of 2.1 million euros to 14 dailies and 1.8 million to 35 weeklies.

9.3.5 Special Subsidy for the Maintenance of Variety

In addition to the general subsidy described above publishers may also benefit from a selective measure directed towards the availability of a diverse range of newspapers in the different provinces. It is granted only to daily papers which are not in a leading market position—neither as regards the reader market nor the advertising market. Thus, the number of sold copies must not exceed 100,000 per issue and the annual volume of advertising pages must not exceed 50 %. Importantly, newspapers which are—as regards the number of sold copies—national market leader or market leader in one of the federal provinces or in second position after the national market leader in one of the federal provinces are excluded. In 2012, seven daily papers were granted this selective subsidy (i.e. ca. 5.2 million euros in total).

9.3.6 Measures to Promote Quality and to Contribute to Securing the Future of the Press

The *Press Subsidy Act* of 2004 also provides for a number of new and additional measures which are aimed at enhancing quality and contributing to the future of the press sector. The reimbursement of the costs of certain activities of the publishing houses is one of the basic ideas. Thus it represents a step away from “automatism” towards a more future- and quality-oriented approach.

As journalistic training and first-hand information have been identified as crucial factors for the quality of newspaper content, publishers of eligible daily and weekly newspapers receive a reimbursement for the costs of the employment and training of young full-time journalists and for the costs of employing foreign correspondents. Further, associations in educating journalists and press clubs received grants under this heading?

Two measures are directed towards attracting new readers for the daily and weekly press: first, associations which have defined the promotion of reading of daily and weekly papers at schools as their only purpose receive subsidies up to 50 % of their yearly costs. Second, publishers which provide schools with daily and weekly newspapers free of charge can be reimbursed for up to 10 % of the regular selling price. But the beneficiaries of the special measures are not only publishers or publishing houses but also others who contribute to enhancing the chances for the print media sector.

For research projects which may contribute to the development of the press sector, a subsidy up to 50 % of the total costs can be granted. 15 studies have been subsidised so far, dealing with research subjects such as self-regulation in the press sector, copyright and electronic archives, media markets in Middle and Eastern Europe, changes in journalistic working conditions, development of instruments for the analysis of the reader market, eye-tracking studies on the readability of newspaper texts and best-practice cases in the field of journalistic training. Amounts between 8,000 euros and 40,000 euros have been granted.

The subsidies for non-profit associations of recognised prestige in the field of journalistic training and for press clubs (non-profit organisations which organise press conferences) have existed since the late 1970s.

9.3.7 Subsidy for Periodicals

Periodicals being published at least four times a year and dealing exclusively or primarily with issues of politics, culture or religion or associated scientific disciplines on a high level and thus serve to provide civic education are granted a subsidy by the *Austrian Communications Authority* if they meet the criteria of Section II of the Act on Political Education. Every year, approximately 120 periodicals apply for this subsidy. In 2012, 341,000 euros were spent under this regime.

9.3.8 Transparency

Besides objective criteria drawing a precise line between eligible and “non-eligible” newspapers, transparency is another important requirement for the granting of state subsidy to the media under the perspective of independence and freedom of the press. Three legal measures are directed towards ensuring this:

- Publication of the results of the allocation process: Since 2004 the *Austrian Communications Authority* is obliged to publish all decisions within 2 weeks. Therefore detailed information on the number of applications, the names of the applicants and the amount of money they are granted or the reason for rejection can be found on the Internet.
- Annual publication of guidelines before the beginning of the so-called “*observation year*”, which provide detailed definitions and explanations of the—to a certain degree—rather general legal provisions.
- Publication of an evaluation report.

9.3.9 Acceptance of State Subsidy

In autumn 2006, the Austrian Communications Authority carried out an evaluation study of the new measures established by the present federal law and presented a written report to the federal government. On this occasion, the newspaper publishers and the journalists’ trade union were given the opportunity to answer to a questionnaire. By reaching 65 % the rate of return was quite high. Only the largest and the second largest publishing companies in the field of the daily press and several publishers of weeklies and magazines abstained from the survey by not

answering. The majority of publishers expressed a positive attitude towards the current subsidy scheme. The following reasons were mentioned:

- Press subsidy is a necessary instrument against market domination.
- The special subsidy for the maintenance of plurality is an important contribution to the existence of smaller papers.
- The new measures are very helpful.

Among the new subsidies, the reimbursement for the distribution of newspapers at schools found the widest approval, followed by the reimbursement of journalistic training costs. Although predominantly satisfied with the subsidy scheme, publishers of weekly papers expressed some reservations. Most frequently, they criticised the limitation of the special subsidy for the maintenance of variety to daily papers and the total funds for weeklies. Moreover it turned out that they benefit less from the new measures like the reimbursement of costs of international correspondents. As most of them focus on regional or even local affairs, they simply do not employ any. Whereas all publishers of daily papers have already benefited from the new measures, only half of the publishers of weekly papers have been able to do so.

The journalist's union expressed all in all a positive attitude towards press subsidy and the reform of 2004. The need for the reimbursement of additional training costs was emphasised. Stressing the necessity of press subsidy from a democratic perspective, the introduction of two further criteria of eligibility was suggested: the existence of an editorial statute governing the cooperation in journalistic matters and the commitment to a code of conduct which addresses ethical standards of journalism.

9.3.10 Effectiveness of Subsidy Measures

The question of effectiveness of the press subsidy measures was also touched on in the course of the evaluation. It has to be mentioned that *KommAustria* did not embark on the interesting but highly complex question of the impact of press subsidy measures on pluralism of content. As the measures of Sections II and III are directed at maintaining a variety of newspapers, the number of newspapers was referred to as an indicator of effectiveness. In 1973, after the first round of concentration, 19 daily newspapers existed. In the following years, the number of newspapers remained stable, though the papers of political parties lost market shares and were financially dependent on state subsidies and financial contributions of the owners. Between 1987 and 1991 a number of those daily papers left the market. The figure went down from eight party papers in 1986 to three 10 years later. Today, the party press has virtually disappeared. The latest sizeable additions to the Austrian daily newspaper market include the boulevard free sheet *Heute* in 2004 and a newspaper called *Österreich* (German for Austria) launched in 2006. The latter is printed all in colour and frequently distributed for free in town centres. This newspaper is oriented towards young adults from 18 to 35 years old. The founders and owners of the newspaper, Helmut and Wolfgang Fellner, are

Table 9.3 The Austrian press subsidy scheme, by type, amount and number of applications (in 2012)

Subsidy type	Amount in euros	Submitted applications	Subsidised applications
Distribution subsidy (Section II of Subsidy Act)	3,923,799.60	50	49
Of which dailies	2,118,851.90	14	14
Of which weeklies	1,804,947.70	36	35
Special subsidy for daily newspapers (Section III of Subsidy Act)	5,287,000.00	7	7
Promotion of quality and future (Section IV of Subsidy Act)	1,575,000.00	68	65
Total	10,785,799.60	125	121

well-known Austrian publishers who managed to restructure the Austrian magazine market earlier in their professional life. They sold their highly profitable magazine group, *News*, to the German *Bertelsmann* group (*Gruner+Jahr*) and invested the revenue in this tabloid.

The financial subsidy scheme may play a key role in supporting economically weak newspapers with low circulation and advertising revenues and thus in preserving them from dying. As regards the concentration of ownership it seems that it is not an important factor: the number of independent publishing houses as owners of the subsidised daily papers went down steadily during the last years. The effect of press subsidy on weekly papers needs a more profound analysis, but the fact that three of them were closed down after cutbacks of the amount of subsidy due to a new calculation method is striking at first glance (see, Table 9.3 above).

Conclusion: Debating the Future of the Scheme

Over the years, the Press Subsidy Act has been hotly debated. It has also been evaluated (*KommAustria 2006; Prognos 1998*). The Austrian Press Subsidy Act was repeatedly criticised. To initiate reform, the Austrian state secretary for media, Josef Ostermeyer (Austrian Social Democratic Party—SPÖ), commissioned an academic expert group led by Hannes Haas, Professor of communications at the University of Vienna, to undertake research into proposals for reforming the current press subsidy scheme. The “Haas Study”, as it is more colloquially called, was later published in February 2013 (*Universität Wien 2013*). Pre-publication leaks of this report had already triggered some expert debate around a plethora of issues for reform of the scheme. In what follows, the main lines of this debate shall be redrawn. Notably, various print media pressure groups in journalism and education (i.e. *Presseclub Concordia*), the Vienna educational forum for journalism (*Forum Journalismus & Medien Wien—fjum*), the Austrian Press Council (*Österreichische Presserat*), the board of trustees in journalism education (*Kuratorium für Journalisten- und Medienausbildung*) and the *Austrian Publishers Association (VÖZ)* have issued the following claims:

First, to reform press subsidy law, a single majority is necessary in parliament. This may be achieved by the current grand coalition between the social democrats SPÖ and the conservative party ÖVP. Haas suggested an increase in the subsidy budget from an average 10 million euros allocated annually to 15–20 million euros per year in order to financially alleviate the structural downturn of the industry as such. In addition, Haas argued that over a period of about 4 years, an additional handout of 30 million euros should be allocated to support the transition of print to online. Overall, the Austrian State Secretary Ostermayer resounded positively to the Haas draft and stressed that the amount of subsidies allocated to newspapers would not be the critical issue of the reform. Rather, the scheme's design needed some major refurbishing and this would be the critical mission for its reform.

In general, reforming the current subsidy scheme was deemed necessary across the board of stakeholders: It was claimed that the current system would not represent an effective, fair and innovative scheme. On top, the new scheme would have to focus on efficiency criteria (automatic allocation, clear regime, bright-line criteria, exact and repeated controlling). As it stands, many observers demand a higher budget overall: 50 million euros should be paid out to newspapers (instead of 11 million euros). Fair rules, transparency, innovation and accuracy should be guiding principles of the new Act in 2014.

Further, critics of the press subsidy scheme demand that the licence fee to the Austrian public service broadcaster ORF (i.e. some 600 million euros are collected every year from the Austrian ORF listener/viewer) should be taken into consideration when allocating the new budget to the press. On top, the 120 million euros investment of government advertising into the boulevard press is another very critical issue to be discussed in the context of designing the new press subsidy scheme. These hidden subsidies needed to stop (Trappel and Zettl 2013).

In theory, it was claimed, quality journalism has always been subsidised across markets. Particularly in a country like Austria, which is characterised by a corporatist political culture, government intervention to preserve and promote public value dimensions of the press is still considered to be structurally formative (Hallin and Mancini 2004; Steiner 1972). However, structural change through the Internet would now destroy the traditional business model of subsidising print media (i.e. mixed financing from advertising and sales revenue). The debate was always centred on the question of whether print has a chance against digital information. Innovative alternative cross-media funding models have yet to prove to be sustainably attractive. Following this line of debate, it could be concluded that state funding is obliged to ensure quality journalism in the print media sector comprehensively and effectively. Now, the Haas study report revealed that structural diversity in the print media market is to be ensured by press subsidies; i.e. the structural diversity of titles and views and the editorial quality of content were to be promoted rather than generally the sales of print titles (*University of Vienna* 2012). The economic analysis of the media markets in general and the analysis of the situation in Austria in particular

show that the Austrian market is highly consolidated. This consolidation is reflected in a high degree of supplier concentration and the low diversity of titles of newspapers. This can be explained by high fixed costs, high entry barriers, efficient use of economies of scale through market leading companies and a high degree of saturation of the recipient markets. These Austrian structural features cause a constant shift of competition from quality journalism to business imperatives.

According to Matthias Karmasin, professor of communication studies and an expert observer of the subsidy debate for over some longer time, cuts driven by planned government austerity measures needed to be avoided at any cost. After all, newspapers would deliver almost 50 million euros on advertising taxes and would thus legitimately receive subsidies worth 50 million euros (VÖZ 1995). Further, Haas demanded that subsidies should be given out to online newspapers as well: Competition on promoting cross-media services (i.e. quality online offerings) would allow for structural diversity. Bloggers, citizen journalists, etc., however, are not yet supported. Thus, grants should be given out to specified projects in this field which have evident democratic–political relevance (*University of Vienna* 2012).

The President of the *Austrian Publishers Association* (VÖZ), Thomas Kralinger, claimed that Austria should follow the Danish model of reform. Denmark has just approved a subsidy for online media. Kralinger welcomed this step. As far as identifying a success performance index for subsidisation is concerned, per capita funding would be a valuable one. While the Danish per capita funding is 9.8 euros (5.5 million people meet 54 million euros), Austria's is only 1.3 euros year per head as Austria currently spends 10.6 million euros for a population of about 8.5 million euros.

Haas also argued for a substantial widening of topics to the subsidy scheme. It claimed that the scheme should be changed into one promoting media more comprehensively across various infrastructures. In the future, non-commercial private TV and private radio should be supported, as well as new media, film and the press council. It is also conceivable to support regional media and free newspapers if an editorial content is recognisable. The funds should come from the ORF-household levy earmarked for the media promotion scheme.

The *fjum* demanded a regular quality monitoring of the Austrian media landscape as well as a yearly monitoring of the media promoting scheme itself. Notably, to ensure quality standards, a code of ethics needed to be introduced that would be linked up to press subsidies as another way of government control. Who is not member of the *Austrian Press Council* (or any other self-regulatory body) should not be eligible to subsidies. Of course, hidden government advertising campaigns and other below-the-line subsidies should be abolished.

The issue of identifying indicators and metrics for subsidy success: Indicators such as the number of full-time employed journalists, the number of foreign correspondents or training days may be introduced.

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Ike Picone and Caroline Pauwels

10.1 Introduction

For some time now, the news sector is believed to be in a period of *deap-seated change* (Preston 2009), the drivers of which are a continuously dropping audience, an evolution towards free news, failing alternative revenue models, a slow migration of advertisers to the online medium reinforced by the current economic crisis and changes in the news production process and changing patterns of news use [Preston 2009; see also Bruns (2008), Meikle and Redden (2010), Picard (2010), Heinonen (2011)].

In a small country like Belgium, and in an even smaller linguistic and cultural community like Flanders, these evolutions are enacted in a particular way. Belgium is characterised by a federal political system that is furthermore grafted on different linguistic—and consequently to a large extent also cultural—entities, namely the Dutch-speaking Flemish Region and the French-speaking Walloon region, with a small German-speaking community holding a special status. Despite some federal competences (fiscal matters, authors right), media is considered a cultural competence and thus entrusted to the regions. Consequently, the Belgian news media are equally divided, as news products are mainly directed to these regional markets. Both markets are thus characterised by different dynamics. In general, the Walloon news media landscape is much more affected by French media products, always forming a strong competition for indigenous media and news products. The Flemish news market, in contrast, is much more of a stand-alone entity (Table 10.1).

We can identify five key players in the Flemish print ecosystem, with ties to other media branches as well (Ballon et al. 2010). *De Persgroep* is the largest editor of newspapers and magazines. *Het Laatste Nieuws* (print run: ca. 287,000 copies

I. Picone (✉) • C. Pauwels
iMinds-SMIT, Vrije Universiteit Brussel, Brussels, Belgium

Brussels Platform for Journalism, Vrije Universiteit Brussel, Brussels, Belgium
e-mail: ike.picone@vub.ac.be; caroline.pauwels@vub.ac.be

Table 10.1 Financial data of the main Flemish editors (NBB 2012)

Media group (consolidated)	Year	Turnover	Operating profit	Net profit
De Persgroep	2011	899,480	107,310	40,101
	2010	912,659	101,144	34,355
Roularta Media	2011	731,111	34,549	14,909
	2010	711,563	57,038	31,878
Sanoma Magazines	No comparable public data available			
Corelio	2011	387,709	15,251	10,678
	2010	366,654	12,677	7,018
Concentra Media	2011	196,053	6,481	-6,680
	2010	197,800	6,481	2,815

per day), their popular newspaper, is the best-selling daily morning newspaper in Flanders. *Dag Allemaal* (print run: ca. 419,000 copies per day) is the most read weekly celebrity and lifestyle magazine. *Roularta* is a media group that scores well in the information segment with magazines like *Knack* (print run: ca. 126,200 copies per day) and *Trends* (print run: ca. 54,000 copies per day) and has a strong position in the free local paper market. *Roularta* and *De Persgroep* are major shareholders of *de Vlaamse Media Maatschappij* (VMMA), a company that owns several Flemish television channels and radio stations. Also the other three main editors feature strong ties with the audiovisual sector: *Corelio* has shares in TV production company *Woestijnvis* and regional radio stations, *Concentra* in digital television channel *Acht* and regional broadcasters and the international *Sanoma* group in content production company *Jok Foe* and *Woestijnvis*. Also these editors own most of the popular news sites like *HLN.be/7sur7.be* (ca. 600,000 unique daily visitors, owned by *De Persgroep*) and classified ads websites like *Hebbes.be* (ca. 36,000 daily unique visitors, owned by *Concentra*).

At the same time, national or international companies own a lot of newspapers and broadcasting channels. Besides historical arguments, the reason for this “regional offering–national ownership” situation is that making viable media and news products in such small markets is obviously difficult. The Flemish and Walloon audiences, approximately six million and four million inhabitants respectively, do not allow for economies of scale to easily emerge. The cross-regional ownership to a certain extent has been a way of cutting production, distribution and infrastructure costs by serving both markets.

This specific constellation has led to a paradoxical situation regarding the impact of digital media and changing consumption patterns in the Flemish news market, upon which we will focus in this chapter. On the one hand, the Flemish printed press holds its stand remarkably well in comparison with the “red ocean” in big press markets like the USA or UK. The Flemish media landscape, in general, and the press sector, in particular, is rather introvert and not easily susceptible to foreign forces. The major newspapers being part of large media companies offer some opportunities to benefit from scale advantages, e.g. common newsrooms. On the other hand the critical mass for niche products like in-depth news is low, and the small linguistic and cultural community forms a barrier for the take-off of new

(news) products. Making an online initiative like the *Huffington Post* a viable enterprise merely through advertising revenues is virtually unimaginable in a small market like Flanders, limiting the possibilities to innovate on that front. News media organisations are still struggling to find ways to cope with these changes and make the news sector digital future proof.

The situation in the Flemish news market puts a specific question to the forefront when it comes to subsidies to the press. What kind of press support is likely to generate the most benefits for the news sector as a whole in a small-scale market like Flanders? The answer is much dependent on the kind of valorisation one aims to achieve through press support. In general, this boils down to the balancing act between social valorisation, focusing on providing qualitative, in-depth reporting strengthening the press' role as a fourth estate on the one hand and economic valorisation, aimed at maintaining a viable and competitive news sector, on the other hand. Both types of valorisation can go hand in hand, but can also exclude or compete with each other.

The hypothesis put forward in this chapter is that press organisations will increasingly need to adopt a pragmatic and holistic approach towards press subsidies and as such develop a more proactive way of looking beyond merely the dedicated support to the press. This is especially the case in small-scale markets, where journalistic products are bound to reach but a limited segment of an already small audience. While news and journalist organisations can certainly deplore the fact that no more room is created for press support, the current situation, in Flanders and elsewhere, is not likely to change soon in these times of crisis. Innovation support does however rise, as media innovation draws on the promise of technological innovation leading to economic valorisation in the current digital and information economy. In Flanders, this has been translated in the aim of allocating three per cent of its gross domestic product to research and development and to better distributing innovation across all sectors, types of businesses and segments of society (Vlaanderen in Actie, Economie 2013).

Therefore, a pragmatic approach might be best suited. While journalism advocates and pressing groups are likely to continue to press for more means to invest in in-depth news coverage and journalistic storytelling, tapping into the available subsidy streams for innovation in the media might be a welcome—and possibly necessary—addition to more direct and formal subsidies to the press. This will of course necessitate the beneficiaries of traditional funding to play along the rules of project-based, valorisation-oriented innovation support (Table 10.2).

This chapter will start by taking a general look at how principles of media innovation have permeated into the newsrooms and the journalistic practice. This must allow us to get a sense of both the positive and negative outcomes of public innovation support to newspapers. We then proceed to the case study of Flanders, in order to link the insights into press innovation to a small-market context. We give an overview of the existing traditional forms of support to the press as well as of the most important news innovation projects. Further, the role of the current economic climate and political mindset is taken into account. The scope is to assess whether costs and benefits of innovation support are particularly strong in a market where audience reach is limited, advertising budgets are restricted, plenty of news outlets are available and competition among the players is strong.

Table 10.2 Dedicated vs. innovation support measures to the press

Dedicated support	Innovation-oriented support
Support for the press sector: Support (ca. 1 million euros for in-service journalistic training via the Media Academy Support by advertising in the press	Pre-competitive, strategic fundamental research projects: Institute for Science and Technology (IWT)
Support for journalists: Operating funds for professional organisations of journalists Small advantages and discounts on selected services	Market-oriented, collaborative research projects: Interdisciplinary Institute for Broadband Technologies (formerly IBBT, now <i>iMinds</i>)
Support for journalistic product: Support for individual journalists for investigative journalism	
Support for readership: Zero VAT tariff applicable on newspaper sales Subsidies to the postal service for the early morning delivery of the press Readership sensitising campaigns	Close-to-market, pre-competitive innovation projects: Media Innovation Centre (MIX) Support to entrepreneurship in ICT and Media

10.2 Supporting Newspaper Innovation

As Meikle and Young (2012, pp. 181–182) put it, the convergent media environment has rendered it less evident to argue the necessity of publicly funded media. Critics, to be found especially amongst private media representatives, frame the discussion within the market discourse of demand and competition. As media users have a large offering of media products and services to their disposition, direct subsidies are presented as a form of unfair competition. Advocates of media support on the other hand redefine the scope of public media, stepping away from the idea of public support as a means to fill the blank spots unaddressed by commercial players. Precisely the need for public investments in media innovation is being put forward as an important way for public service media to remain relevant. As Meikle and Young claimed (2012, p. 182), government funding of innovation does ensure that the development of new media technologies and forms retains a public good dimension.

Three important questions then emerge:

- In terms of necessities, what kind of innovation is the press in need of?
- In terms of the rationale behind public funding, which kind of innovation can justify public subsidies being used to achieve it?
- In terms of organisation of funding, how should this be organised? Is this the role of a PBS? Or should different organisations be able to benefit from funding? How does this relate to existing mechanism? Is there a tendency to replace instead of complement traditional forms of press support?

Looking at the existing literature on innovation in the press allows us to give an indication of what kind of innovation the press is in need of.

10.2.1 Innovation for Competing in the Marketplace

When confronted with the growing digital convergence, news organisation seem to have shown a larger concern with assuring the competitiveness of the sector's existing products than with exploring the new possibilities offered by this new media ecology (Vujnovic 2011, pp. 148; Boczkowski 2004). Indeed, many of news companies' first endeavours into the various waves of new media tools, devices and services that have been surging over the past decades were inspired by copycat behaviour and mainly aimed at maximising reach and revenues. In smaller markets the sense of competition seems heightened, as the importance of winning an audience is not merely a matter of maximising revenues, but also of staying in business or not (Vujnovic 2011, p. 149).

The case of participatory journalism as presented in the work of Vujnovic (2011) offers a clear example of how different groups might aim at different goals through innovation. Subsidies for innovation in participatory journalism for example seem easily defensible: such investment will open up the media sphere for direct participation, empowering media users. However, interviewed journalists and editors in the research of Vujnovic, which actually focused on small markets including Belgium and Croatia, saw citizen journalism as a way of cutting costs, winning time and using limited resources more efficiently. In summary, innovation that in theory can justify public support because aimed at a clear societal finality may in practice be used for a different economic goal. While it should not surprise that in a converged environment, the already fine line between societal and economic valorisation further blurs, this does raise the question to what extent an economic return on investment can be allowed in publicly funded initiatives: when is public investment justifiable and when are market dynamics equally suited to obtain the specific result?

10.2.2 Innovation to Facilitate the Journalistic Process

Second, in terms of journalistic production and workflows, a multi-platform approach and a more active audience force newsrooms to adopt flexible work practices, converging job profiles and "multi-skilling". The boundaries between what were once discrete steps in a classical industrial production process are blurring (McKercher 2002). The idea that digitalisation or technological convergence contributes to pulling down the boundaries between previously separate forms of work pushed news media companies to rebuild their organisations and foster dialogue and mutual understanding among departments (Quinn 2002, p. 44). This transition from mono-media to cross-media newsrooms is paralleled by a continuous search for technological innovations to facilitate and automate part of the work of journalists as to increase the efficiency of the process of news production (Paulussen et al. 2011).

News organisations have explored different kinds of process innovation. Data journalism and computer-assisted reporting are one example of innovations that

require journalists to expand their skills set. Another kind of workflow innovation is the use of user-generated content or the crowdsourcing of certain information gathering or processing tasks.

Such developments are not without contestation. From a journalistic perspective, before leading to facilitation of their workflow, a lot of these innovations require new skills and routines and hence a lot of effort and time. For news organisations, such innovations come with prior investments. When looking at these evolutions in light of public funding, we notice that “newsroom innovation” is trapped within a discursive paradox: the promise of computer-assisted journalism as an efficient and in-depth way of doing journalism is in fact implemented with the purpose of cost-cutting and increasing performance. Not only are public benefits used to legitimise innovation support that in reality serves commercial goals. Private players also change their argumentation against public funding, e.g. in the form of public media services, the moment they themselves become beneficiaries of public funding.

10.2.3 Innovation in Journalistic Output

The 24/7 news economy enabled by “always on, always connected” Internet technology, new forms of mass self-publication (Castells 2007) and new online publishing platforms like blogs or online social media are but a few developments that have impacted the way readers and journalists conceive of journalistic output. Journalists can now live blog an event, send out Tweets, create stories on *Storify*, easily edit and publish audiovisual material and so forth. This has expanded the range of content formats journalists can use to inform citizens. Remarkably, while blogs and online social media have been pushing news media and journalists towards shorter, more ad hoc news reporting, recent initiatives like *Longreads*, *Instapaper*, *Pocket* or *Branch* all bet on online and mobile devices to promote forms of slow journalism. These are examples of opportunities for digital storytelling, which can lead to new ways to present news to the public.

However, under influence of a strong focus on technology as the motor of innovation, an all too media-deterministic correlation between technological and journalistic innovation can be discerned. A recent example has been the welcoming of the iPad and other mobile and online technologies as the umpteenth saviour of newspapers, resulting in a wave of entrepreneurial activity in the journalism and media world internationally (Pavlik 2011, p. 97). Believing the iPad would both attract new readers and cut production and distribution costs for news, media magnate *Rupert Murdoch* bet big on the 2011 launch of his iPad newspaper *The Daily*, only for rumours of him pulling the plug out of the project, which loses 30 million euros a year (Filloux 2012). The example of *The Daily* is exemplary for two facets of innovation in journalism output. First, technological innovation is not automatically successful. Technological innovations are not free from market dynamics—in this case amongst others the closed app ecosystem that comes with *Apple* products (Fischer 2012). Second, innovation is seen in terms of cost-cutting and readership maximisation. The question whether or to what extent innovations in

the presentation of news such as social media, gamification, location-based information, citizen participation, etc., add to a more robust message, to the transparency of governments and other political and economical stakeholders or to civic participation is rarely the driving force behind journalistic innovation (Pavlik 2011, p. 97).

10.3 Innovation Policy and Newspaper Support in Flanders

In Belgium, newspaper subsidies are scattered across a variety of direct and indirect support instruments. Furthermore, Belgium's particular federal structure results in different levels of policymaking having an influence on the press sector. We differentiate between Federal measures and measures at the level of the Flemish government. In contrast to the centralised, direct subventions for newspapers published in the French-speaking community (Blanchard 2006), government subsidies to the press in Flanders are distributed and managed in collaboration with sector-specific associations such as the *Flemish Association of Professional Journalists*, the *Flemish Association of News Media* and the *Flemish Council for Journalism*.

Focusing on the Flemish region, we will start by summing up the main ways of dedicated subsidies, which come in both direct and indirect forms, on a regional and federal level. We then concentrate on the most recent initiatives and projects that have accounted for supporting the press in terms of innovation.

10.3.1 Dedicated Support Measures to the Press

In Flanders, and Belgium in general, press support is scattered over different mechanism, programmes and benefiteres. We can identify four main forms of existing subsidies to the press in Flanders: support to the press sector, support for journalists, support for the journalistic product and support to increase readership.

Direct support for individual press companies previously existed in Belgium. Due to party, political and linguistic strife and after been repeatedly charged with market distortion, the system was faded out in 1997 (Raeymaeckers et al. 2007a, b). Still, in Flanders, a form of direct support to the press sector applies and is guaranteed by the Flemish government setting aside approximately 1 million euros yearly—although this is subject to a yearly revision and decision by the Minister of Media—to encourage a pluralistic, independent and thriving press sector (see also De Bens 2009).

The subsidy is divided amongst the four main umbrella associations that represent the Flemish press and magazine sector according to the number of full-time journalists employed by their companies—and hence not granted to individual news companies. The support is provided by offering in-service training. While this used to be left to the benefitting companies to organise internally, these funds have now been centralised in the installation of a Media Academy for professional journalists. The remaining funds are divided between the four umbrella associations

of the press and magazine sector. A more indirect way of supporting the press is by way of advertising in the press. In 2007, all Belgian authorities together spent 93.7 million euros on advertisement (Musschoot and Lombaerts 2008).

Support for journalists is provided in a two-step flow model, i.e. by providing (part of) the operating funds for professional organisations of journalists on the one hand and by direct support to journalists to be invested in high-quality journalistic output on the other hand. The main beneficiaries of the first strand are the Flemish Association for Professional Journalists (VVJ) and the Council for Journalism (the self-regulation organisation working on a federal level and for the other part funded by members of the Flemish media corporations), covering the costs to run the VVJ's daily activities and to partially fund the Council. The second strand allows journalists to apply funding grants for investigative journalism granted as an individual subsidy through the *Fonds Pascal Decroos*, which is given a yearly dotation of approximately 300,000 euros to divide amongst applying journalists. The fund allows grants to projects of exceptional journalism that would not be possible within the normal workings and budgets of a newsroom. The goal is to enhance qualitative and in-depth journalism in Flanders and beyond, to create the possibility for young people to develop journalistic talents and to bring together people from different walks of life. Further, professional journalists (accredited by the Association for Professional Journalists) enjoy a series of rather symbolic advantages. Journalists can receive a pass for free use of the national railways as well as for the Flemish bus company *De Lijn*. Reductions are offered on certain airplane tickets in the business category of *Brussels Airlines*. National telecom provider *Belgacom* offers discounts on their subscriptions. Journalists also profit from a reduced occupational insurance, renting a car and buying a car (with certain companies).

Support for readership can mainly be found in subsidies aimed at lowering the cost of press products for the end user. In Belgium the zero VAT tariff is applicable on newspaper sales. Policymakers are now looking to harmonise this on a European level and add e-publications to this preferential tariff. Also, the public post service is granted a subsidy of 120 million euros to support the early morning delivery of printed press. Readership sensitising campaigns are the second main form of readership support. Newspapers in the classroom (*Kranten in de Klas*) is a yearly readership stimulation campaign, funded and organised by the Flemish Association of News Media (*Vlaamse Nieuwsmedia*)—in turn funded by the Flemish government—to introduce high school students to Flemish newspapers as a source of information. The measure tries to encourage readership and the construction of a critical mindset and citizenship. Evaluation has shown that on the short term this initiative is successful in introducing newspapers to groups with the lowest access rate and lowest level of education (Raeymaeckers et al. 2007a, b). To achieve this, classrooms are provided with free newspapers and workbooks, which include extra activities. The Centre for Media Literacy, which is to be installed by 2013, will be a new initiative of the Flemish government aimed at stimulating a media-savvy audience.

10.3.2 Support to the Press Under the Moniker of ICT and Media Innovation

However, these are only very limited resources compared to subsidies for other sectors, e.g. technological and media innovation. Bhagwati's (1989) "three I's of International Political Economy" (ideas–interests–institutions) offer an interesting perspective to look at the case. The "ideas" driving innovation policy in Flanders are strongly focused on becoming a knowledge economy, as put forward in the *Flanders in Action (Vlaanderen in Actie)* strategic agenda for the region adopted in 2006 and largely translated into the coalition agreement of the Flemish Government for its 2009–2014 term (*Flanders in Action* 2012). The rationale behind it is mainly economic: labour in Flanders is expensive, amongst others, because of the substantial social security system. Innovation must guarantee a vibrant knowledge economy able to sustain these attainments. As the overview of the most important institutions below will show, the innovation policy of the Flemish region is strongly grounded in an open innovation approach (Chesbrough 2003, 2006) where knowledge leading to innovation is meant to be broadly distributed instead of monopolised. In the same line, in order to foster innovation, new forms of cooperation are to be implemented. As the cooperation between universities and industry partners emerges as a red thread throughout the Flemish innovation support initiatives, the Flemish government seems to have based its innovation policy on the Triple Helix proposed by Etzkowitz (2003): Cooperation between universities, government and industry forms the key to successful innovation, without having to hamper competition, and with government playing a facilitating role through appropriate rules and direct and indirect support.

Different institutions have been installed over the years to foster innovation. The most important Flemish subsidising bodies in terms of technological innovation are aimed at stimulating innovation through research and development. From a research perspective, the *Institute for Innovation through Science and Technology (IWT)* has been an important motor of innovation support, mainly aimed at academic research groups. Interestingly, certain changes made to the various funding schemes show how innovation support within IWT has evolved from a purely economic to also a societal finality. Since 2005, the *Strategic Basic Research* programme was subdivided into an economic and a social valorisation strand. The valorisation of the technological innovation research could then also be aimed at not merely economic, but also societal benefits. One of the first projects to be accepted for funding within this programme was the "Flemish E-publishing Trends" project (2006). In this interdisciplinary research project carried out by a consortium of six research groups, the scope was to assess the impact of digital publishing opportunities on the press, from an economic, legal, journalistic and users' perspective. The viability of the press sector was understood in terms of its democratic role. Attention was paid to new revenue streams as well as to the impact of digital media on journalistic workflows and citizen participation.

Another important evolution was the implementation of the *Interdisciplinary Institute for Broadband Technologies* (formerly IBBT, now *iMinds*) as an umbrella

organisation regrouping different technical, social and legal academic research groups with the scope of fostering innovative research and collaboration with commercial partners under its members. Over the years, *iMinds* has developed from a mere funding organism to an incubator for ICT and media innovation and entrepreneurship in Flanders. A series of projects have been submitted by press organisations. In 2005, the E-paper project was one of the first projects in Europe to test the then revolutionary e-ink technology amongst early adopters in collaboration with Flemish financial newspaper *De Tijd*. Since then, different press companies have been involved in research projects aimed at developing innovations in terms of business models, interactive and local news offerings, journalistic practices and so forth.

In parallel, a more applied and specified support for innovation through the media had been set up in the capacity of the *VRTMedialab*. This lab for technological innovation in the media was initially harboured within the Flemish public service broadcaster *VRT*, while at the same time the articles of association stipulated that the technological innovations coming from the lab should be upon to use by any media organisation in Flanders. This rather unbalanced situation led to a lot of critical voices amongst the commercial media organisations. After an evaluation study, the Flemish government decided to lift the *Medialab* out of the PSB and merge it with the Programme Innovative Media (PIM) of the *IWT* and accommodate this new structure within *iMinds*. The renewed lab was inaugurated in January 2012 under the name *Media Innovation Centre (MIX)* and was incorporated under the larger *iMinds* umbrella. It is a centre organised to stimulate innovation in the Flemish media sector. Projects need to be handed in and evaluated before any support is given. In order to create a more competitive media sector, *MIX* will encourage cooperation between media actors in order to pool resources when working on innovative projects. The focus of the aid is for pre-competitive projects, as to not interfere with the workings of the market. Finally, these institutions, individually or together, offer a series of funding mechanisms tailored to the needs of entrepreneurs in the field of media and ICT, ranging from boot camps and trainings to seed funding.

These “institutions” have a mandate to foster innovation in ICT in general and media specifically that seems to strongly reflect the innovation “interests” of the large media companies in Flanders. That is translated in a mostly economic valorisation aim of innovation. Not unsurprisingly, *MIX* had to face critics amongst alternative news organisations and investigative journalists, who questioned the public value and social finality of the programme.

10.4 Lessons Learned

The Flemish government has in recent years backed a number of financial programs like *iMinds* and *MIX*, alongside other project-based research and development initiatives. This focus on innovation benefits the interests of media companies, as they are forced to adapt to the digital environment. However, the emphasis on

technology, product and business innovation might, on the other hand, go to the expense of content quality. One might indeed argue that subsidies go to the creation of innovations that would emerge anyways out of the current market logics, while exactly the kind of products that are subject to market failure, like investigative journalism, are deprived from it. By way of its director, *Ides Debruyne*, *The Pascal Decroos Fund for Investigative Journalism* warns for the fact that innovation in media technology does not automatically improve the quality of journalistic output. Investing in knowledge is a more sound way of developing innovative forms of journalism, which is something media companies are not interested in. The “app” becomes more important than its content. Referring again to Meikle and Young (2012), innovations do not per definition retain their public good dimension because they are supported by public funding. More is needed to guarantee that the outcomes of innovations in the media and the press are beneficial from a societal point of view.

Still, when again turning to the concepts of *Bhagwati*, in Flanders, the “ideas” of Flemish policymakers and the “interests” of large media companies seem to have largely found each other in a common belief in ICT and media innovation as an important driver of growth. Institutions like MIX, where the board of advisors is composed of leading representatives of the media sector, are the emanation of this convergence. A number of press companies anticipated this reality by applying for such projects or grants. Newspaper companies struggling with the switch from analogue to digital distribution indeed took this opportunity to find financial means to research and experiment with new forms of distribution, new business opportunities and models, user behaviour, etc.

What becomes clear is that this innovation bias puts the definition of quality to the forefront. If journalistic quality is seen as a necessary marketing investment for newspapers (Mantrala et al. 2007, p. 29), as an economic notion, it is likely to be measured in terms of user appreciation, in turn measured in terms of circulation numbers and revenues. Or should quality be defined in terms of criteria that characterise the democratic tasks of a newspaper, including criteria such as truth/correctness, relevance, neutrality, impartiality, immediacy and diversity (Leroch and Wellbrock 2011; Westerstahl 1983).

Admittedly, public funding in innovation does prevent innovation from becoming the sole domain of corporate interest. If however that means that public funding in media innovation needs to abide by the rules of economic valorisation, favouring economic above democratic quality of news, the argument does not completely stand. As a matter of fact, if investments in quality are inspired by commercial motivations, the market logic would suggest that they are likely to be made regardless of public funding being available or not. Understandably, advocates of investments in the democratic quality of news are critical towards such kind of support and, consequently, are wary of innovation support to the press that is often embedded in this commercial logic.

Still, based on the current evolutions in Flanders, we suggest that press organisations will have to take a more creative and proactive approach if they want to enjoy support measures. Innovation grants can be a welcome source of

funding for Flemish press companies. As they will be unlikely to benefit from advantages of scale, they might be forced more than others to look at more efficient ways of producing and distributing news content. Innovation funds can serve exactly this purpose. But at the same time, media companies will have to stress the double articulation of media (Silverstone and Haddon 1996), namely that media are both technology and content, and innovation in the one should benefit—or at least not harm—the other. “Content quality advocates” will have to put this on the agenda of their own media organisations, of the funding organisations and of policy makers.

Direct subsidies to the press have remained largely unchanged in scope and amount over recent years. But through this kind of media innovation funds, resources are available for which press organisation can apply for too and which they can put to their needs. Of course, this means they will have to learn to play by the rules of a more project-based and competitive market. In a way similar to the convergence of media leading previously partnering companies to become competitors, the same companies now also compete for funding in the recent, more integrated R&D funding schemes offered by the Flemish government. As direct subsidies are unlikely to be raised soon, these kind of innovation-centred funding mechanisms should be seen as a much-needed addition to more traditional forms of subsidies to the press. Developing an innovation policy then becomes a priority for press organisations. In a well-balanced innovation policy, using these resources for product and service innovation might allow available resources to be invested in the otherwise too expensive practices of in-depth journalism.

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Georgi Kantchev and Nelly Ognyanova

11.1 Introduction

After the fall of communism in 1989, Bulgaria introduced political pluralism and set up new democratic institutions. These structural transformations had a profound impact on the media situation in the country (Tabakova 2010). A phase of market liberalization was followed by an expansion of private ownership in electronic media which gave ground for the starting up of private print media offerings. Naturally, as this environment intensified competition for audiences, the problem of organizing viable business models for financing media became one of the leading issues of concern for both policymakers and publishers alike.

While some initiatives to regulate media funding had failed in the past, no such regulations do exist for any direct state aid for newspapers in Bulgaria today. However, whether by design or not, some shadowy practices and mechanisms to support print and electronic media financially with public funds have survived over time. Interestingly, these practices take on specific and rather opaque forms. This leads us to hypothesize that these governance practices signify a general below-the-line malpractice of hidden government support to industry paid by the public purse. Consequently, these practices permeate the media system and lead to manipulation of the media at various levels. For example, after joining the European Union in 2007, Bulgaria received access to a pool of European funds through the EU's Structural Funds and the Cohesion Fund, parts of which were directly or indirectly used to finance media outlets.

Further, some industry specifics of Bulgaria's media landscape are a prerequisite for the emergence of some other unacknowledged and not transparent mechanisms

G. Kantchev (✉)

HuMan Institute for Humanistic Management Bulgaria, 17 Bogdan str., 1504 Sofia, Bulgaria
e-mail: g.kantchev@human.bg

N. Ognyanova

European Studies Department, University of Sofia, 125 Tsarigradsko Shose Blvd., Sofia, Bulgaria
e-mail: nelly@uni-sofia.eu

of financing media with public funds. These were born out of the struggle for domination over media policy regimes of powerful political actors, mainly between the ex-communists and the new political actors after the fall of communism, the “pro-reform” democrats (Smilova et al. 2011).

Moreover, and perhaps most importantly, the economic crisis and its effects on declining advertising revenues have fostered the malpractice of institutional advertising (i.e., government-mandated advertising for institutions such as ministries and government agencies) as a main source of revenue for major media (AEJ 2012a, b). This is said to have significant distortive effects on media diversity in the country since it creates mutual dependence between the media and government, giving the latter a strong leverage to influence editorial policies of the former.

The rationale of the following chapter is to showcase the profound effect that this entanglement between political actors and media players is having on financing newspapers with public funds in Bulgaria. We shall approach this major issue of state–media relations to organize hidden state support for newspapers as follows. First, we shall present an overview of the Bulgarian print media landscape and discuss current affairs of print media regulation. Next, the forms of media regulation and the absence of more dedicated rules on government subsidies for newspapers respectively shall deliver the basis for discussing malpractices of government-backed subsidization of print media with public funds. A closer look at these unofficial and informal practices shall reveal some of the most important depths and gray areas of policymaking and actual policy practices that underline the issue of state aid for newspapers in Bulgaria.

11.2 The Print Media Landscape in Bulgaria

With freedom of speech guaranteed by the Constitution and respected by government, Bulgarian media can express a wide range of public and political views, generally without government interference (Freedom House 2011). Most media companies in the country are run by private business, with only the *Bulgarian National Television* (BNT), the *Bulgarian National Radio* (BNR), the *Bulgarian News Agency* (BTA), and the *State Gazette* publishing company (the newspaper of record that publishes public or legal notices) being in the public hand.

Newspapers are the second most popular media type with a weekly usage rate of 52 % of adults who read newspapers ahead of the Internet (48 %) and only behind television (98 % of adults watch television at least once a week). On average, Bulgarians spend 4.1 h/week reading a newspaper and 3.7 h/week reading a magazine (IAB Bulgaria 2012). This popularity of print media among the population explains the dynamic and entrepreneurial nature of the sector where all newspapers are privately owned. Compared to most other Central and Eastern European countries, the newspaper market in Bulgaria is very dynamic and relatively diverse (Stetka 2011a). According to the National Statistical Institute (2012), 369 newspapers with an annual circulation of 373,000 copies were published in

2011, with circulation increasing by nearly 10 % compared to the previous year. Of them, 62 were daily newspapers making up 62 % of the total circulation.

As will be presented in the next subchapter, a comprehensive legal framework organizes Bulgaria's print media market. However, there is no specific law for the press in Bulgaria and the current regulatory framework offers "*much freedom to publishers in terms of editing and content*" (Christova and Förger 2008, p. 7).

Most regional and local newspapers are published several times a week. Due to the under-regulation of the market (Christova and Förger 2008, p. 7), however, no official circulation figures are available since there is no official body to collect them. According to estimation by *Capital*, an influential *Bulgarian* weekly newspaper, published since 1992, the market is led by *Telegraph* (Телеграф), a national daily newspaper published in Sofia and estimated to be the national leader with a circulation of about 115,000 copies sold on some days, *Trud* (Bulgarian: Дневен Труд, Bulgarian for labor), also a national daily, whose first issue came out on 1 March 1936, making it one of the oldest Bulgarian newspapers still in existence, with a circulation of some 60,000 copies sold daily, and *24 Chasa* (Bulgarian: 24 часа, translated as 24 Hours), with a circulation of ca. 50,000 copies sold daily (Capital 2012). According to opinion polls, *Trud* is the most popular newspaper with 24 % of adult Bulgarians reading it, with *Telegraph* ranking third (16 %) (MBMD 2012).

The following table gives an overview about the most popular daily newspapers in Bulgaria according to opinion polls (MBMD 2012) compared with estimated circulation data (Capital 2012) (Table 11.1).

All the leading publications presented above are tabloid newspapers, so-called "hybrid tabloids" (Tabakova 2010), since they combine elements of both the popular and quality press and serious and light content, the latter of which is frequently of scandalous type. Most press titles oscillate towards light entertainment content and popular genres (Daskalova 2010). Thus, only a couple of today's newspapers could be classified as quality press, such as *Capital daily* and *Capital weekly*, both published by the *Economedia* group. *Capital daily* focuses on political and financial news and generally does not include tabloid-style information. *Capital weekly* offers analyses of the week's events covering domestic and international politics as well as economics, technology, sports and culture topics. Further, *Tema* is regarded as a competent political and social weekly and *Eva* and *Grazia* are some further popular magazines (Christova and Förger 2008). Bulgaria's ethnic minorities also have their own periodicals, but they are published infrequently and in small numbers (Christova and Förger 2008).

The reason for the convergence of quality and tabloid content in the Bulgarian press may be attributed to the historical development of the country. The liberalization of the printed press after the fall of communism was very rapid and resulted in the emergence of hundreds of new titles. These publications, however, often had a short life span, as most of them were not economically profitable (Stetka 2011a). Most of the quality broadsheets, which started in the early 1990s, could not find a stable market position and thus did not stay in the market. Therefore, popular dailies

Table 11.1 Daily newspapers in Bulgaria—Publishers, circulation and reach

Publication	Publisher	Est. circulation	Reach (%)
Telegraph	NBMGH	115,000	16
Trud	New Media Bulgaria	60,000	24
24 Tshasa	New Media Bulgaria	50,000	20
Standart	Standart News	40,000	11
Republika	Petio Bluskov	18,000	n.a.
Monitor	NBMGH	8,000	2

Source: Capital (2012), MBMD (2012), Stetka (2011a, b)

expanded into the domain of the quality press and took over most of their terrain (Tabakova 2007).

Another distinctive feature of the Bulgarian press market is the lack of transparency of ownership of most of the country's newspapers which led to accusations in recent years that certain political figures were, indirectly, financing or, worse, even buying up newspapers to secure positive political coverage. Thus, in 2009, the Union of Publishers in Bulgaria requested media owners to register at the Ministry of Culture at the beginning of each year with the main argument that the public should know what interests they protect.

Until recently, Bulgaria was among the few countries in the European Union with no regulations to ensure transparency of media ownership. In late 2010, the Parliament adopted amendments to specific sector legislation¹ in order to bring to light the actual owners in the print media sector. According to these amendments, publishers of printed periodicals (newspapers and magazines) have to submit to the Ministry of Culture a declaration form which identifies the actual owner of the publication. As of September 2012, however, less than a third of the papers in Bulgaria have filed such declaration (Antonova 2012a). This led media analysts to call the legislative provision half-hearted and to claim that it only pretended to address the problem (Stetka 2011a).

The lack of transparency in ownership of print media in Bulgaria is crucial when it comes to the question of using public funds to finance newspapers. As will be laid out in more detail below, there are several ways to use public money to fund newspapers in clandestine ways, some of them transgressing the legal limits. The lack of knowledge about who is behind the print media is a pressing issue when it comes to these shadowy practices since political parties and even government actors could use public money to secure favorable coverage without risking exposure of these mechanisms.

The following part of this chapter focuses on the regulation of media in general—and of print media in particular—examining in detail what limits the law can set on the transparency of financing media and how these limits can be overcome. The discussion of the legal framework sets the stage for the emergence of the shadowy practices of media funding.

¹ Amending law to the *Law on mandatory deposit of printed and other works* (2010).

11.3 The Legal Framework of Press Regulation

11.3.1 General Media Regulation

The current regulation of media in Bulgaria is based on the current democratic constitution of the Republic of Bulgaria which was adopted on 12 July 1991 by the 7th Grand National Assembly of Bulgaria.² The constitution aims at guaranteeing human rights in accordance with modern democratic standards. Bulgaria became a member of the *Council of Europe* and acceded to the *European Convention on Human Rights* (ECHR) in 1992. According to the constitution, international treaties were ratified and took precedence over domestic law. This allows for the mechanism for protection of the rights provided for in the ECHR to operate in Bulgaria. The constitution states that everyone has the right to freedom of expression. It extends protection over speech in a broad sense, including commercial speech, art, and artistic expression (Ognyanova 2011). The constitution as well as the European Convention does not distinguish between various forms of expression. According to case laws of the ECHR all expression, whatever its content, falls within the scope of Article 10 ECHR.³

Under the Bulgarian constitution, however, the right to freedom of expression is not absolute. It sets certain limits necessary to protect other public interests and values. This right could not be used to the detriment of the rights and reputation of others or for the incitement of a forcible change of the constitutionally established order, the perpetration of a crime, or the incitement of violence against anyone.

Further, censorship is expressly prohibited. While the term “censorship” is not defined as such in the constitution, it is defined in the national Law on Radio and TV as “*interference by persons outside the editorial board.*” However, the constitution explicitly allows suspension and confiscation of printed matters or other storage media when public decency is undermined or when there is incitement to forcible change of the constitutional order or to committing a crime or violence against anyone. Such intervention is legitimate only on the basis of a court decision, which ensures the correct application of this exception to the freedom of expression.

Next, everyone has the right to seek, receive, and disseminate information. This right cannot be exercised against the rights and reputation of others and of national security, public order, public health, or morality. The constitution also provides the right to privacy and confidentiality of correspondence. Additionally, according to the constitution, intellectual property is protected by law.

²The following part of the chapter is partly based on laws and regulations adopted by the Parliament and other state institutions and made public in the State Gazette: ДВ, бр. 56/1991 г.; ДВ бр. 55/2000, посл.изм. бр.39/2011 г.; ДВ бр.1/2002, посл.изм. бр.105/2011; ДВ бр. 41/2007, посл.изм. бр. 44/2012 г.; ДВ бр. 56/1993, посл.изм. бр. 25/2011г.; ДВ бр. 27/1993, посл.изм. бр. 38/2012 г.; ДВ бр. 81/1999, посл.изм. бр. 54/2011 г.; ДВ. бр.138/1998, посл.изм. бр. 38/2012 г.; ДВ бр.99/2011 г.; ДВ бр.108/2000, посл.изм. бр. 101/2010 г.

³Casado Coca v. Spain, (15,450/89) [1994] ECHR 8 (24 February 1994); Bartold v. Germany (8,734/79) [1985] ECHR 3 (25 March 1985).

After establishing the baseline for media regulation in Bulgaria, we will examine the press regulation in more detail in order to identify problem areas that are connected and can be exploited by shadowy schemes.

11.3.2 Press Regulation

In addition to these general rules in force in Bulgaria, there are regulations in place for different types of media. For the past 130 years, legislation for print media was enacted six times, with the first law being passed as early as 1883. After the democratic changes in the 1990s, no specially dedicated print media legislation has been adopted. According to the constitutional court, the different regulation of various types of media has an objective basis: broadcasting requires regulation as traditional programs are transmitted via radio frequency spectrum, a scarce resource over which the state exercises sovereign rights.

In general, the press in Bulgaria may publish without any prior authorization by the state. Specific requirements for print media are provided in the law on mandatory deposit of printed and other work (original title of the law). Under this law:

- Printed works are works printed on paper or another medium by printing or similar method, including Braille (the alphabet used by the blind).
- Periodic print works are works (newspapers and magazines), published with an interval between copies of not more than 6 months.
- The publisher is a person or entity that organizes reproduction of the work and provides funding.

Publishing is allowed without restrictions on the legal form of the publisher. As already mentioned, since 2010 Bulgarian publishers of printed periodicals are required to publish information about the actual owner in the first issue of each calendar year. If the publisher is a public company, the institution controlling the company must also be named. Any change in ownership must also be published in the first issue of the printed piece after its occurrence. The Ministry of Culture keeps a register of owners of the periodical press which is publicly accessible online (Ministry of Culture 2013; Novinite 2010b).

11.3.3 Ethical Norms and Self-regulation

Self-regulation of the media and the Internet is another important pillar of media regulation in Bulgaria. In 2004, the *Code of Ethics of the Bulgarian Media* was adopted, which mirrors self-regulation acts in European journalism. This voluntary ethics code postulates truthfulness, respect for human dignity, freedom from censorship, editorial independence, and prohibition of discrimination and calls upon the media to support democratization (Christova and Förger 2008).

Much of the influential Bulgarian electronic and print media have signed the code. There are two ethics commissions overseeing the compliance with these ethics rules—for print and electronic media accordingly. However, since the code

is signed on a voluntary basis and there are no penalties for its enforcement, the limits it sets on the media are not sufficient to ensure a transparent and independent media environment in the country.

11.3.4 Problems with Press Regulation

Regulation of media ownership and concentration in Bulgaria could be considered as weak (Stetka 2011a). Hence, the lack of transparency of ownership and funding comes as a substantial problem in the country (Ognyanova 2010). The measures introduced in recent years are called to be rather ineffective. While legal obligations for disclosure of ownership and funding are in place, print media publishers have found skillful ways to avoid them. For instance, if a media discloses its funding saying it comes from a bank loan, that is not sufficient by itself to fully disclose the source of the funds because it does not provide information on the companies whose assets are securing the loan. Often these are offshore companies, which is, however, legitimate under Bulgarian law. If the offshore companies invest money of illegal origin, the acquisition of media may be used for money laundering purposes. Currently, public attention is drawn to two Bulgaria businessmen who are partners in a group which acquired the two wide-circulation national newspapers *Trud* and *24 Tshasa* from the German group *Westdeutsche Allgemeine Zeitung* (WAZ) in December 2010. Both are under state investigation precisely for being accused of money laundering (Vladimirova 2012). The indicted have denied all claims.

The lack of transparency of media ownership has various other negative effects. Especially noteworthy is the connection between the lack of transparency and the control over media concentration, the latter of which is carried out by the anti-monopoly regulator *Commission for the Protection of Competition* (CPC). It is widely believed that there is a growing consolidation of the media market, which cannot be controlled by legitimate means owing to the fact that the law on disclosure of actual owners is not working properly. However, the Commission has continued permitting the acquisition of new media by powerful media groups such as the *New Bulgarian Media Group Holding* (NBMGH) which already owns numerous high circulation editions and is considered to be related to the *Movement for Rights and Freedoms*, an influential party of the ethnic minority of Bulgarian Turks (Tabakova 2010). Before the elections in 2009, the newspapers owned by the group were generally critical of the movement's political rival, the GERB party and its leader, Boyko Borissov. After GERB won the elections, the publications changed their tone and are now considered pro-governmental. Such a sudden change in the coverage—it happened overnight after the elections—casts a shadow over the editorial independence of the media held by NBMGH group.

11.4 Hidden Government Subsidies

More than 20 years after the fall of communism, Bulgaria is still struggling to build a free and independent news media ecosystem. The country consistently ranks last among EU members in terms of media freedom. It is placed on only 80th position in the *Press Freedom Index* 2011–2012 (Reporters without Borders 2012) and 78th in the *Freedom of the Press* 2012 report (Freedom House 2012). What is more worrying is the fact that the country's ranking in the *Press Freedom Index* has declined steadily since 2006, when it was still ranked 35th place (Reporters Without Borders 2012).

Several factors explain these low rankings. First, Bulgaria, like any other ex-Communist country, displays a high degree of “*systemic parallelism*” (Jakubowicz 2007, p. 303; Hallin and Mancini 2004). According to this notion, media systems are shaped by sociopolitical and cultural features of their countries, notably represented by the degree of democratic consolidation (Hallin and Mancini 2004). Lately, Bulgaria's media system was downgraded to a “*flawed democracy*” category in the Economist Intelligence Unit's *Democracy Index* 2011, depicting a type of regime which has moved away from full democracy by losing major democratic qualities. Now, the country ranks only 52nd place in the world and only 26th in the European Union (EIU 2011, p. 5).

Second, journalism in Bulgaria also struggles with pressures from government. The case of Lidia Pavlova, a journalist covering organized crime for the local daily *Struma*, is a shining example for the country's restrictive practices of this kind: Pavlova had received a number of anonymous threats. In May 2012, her son's car was set on fire in her hometown (International Press Institute, 2012).

Further, there are obvious sources of government-backed public funding practices; selected players of the print media industry are said to benefit from generously. Let us turn to these practices more explicitly. First, there are hidden subsidies given out to the press which have allegedly led to abusive practices of public funds in the country. Given the legal regimes investigated above, these abusive practices are nourished by the country's generally under-regulated media environment (Christova and Förger 2008).

While there is no official system of press subsidies in Bulgaria, there is a rather widespread practice of indirectly subsidizing the media through payments by the state for advertising or other promotional publications, i.e., essentially through government advertising schemes. As for EU funding, money is channeled either directly to media outlets or indirectly through government-minded media agencies. According to critical observers of the media, these advertising deals are usually made in return for positive coverage of government (Stetka 2011a). Further maneuvers, such as media funding of political parties and private banks holding state money to be invested into private media undertakings, are laid out below.

Table 11.2 Indirect state subsidies for private media

Year	Investments, <i>Leva</i>
2009	303,259
2010	1,564,320
2011	4,394,413
2012 (est.)	8,469,500
2013 (forecast)	13,964,326
Total	28,695,818

Source: Marchev (2013)

11.4.1 EU Funds

By 2011, Bulgaria has negotiated 5.78 billion *Leva* (2.95 billion euros) through various operational programs financed by the European Union. According to expert assessment, between three and five percent of the contracted funds, or about 300 million *Leva* (153 million euros), were allocated for by information campaigns and other media activities related to various public projects. Since the media is a main actor in such campaigns, this, in itself, is an obvious form of indirect financing of government-friendly newspapers (and other types of media) with public funds. Here, the ministries and government agencies are effectively becoming major suppliers of public funds to private media. All in all, since the new government came in power in 2009, the state has directed more than 28 million *Leva* (15 million euros) into private media by effectively placing advertisements and launching information campaigns in them (Marchev 2013) (Table 11.2).

This specific type of state aid brings up some crucial questions with regard to the purpose of this type of public help. Lately, in an open letter to Neelie Kroes, European Commissioner for *the Digital Agenda*, which was signed by prominent Bulgarian journalists (AEJ 2012a, b), it was reported that a 25-year-old former employee of the *Ministry of Agriculture and Food* received some 50,000 euros to set up *Facebook* and *Twitter* profiles for promoting the EU Rural Development Programme. The usual practice to use the money allotted to promote EU programs as a way to buy media comfort is, however, not restricted to the *Ministry of Agriculture*. In times of crisis and declining advertising revenues, institutional government-backed advertising seems to be the main source of revenue for major media. Nonetheless, the *Ministry of Agriculture* is mentioned in local media as the undisputed record holder in the spending of EU funds for advertising and information campaigns. In September 2012, in a meeting between Neelie Kroes and Bulgarian journalists, the question has been raised if EU financing is used by its purpose—to promote the Union’s programs—or, as is alleged, to purchase positive media coverage (Koleva 2012; AEJ 2012a, b).

As the criteria and procedures for utilizing the EU funds are, at times, not transparent enough, there is not only funding beyond public control, but also grounds for suspicion of corruption and lobbying. As media analysts point out, the government on the one hand and the information service providers (i.e., the media) on the other “*seem like two sides of a fraudulent and inefficient*

conglomerate” (Antonova 2012b, online). Obviously, it is the lack of regulation as to whom and how transparently these funds are transferred which leaves a bitter aftertaste (Stetka 2011b).

11.4.2 Financing Media During Election Campaigns

Another intriguing question is the critical issue of media funding during election campaigns. Bulgarian politicians openly admit that there are close links between media and political parties (Lazar 2011). Therefore, a relatively high level of media/party parallelism occurs in Bulgaria. As the party system in the country is quite volatile and parties change frequently, newspapers rapidly adapt to the new political situation and change their loyalties. For example, there is a close connection between one party, the Turkish ethnic *Movement for Rights and Freedoms*, and one media group—the NBMGH (Lazar 2011). Another indicator of the strong ties between politicians and media elites is that members of the media elite often receive patronage jobs (as senior public administrators or senior political advisors) as a reward for their loyalty (Örnebring 2011).

This high level of political entanglement becomes especially visible during election campaigns. It is well known that editorial content should be distinguished from commercial and political advertising. In Bulgaria, there is an explicit legal requirement to do so only for the commercials in broadcasting. During an election campaign paid-for political reports are thus not easily identified as such (Antonova 2011). In this context, the *Organization for Security and Co-operation in Europe* (OSCE) noted that “*virtually all campaign coverage in the media (during the presidential and municipal elections in October 2011) had to be paid [by political parties] which resulted in a near-absence of editorial coverage of the campaign*” (OSCE 2012, online). As political parties receive a state subsidy, the media coverage was essentially paid with public funds. It comes as no surprise that the lack of distinction between editorial content and political advertising is more than problematic both in terms of the right to information for citizens and the lack of funding transparency of the media, as was rightly noted by OSCE (2012).

11.4.3 Funding from Private Banks

There is further intriguing evidence that Bulgarian media are unduly funded with public funds. Arguably, the private *Corporate Commercial Bank* (CCB) is generously funding media projects of the large media group NBMGH. In recent years, particularly before the occurrence of the scandal, the CCB bank held the main portion of the funds of the state-owned enterprises in the energy, transport, and defense sectors. This gave rise to the suspicion that the bank might have financed the operation of the media group with public funds. Being able to rely on generous funding through the bank’s public money, NBMGH’s publications were said to distort the free market logic (Stetka 2011a). Some of the Bulgarian publishers have

since accused the group of price-dumping the cover prices of its papers, all sold at below production costs. In 2010, the state Commission for the Protection of Competition ruled that price dumping had indeed occurred in the case of one publication owned by NBMGH (i.e., the *Express*) (Novinite 2010a).

Moreover, NBMGH media have a strong pro-government orientation, which is yet another argument often used by critics that this type of funding is state aid. Further, the paper would not be editorially independent—as was brought up by the European Commission (Trud 2012a). The government, on its side, said that it would not influence state enterprises when choosing a bank in which to keep their free funds. However, the Union of Publishers in Bulgaria submitted a complaint to the *European Commission* for illegal state aid granted to CCB bank and thus to NBMGH. Notably, NBMGH is publishing the popular newspapers *Telegraph*, *Monitor*, and *Politika* (Trud 2012b). These allegations have even resonated abroad. The conservative German national daily newspaper *Die Welt* quoted sources according to which the Bulgarian government is funding “sympathetic” publications by subsidizing the NBMGH papers through the CCB bank. It was argued that their newspapers could sustain a lower price and manipulate the distribution system to their benefit (Bolzen 2012). And, regarding allegations of hidden government support for NBMGH papers, distribution manipulation becomes yet another important issue in the power plays between politics, media, and government money in Bulgaria.

Conclusion

In the absence of an official state subsidy scheme, this chapter laid out three main ways for indirect government subsidies for the press in Bulgaria—through channeling European Union funds to media by ministries and state institutions, through political parties using their government subsidy to secure positive coverage, and, thirdly, through private banks holding deposits of state enterprises which themselves finance newspapers. Against this background, the prospects for financing Bulgarian print media with state funding are currently subject of critical public debate.

Since the most worrying trend is the decline in quality journalism, state support mechanisms for quality media are currently entering the public debate. Some argue that quality journalism should be supported on a project basis by the existing fund for state support of culture, organized within the Ministry of Culture (*National Culture Fund*). They demand a stand-alone scheme within the fund, which is to support quality journalism in electronic and print media. The chairman of the media regulator, Georgi Lozanov, supported this idea ever since. In his opinion, it is time to consider whether a state fund should be established to support quality newspapers that perform important functions of public control. According to Lozanov, quality press is the symbol of serious journalism and it has formed a lasting cultural habit that cannot be transferred to or offset by new media. As mentioned above, however, Bulgaria’s quality press is limited in volume because of the hybrid nature of most newspapers. Nonetheless, such a fund would have to differentiate between quality and hybrid press,

which is assumed to be a very difficult task (Lozanov 2012). Another option for funding print media would be to introduce new sector legislation, i.e., a press law or a new convergence media law. So far, the idea of introducing new press regulation does not gather enough momentum because of fears that the law could be a new form of restricting media freedom. More supporters, including Lozanov, supported the idea of a convergence media law which should set technology-neutral requirements for media content regardless of platform distribution. It was claimed that future law should also envisage funding for quality media content on a project basis. And, finally, Bulgarian newspaper publishers insist on a reduction of value-added tax (VAT) on books and printed media. According to media reports, the government and representatives of the publisher's unions are discussing this idea which would be supportive of the free speech and would promote reading especially among young people, all ideas supported by Androulla Vassiliou, *European Commissioner for Education, Culture, Multilingualism, Sport, Media and Youth* (Vassiliou 2012).

In any case, the press in Bulgaria is at a critical junction. As was commented rather cynically by Nikola Kizevski, a prominent Bulgarian journalist, media freedom in the country had vanished completely in December 2010 when the German group *Westdeutsche Allgemeine Zeitung* (WAZ) announced its pulling out from Bulgaria. On the contrary, however, there is a common view that the 2004 entrance of WAZ was just the turning point. While in Bulgaria, WAZ was often attacked by its rivals for operating a virtual monopoly since it owned not only newspaper publishing companies but also one of the biggest newspaper distribution and printing houses (Popova 2004). However, in 2005 the *Commission for Protection of Competition* (CPC) allowed WAZ to increase its stake. The group then controlled 64 % of the market for newspapers and 60.5 % of the market for advertising in the national press. CPC authorized the transaction, arguing that the positive effects of the transaction outweigh the negatives ones. What is more, as the German ambassador to Bulgaria Mathias Höpfner noted in an interview, after WAZ withdrew from the country, Bulgaria went down the charts for press freedom: “*I think WAZ contributed to the diversity of the Bulgarian media landscape,*” Höpfner commented rather wryly (BGNES 2013). In all, national experts agree that the current state of the media is not sustainable—Bulgaria's press is not transparent and shadowy government practices abound (Papakochev 2012).

Is there a sustainable cure for this gridlock? No, but there is no doubt that the discussion surrounding the introduction of an official press subsidy scheme for the Bulgarian quality press can be viewed as a good starting point for resolving the issue the issue of press freedom and quality. However, strict adherence to the transparency regulations and penalties in case of failure to execute them are also needed to ensure that readers know who stands behind the media. Finally, the quality of the press can be achieved only when the people who are producing the press are up to the task. Hence, we believe that many more efforts into ensuring good education for journalists have to be undertaken.

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Hannu Nieminen, Kaarle Nordenstreng, and Timo Harjuniemi

12.1 Introduction: Changes in the Media Landscape

In recent decades the Finnish media landscape has undergone fundamental changes. As a result of digital convergence and the fragmentation of the advertising market, news journalism has increasingly been treated as one commodity product among others. The ideals of democratic public interest and social values traditionally associated with news journalism have lost ground to market values. The business of journalism is thus at a crossroads: The traditional revenue streams of publishing houses are drying up as print circulations are diminishing, and advertisers are searching for alternative marketing channels to newspapers. This development has seen traditional publishing houses resorting to drastic cuts in journalistic resources. Consequently, newspapers are looking for means of scrambling for survival as the convergence of media platforms is challenging the traditional habits of consuming media content.

When it comes to larger-scale societal and policy developments, the ruptures in the spheres of media policies and journalism have been significant. Historically, Finnish mass media and newspapers in particular have been regarded as a fundamental part of a pluralistic democracy. Traditionally, the Finnish media system was characterised by an ethos of social responsibility of media companies among an informed citizenry. This ethos was seen as an ulterior governance motive for an industry of special importance to society (Nieminen and Pantti 2012). By the 1970s, socially oriented communication policy had become a central part of political programmes in the country, including not only significant state subsidy to the

H. Nieminen (✉) • T. Harjuniemi
Department of Social Research, Media and Communication Studies, University of Helsinki,
Helsinki, Finland
e-mail: hannu.nieminen@helsinki.fi; timo.harjuniemi@helsinki.fi

K. Nordenstreng
School of Communication, Media and Theatre, University of Tampere, Tampere, Finland
e-mail: kaarle.nordenstreng@uta.fi

press but also schemes for comprehensive media policies which were displayed internationally as an exemplary way of arranging this emerging area of social policies (Nordenstreng and Wiio 1979). Since the 1990s, however, this type of Finnish “social contract” has suffered from increasing legitimacy problems. The Finnish social contract was traditionally based on a corporatist system of negotiations and compromises between the three main actors in society: the government, the employers’ union, and the biggest trade unions. Declining electoral participation and increasing distrust in politicians, the rise of populist and racist movements, and increasing tension in the labour market have all negatively impacted on developments in the media themselves. According to opinion polls, the professional status of journalists has been in constant decline and the popular trust in the media has severely diminished since the 1990s (EVA 2011; Kunelius et al. 2010).

Finnish media policy during the past few decades has been influenced by more general European trends of deregulation and marketisation (van Cuilenburg and McQuail 2003; Harcourt 2005; Michalis 2007). These have not only undermined the market position of the printed press but have also meant a considerate axing of public press subsidies. Indeed, Finland has seen a sharp decline in newspaper circulation: a drop of 20 % between 2001 and 2011 (Statistics Finland 2012). As it stands, the issue of press subsidies is—to a growing extent—being addressed within the sphere of economic rationality, rather than as a means of promoting pluralism within the Finnish public sphere. These changes have been reflected in all forms of government-mandated public newspaper subsidies. Finland is currently one of the few countries in Europe—if not the only one—where newspapers enjoy neither direct nor indirect forms of state aid.¹

In this chapter, we shall first give an overview of general developments in society which have had an effect on media policies and media businesses since the 1990s. Then we shall provide a brief history of allocating newspaper subsidies in Finland, followed by a summary of the state support currently provided to the press. Finally, we shall draw some conclusions and link the issue of press subsidies to wider societal changes that have occurred in Finnish society during the last 20 years.

12.2 The Finnish Media System (2000–2012)

The Finnish media system in the 2010s can be characterised by four main features²:

- *High level of concentration:* As in many countries with small populations, the media market in Finland is dominated by a few players. In newspaper publishing, the top four companies hold 55 % of the market. One company (*Sanoma Group*) has a strong position: It controls 22 % of the total newspaper circulation

¹ An exception concerns the VAT rate, which from the beginning of 2013 is 10 % for newspapers (the same as books, medicines, tickets to cultural, and sports events) as the general VAT rate is 24 %.

² These features are an update from Nieminen (2010). Further information on the current Finnish media landscape (in Finnish language) may be found in Nordenstreng and Wiio (2012).

- (2010) and 33 % of the magazine circulation; it owns a television channel (the third biggest in the country, with a 15 % audience share), and the biggest publishing house in Finland (45 % of the market for books), among other things.
- *Established division of markets:* In Finland, there is only one major national newspaper (*Helsingin Sanomat*), holding a circulation of about 366,000 copies in 2011 (Finnish Audit Bureau of Circulations 2012a). Additionally, all leading regional newspapers—about 28 in total—are practically in a monopoly situation in their respective (regional) areas. There is no major market competition except that between the evening papers (i.e. tabloids), where two leading media houses compete head to head, i.e. *Ilta-Sanomat* (143,000 copies in 2011) against *Iltalehti* (102,000 copies in 2011).
 - *Sound professional culture:* The media, as national institutions, still enjoy high public trust in Finland. Media professionals are today mostly well educated and they share a basic commitment to common quality standards. The Council for Mass Media in Finland (*Julkisen Sanan Neuvosto* JSN) represents all main interest groups. Its members include representatives from media management and journalists as well as different audience groups. It follows commonly agreed ethical codes.
 - *Profitable national media structure:* There is a well-established three-tier newspaper structure between national, regional, and local papers. All these tiers have generally remained reasonably profitable, even in the crisis year 2009 (e.g. the operating profit of the *Sanoma Group* dropped from 11 % in 2008 to 9 % in 2009 and that of the *Keskisuomalainen group* from 20 % in 2008 to 16 % in 2009). Early home delivery of newspapers is available for 90 % of all households (Lehtisaari et al. 2012).

Again, Finland continues to have a fairly rich newspaper supply with a well-established three-tier market structure. For the population of 5.5 million people, there is only one major national newspaper (*Helsingin Sanomat*) with a circulation of about 366,000 copies (in 2011), while all political parties have their national organs published only 1–5 times a week, suggesting a relatively small readership. But the geographically very large country has nearly 30 regional newspapers, each enjoying a monopoly situation in their market areas.

Despite its present relative stability, the media environment in Finland has changed in fundamental ways. Three main challenges have been noted (1) the decline in newspaper readership, (2) a big drop in advertising revenue, and (3) the expansion of broadband Internet connections. In detail, these challenges are as follows:

1. *A (slow) decline in newspaper readership:* Table 12.1 demonstrates that in the 10 years from 2001 to 2011, the total circulation of newspapers fell by about 20 %, and this decline shows no signs of slowing down. The loss in circulation has obviously been detrimental to the finances of the newspapers. In practical terms, income from sales and subscriptions has stayed on the same level for over 10 years, whereas all other costs (printing, distribution, salaries) have steadily increased. For the future, the main problem, however, is the reading habits of the young. Among people over 45 years old, more than 80 % read newspapers daily, and the average time spent reading is 35 min/day. Among those under 24,

Table 12.1 Circulation of newspapers per thousand inhabitants

	2001	2008	2011	Change 2001–2011 (%)
Dailies (4–7 issues/week)	445	400	355	–20
Non-dailies (1–3 issues/week)	181	177	154	–15
Total	626	577	509	–19

Source: Statistics Finland (2012)

Table 12.2 Advertising in newspapers 2008–2012 (million euros)

	2008	2009	2010	2011	2012
Newspapers (total)	604.5	474.2	485.6	502.6	461.6

Source: Finnish Association of Marketing Communication Agencies (2010) and Association of Finnish Advertisers (2011, 2013)

only 56 % read newspapers daily and the average time is <15 min/day (Finnish Audit Bureau of Circulations 2012b).

2. *A drop in advertising*: The weakening of the newspapers' economic basis hits journalism hardest. Table 12.2 shows that compared to 2008, newspapers lost 22 % of their advertising revenue in 2009. This only adds to a longer decline in newspapers' advertising revenues: From 2000 to 2009 the total drop was 38 %. The advertorial revenues have regained the levels of 2008.
3. *An expansion of broadband Internet connections*: As elsewhere in Europe, broadband Internet has expanded rapidly in Finland. According to the Eurostat statistics, in 2012, it was estimated that 84 % of all households had a broadband Internet connection (Eurostat 2012). However, although the government has actively promoted the large-scale deployment of ICTs in both public and private sectors, the expansion of high-speed connections has not been as fast and successful as hoped. In several reports on the "Information Society" Finland is still lagging behind its Nordic neighbours (e.g. EVA 2009; ITU 2012). One of the main reasons appears to have been the trust in the ability of market forces to bring about all the benefits associated with the Information Society, without public sector involvement. Even industry think tanks like the *Finnish Business and Policy Forum* (EVA) argue that this strategy has failed and call for stronger governmental intervention (EVA 2009).

12.2.1 Latest Responses of News Media and Policymakers

As newspapers have been experiencing some of the above-mentioned challenges for a longer period, the responses of news organisations have included both long-term strategic and more immediate tactical organisational and content-based reactions. The most obvious of these are the following:

- *Tension between the newspaper industry and the Finnish Broadcasting Company YLE*: As a reaction to the drop in advertising revenue, both print media and private commercial television companies have increasingly levelled their

criticism at the public *Finnish Broadcasting Company*, YLE. From their point of view, YLE could benefit from their problems and thus consolidate its market position at their cost. Critical claims have also included that YLE provides content that would be commercially viable (like HBO programmes), thereby distorting the market. Partly as a reaction to the pressure of commercial broadcasters, the Finnish government in 2008 appointed a parliamentary committee to reconsider YLE's public service provision and its financing. Following the unanimous recommendations of the committee, and strongly against the wishes of the industry, a new funding model for YLE was adopted by Parliament, according to which the old licence fee was replaced from 1 January 2013 by a special YLE tax, collected in connection with general taxation.

- *Charging for online content*: Several Finnish newspapers have announced that they will start to charge for their online content. Most newspapers have already streamlined down their online news output. *Keskisuomalainen*, an influential regional daily newspaper in central Finland, was the first to announce that from 1 January 2011 it would start charging for its online version. Several other newspapers immediately followed suit. The biggest paper, *Helsingin Sanomat*, set up an online pay-wall in autumn 2012.
- *Cutting editorial costs*: Despite the absence of an imminent crisis, the reactions of most newspaper publishers to the decline in income have been quite drastic. Most publishers responded with cuts in editorial costs. For example, *Turun Sanomat* (the second biggest regional daily) reduced its journalistic staff by 1/3 in 2009. Instead of employing permanent staff, journalists were put on on-demand contracts. Another method has been to terminate old freelance contracts and to sign up new, cheaper but also less experienced contributors.
- *Promotion of broadband Internet*: As a part of the "Information Society Strategy", the government is actively promoting the construction of a national high-speed broadband network. According to the "Broadband for all 2015" project, by the end of 2015, over 99 % of the Finnish population shall be connected with an optic fibre network not more than 2 km away from their locality (Finnish Ministry of Transport and Communications 2013). The motives behind this initiative are mixed. On the one hand, broadband offers the ailing newspaper industry new potential for developing their online news services based on novel cross-media applications. On the other hand, broadband opens a way for the television industry to transfer television broadcasting to the Internet (IPTV), an effort which should reduce costs and create new business opportunities. Additionally, as television is expected to move to the Internet, more radio frequencies will be released for new and more profitable services.

The Finnish media have traditionally enjoyed the status of national institutions, supporting and supported by the consensual social contract. From the late 1980s, this situation started to change, and more controversial social and political relations began to replace this consensus. Since the late 1980s, the Finnish media and communication policy has—as in most European countries—steadily moved from the national–democratic line towards EU-led competition policy paradigms, a move that was seemingly more favourable to commercial actors.

12.3 Subsidies to the Press: A History

The Finnish history regarding press subsidies began in the 1960s, when many newspapers had run into economic difficulties and some had to close down, a phenomenon which gave rise to the concept of newspaper death.³ Those newspapers which died were second or third papers in a town where competition left less and less space for parallel channels of news, opinions and, above all, advertising. The papers to leave the market were mostly political party organs, suggesting a trend which stood in fundamental opposition to the historical doctrine in the country whereby newspapers were typically established and designed for political party support. Accordingly, newspapers had not been considered as an industry but as an integral part of a multiparty democracy, and there was a consensus across the political spectrum of newspaper death as a menace to be avoided. It was also known that the situation was more or less the same in other Nordic countries, thus strengthening the consensus that something had to be done.

The first major move by the government was the appointment of a *Committee on the Economy of the Press* in 1966. The Committee's report (*Komiteanmietintö 1967*) confirmed that it was necessary to provide government support in order to sustain a pluralistic and abundant newspaper press in the country. Following the Swedish example, it proposed state subsidies to the press to counter the downward spiral of advertising and circulation of newspapers in financial straits. It also recommended that the state postal system should keep the newspaper delivery rates low. This delivery support had been implemented since the 1950s and increased in the 1960s, while another form of state aid was now introduced following the Committee's recommendation, especially for politically affiliated newspapers in financial distress—a parallel to state aid for political parties.

In this situation, the government appointed in June 1972 a *Committee for Communication Policy* which was “to survey the problems related to mass communications and requiring government action, and to draw up proposals for remedying them” (*Komiteanmietintö 1974*, p. iii).⁴ The Committee, composed of 17 members, who were experts representing practically all directions of national politics with a rough balance between the socialist and the non-socialist affiliations, was given an extensive mandate including prospects for cable television and for the question of how communication policy issues should be handled in the state administration. But first and foremost the Committee's mandate was “to study the structure and financial condition of the press in Finland, and to draw up a proposal for the organization of state support for the press” (*Komiteanmietintö 1974*). The first report of the Committee included comprehensive statistics concerning the

³ This part is based on histories of the Finnish press (e.g. Tommila and Salokangas 1998) as well as on official documents and was prepared by Kaarle Nordenstreng, who was co-chair of the Government Committee on Communication Policy in 1972–1974. For an overview of the Committee, see Nordenstreng and Wiio (1979).

⁴ All quotes refer to the abridged version published in English language.

publication of daily newspapers and their economic situation. The latter was based on a confidential survey carried out among newspaper publishers. The proposals regarding the newspaper press were formulated unanimously, thus reflecting the whole political spectrum.

The proposals began with a passage entitled “General objectives” (*Komiteanmietintö* 1974, pp. 64–65). This passage represents a summary of the Finnish press policy doctrine in the latter half of the twentieth century. Here are its key paragraphs: *“One essential component of a democratic system of government is the right of the citizens to send and receive information without prior interference. A democratic society will be unable to function unless freedom of speech and the right of free opinion formation are guaranteed in practice as well as in theory by means of a many-sided system of communication.[. . .] . . . the press will continue to be indispensable in serving the citizens as a source of information regarding their environment, as a forum for the free discussion and exchange of opinion which form so essential part of a democratic state, as a source of increased political diversity and strength, and as a means of keeping watch over the use of power in society. In order that these functions of the press may be fulfilled, it is necessary in a democratically governed country to have a number of newspapers, independent of each other in control and financing. Some of these newspapers should represent various political parties while others should be politically independent, and neither of the two types should have to operate at a disadvantage compared to the other. It is the task of society to secure many-sided and effective communication, among other ways by making available to every reader a number of different daily papers: both independent and party-aligned, both national and regional in scope of coverage and both Finnish and Swedish in language.”*

This consensus position signifies both the philosophy (i.e. not purely libertarian freedom from censorship but progressive freedom for practical means) and, more pragmatically, represents the framework for the introduction of state aid as such. On this basis it was easy to recommend such policy measures which would ensure that the shares of party-aligned and non-aligned sectors of the newspaper press were in reasonable balance and the politically affiliated papers would roughly follow the parliamentary distribution of political forces. The assessment and proposals which followed were unanimous regarding newspapers, that is, newspapers proper published at least three times a week as well as local newspapers published once or twice a week. However, the Committee did not reach agreement on state aid to the periodical press (i.e. magazines published a most once a week). Here we shall focus on public subsidies to the newspaper press, compared to which the state aid to the periodical press was much smaller.

While the consensus doctrine in principle welcomed state aid to the press, and considered it a means to guaranteeing freedom of speech in Finnish society, there was no agreement about the specific forms of subsidy in the early 1970s, when the Committee began its work. Controversy erupted in particular about subsidising newspaper transport and delivery through the state postal system (PTT) at reduced postage rates—a vital question in a country where 98 % of newspapers were delivered (mostly by PTT) to subscribers instead of being sold

in the streets. The PTT had for years insisted that its rates were much lower than the actual costs of delivery, and in the late 1960s it was compensated for some of its deficit in the national budget. However, most of the newspaper publishers and their supporters on the political right refused to accept these amounts as real subsidies to the press. It was generally known that most of these hidden subsidies went to newspapers with a non-socialist or “bourgeois” orientation (either party organs or so-called “independent” papers)—simply because they had much bigger circulation than the socialist newspapers. An unfair distribution of state subsidies was an argument by the socialist press and gradually also by other political party-affiliated press in favour of increasing direct subsidies to political newspapers. In general, while there was a consensus in principle about subsidising party papers across the board, there was no agreement on the level of this support and instead a widespread reluctance to raise this politically selective subsidy.

The economic survey and other reviews of the newspaper industry conducted by the Committee, along with a parallel study on the costs of press distribution,⁵ served to clarify these uncertainties and controversies. The most significant achievement was a consensus reached on the actual level of hidden subsidy through the PTT delivery scheme: in 1971, it was decided that some 103 million Finnmarks (corresponding to 17.5 million euros) were to be given to the press as a whole (newspapers and periodicals), while the press itself paid only 33 million Finnmarks (5.6 million euros) to the PTT for all the deliveries. In other words, the subsidy was three times greater than what was paid by the press itself. The Committee deliberations thus for the first time revealed this hidden public subsidy to the press, removing the controversy around this issue and making it accepted by all parties concerned.

The reduced delivery rate was defined as indirect *general support* to the press benefiting all papers in similar terms, depending on the use they made of the postal service. A second form of indirect general support was given by exempting newspaper (and magazine) subscriptions from VAT—another hidden form of subsidy which was considered controversial until the Committee came to define it and discuss it more openly. The cost of the VAT exemption represented only one-fourth of the value of the reduction of the postal rate, but it was still far bigger than the direct subsidies given out to the press.

Direct subsidies had been introduced in the late 1960s mainly to help to sustain politically affiliated newspapers and news agencies. They were now defined as *selective support* to the press and came to support only certain papers, based on either economic criteria applied automatically or political criteria applied according to the parliamentary weight of each party (i.e. the number of MPs).

The general support for newspapers was calculated to be altogether 75 million Finnmarks (12.8 million euros) in 1971, while the selective support was at the level of 10 million Finnmarks (1.7 million euros) (*Komiteanmietintö* 1974, p. 47). At the same time, the newspapers received 310 million Finnmarks (52.7 million euros) in

⁵ Conducted by the Business Research Institute of the Helsinki School of Economics.

revenue from advertising and subscriptions. Hence total industry revenues were broken down as follows: advertising 60 %, subscriptions 20 %, and state subsidy 20 %. The lion's share of the state aid was made up of general support (18 % of overall revenue), compared to which the selective support was minimal (2 % of overall revenue).

The Committee proposed to increase the level of state aid to newspapers by over 30 % to 100 million Finnmarks (17 million euros) and, more importantly, to change its structure so that the relative share of selective support would increase three times from a share of one to seven to three to seven (*Komiteanmietintö 1974*, p. 71). A carefully designed package deal proposed by the Committee suggested dividing the selective support into two main forms of subsidy (1) automatic subsidies based on economic indicators and (2) political subsidies based on the relative parliamentary strength of each party measured by the number of MPs.

Using the system applied in Sweden as a model, the Committee developed a proposal which would automatically channel money to daily papers with so-called number-two market status, measured on the basis of their newsprint consumption. The purpose of this fully automatic form of subsidy was to improve the position of these papers in their own competitive field and to break the prevailing vicious circle of competition for circulation and advertising. The automatic support was to be channelled to both political and independent papers by reason of their competitive position alone—which, in practice, meant support to political party organs. In addition to the automatic subsidy to number-two papers, the Committee recommended that a sum of money be allocated annually in the state budget for subsidies to be paid to the press organisations of the political parties in proportion to their representation in Parliament. This kind of subsidy would enable the parties to develop the press activities internally and would play an especially important role in alleviating the difficulties of political newspapers appearing in peripheral parts of the country.

The package deal of the Committee, however, was not fully implemented as the political and economic environment in the country changed since the mid-1970s along with the oil crisis and the slowing down of democratic reforms. However, the concepts of general and selective support remained unchallenged, and the share of selective support was later slightly increased. Yet the total amount of state aid to the press did not keep up with the growth of the press industry and inflation. Also, newspapers increasingly resorted to their own distribution systems, mostly as joint ventures bypassing the PTT.

Looking at the situation in 1983, as reported to a *new Parliamentary Committee on the Press* (Nordenstreng 1985), it turns out that the share of state aid of the whole newspaper industry revenues (turnover) was 14 %, of which the general support was 11 % and the selective support was 3 %. The decade since the early 1970s witnessed further newspaper deaths and political party organs turning into independent (bourgeois) newspapers, and this trend was boosted by a general economic recession in the early 1990s.

By Finland's entry to the European Union in 1995, there was little left of the communication policy of the early 1970s. A study of the long-term development of

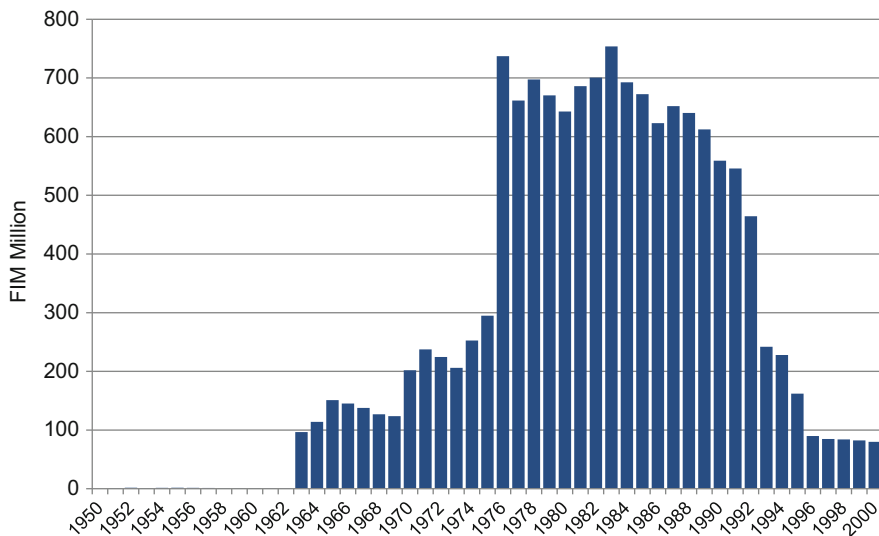


Fig. 12.1 Total annual expenditures for press subsidies 1950–2000 (million FIM, fixed prices). Source: Picard and Grönlund (2003, p. 112, Fig. 7)

the Finnish press subsidies by Picard and Grönlund (2003) summarises both direct and indirect subsidies from the early 1950s to the mid-1990s (see Fig. 12.1). This overview is somewhat illusory as the sharp increase in the mid-1970s is due to the change in the accounting system whereby the earlier hidden delivery support was made visible. Yet it graphically illustrates the rise and fall of the Finnish state subsidies.

12.4 Present State Aid Scheme to Newspapers

Based on the public interest argument, Finnish government had subsidised newspapers significantly between the 1960s and 1990s. However, since the mid-1990s, state aid to newspapers has been drastically cut. At its final stage, the state aid was directed to the ailing party press in order to promote political pluralism. Even this minimal subsidy was, however, judged to be in violation of the EU State Aid directive and, accordingly, it was fully abolished in 2008. Instead, state subsidy to the political parties was increased in the form of earmarked support to their information activities including new Internet-based services. This can be seen to compensate part of the losses caused by disappearing selective support to political party press, but as it goes to the parties it is not recognised as subsidy to the press.

Today, two forms of public subsidy for the print media remain. Firstly, 0.5 million euros are allocated annually as subsidies for newspapers published in minority languages (Swedish, Same). In practice, the sum is divided between the Swedish news service FNB (by the national news agency STT) and the editorial costs for news in Same language in a regional newspaper in Lapland, *Lapin Kanssa*.

Table 12.3 State subsidies to newspapers 1989–2009 (million euros)

1989	1992	1999	2003	2009
43.91	37.36	12.60	12.60	0.5

Source: Statistics Finland (1995, 2010)

Secondly, 1 million euros are allocated yearly to cultural and opinion periodicals, shared by 150 journals. Notably, the dramatic decline in public subsidies to newspapers—from almost 44 million euros in 1989 to 0.5 million euros in 2011—is shown in Table 12.3.

Traditionally, indirect general subsidies for newspapers have been the most important forms of public support to the daily press. In 2010, the VAT exemption regarding newspapers was calculated to amount about 200 million euros per year (Parkkola 2010) and the reduced delivery charge for newspapers, making the cost for home delivery lighter for households in remote areas, was estimated to amount to more than 100 million euros per year (*GT-raportti* 2010). However, the VAT exemption scheme was cancelled at the beginning of 2012, and a tax of 9 % on newspapers and journals was introduced.⁶ In addition, the changes in the *Act on Postal Services* in 2011—to meet European Union postal directives—have caused concern about the delivery costs of smaller newspapers in sparsely populated areas (see Finnish Newspaper Association 2010). In all, the effects of these policy shifts remain unclear. The largest media houses have been keen to promote the argument that the introduction of VAT will have a major financial impact that will lead to more layoffs and cuts. However, not all editors-in-chief subscribe to this argument (Lehtisaari et al. 2012).

Conclusion: The Demise of the Finnish Model

The Finnish model of press subsidies underwent fundamental changes between the 1960s and the 2010s. The most disruptive changes took place between 2008 and 2012 when, first, the last remnants of direct subsidies were abolished (in 2008) and by 2012 also all indirect subsidies. This means that in a few years Finland went from being at the top of the list of European countries in public subsidies to newspapers (Nielsen and Linnebank 2011) to being one of the few countries with practically no subsidies, neither direct nor indirect.⁷

The Finnish model was a *dual model*, combining a high degree of *licence-fee funding*—since 2013 part of state taxation—for public broadcasting with considerable indirect subsidies for the private press. Today, the situation has changed fundamentally. All notable forms of press subsidies have been axed. The fate of state aid to newspapers can be seen as one symptom of a much wider problem which concerns the relationship of the current media, especially news journalism, and the future of Finnish democracy as such. The main issues in the debate have been:

⁶ VAT increased to 10 % in 2013.

⁷ See, however, footnote 1: the newspapers still enjoy reduced VAT.

1. *The future of journalism*: There is widespread concern about the quality of journalism. Both the numbers of news journalists and the time available for creating a news story are in decline. It is feared that the decline in the resources for quality journalism results in lowering the standard of serious, in-depth reporting (Nikunen 2011).
2. *The information divide*: There is growing concern of the divide between “information rich” and “information poor”. Growing costs in providing quality and investigative journalism result in increases in the price of quality information. Traditional professional journalism becomes a privilege of the informed elite. The mass audience is left to consume information for free—advertising-funded free online services and free newspapers, which seldom offer original and well-researched journalistic content. As a result of the proliferation of entertainment television channels, public exposure to quality news programmes is diminishing (Herkman 2011; Seppänen and Väliverronen 2012).
3. *Threats to democracy*: There is a mounting fear that democratic and cultural values in media and communications policy are in jeopardy. The policy planning and policy measures are increasingly justified on the basis of enhancing market competition, not of cultural and social goals. This market logic has pervaded all policy sectors: broadcasting policy, where public service broadcasting (PSB) is restricted in order not to harm the market; telecommunications, where universal service obligation (USO) is interpreted for the benefit of the industry; and the public availability of newspapers, where EC stipulations are applied against the citizens’ interests (Nieminen and Pantti 2012; Herkman 2011).

Finally, it must be emphasised that the changes in the Finnish media system and journalism described above are closely related to more general societal and cultural trends. The long decline in newspaper circulation from the late 1980s has been accompanied by several simultaneous changes in Finnish society. A significant period was in the early 1990s, when Finland suffered a deep economic recession, amounting to a drop of 10 % in GDP between 1991 and 1993. The recovery strategy by the government included a radical change not only in political style— from the long-prevailing consensual corporatism towards a more aggressive majoritarian style of politics—but also in basic governmental social and political philosophy (Julkunen 2001, 2006; Hänninen et al. 2010).

From the 1960s onward the Finnish national strategy was based on the Nordic model of social welfare ideology, aimed at promoting equality in all areas of social life (Bergholm 2007). Now the emphasis has changed: instead of social welfare, economic competitiveness and efficiency have been adopted as the main goals for national policies. This has contributed to drastic cuts in public spending in many areas, including social welfare, health care, old age pensions, education, etc. The consequences are becoming visible: between 1995 and 2010, the rise in income differences in Finland was highest of all the OECD countries, and the gap continues to grow. Even the OECD warned Finland in 2008 of the

expected—and today also experienced—social and political costs of this trend (OECD 2010).⁸

An easy conclusion is that the results show that parliamentary democracy has not been able to deliver relative to citizen's expectations. Why vote if you cannot expect any benefit from it? Many politicians, however, have put the blame on the media. The claim is that because the media has become more and more critical and even hostile to politics and politicians, they have contributed to civic cynicism and political passivity. In other words, the media and journalists have not been able to serve as an efficient intermediary between the citizenry and political decision-makers, but are instead using their power for their own benefit.

It is against this general background that the developments in the Finnish media and journalism must be assessed. It can be argued that it is not so much a crisis of the media system and journalism but a wider rupture in the Finnish model of the social contract. The sphere of national politics—traditionally the core subject area for journalism—has been drastically narrowed and redefined. As more and more public policies and public services are, due to privatisation and outsourcing, transferred to the market, the role and significance of national politics have become increasingly confusing. This has also left the function of the media and journalism progressively unclear. If we think that the role of the media and journalism should be to speak to the national audience, or national audiences, there are simply fewer and fewer substantial issues around which the national audience could be constructed today.

This does not mean, however, that there is no demand for professional journalism. As in most other countries in Europe, different forms of social activism and democratic participation are proliferating in Finland, too, and there is certainly an increasing need for information and informed opinions. What is new, however, is that with the advent of the new ICT, and especially the Internet, the modes of communication have drastically changed and the traditional media has been found wanting from the point of view of new communicative needs.

From this perspective, it is not primarily the challenge of the Internet and the new digital technology that is changing the media and journalism landscape in Finland; rather let us say that the Internet has been domesticated in a particular historical context. Nor can we claim that it is the global financial crisis that is shaping the future of the Finnish media and journalism; it might be better to say that the significance of the crisis is in its acceleration of the developments which have been under way for quite some time.

⁸ For Finnish reports of this, see *Suomi on maailman huipulla-tuloerojen kasvussa*. <http://www.talouselama.fi/uutiset/suomi+on+maailman+huipulla++tuloerojen+kasvussa/a2079160>; *Tilastokeskus: Tuloerojen kasvu jatkuu Suomessa*. <http://www.demari.fi/politiikka/uutiset/9161-tilastokeskus-tuloerojen-kasvu-jatkuu-suomessa>

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Matthieu Lardeau and Patrick Le Floch

13.1 The French Press Landscape

The French press has been facing significant economic problems over time. It is called to be in a state of agony or severe and chronic crisis at least. No wonder then that the French State has been intervening into its print media sector rather generously and at length. It would probably not have survived without the many forms of state-mandated cash handouts to keep its ailing print media industry afloat.

However, as the title of our chapter indicates, many of these current state subsidies are more than controversial and thus needed to be analysed carefully and in depth.

The French press is at present regulated by a complex body of press legislation, whose roots may be found in Article XI of the 1789 *Declaration of the Rights of Man and the Citizen*. However, it was not until the Law of 29 July 1881 that the principle of a free press was institutionalized, guaranteeing freedom of opinion and according the right to publish and disseminate information freely without prior restraint through any state authority. The extremely liberal Law of 29 July 1881 was overturned by two major legislative pieces of 1944, and 1986, formulating a stop-and-go policy of both liberal, low-interventionist and strict, high-interventionist press regulation policies. During the Second World War, the provisional government of 1944 announced three orders to protect the press both from government interference and from financial pressures and subordination to commercial interests. Although the immediate post-Liberation period saw a sharp increase in the total print run of daily newspapers, showing an apparently healthy condition of

M. Lardeau (✉)

CRCGM, Université Baise-Pascal de Clermont-Ferrand, IUT d'Allier, avenue Arstide-Briand, 03100 Montluçon, France
e-mail: matthieu.lardeau@essec.edu

P. Le Floch

Institut d'études politiques de Rennes, 104 boulevard de la Duchesse Anne, 35700 Rennes, France
e-mail: patrick.lefloch@sciencespo-rennes.fr

the French press, this post-war boom was short-lived: newspaper sales soon began to decline and the number of titles and copies per 1,000 inhabitants contracted, punctuated by only sporadic bursts of growth (Albert 2008).

The core transformation with regard to state intervention occurred at the end of the Second World War, between 1944 and 1947: the *Liberation* movement has settled an extensive public system designed to regulate and financially and politically support newspaper firms which then faced major shortenings of required resources for normally operating a newspaper business (paper, printings, and distribution). Since 1947, the French State has thus played a major role in the economy of the press industry through a full-scale interventionist regulation system, which, up until today, has especially included a range of both direct and indirect public financial subsidies (Santini 1966; de Tarlé 1980; Charon 1991; Eveno 2008).

Since the beginning of the 1980s, however, the French press has been subjected to fundamental changes, the foremost of which are major economic problems as evidenced in falling advertising revenues and increasing costs, with unfavourable production techniques and an underdeveloped distribution system, leading to extraordinarily high sales prices and readers deserting the press (Albert 2008).

Significantly, while French regulators in the 1980s claimed to be preoccupied with efforts to limit concentration and thwart the voracious appetite of domestic press barons, today's emphasis has shifted to enabling French media empires to grow sufficiently large and prosperous to compete with international rivals.

The French press structure is very complex. It is, however, appropriate to typify three segments of newspapers in France:

1. The national daily press of general and political news (abbreviated as PQN, i.e. *la presse quotidienne nationale*), which remains an important segment of the industry even though it was heavily and first hit by the newspaper crisis, losing 7.0 % for total paid-for dailies between 2007 and 2011 (WAN-IFRA 2011). The PQN segment includes the daily opinion press which has practically disappeared, with the remaining newspapers adopting a more neutral tone and limiting political commentaries to editorial articles and op-ed pages.
2. Regional daily newspapers (abbreviated as PQR, i.e. *la presse quotidienne régionale*), published in the morning and circulated throughout the 22 metropolitan regions and the 96 metropolitan departments, which are in a much healthier state than the PQN.
3. The periodical press (*la presse magazine*, e.g. *L'Express*, *Le Nouvel Observateur*), represented by four major general weekly news magazines as well as other press products of specialist nature, together with a family which is spurred by a financial boom and editorial variety and has succeeded in offsetting the national dailies' poor economic performance and the regionals' tendency towards concentration of ownership.

The following Table 13.1 shows titles, political orientation, and paid-for circulation of daily newspapers for 2012. *Le Figaro*, *Le Monde*, and *Libération* are the daily information press's most important titles. However, their influence on domestic public opinion has waned rather dramatically. Today, the PQN is in dire straits and, according to Professor Toussaint-Desmoulin, suffers from "several factors

Table 13.1 Daily newspapers in France—Title, editorial orientation, and circulation

Title	Editorial orientation	Paid-for circulation
<i>Le Figaro</i>	Right-of-centre	332,064 ^a
<i>Le Monde</i>	Centre	317,742 ^a
<i>L'Équipe</i>	Sports	287,233 ^a
<i>Aujourd'hui en France</i>	Right-of-centre	180,916
<i>Libération</i>	Left	128,122 ^a
<i>Les Échos</i>	Financial	122,669
<i>La Croix</i>	Catholic	86,160
<i>L'Humanité</i>	Communist	44,904 ^b
<i>Présent</i>	Far-right	2,500 ^c

Source: OJD (2012), *diffusion France & étranger payée* (paid circulation in France and abroad) Numbers are a mean of paid-for daily circulation in France and abroad, between July 2011 and June 2012

^aIncluding digital version

^bData from publisher (not approved by OJD)

^cFigure 2011 (Direction générale des médias, de l'information et de la communication, Ministère de la Culture et de la Communication)

whose negative effects cumulate: (1) a fall of circulation and readership; (2) weak and irregular advertising revenues; (3) badly controlled production and distribution costs; (4) a high selling price; and (5) increased dependency on state subsidies” (Toussaint-Desmoulins 2002, p. 97). On top, there are further variables which aggravate the deep structural crisis of the French press: concentration and the reader's further disentanglement with its press on a broad scale. The media and defence conglomerate *Lagardere*, for example, has become one of the main shareholders of one of France's most respected dailies, *Le Monde*, and, in 2005, the leftist *Libération* was rescued from bankruptcy by the financier Edouard de Rothschild. Despite protestations on the part of the new financial backers of these two papers and *Le Figaro* that they had no intention of attempting to influence editorial content, the restructuring of the titles coincided with the departure of several long-standing and respected editors.

On the other hand, it is more than noteworthy that the Rennes-based regional daily *Ouest-France* sells more copies than any other French daily paper and has been relatively unaffected by the decline in circulation that has bedevilled the national press over the last half-century, reaching 2.5 million readers daily (and a circulation of almost 750,000 units).

The following Table 13.2 shows France's free daily newspapers and their circulation as of 2012, again as measured by OJD, the French audit bureau of circulation.

Table 13.3 shows the five most popular daily regional newspapers in France, numbers for paid circulation and the covered area of distribution (as of 2012).

To present the French governance scheme of state aid for newspapers first requires locating the nexus of issues firmly into its historical context. To organize this chapter, we shall attempt to provide a historical overview of major developments of the French press subsidy scheme. After reviewing major state and government initiatives and their effects on the country's print media landscape,

Table 13.2 Free daily newspapers in France: publication title, number of editions, and distributed circulation

Publication title	Distributed circulation
<i>20 Minutes</i> (13 editions)	1,017,633
<i>Direct Matin</i> (12 editions)	918,308
<i>Metro</i> (10 editions)	747,194

Source: OJD 2012, circulation as measured in November 2012

Table 13.3 The big five daily regional newspapers in France

Publication title	Paid circulation	Covered area
<i>Ouest France</i>	748,394 ^a	12 Departments/North West
<i>Sud Ouest</i>	285,932 ^a	8 Departments/South West
<i>Le Parisien</i>	282,805	8 Departments/the Great Paris/Ile-de-France (and Oise)
<i>La Voix du Nord</i>	255,796 ^a	2 Department/North
<i>Le Dauphiné Libéré</i>	225,832 ^a	9 Departments/South East

Source: OJD (2012), *diffusion France payée*

Numbers are a mean of paid-for daily circulation in France, taken between July 2011 and June 2012

^aData from publisher (not approved by OJD)

we shall eventually offer some critical discussion and acclaim of the scheme, a scheme that is as old as 1944.

13.2 Press Subsidies: The Early Phase

13.2.1 The First General Laws

The French press is based on Article XI of the 1789 Declaration of the Rights of Man and of the Citizen. The Declaration opens by affirming “*the natural and imprescriptible rights of man*” to “*liberty, property, security and resistance to oppression*”. The article 11 states: “*The free communication of ideas and opinions is one of the most precious of the rights of man. Every citizen may, accordingly, speak, write, and print with freedom, but shall be responsible for such abuses of this freedom as shall be defined by law*”.

However, it was not until the *Law of 29 July 1881* that the principle of a free press was included in the French Constitution, guaranteeing freedom of expression and speech and according the right to publish and disseminate information freely without prior restraint through any state authority. The legislation on the press came to limit the abuse of freedom (press offences, defamation) and promote free expression and consumption of the printed press. In the following, a flood of publications was unleashed, pushed by technological innovation and pulled by a strong increase in demand for newspapers.

The extremely liberal Law of 1881 was overturned by the three major legislative push phases, formulating a steady but myriad growth policy of press subsidization.

13.2.2 The Liberation Period (1944–1947): Regulating Press Freedom

The government run by Pierre Laval—the chief of government owned a local newspaper himself—initiated the first drive for press support during the Second World War under the Nazi German occupation. Basically, today's scheme still strongly refers to this period.

In mid-1944, the French press needed to be rebuilt (Beuve-Méry 1947). Most newspapers had been closed in 1940 to avoid operating under the control of Nazis. During the Liberation period, the French government defended the following legitimate goal: the end of the Second World War imposed the need to rebuild the whole Nation and this need also affected to entirely restructure the press from scratch to fit the new political, economic, and social conditions. This nation-building exercise was supported by the hopes and aspirations of many French *Resistance* fighters to become journalists and run newspapers themselves, quite in coincidence with their support of the new government and elites coming from the French *Resistance* movement itself. However, they did not own any printing machines or newsrooms and property rights of newspapers, so that creating a newspaper from scratch required time and equity. Thus, only one solution seemed to match: by order of the ordinances of 6 May 1944 and 30 September 1944, newspapers identified as collaborating with Nazi Germany were expropriated and their property transferred to organizations of the French *Resistance*. These were selected by government and top civil servants (Hisard 1955).

From 1944 to 1947, French government and parliament were mainly run by individuals coming from the French *Resistance* movement and implemented policies defined by the *Resistance* spirit (promoting values of fraternity, generosity, and idealism) (Jacquemart 1948; Viannay 1988). Effectively, the laws on press taken between 1944 and 1947 contributed to protect the press from intervention of political power, but also financial pressures and commercial dependencies. Further, these first instances to build a subsidy scheme were also characterized by the pooling of printing paper purchase, the transfer of power to run printing offices (for national dailies) to printing trade unions (in particular, CGT, the *Confédération Générale du Travail*, long affiliated to the French Communist party), and the pooling of the nationwide distribution system (for dailies and magazines).

Among the laws enacted in these years, we shall emphasize the most significant set of “1944–1947 *Ordinances*” (Eveno 2003; Martin 1997) as follows:

- The rules of the *Ordinances* of 22 and 26 August 1944 set forth the economic, financial, and moral standard of the new press industry which intend to protect press from financial and economic pressures and to promote the diversity of opinion; in particular, these ordinances strictly forbade monopolies and press companies' integration and merger (i.e. a single person is not allowed to own more than one newspaper).
- The rules of ordinance of 25 November 1944 authorized the Ministry of Information to set the cover price of a newspaper issue.

- The rules of law of 2 April 1947 (called the *Loi Bichet*) first legalized the freedom of press distribution and put it under the monitoring of a cooperative: the former NMPP later became *Presstalis* (100 % owned by Press publishers' cooperatives). NMPP distributed most national newspapers and nearly 80 % of magazines and multimedia products. This cooperative system gives every publisher and press outlet an equal nationwide access to newsstands.

Although this *Liberation* legislation was supposed to support pluralism and forbid concentration of newspapers ownership, the regional daily press could never be prevented from a de facto monopoly in almost every region of France. The first newspaper—whose publishers and editors were coming from the French Resistance—to be established in the Liberation period benefited from the first-mover advantage and strong barriers of entry into this market (Eveno 2003; Le Floch 1997; Le Floch and Sonnac 2005; Martin 2005; Pigasse 1975; Servan-Schreiber 1972; Texier 2006; Toussaint-Desmoulins 1978/2008).

13.2.3 The Post-Liberation Period (1947–1958): Indirect Support

After the newspaper revival petered out by 1950, leaving the country with a permanent sense of imminent doom in its newspaper industry, all professional organizations of the press, principally the federal newspaper association of the French press (*Fédération nationale de la presse française, FNPF*), and various trade union associations addressed the government with a memorandum, asking for support from the state in the interest of free circulation of information. Although newspapers had already benefited from preferential postal tariffs since the French Revolution, the persistent economic problems of the press had to be answered with an extension of support measures. As a result, the post-Liberation administration of the Fourth Republic (1946–1958) came out with preferential tariffs for post and telecommunications, a 50 % reduction for newspaper delivery by the SNCF (*Société nationale des chemins de fer français*), the French national rail operator, an exemption of half of the taxes on newspapers' turnover, and investment benefits. Created in 1948, the subsidy for distribution by rail still operates in 2012 and consists of an annual agreement between the SNCF and the state by which state refunds the SNCF as compensation for reduced tariffs for newspaper delivery.

Dating back to the French Revolution of 1789 (*Declaration of the Rights of Man and the Citizen*) and enacted as law in 1796 (*loi du 4 Thermidor an IV*) with various other legal stipulations following, state support for postal delivery of daily newspapers is thought of as an important service to the French reading public. *La Poste* uses a regular list of subscribers which have to conform to criteria of frequency of publication and nature of delivery [benefits from a reduced tariff when first having received a certificate of selection from the *Commission paritaire des publications et agences de presse* (CPPAP), a state-structured press regulatory agency created by decree on 25 March 1950 that is equally composed by five ministries' delegates and press industry representatives].

Against what was planned as a non-discriminatory regime, based on objective criteria, changes were introduced in 1974 by offering most preferential tariffs to daily newspapers of general and political information with a circulation of less than 150,000 copies which weigh less than 100 g and, importantly, have less than 20 % advertising volume.

As promulgated by the “General Code on Taxes” (*articles 72 et 73 du paragraphe III du Code général des impôts*) on 29 December 1976, it was finally decided that newspapers recognized by the CPPAP should benefit from a reduced rate of 7 % on paper, ink, editorial copy, outside composition and printing, and subscription to news agencies with the beginning of 1977. Even more reduced was newspapers’ VAT on income from sales, which was subject to rebate based on the frequency of publication and advertising volume, thus mainly privileging dailies by taxing them by a rate of 2.1 % on their cover price, and all others with 4 %. On top of that, some non-dailies of general and political information, which were distributed in the provinces or regions and appeared at least once a week and whose cover price did not exceed 75 % of the majority of dailies, were equally allowed a VAT rate reduced to 2.1 %. When the government finally came to extend the favourable rate of 2.1 % to even national weeklies of political character in 1987, last hurdles fell to reduce the 7 % rate to 5.5 % and, more importantly, to fix a rate of 2.1 % as VAT on sales revenues on single copy and sales on subscription for all of the print press when granted an inscription number by the CPPAP. The financial law of 1989 finally created a permanent legal basis for these fiscal advantages, to be financed by the general annual budget. In 2012, the press still benefits from this reduced rate of VAT (2.1 %, with an even more reduced rate of 1.05 % for delivery to French overseas departments and territories).

Further, print and online newspaper publishers and, under certain conditions, printers, distributors, and press agencies are exempted from professional tax (now called “property tax”) (*article 1458 du Code général des impôts*). On top of that, newspapers are released from paying tax on their invested profits (*article 39 bis A du Code général des impôts*). Already introduced in 1945 and originally conceptualized for only 1 year but then renewed annually, this form of support intends to make it easier for newspapers to purchase all necessary equipment and facilities.

13.2.4 Since 1972: Direct Support for Pluralism

Following the *Serisé*-report in 1972, a first government report of a working group analysing state aid to the press appeared as a result of which help was directed to daily newspapers with weak financial resources. Introduced in 1972, renewed in 1982, and institutionalized in a decree on 12 March 1986, this assistance fund for national dailies of general and political interest with low advertising resources (*Fonds d’aide aux quotidiens à faibles ressources publicitaires*) provided cash to newspapers in the form of an extraordinary operating subsidy in order to safeguard the economic survival and promote pluralism. This subsidy still

existed in 2012—important modification has been added in 1998, and a last modification dates from 13 April 2012—and is reserved for publications which satisfy in particular the following conditions (as of December 2012):

- French language newspapers
- General and political interest publications
- National newspapers
- Newspapers published at least five times a week
- Newspapers printed on newsprint
- Newspapers with a print run of under 250,000 copies
- Newspapers with sales lower than 150,000 copies
- Newspapers whose cover price range from 80 % to 130 % of the average cover price of all national dailies of general and political interest
- Newspapers with advertising revenues lower than 25 % of their overall annual incomes

In 2012, 9.1 million euros had been given out. Main beneficiaries are the following: The close to Communist Party's daily *L'Humanité* (3.1 million euros), the catholic daily *La Croix*, the left-of-centre daily *Libération* (2.9 million euros), and the far-right daily *Présent* also received 227,000 euros (Françaix 2012).

Similarly, an assistance fund for daily provincial (i.e. regional, departmental, and local) general and political interest newspapers with low revenues from classified advertisements (*le fonds d'aide aux quotidiens régionaux, départementaux et locaux d'information politique et générale à faibles ressources de petites annonces*) was introduced by decree on 28 July 1989. This subsidy still exists in 2012 and is dedicated to publications which satisfy in particular the following general conditions (as of 2012):

- Newspapers with a print run of under 70,000 copies.
- Newspapers whose cover price of the most-run local edition is inferior to 130 % of the average cover price of regional and local general and political interest newspapers.

Further, the beneficiaries should satisfy the specific conditions of one of two following options:

1. First:
 - Paying sales inferior to 60,000 copies.
 - Not be the most important circulated newspaper in the covered area.
 - Advertising revenues coming from classifieds inferior to 5 % of overall revenues.
2. Second:
 - Paying sales inferior to 50,000 copies.
 - Advertising revenues coming from classifieds inferior to 15 % of overall revenues.
 - More than 25 % of the overall paid circulation is supplied for by subscription and postal delivery.

13.3 Press Subsidies: The Saturation Phase

As a reflex of still close ties between the political classes and the press, the French government has expanded and improved a system of public aid to the press in a skilful fashion. With the help of various press commissions, established to report on the development of the press sector, French public policy activity performs on a high level of expansive interventionist mechanisms, scarcely surprising in a political culture and system where the ethos and practice of *étatisme* have played, and continue to play, a key role in its internal affairs. In a symptom of the state as rule maker and enforcer of press matters, the former director of the French Press Institute and author of numerous works on the French press, Pierre Albert, has pointed to the differences of other policy approaches to the French way of regulating the press as follows: “*As for the role of the State, in France, it is the exact opposite of its Anglo-Saxon counterpart. In the United States or in England, freedom of expression is considered the natural sequel to ‘laissez faire’, which means that the market rules the world of information, that any regulatory infringement is considered as intolerable, letting the judges dispose of any excesses under common law proceedings. In France, with the tradition of Roman law, the press asks for the law to guarantee its freedom in the name of the necessary protection of pluralism against the eventual excesses of the powers of money: the media cannot be treated as ordinary products or goods for the simple reason that they perform a public service. (...) While certain State subsidies are, for us, considered as a natural contribution of the collectivity to safeguard the press’ pluralism, they are across the Channel - and even more so, across the Atlantic, - considered as a soft-core form of corruption of the paper’s independence*” (Albert 1994, p. 3).

State-sponsored subsidy measures aiming at offering access to information for all citizens in order to stimulate their participation in public life have undergone a series of changes in nature and extent over time, following changes of the responsible political forces. Budgeted either within the general service of the Prime Minister (until 1986 and after 1990), or attached to the budget of the Ministry of Culture and Communication (from 1987 to 1990), subsidies to the daily press were steadily increased from 1985 to 1989. In the summer of 1995, the new government decided to abolish above Ministry and transferred all press affairs to the Ministry of Culture, also then responsible for postal service affairs and new communications technologies. Between 1985 and 1989, total financial subsidies increased by 2.9 %, following increases in the general state budget. Direct subsidies were up by 39.1 % and indirect subsidies up by 1.7 %. It is noteworthy that total direct subsidies accounted for only 4.5 % of total subsidies, so stressing the government’s preference for indirect subsidies.¹ Indirect subsidies are not contained in the national

¹ If direct subsidies to national and regional dailies of limited advertising resources were to be accounted as “real” direct subsidies, and the other positions the authorities call direct subsidies were not taken into account, the percentage of these “real” subsidies were even reduced to a minuscule 1.2 % of total subsidies.

budget as they do not involve cash payments and are therefore more difficult to assess with precision.

Then Prime Minister Edouard Balladur's initiative to produce a special government rescue plan of altogether French francs 200 million for the written press in 1993 was regarded as vital by many observers to foster a market shaken by an economic downswing in advertising, under-capitalization of companies, escalating production costs, and a disconnected readership.

13.3.1 The First "Sarkozy Plan" of State Aid to the Press (1995)

Soon after Alain Carignon announced his demission as minister of communication from the Balladur government, finance minister Nicolas Sarkozy took over command of press affairs in July 1994 and affirmed his intention to prepare efficient and transparent changes in the economic regime of the subsidy scheme with a view to resolving the burning issues ahead. What sat right at the centre of Sarkozy's concerns was the desire to assess the efficacy of what he called "an archaic system" which had to be freed from its dust, thus to gradually relocate its main principle of non-discrimination among its beneficiaries and its culture of pure state dependency. Practically speaking, Sarkozy tackled three main areas of re-evaluation (a) the development of distribution, (b) the defence of pluralism, and (c) the reduction of papers' escalating operating costs.

Sarkozy then came to announce the following ten measures of change in the fiscal, social, and distributional characteristics of the old regime:

- *First measure:* Reduction in social security contributions for hawkers and vendors of newspapers. To accelerate daily newspapers' postal delivery to French households in the early morning, a mere 140,000 copies out of 2.2 million were delivered into the home by December 1994, Sarkozy advocated a reduction of compulsory social security payments for home deliverers from 6 to 4 % in accordance with the Minister of Social Affairs (Bonnet, *Libération*, 26/1/95, p. 47).
- *Second measure:* Exemption of social security contributions for hawkers and vendors of daily national newspapers for 5 years in order to stimulate the particularly underdeveloped home delivery of Parisian newspapers, further to create local delivery structures and complementary dispatches.
- *Third measure:* Contribution to the modernization of distribution costs. Sarkozy's concern over distribution, equally shared by publishers as they generally account for up to 25 % of their total costs of daily newspaper production (Toussaint-Desmoulin 1987, p. 45), stimulated Sarkozy's impetus and centred on the second working group's results of noticing the rather drastic disappearance of selling points over the years, the prohibitive costs of postal delivery of newspapers, and the low percentage of home delivery of particularly the national daily press. Mastering the exorbitant distribution costs of newspapers was first addressed by injecting 140 million French francs into the modernization of the dominant player in national newspaper distribution, the *Nouvelle Messageries de*

la Presse Parisienne (NMPP), owned by the powerful industrial conglomerate *Matra-Hachette* by 49 % and controlling one-third of total distribution of the press and half of the kiosk business, with the objective of facilitating early retirement of 374 of its employees (Junqua 1995, pp. 72–73). On top of that, negotiations on early retirement plans between trade associations and the powerful trade union, the *Syndicat du Livre-CGT*, already initiated in 1992, were backed by a sweetener of 385 million French francs to the Paris press, to be spread over 9 years, thereby cutting 872 employees at the end of 1995 with the aim of bringing down the operating costs of newspapers.² The modernization plan concerning the NMPP, to be effected from 1994 to 1997, further set out two other goals: qualitatively, an improvement in services and thus productivity, and, second, the reduction of the NMPP's average cost of intervention from 14 to 9 %, with the objective to reduce the average cover price of dailies and periodicals by 10 %, thus aiming at economies of 800 million French francs beneficial to all publishers going with the NMPP. Costs for the state were estimated at 105 million French francs for 8 years (Lambert 1996, pp. 50–51).

- *Fourth measure*: Exemptions from the professional tax on newspapers distributors. As for reversing the trend of kiosks' closures, counted 500 yearly, Sarkozy proposed fiscal advantages for kiosk vendors on the basis of exempting each from their professional tax by an average of 2,000 French francs per annum. This measure was designed to exempt 50 % of distributors from professional tax.
- *Fifth measure*: Moratorium on the VAT rate of 2.1 %. Sarkozy rejected publishers' demands for reducing VAT on newspapers sales by single copy and subscription by pointing to the EU's intended plan to harmonize VAT across the EU at 5.5 %. Publishers acquiesced in Sarkozy's offer for a moratorium.
- *Sixth measure*: Extension of the framework of social plans to regional dailies. Here, the government supported frameworks of social plans of regional weeklies in order to develop stable conditions for plans of early retirement in printing.
- *Seventh measure*: Doubling of the two funds to dailies of low advertising resources. "Defence of pluralism" located the ethical reference point for Sarkozy's emphasis in providing a lifeboat for the national dailies of low financial resources. In practice, the assistance funds for national dailies of general and political interest with low advertising resources would be doubled from 18 million to 36 million French francs.
- *Eighth measure*: Propositions aiming at making the field of applications for state aid more precise. Sarkozy ordered the re-examination of the total number of certified publications inscribed at the CPPAP as well as the limitation of validity of the certificates to 5 years.
- *Ninth measure*: Establishment of a permanent loan fund for new investments. This loan fund was introduced to alleviate investments into new technologies

² Interestingly, to facilitate the financial restructuring of the recession-stricken press, the minister also announced to guarantee half of the adverts for the government's privatization plans to be placed in newspapers. See *Le Figaro*, *Un soutien financier exceptionnel*, 13/1/94.

and multimedia operations in order to support an equivalence of 3 % of financial costs of projects submitted. The fund was endowed with 20 million French francs for a period of 5 years.

- *Tenth measure*: Establishment of a fund supporting the weekly regional press of general and political information. Endowed with 5 million French francs, this fund was aimed at supporting weekly regional newspapers with low advertising resources (*Rapport Lambert*, pp. 23–24).

After the presidential elections and the change in government in May 1995, and press affairs subsequently being aligned to the Ministry of Culture under the auspices of incoming Philippe Douste-Blazy, the first Sarkozy plan was expected to be brought to successful conclusion. Despite continuing problems of the press and a flurry of demands addressed from industry leaders to the president and the government, the authorities threw into doubt their future engagement as active agents in the field of information by dissipating various forms of support, moves which have resulted in unease that crept into the relationship between the state and the press.³ Bitterness in the relations between the national press and the government deepened when the government later decided to put the knife on the projected funds for 1996 and especially failed to deliver Sarkozy's promise to double direct help to the national dailies with limited advertising resources, in order to come out with new but cheaper instruments.⁴

Later, President Jacques Chirac's decision to re-examine the mechanisms of support in order to make them more effective came as another reminder that old guarantees of financial support were continuously to be thinned out. Although total subsidies were increased by 4.1 % in 1996, with national and regional dailies with limited advertising resources benefiting most, long-engrained privileges were steadily dismantled. Most importantly, journalists were stripped off their yearly income tax breaks of 30 % of their first 50,000 French francs (ca. 15,000 euros), a fiscal privilege granted since 1934, sparking off protest strikes on many of the national and regional newspapers, among them *Libération*, *L'Humanité*, and *Le Monde* in October 1996. Given the then profound crisis of the national daily press, the difficulties of public spending as extra austerity measures were brought in, as well as a further liberalization of postal services pending, new support measures seemed only to bottom out a subsidy regime which was continuously downgraded and cut across the board.

³ Mutual accusations culminated in Chirac's move to campaign for his presidency in the strong regional daily *La Voix du Nord*, not failing to criticize the national dailies of denigrating the government. See Lloyd (1997). The French are said to be in a bad mood, but perhaps it is their press which is miserable. *Prospect*, January 1997, p. 69.

⁴ A projected budget increase in 8.8 % would have resulted in direct help of 287 million French francs. See de Gasquet (1995). Juppé n'envisage pas d'aide conjoncturelle à la presse. *Les Échos*, 30/8/95.

13.4 Press Subsidies: The Crisis Phase

13.4.1 The Late 1990s

In 1999, Government created the “FDM—*Fonds d’aide à la modernisation de la presse quotidienne et assimilée d’information politique et générale*” (a special fund to grant projects of modernization into printing presses and newsroom facilities of the news press), later endowed with 25 million euros in 2010 (about 5 % of overall direct aids), the FDM was designed to increase productivity of the press, drive innovation in editorial content production, and enhance readership.

At the same time as the state sought to encourage newspapers to modernize and invest in new technologies, it also sought to support them in their policy of reducing overstaffing in print. The *Plan de Modernisation Sociale* was part of the FDM but had a different focus: It aimed to help social modernization in order to adjust labour productivity in the printing plants.

The FDM had several impacts. Most importantly, aid for modernization of printing and, to a lesser extent, for the development of the online offerings emerged as the two main tracks of subsidization which exercised the greatest influence on revenues. Beyond the leverage effect that had been highlighted in the previous reports on the FDM, it emerged that 1 euros of public money directly triggered an investment level of 4 euros out of private budgets. In this respect, the FDM more than achieved its goal.

However, many questions remained concerning the investments subsidized and the mode of governance of the FDM. First, beyond the fact that a number of subsidized investments in the FDM seemed to have no impact on particularly, EBITDA many questions remained about the effectiveness of aid for the modernization of printing. First, measures of productivity gains actually obtained by newspapers were not in sight. Similar to all previous reports, it was revealed that the regulator failed to observe microeconomic impacts of subsidies on production costs of newspapers. A second issue referred to the dilemma of funding printing innovation in an environment of reduced circulation in print. Overall, while it seemed undeniable that the FDM had actually improved business conditions over the past decade, issues of overcapacity could not be resolved through these modernization grants.

On another level, however, the FDM scheme had addressed several important questions for the first time. Notably, the need to invest into print media’s web services had been given much higher attention in the wake of allocating the general budget to the press (*Etats généraux de la presse écrite*). This political drive had further led to an expansion of the scheme *Fonds d’aide au développement des Services en Ligne*⁵ (FSL), a new fund to help newspaper publishers go online.

⁵ FSL was initially intended for the periodical press. The fund is now extended to all newspaper publishers and pure players. Only news agencies continue to finance their digital development projects via FDM.

By this, the state provided an interesting incentive framework: It directed the publisher's investment plans into the future fitness of their businesses and, importantly, strengthened the market position of traditional print media houses in the segment for online news provision at the expense of journalistic pure players.

13.4.2 The Second Sarkozy Plan of State Aid to the Press (2009)

From October to January 2009, French journalists, publishers, experts, and members of parliament got together to discuss the future of the press in France. The forum, called *Etats généraux de la presse écrite*, was held on the initiative of the then President Nicolas Sarkozy. Its stated goals were to find ways to solve the sector's financial problems and to keep the press alive, pluralistic, and independent.

In January 2009, Sarkozy pledged to help the sector—to the tune of 600 million euros over 3 years. The state measures were wide-reaching. A planned rise in postal rates has been delayed by 1 year, the budget for government messages in the press increases from 20 million to 36 million euros, and 70 million euros has been set aside to fund home delivery of newspapers (up from a previous 8 million euros). The government is also looking at ways to help press distributors financially (notably by reducing social taxes by 30 %).

Further, in a bid to raise the interest in newspapers among the youth, those aged 18–24 will be offered a free weekly subscription to a newspaper of their choice as from September. The newspapers are to be given by the publishers themselves. Delivery would be paid for by government. Press unions expect 200,000 out of a potential 750,000 people will take the grant during the scheme's test phase. But the money is not all for the print media, whose future is increasingly questioned. "*If the press does not take the internet turn it will have nothing to offer the generations born in the digital age*", Sarkozy said. In April, the French parliament passed a bill which grants online news publishers the same status as those in the print media. A fund with 20 million euros has also been set up to help the press move into the Internet era.

In addition to the 600 million euros budget, the government has also pledged to help press publishers cut printing costs. It was assumed that this measure would likely be more difficult to implement because it would effectively lead to lay-offs in printing staff.

State aid was not the only outcome of the *Etats généraux*. The forum also gave birth to an independent initiative aiming to create a new code of practice for journalists. As opposed to existing codes of practice, the new code, if adopted, will feature in the profession's collective labour agreement and therefore have more clout. To come into effect, it will need the backing of unions and publishers.

13.4.3 The Cardoso Report in 2010

After the *Etats Généraux de la Presse*, President Sarkozy missioned Aldo Cardoso—a consultant and managing director of *Andersen* for France—to review state subsidies for press and suggest how to reform it. He gave the Ministers of communications and of the budget a report on the State subsidies scheme on September 8, 2010.

First Cardoso concluded that the country's press has been kept in a state of permanent artificial respiration by the huge amounts of financial state aid they receive. Nearly 80 % of state grant is used to cover the operating costs of newspapers' companies and 20 % only goes for investments. Following so many experts and previous reports, Cardoso reminds that government subsidies have discouraged newspapers from finding sustainable financial strategies and have failed to prompt the emergence of strong political and general and herd-news newspapers not dependent on State grants.

The report lamented that the massive subsidies had failed to create the “*emergence or the presence of political and general press titles that were strong and not dependent on public aid*” (p. 2). In order to survive, Cardoso claimed, the French press industry needed to shake up itself, with government pushing it into the right direction. According to Cardoso, state aid would even discourage newspapers from trying to find sustainable financial strategies. Cardoso did not call for an end to public subsidies but suggests a notable reduction, from 1,026 million euros in 2010 to 835 million euros by 2016.

Overall, by end 2012, the French press subsidy scheme instruments covered:

- Direct subsidies:
 1. Distribution aid
 2. Aid for safeguarding editorial pluralism
 3. Modernization aid
 4. Other additional aid
- Indirect subsidies:
 1. VAT reduction on sales revenues
 2. Exemption from professional tax (Tables 13.4–13.7).

All in all, in 2010, the French press received over a billion euros in state subsidies: some 400 million euros in indirect grants, and some 615 million euros (Table 13.8).

Cardoso proposed 15 measures to reshape the press subsidies scheme and make it conditional on innovation in the sector. Among them we highlight the following: allocating subsidies to fund innovation projects, implementing accountability and transparency in the way to allocate subsidies, and in checking the right use of them. But Cardoso did not suggest abolishing the regulating philosophy. Rather, he suggested refining press regulation by state and public bodies in a more efficient way that is by building on an effective outcome-centred intervention strategy.

Table 13.4 Distribution subsidies

	2008	2009	2010
Postal subsidies	242	265.7	270
SNCF subsidies	5.8	5.5	5.8
Subsidies for distribution abroad	2	2	2
Newspaper distribution subsidies	8.2	70	70
Special help for distributors	0	58	0
Social security exemption for distributors		8	12
Total	258	409.2	359.8

Source: Cardoso (2010), in 1,000 euros

Table 13.5 Subsidies for safeguarding pluralism

	2008	2009	2010
National dailies with low ad revenues	7	7	9
Subsidies for weekly newspaper	1.4	1.3	1.4
Subsidies for regional newspapers with low level of classifieds	1.4	1.3	1.4
Total	9.8	9.6	11.8

Source: Cardoso (2010), in 1,000 euros

Table 13.6 Modernization subsidies

	2008	2009	2010
Social plan subsidies to daily newspapers	26.7	24.7	22.7
Modernization subsidies for distribution to the daily national press	12	12	12
Help for modernization of distribution	2	13	12
Modernization aid for online migration	0.5	20	19.5
Modernization aid for editing	20	25	24.2
Total	61.2	94.7	90.4

Source: Cardoso (2010), in 1,000 euros

Table 13.7 Other direct additional subsidies

	2008	2009	2010
State subscription to AFP ^a	109	111	113
Restructuration help of <i>Presstalis</i> ^b	0	0	15
Printing subsidies (plan “ <i>imprime</i> ”)	0	0	25
Total	109	111	153

Source: Cardoso (2010), in 1,000 euros

^aThe primary client of *Agence France Presse* (AFP), a government-chartered public corporation operating under a 1957 law, is the French government, which purchases subscriptions for its various services. In effect, those subscriptions are, however, an indirect subsidy to AFP. The statutes of the agency prohibit direct government subsidies

^b*Presstalis*, known until December 2009 as *Nouvelles Messageries de la Presse Parisienne* (NMPP), is a French media distribution corporation. More than 100 newspapers and 3,500 French and foreign magazines are distributed by *Presstalis*. In total, the company distributes many of the national newspapers of France and nearly 80 % of its magazines and multimedia products, using a network of distributors

Table 13.8 Total direct and indirect aid to newspapers in France

Total direct aid	438	624.5	615
Exemption from commercial tax	200	200	200
VAT reduction	200	200	200
Other	1	1	1
Total indirect aid	401	401	401
<i>Total aid</i>	839	1,025.5	1,016

Source: Cardoso (2010), in 1,000 euros

Conclusion

The intervention of the French state in the newspaper industry has often been justified by the public service mission that daily newspapers would exercise in ensuring the widest possible dissemination of information. From a historical perspective, the state intervention took place in several stages. The first significant step in the development of the press was the enactment of the 1881 law on freedom of the press. The negative effect of the law was that political freedom was not a sufficient condition ensuring the economic freedom of the press.

As is clear, the French state has played a hyperactive role in financially supporting its newspaper industry over time,⁶ itself darkened by a disrupted advertising market, escalating costs of production, and a growing disengagement of readers disaffected by high cover prices. Both unique in amplitude and diversity, governments of either side of the political spectrum have applied generous shot-in-the-arm policies of financial assistance, indiscriminately encompassing the greatest possible number of beneficiaries.

Additionally, another thrust of the interventionist ethos has survived in the vast array of financial aid measures to the press funded by the state. Having developed press subsidies long before the international wave of press concentration, the subsidy scheme in France is said to be the most costly and diversified in Europe, building upon the main principle of non-discrimination towards its beneficiaries. Laid down in a plethora of decrees, supplementary decrees, ordinances, and policy documents, the scheme's main objective has remained to provide access to information for all citizens, to stimulate their participation in public life, and to safeguard and promote the plurality of titles and thus diversity of views.

Subsidies have strengthened the economics of newspapers over the decades, so much that these subsidies are nowadays salient guarantors of survival for many newspapers, in particular the national daily press (Charon 2005; Le Floch 2006; Mathien 2003; Murschetz 1997; Schwartzberg 2007). In all, analysts, commentators, and newspaper executives disagree on the success of state aid to

⁶In 2008, direct subsidies accounted for 60 % of revenues of *France-Soir* and 30 % of *L'Humanité*, ignoring all other indirect aid (Cardoso 2010). In 2012, *France-Soir* went bankrupt. It is obvious that this system did not solve structural problems.

the press as much as politicians argue about its desirability (Truffly 2010). But while the struggle for audiences and advertisers has heated up, with a daily French newspaper industry continuously in danger of becoming a footnote of national media progress, scepticism has emerged about the value of government intervention resulting in the authorities' decision to gradually and relentlessly prune major parts of aid to its press while compensating these reductions with some new instruments, moves much in dissonance with the past. In an advice to the 2012 finance bill, presented by the MP Michel Françaix (*Parti Socialiste*, i.e. the socialist party that holds the parliamentary majority since May 2012) this ethos of "continuity goes change" has been prolonged (Françaix 2012). There, the MP called for focusing on the titles that are the most in need that is the not-for-profit citizen press of quality content. These papers would benefit from only 30 % of public aid.

When asked whether the subsidy scheme to French daily newspapers is successful and coherent in financially strengthening a French newspaper market best thought to exemplify a failed market, only a few specialists have considered the regime to be a success, while the majority pointed to deficiencies regarding its capacity to enable both an effective marketplace for press goods and a democratic marketplace for ideas. As regards the scheme's intention to strengthen the daily newspaper market, most analysts agreed on its fragility. A need for reform was inevitable should the scheme ever become more effective. It now appears that the state has failed to create the conditions for an economic system that would allow publishers to be in a strong position to meet the new challenges. Today, the urgency is not to simply reform the system. Stated simply, it is not about to improve the efficacy of the scheme's design but to question the overall legitimacy of a regime which has historically failed to guarantee the economic survival of the French press.

To conclude, critics of the scheme have pushed into the spotlight the argument that state aid has been far too ineffective and has aimed principally at merely preserving the appearance rather than the reality of a pluralistic press. Freiberg (1981) critically commented on this phenomenon as follows: "*If the European states had been truly interested in such a press [i.e., pluralistic], they could have done far more to protect the financial integrity of the small enterprises from the monopolistic practices of the larger ones. 'Laissez faire' in the realm of the press is an active state policy: 'Laissez mourir'. The aid policies of the French state have clearly served to help big capital in the sector at least as much as small and medium capital; at the same time, though, they have helped legitimate the 'neutral' state apparatus*" (Freiberg 1981, pp. 171–172).

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Castulus Kolo and Stephan Weichert

14.1 The German Media System in 2012: Newspapers

Since the *Frankfurter Rundschau*, a regional daily newspaper based in Frankfurt/Main with two regional and one nationwide issues, has recently gone bankrupt, and the *Financial Times Deutschland*, a financial newspaper based in Hamburg, has issued its final copy on December 7, 2012, Germany experiences a transition toward an outright structural crisis of its print media. This “crisis” also made clear that the time has now come for effective leadership on the side of publishers and policymakers.

Traditionally, Germany’s postwar governments have decided not to directly support their press as fears of intervention into editorial affairs of newspapers remained widespread.¹ Nonetheless, Germany supports newspapers indirectly and rather generously. It introduced a reduced VAT rate for newspapers on 1 January 1968 and kept continuing this policy scheme up until today (7 % on single copy and subscription sales, against a standard 19 % rate on most other goods and services). While such schemes’ implicit objective is to initiate higher consumer demand through lower sales cover prices, its explicitly stated goal today is rather generally the “*promotion of cultural development and education*” (BMF 2012, p. 243). As a result, the German state waives approximately 0.5 billion per year in tax revenues, given that total consumer spending for newspapers stands at an annual 4.37 billion

¹ However, as confirmed by the German constitutional court in 1989 (BVerfGE 80,124), a subsidy to the press is not excluded by law as long as it does not influence the content or appearance of individual publications and subsequently biases competition for readers.

C. Kolo (✉)

Department of Media Management, MHMK, Munich, Germany

e-mail: c.kolo@mhmk.org

S. Weichert

Department of Journalism, MHMK, Hamburg, Germany

e-mail: s.weichert@mhmk.org

euros (as of 2010) (BDZV 2012a).² All in all, there are currently no other forms of financial support to the press in Germany. Notably, this is because another (less important) indirect subsidy scheme, the reduced fee for postal distribution (particularly for national newspapers), fell victim in the course of privatizing these services in the early 1990s.

In this chapter, we shall first present the German newspaper market system. Next, we shall discuss the economic situation of print media publishing in Germany. We hypothesize that market developments signal an end to the traditional print media business model for newspapers in the country. This discussion shall then prepare the ground for a comparison of alternative funding models to safeguard the future funding of journalism for quality content. Such alternative models of financing quality journalism are being increasingly debated in Germany, showing new funding trajectories in a country with a prevailing “no-subsidy” attitude among many stakeholders. We believe that the German situation may stimulate research for alternative solutions of funding the press elsewhere.

As the reluctance to any kind of state interference is strongly rooted in Germany’s political tradition, and is attributable to the problematic role the press played in the years before and during the Nazi regime, Germany is not at all a best-practice example for financial press subsidies. Rather, the debate here on whether and, if yes, how to save the newspaper business is interesting beyond Germany’s own country borders.

An international comparison of peculiar aspects of the media is, however, a complex endeavor. It risks exaggerating or blurring country differences. To compare aspects of the media in different countries the concept of “media systems” was proposed by Hallin and Mancini (2005), who were among the first to study these on the basis of empirical evidence, unguided by ideological preconceptions, against what is assumed having been the case with Siebert et al.’s pioneering (1956). A more refined model was proposed by Blum (2005). It considers more dimensions, however, still difficult to operationalize. Blum, starting from a system’s theory perspective, does regard the media user as belonging to the boundary of the system and thus as not actively involved in the consumption process.³

Second, although mass media are still important, they have currently become less salient actors in the media in general. A plethora of new media and users choosing from it in very different ways certainly also require user-centric dimensions to be compared, including access to and applications of online media to define a media system more properly (Kolo and Müller-Thum 2012, p. 54). The discussion about the future of news journalism will also have to overcome traditional notions of the *printed* press in order to offer solutions for its survival at large.

²The exact calculation of the difference would give a value of 0.52 billion euros. However, a higher price would certainly also lead to a reduced demand. To the knowledge of the authors there is no systematic study on the demand effect of this subsidy.

³We refer here to the elementary conception of a “system” as being defined by (1) constituents, (2) relationships among them, and with a (3) boundary, all referring to the General Systems Theory of von Bertalanffy (1976).

An extension of thinking about media systems may further consider the dynamics of how the print media may develop in the future and how this would safeguard its role in society. This position was also emphasized by Whitehouse (2006) in addition to the promotion of freedom of expression and media pluralism (e.g., through the development of community media) and further served as basis of media sustainability measures [see, for example, Lambino II et al. (2006), UNESCO (2008)].

We acknowledge the need for a refined and up-to-date concept of media systems in order to fully comprehend future subsidy schemes. Thus, we shall restrict ourselves to a summary of key aspects and elements of Germany's print media system that we consider necessary to compare with other national systems or subsystems of the press respectively.⁴

To start with, the German media user spends most of his/her daily time watching TV, followed by using the Internet, and only some time reading newspapers (Ridder and Engel 2010). However, 44 % of all Germans are still reached by newspapers on a day-by-day basis, whereby the Internet is closely following up with 43 % (as shown in Fig. 14.1a below).

Figure 14.1a also exhibits the still substantial trends of print and online in terms of daily audience reach, both leading in opposite directions: Newspapers losing readers and Internet substantially gaining users respectively. However, the newspaper business is still important (see Fig. 14.1b), although it is vastly losing ground to the Internet in terms of revenues (PwC 2012b). Germany is a so-called newspaper country in that newspapers still constitute an important element of media usage, with an overall coverage of 70 % of the population. Newspapers significantly contribute to total industry revenues (WAN-IFRA 2012; PwC 2012a). Figure 14.1b below reveals that the economic role of commercial television in Germany appears to be quite low in comparison to its world average contribution to media industries' revenues. The latter is due to the fact that Germany has a strong public broadcasting system financed by enforced fees not included in these revenue statistics.

⁴ Latest data on individual publishers' financials available are for 2010 (*Bundesanzeiger* 2012). A full analysis of concentration of press entrepreneurship in Germany was last undertaken for 2008 by Schütz (2009). PwC (2012a, b) documents general market data on various media industries and for a number of different countries (including Germany) as well as worldwide. A summary of aggregated financial data as well as circulation and readership data is also compiled by BDZV (2012a, b, c). Herein, sold copies are primarily measured (on a monthly basis) by IVW (2012) and data for cross-media reach for several media brands (including selected national newspapers and regional newspapers altogether) are available from a yearly survey by ACTA (2012). More detailed numbers on newspaper readership are published by AWA (2012) on a yearly basis and with quite a stable methodology over more than 30 years as well as by *agma* (2012) on an (almost) per title basis but with a higher fluctuation from year to year and a more frequently adapted methodology (mainly a source for advertisers and not used here). A detailed study on the usage of mass media that allows a comparison across all media (e.g., concerning time budgets and daily reach) on the basis of the same sample and method is conducted every 5 years and lastly for 2010 [*ARD-ZDF-Studie Massenkommunikation* by Reitze and Ridder (2011)]. Several other institutions cover specific media only, e.g., AGF/GFK (2012) for television or ARD-ZDF-Online-Studie (2012) for online media but with more precision and detail than the latter.

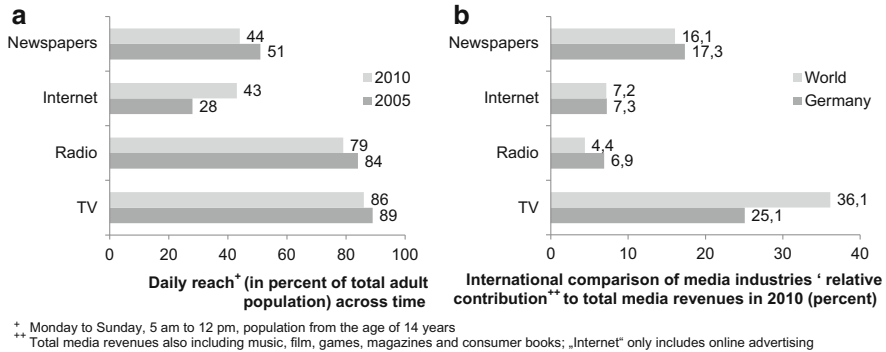


Fig. 14.1 Germany: Media—Daily reach (a) and contribution to total revenues (b) media. Source: Own calculations on the basis of data from Ridder and Engel (2010), PwC (2012a, b)

As indicated, in Germany newspapers still play an important role as public news and information media. Although television is by far the most important media for daily news (with public broadcasting having a significant market share; Zubayr and Gerhard 2012), newspaper come second, while online media are still only coming third (ACTA 2012). This holds true not only for online media in general but particularly for the digital editions of newspapers. The total number of copies sold by tablet editions amounted to only 197,000 compared to 18.1 million printed dailies in 2012 (BDZV 2012a).

However, it becomes quite evident that those who have not been reading a newspaper regularly at an early age will never start doing so. This effect is shown for national as well as regional dailies in Fig. 14.2a, b below. Following reader cohorts over the decades shows a steady but decline in readership.

The erosion of newspaper readership is reflected in a decline of printed copies sold, albeit to a slightly lower degree as more and more readers share reading a newspaper (see Fig. 14.2c). However, not only are the losses of readers dramatic as they get older due to substitution of printed by online news offerings, but also is the failure to attract young readers a major drag on a further development of the print media industry (see Fig. 14.2b). This situation becomes even more evident when particularly focusing on intensive readership (Kolo and Meyer-Lucht 2007).

In fact, regional and, to a lesser extent, national subscription dailies make up for most of the German printed news supply market, followed by national dailies sold at newsstands (the latter dominated by the well-known *Bild-Zeitung*, the largest German tabloid-style but broadsheet-sized daily boulevard newspaper published by the *Axel Springer AG*; see below). Free newspapers never made much ground due to fierce competition by paid-for incumbents. Weeklies and Sunday newspapers shall not be considered here as they experience a different competitive environment.⁵

⁵ The latter are also less affected by substitution (BDZV 2012a, b, c) as the superior actuality of the Internet is no issue for them.

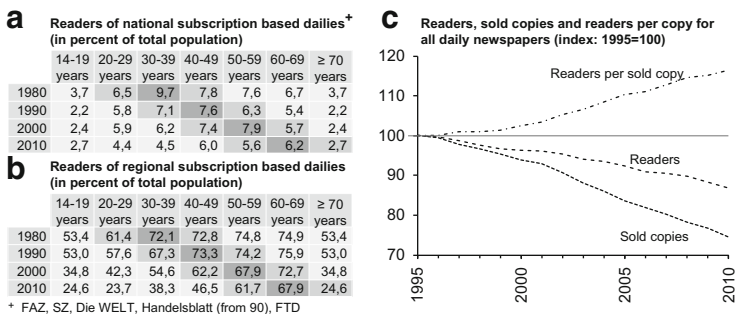


Fig. 14.2 Changing readership structure for national (a) and regional (b) dailies as well as declining overall audience (c). Source: The authors, based on data from AWA (2012), BDZV (2012a), IWV (2012), *Media Perspektiven Basisdaten* (2012)

In 2010, 347 publishers (including their subsidiaries) issued 1,509 editions of daily newspapers. However, only 132 fully independent editing units were published (BDZV 2012a). A comparison of the changes over the last decade with the last 2 years indicates an increasing trend toward higher market concentration.⁶ Most of the publishers are organized in the German Federation of Newspaper Publishers BDZV (*Bundesverband der Deutschen Zeitungsverleger*) and/or the Association of Local Newspapers (*Verband Deutscher Lokalzeitungen*). Further, the German Federation of Journalists (*Deutscher Journalisten-Verband—DJV*) and their specialized peers (*Deutscher Fachjournalistenverband—dfjv*) play an important role as lobbying groups in the German media system. The numbers of publishing companies above sound large, but consumers in 57.9 % of the 413 administrative districts covering Germany have no choice other than to consume one local newspaper (Schütz 2009, p. 475). This is problematic for local democratic processes as it limits journalistic diversity and hence the shaping of public opinion (Beck 2012, p. 147). It comes as no surprise that tendencies to further concentration are severely observed by diverse civil rights groups, political parties, and institutions of the regional governments of the German *Länder* which are politically responsible for the media. Concentration processes are not only reflected by many local/regional newspaper monopolies but also by the share of circulation covered by the largest five groups that amounts to 43.7 % in 2010 with a slight increase to 44.4 in 2012 (Röper 2012). About a third of the total 18.1 million copies of daily newspapers in 2012 and 19.5 million in 2010 (with a total population of 71 million above 14 years old, according to *Statistisches Bundesamt* 2012) is provided by titles

⁶ The number of publishers decreased during the last decade by 8 and by 14 from 2010 to 2012. The number of independent editing units decreased during the last decade by 3 and by 2 from 2010 to 2012. The number of editions is less conclusive (as independent editing units are sometimes tried to be compensated by additional editions) with a decrease over the last decade by 72 and an increase from 2010 to 2012 by 23 (BDZV 2012a).

Newspapertitle	Circulation (1,000 copies)	Scope	Main distribution	Publisher (group)
Bild	3014	national	newsstand	Axel Springer
Westdeutsche Allgemeine Zeitung [†]	781	regional	subscription	Verlagsgruppe WAZ
Süddeutsche Zeitung	446	national	subscription	SWMH/Medien Union
Frankfurter Allgemeine Zeitung	368	national	subscription	Verlagsgruppe Frankfurter Allgemeine Zeitung
Rheinische Post	341	regional	subscription	Rheinische Post Verlagsgesellschaft
Kölnner Stadt-Anzeiger/Kölnner Rundschau	336	regional	subscription	Verlagsgruppe M. DuMont Schauberg
freie presse	287	regional	subscription	SWMH/Medien Union
Nürnberger Nachrichten	277	regional	subscription	Mitteldeutsches Druck-und Verlagshaus
Die Welt /Die Welt Kompakt	256	national	subscription	Axel Springer
Sächsische Zeitung	255	regional	subscription	Deutsche Druck-und Verlagsgesellschaft
Hamburger Abendblatt	235	regional	subscription	Axel Springer
Die Rheinpfalz	233	regional	subscription	SWMH/Medien Union
Augsburger Allgemeine	222	regional	subscription	Verlagsgruppe Augsburgere Allgemeine
Hessische/Niedersächsische Allgemeine (HNA) ^{**}	222	regional	subscription	Verlag Dierichs
Mitteldeutsche Zeitung	220	regional	subscription	Verlagsgruppe M. DuMont Schauberg
Hannoversche Allgemeine Zeitung	201	regional	subscription	Madsack
Münchner Merkur	190	regional	subscription	Verlagsgruppe Ippen
Thüringer Allgemeine	173	regional	subscription	Verlagsgruppe WAZ
Leipziger Volkszeitung	172	regional	subscription	Madsack
Stuttgarter Nachrichten/Stuttgarter Zeitung	172	regional	subscription	SWMH/Medien Union

[†]Incl. Westfälische Rundschau, Neue Ruhr/Neue Rhein Zeitung, Westfalenpost

^{**}Incl. Neue Presse, Hannover

Fig. 14.3 Germany: Newspaper titles—20 largest daily newspapers in terms of (paid) circulation (2010). Source: Selection based on WAN-IFRA (2012), Röper (2012); *numbers* and *affiliations* based on Röper (2012); *scope* and *main distribution* based on company information

with a circulation below the 100,000 copies level. Only few have a circulation above 200,000 (see Fig. 14.3).

German media are regulated by international European laws. National legislation is mainly governed on *Länder* level (i.e., in the 16 regions). Hence, change is slow and tedious as decisions taken on a national level have to be agreed to by all Prime Ministers of the *Länder*. Foremost, the German media legislation limits concentration and hence fusions or takeovers. This is to ensure a maximal diversity of opinion, defines the scope of public broadcasters, and restricts the content (including advertisements) that are to be distributed (e.g., because of protection of the youth, personal rights, or public health).

Newspaper ownership is subject to the same transparency regulations as all other businesses. Also foreign companies or individuals may own shares or majority stakes in domestic daily newspapers. However, antitrust laws limit concentration in the daily press beyond general competition laws. These laws have always had a strong influence on the development of the German press. The antimonopoly laws for example regulate all agreements between newspaper publishers and magazine publishers, as well as those with direct competitors [see a summary in Beck (2012), the concrete legislation in BMJ (2012)] and expert discussions thereof in, e.g., *Monopolkommission 2004*, *BMWi 2004*; for an English summary, see, e.g., WAN-IFRA 2012), thereby distinguishing concentration measures for the recipient market (i.e., audience reach) and the advertising markets. The latter are again divided into several categories (e.g., classifieds, local or national advertising) and also depending upon the nature of the paper (e.g., daily or weekly, national or regional, subscription based or newsstand based). Furthermore, electronic media and printing houses are seen as belonging to different markets and cross-media ownership has no

restrictions as long as the combined audience does not exceed 30% of total audience reach; the algorithm to calculate the latter is, however, debated (*Hans Bredow Institut* 2003, Neuberger and Lobigs 2010).

A relaxation of anti-concentration laws is currently on top of the agenda of the newspaper publishers' federation BDZV (*Bundesverband Deutscher Zeitungsverleger*) and also gets political support when it comes to save newspaper companies from bankruptcy. On the other hand, despite increasing financial stress, lobbying for direct subsidies is almost nonexistent (*Medienforum NRW* 2009; BDZV 2012a, b) and will probably remain so as long as the reduced VAT rate stays.⁷ Rather, extended copyrights (e.g., with the aim to charge for linking to newspaper articles online by *Google & Co.*), the limitation of online activities of public broadcasters (no interference with the "electronic press" is argued for), and moderate restrictions on advertising content (e.g., tobacco products) are brought forward as critical issues in the public debate. Thereby, German publishers have a highly professionalized approach to advocacy and lobbying at national and European levels (Brüggemann et al. 2012).

14.2 Is this the End of Traditional Business Model?

After a peak in 2000 newspaper publishers in Germany have experienced decreasing revenues ever since (see Fig. 14.4a). The decline was fuelled by decreasing readership and a shifting media split in advertising particularly for classifieds to the benefit of online services and at the expense of newspapers (Kolo 2010; Kolo 2012). This decline in overall advertising revenues per reader could, however, not be compensated by a continued rise in consumer spending per copy (see Fig. 14.4b). The typical ratio of advertising to consumer spending until the first years of this century at 2/3 to 1/3 is now about to be reversed (see Fig. 14.4a). With diminishing numbers of readers as well as copies and an increasing competition for advertising space with online media, the only remaining parameter to drive up revenues with existing print products is the sales price. Raising the latter, however, is a risk further threatening paid circulation.

Up until now, most publishers have been able to cope with these downward trends by calculating with high profit margins. Today, however, there is not much room left for maneuver. A look at the financials of the largest German publisher group which is setting a benchmark for the many smaller publishing companies is illustrated in Fig. 14.5. Generally, the financials in Fig. 14.5 document the end of the era with double digit profit margins.

The German newspaper market is dominated by titles based on subscription, the majority of which is regional or local (see Fig. 14.5a). The largest publisher

⁷This may change after the next elections for the German national Government (Bundestag) in 2013, as some internal discussions on a general abolition of VAT reductions suggest that leaked through to the public (Anonymous 2012a).

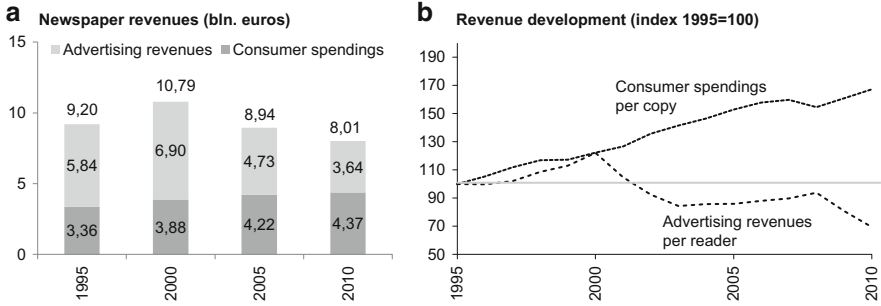


Fig. 14.4 Germany—Revenue structure (a) and long-term trends of revenue contributions (b). Source: The authors, based on data from BDZV (2012a), IVW (2012), *Media Perspektiven* (2012)



Fig. 14.5 Relative importance of newspaper types (a) and key figures for largest titles and publishers (b). Source: Own calculations based on data from BDZV (2012a), IVW (2012), *Media Perspektiven* (2012), Röper (2012), *Bundesanzeiger* (2012)

Axel Springer is not a typical example as its flagship, the *Bild*, by far the country’s largest daily in terms of circulation (3.01 million euros in 2010), is a tabloid mainly sold at kiosks. Not discriminating the way of distribution, *Axel Springer* is the largest group amounting to 19.6 % of total circulation in 2010. The five largest groups cover 44% of all circulation in the country (as of 2010). Taking only subscription-based newspapers into account, the four largest groups are listed in Fig. 14.4b with *Axel Springer* coming fifth⁸ (Röper 2012, p. 273). If these largest newspaper groups make profits at all, they are in the lower single digit range. Most probably, the majority of smaller publishers are not expected to achieve any more attractive profit margins.

After publishers were skeptic about the opportunities and at the same time presumptuous toward the threat of online media at the beginning of last decade

⁸ *Axel Springer AG* reports revenues of 2.9 billion euros and an EBITDA margin of 17.6 % (*Axel Springer* 2011).

(Kolo and Vogt 2004), hope was put on growing page views and online advertising revenues only later. However today, it is evident that online revenues will never cover the accumulated losses in print (Weichert and Kramp 2009a; Kolo 2010). Experts claim that only about 10% of print will be recovered by online revenues given the same size of audience reached in Germany (Kolo 2012; Mogg et al. 2012).

The second deception came with mobile media, particularly the tablet PC. Publishers just learned that they will not succeed in charging twice (for print and mobile digital media), that they rather poach readers from one channel to the other, and that they attract only a small amount of additional (digital-only) subscribers. Furthermore, the leverage of more readers than subscribers, so important for the advertising market in print, will probably disappear with individual end-user devices and advertising will hardly reach the same yield per pair of eye balls on digital editions as the numbers on digital ad revenues suggest (e.g., PwC 2012b). On the other hand, mobile interfaces are not just another pipe for print or online content. In order to be convincing for the consumer the need to be adapted to the device's form factor and typical (but different) contexts of usage incurs non-negligible costs. So, even with a decent online operation and smartphone as well as tablet editions (i.e., with mastery of the cross-media "imperative") the traditional newspaper business model with overall revenues fed by comparable proportions from consumer spending and advertising most probably is doomed.

With print readership shrinking, advertising moving to online media, and the only modest success in the digital products around traditional editorial content, one has to ask: what remains for news print publishers to do in order to stay in business? Brüggemann et al. (2012) devise five strategies of crisis management in the publishing industry. Publishers may need to:

1. React by cutting down costs
2. Create new products
3. Try to influence the general framework conditions by complaining about their burden in public discourse
4. Take competitors like the public broadcasters for their online spin-offs to court
5. Persuade politicians through lobbying⁹

Costs may be cut by exploiting synergies on a larger scale. Understandably, publishers increasingly strive for growth by mergers and acquisitions. Moves to further reduce costs internally are only limited as not much room to maneuver is left after years of cost-cutting and stream-lining. After all, substantial reductions could only be achieved by rethinking editorial processes.

Another path to counter losses in the traditional business model is shown by larger German media companies such as *Axel Springer* (originating from the newspaper business), *Hubert Burda Media* (from magazine publishing), or *ProSiebenSat1 Media AG* (from television broadcasting). In addition to the "cross-media imperative" (see, above), these incumbents follow a diversification

⁹ For the discussion about other strategies for the digital era, see also Gueskin et al. 2011.

strategy (the additionally required “innovation imperative”) into online services not based on editorial content, exploiting other assets of a media companies. Among the latter are their roles in market making, in consulting purchase decisions, or in using online as well as print audience reach to scaling up start-ups more rapidly than new pure online players. Most newspaper companies, however, do not yet embrace digital media in such an encompassing way and hence let go of potential revenues [see Christensen et al. (2012), on the lack of innovation among print publishers].

Ultimately, for the medium-sized and smaller publishers most probably only a combination of cost and revenue-oriented measures may work unless the issue of subsidies will resurge. However, so far public financial subsidies have no support among the key players in news media. This is quite surprising as even direct subsidies would be legally possible as long as a direct influence on the editorial content and the design of specific media offerings could be ruled out and no bias in journalistic competition was supported (as confirmed by a ruling of the German constitutional court BVerfGE 80,124).

On the other hand, at least on a regional level, newspapers are the only significant information channel and hence a necessary link to participate in the democratic process (Beck 2012, p. 147). Consequently, they are significantly relevant for the functioning of Western democracies and the political system itself (Habermas 2007).

14.3 Alternatives to Finance Quality Journalism

One year after Paul E. Steiger had launched the foundation-funded news organization *ProPublica* in the USA in 2007, he claimed it was important that “...philanthropists and foundations strengthen the independence of democracy in these tough times” (Weichert and Kramp 2010, *online interview*). At that time, in autumn 2008, the US real estate crisis began just to expand into a global financial disaster that also pushed the media sector into economic turmoil. Under these impressions, the editor-in-chief of the investigative news outlet stressed the notion that “...the economic crisis has surely depleted some assets but when I last checked there were still a number of billionaires in Germany. I see no reason why something like *ProPublica* shouldn’t work also in Germany, Italy or France” (Weichert and Kramp 2010).

A hundred years earlier, the German sociologist Max Weber noticed in his “*Presse-Enquete*” (*survey of the national press*) not to worry too much about the business of journalism (Weischenberg 2012). In fact, the sector’s strategy of cross-financing journalism by classified advertising in particular has worked effectively over many decades, not to say that it has made many people very rich (Picard 2008). The daily news business, especially the printed newspaper, could defy the sensitive vibrations of the market and has survived all economic crises unscathed—but only so far. Hence if and how this general framework in the near future in Germany ever should deteriorate as dramatically as in the media systems of other countries, predominantly the one in the USA, is speculative (Weichert and Kramp 2009a, pp. 9–30; Weichert et al. 2009; Kolo 2010). Nevertheless, the motivation to look

out for alternative possibilities to finance quality journalism in Germany lies probably in this very moment without vast deficit spending as we have still a fairly intact journalistic system—and not when eventually the commercial revenue streams dry up completely.

Thus, the newspaper business was very stable for a long time because the whole press based on what is called “quality journalism” (Arnold 2008; Beck et al. 2010, pp. 15–42; Pöttker 2000), combining a “journalistic mission” with an attractive business model (Brüggemann et al. 2012, p. 9). All ingredients had incentives to act in a way which seemingly supported the system. To save a system under threat there are basically three options (referring to the systems mentioned above): (1) Either the key elements will change, or (2) their relations, or (3) the boundary (including the relation to other subsystems, e.g., broadcasting) [see von Bertalanffy (1976), for a general systems context, or Weichert and Kramp (2009a), for the specific context of the press subsystem]. In any case, the institutions on a meta-level and the individual players ensuring quality news also on a regional to local level will need to overhaul themselves and not just the framework conditions. In this sense, traditional publishers are an evidently sufficient but not a necessary requirement to sustain quality journalism.

In fact the notion of rescuing journalism in the digital age is first of all based on the idea of providing journalistic services supported by new forms of public’s and civil society’s commitment—instead of arguing about a possible state aid for newspapers (Kiefer 2011a, b). One would tend to address this bundle of initiatives to the term “crowd-funding” (Institut für Kommunikation in sozialen Medien 2011; Eisfeld-Reschke and Wenzlaff 2011; Wenzlaff and Hoffmann 2012; Schneider and Unruh 2012, p. 15), but as journalism is considered to be not only a relevant but necessary institution for a democratic society the overall key concept of a “third way” of financing journalism seems to us to be more appropriate and should therefore be discussed more intensively (Weichert and Kramp 2009b).¹⁰ Above all, there still remains the uncertainty in how far a model of public financing would be compatible with the freedom of the press (Kiefer 2011a).¹¹ As much as these concerns are legitimate, a journalistic service financed by the public nonetheless remains a basic principle in freeing journalism from private economic interests and the rigorous powers of the free market. In this view, journalism is no longer a commodity that has to be sold in the market but a collective property, *aka* a “public good,” that could prosper again through private and public foundations, private donations, sponsorship, and partnerships with existing (state) educational institutions (Downie and Schudson 2009; Kramp and Weichert 2012).

¹⁰ A broader discussion was initiated in April 2012 by the media debate website VOCER that conducted a series of lucid essays opening with an article by Paul E. Steiger and followed by other international and German authors; see <http://www.vocer.org/de/dossier/do/detail/id/20/der-dritte-weg.html>.

¹¹ For a criticism against a nonprofit journalism and its independence, see Ruß-Mohl (2011) and Stöber (2011).

Thus, we do not focus primarily on the future of market sensibilities, but on the principles of how a responsible profession can be transformed into the digital environment safely by hedging its financial resources. Following an elaboration of alternatives beyond mere public financial subsidies five promising new economic models are provided. These might enable a “third way,” that is, an alternative route towards a more sustainable development of the German press.¹²

14.3.1 The Civil Society’s Model: Crowd-funding

Probably at no other financing model the journalistic opinions differ as much as at the thought of the user as a direct moneylender of journalistic stories with the means of micro-payments: Setting up the strategy to download articles to individual fees or to install pay-walls seems to be largely a huge challenge, while the crowd-funding (or, alternatively, “swarm financing”) business model is on the rise in Germany, not only in journalism but also in other undercapitalized public areas such as the culture and creative industries as well as education industries (Theil and Bartelt 2011; Röthler and Wenzlaff 2011; Hemer et al. 2011).

Hereby a “third way” might not be recognized at firsthand because, one could argue, these kinds of donations to charitable editors, news organizations, and journalistic initiatives only help to compensate the decline in sales of journalistic products on the market. On the other hand, this alternative financing option by small and individual donations of users (i.e., the crowd) is perhaps the most fundamental and most honest form of a civil society supporting journalistic content.

Consequently these appeals to the reader’s solidarity appear more promising as an integrated pay-wall a lot of media managers from the *New York Times Company* to the *Axel Springer AG* tend to cling to. Finally, there has been also a direct participation of the public in the form of a people’s share that worked out for at least 20 years: The Berlin-based leftist newspaper *taz* (*die tageszeitung*) bears an association model that has been around since 1992—but has surprisingly found only a few imitators so far.

14.3.2 The Foundation Model: Patronage

Private capital that wealthy citizens and business owners donate, given as an instrument of civic financed journalism and/or stimulus to innovation has an enormous relevance. Especially, when it comes to investments worth millions of individual philanthropists as in the case of the independent news desk organization *ProPublica* in New York City (<http://www.propublica.org>) one quickly realize that this is a very powerful promotional instrument: Since its launch in 2008 *ProPublica*

¹² These five solutions made a couple of years ago (Weichert and Kramp 2009b) are as up to date as by the time. Here, we present a slightly modified and updated list of these points.

is promoted primarily by the multibillion dollar endowment of US banker couple Herbert and Marion Sandler who provide around US\$10 million annually.

Nonprofit organizations and initiatives in this league of financial outfit which depend on foundation \$ now abound in the USA—and more are launched every month. In this model of patronage eventually comes the thought into play that permanently funded media companies should act as nonprofit organizations in a noncommercial environment by themselves. Although this idea is not really new it still is not as popular as it could be: For example, the *Fazit* foundation defended the financial independence of the German daily newspaper *Frankfurter Allgemeine Zeitung* for decades, the *Guardian* in the UK is in the care of the nonprofit *Scott Trust*, and the *St. Petersburg Times* based in Florida is well protected by the *Poynter Foundation* against the imponderable vibrations of Wall Street.

14.3.3 The Media Policy Model: License Fee

Straight to the epicenter of the German media policy goes the idea of a public foundation for quality journalism (*Nationalfonds für Qualitätsjournalismus*) carried by license fees or taxes. In this model, interested parties (e.g., journalists, editors, bloggers, websites) could apply for a promotion to finance journalistic innovation projects, time-consuming research, excellence scholarships, or studies abroad in the service of quality journalism. With over 7 billion euros the public broadcasting system in Germany still is even by international standards unbelievably rich. A small piece of the thereby enforced fees would surely help to significantly close funding gaps and represent a long-term peace of mind for journalistic entrepreneurs. Against the horrific images of an abuse of these funds as a tool of political pressure or the argument of interference by the State the media crisis has just shown how immune a public service journalism is to the fluctuations of the stock exchange: In contrast to the traditional market model of the press it has remained stable.

Therefore, some food for thought: A small monthly contribution of all of the approximately 40 million German households of, say, only 2 euros is in accordance to nearly a billion euros per year that generate such a press fund to promote innovative journalistic initiatives and projects from print, television, radio, and online under the signs of digitization. Compared to the often exaggerated expectations on annual returns on investment of some publishers this “solidarity model” seems at least more promising for stabilizing quality journalism for the public safeguard of our democracy. An assumingly relatively low risk of a difficult to unfair distribution of these funds could be accepted for the benefit of a stronger journalistic diversity and the inner freedom of the press.

14.3.4 The Economic Model: Culture Flat Rate

Another solution might be the model of a regulated access fees to be paid by each of the Internet providers and cable operators. In an ideal case this fixed concession charge would centrally be distributed by a cross-industry authority representing both sectors. This flat rate on Internet connections that has long been advocated under the title of a “culture flat rate” by the German party *DIE GRÜNEN* (i.e., Green party) and was most recently occupied in the popular copyright debate also by the *PIRATEN Partei* (literally, the pirate party) aims to pay copyright fees for the digital copying of content. To lead to a proper “third way,” this kind of distribution fee paid to rights holders should be extended for the aspect to preserve quality journalism: While the access providers who pave the user via software or hardware the Internet highway could ask each of their clients a monthly additional fee of a few cents to pay, search engines like *Google* should engage the producers of journalistic content with a certain percentage of their advertising in order to link and access their articles, posts, and pictures without restriction.

With a large association like the *GEMA (Gesellschaft für musikalische Aufführungs- und mechanische Vervielfältigungsrechte)*—a state-authorized collecting society representing rights of the copyright of their members, e.g., composers, lyricists, and publishers of musical works—the German cinema and music sector have shown since 1933 that this model is not only practicable but in the sense of the authors (who hold the copyright of their work) more than fair: To charge and distribute this digital culture flat rate to journalists, reporters, bloggers, filmmakers, writers, and photographers as righteous as possible existing collecting societies such as *GEMA*, *VG Bild-Kunst*, and *VG WORT* should most likely determine specific indicators such as media usage, range of coverage, and, nonetheless, relevance and quality.

14.3.5 The Educational Model: Public Facilities

As compared to the other models somewhat moderate, but equally remarkable, scenario is more a complement than a basic model: It is based on corporate networks of existing public educational institutions, nonprofit organizations, independent initiatives, and charitable associations to strengthen journalistic diversity. In Germany already financed by taxes a greater involvement of universities, media colleges, churches, and educational institutions in the journalistic education and training business as well as in the establishment of innovation media labs and think tanks, the award of excellence grants and for triggering journalistic quality programs would not only promise the continuity of public alimentation of journalism. This would also generate mutual learning effects between newsrooms and universities—something you could call a cross-generational win-win situation for everyone involved. Apparently, together the challenges of the digital media change can not only be understood better, but also be conquered: While traditional newsrooms in such institutional team-ups understand themselves more than

learning organizations many journalism schools are designated with high flexibility and an enormous creative potential.

Due to their educational guiding principles the German Federal Agency for Civic Education (*Bundeszentrale für politische Bildung*) would be ideal as a clearinghouse to ensure the quality of journalism—if only it would be more openly funded and decoupled by the German Home Office. It goes without saying that first of all, the preservation of quality journalism has to be understood as a matter of education policy for a functioning of the democratic order. It would be even more radical to grant news organizations the status of educational institutions themselves, so that they can operate largely tax exempt. Such indirect government subsidies for quality journalism would always be preferable to subsidize newspaper publishers directly, as it is happening in most of the other European countries. Only these stimulations seem to help preventing a desperate subsidizing policy that might end up in a continuous vicious circle for decades that resembles somewhat the wreckage bonus in the German car industry.

Conclusion

To summarize, we admit that this elaboration of alternatives beyond mere subsidies comprising new institutional constellations is not complete. But they are a good start to think out of the box. However, in the meantime another, parallel debate on “ancillary copyright legislation” (“*Leistungsschutzrecht*”) that forces *Google* and other search engines or news aggregators to pay for republishing content from newspaper publishers absorbed politicians involved in media issues and associations of key players in the German press system. In the opinion of the authors this debate not only focused rather on symptoms than addressing the long-term challenges publishers face (see also above) but may be misleading altogether. In any case, it distracted necessary attention from a substantial solution to safeguard quality journalism in times of digital media and its changed and still changing usage patterns as well as business models.

After a publicly staged struggle in March 2013 the *German Bundesrat* finally approved the ancillary copyright legislation, “*although a crucial last minute exemption allows the publishing of ‘individual words or short excerpts’, allowing Google News to continue parsing stories (lawyers may disagree what constitutes ‘short’)*” (Jackson 2013). Although this legal initiative was officially passed by the German legislation it still remains highly controversial. Renowned experts¹³ doubt the law’s effectiveness in establishing a sustainable paid content business model online. The new law was pushed mainly by the two powerful German associations, the newspaper publishers’ BDZV (see above), and its magazines’ counterpart the VDZ (*Verband Deutscher Zeitschriftenverleger*)

¹³ Jakob Augstein, for example, adopted son of *Der Spiegel* founder Rudolf Augstein and by himself a renowned publisher of the weekly newspaper *Der Freitag* thinks of the ancillary copyright legislation as “*all wrong and nonsense*” (Rieg 2013, p. 68), a position much followed by many German bloggers.

claiming that this law strengthens the plurality of the German press and is “an important element for a fair legislation framework in the digital world” (Rieg 2013, p. 69).

It can be hoped for that more and more politicians realize that this legislation is as a rather cosmetic move rather than being act of investing in the future of journalism. In November 2012, Marc Jan Eumann, State Secretary to the Minister for Federal Affairs, Europe, and Media Chairman of the Media Commission of the SPD party executive, for example, argued for a journalism foundation to be inaugurated and financed by public means (Anonymous 2012b). This “foundation for diversity and participation” (*Stiftung Vielfalt und Partizipation*) is planned to start working in 2014 with an annual budget of 1.6 million euros, to support an awards program of different scholarships in costly local journalism research projects, and to cofinance advanced trainings in journalism (Langer 2013).

In contrast to the ancillary copyright legislation the options mentioned in the preceding section have the beneficial side effect of allowing journalism to develop: organically, structurally, logically—even if financially eroded: “Because it will take a stronger willingness for change than the tearful publishers currently envisage with their demands for state intervention to strengthen and anchor journalism’s place in society in the long term. We hope we as a society will succeed in retaining the spirit of the print press – not for economic reasons, but, at the risk of sounding pathetic, because we believe it is identical with the idea of a free democracy” (Littger and Weichert 2013, online; Weichert and Littger 2013).

Concluding with a final personal statement, we would suggest taking not just *one* but a *combination* of these solutions into account. Whatever may happen to the press most likely in the future and what role media change should take it must not be denied that private media and the public broadcasters in Germany can bravely continue to provide for our required daily doses of quality journalism—at least for the coming years. By then, however, a less of a fun question will be how sustainable the business model for journalism still is as a relevant democratic pillar. Until then, it is now a matter to start with protecting declining niche products in journalism and innovative start-ups through a “third way,” maybe by one of the models described here. And this is not just because they picture a very significant impetus for the reinvention of quality journalism, but they also mean a benefit for the media industry and in any case for society at large.

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Stylianos Papathanassopoulos

15.1 Introduction

Greece is a small European country located on the southern part of the Balkan Peninsula in the south-eastern part of Europe. A major part of the population (4 out of 11 million) is concentrated in the wider metropolitan area of Athens, Greece's capital. The birth of the modern Greek print media largely coincided with the struggle for independence from the Ottoman rule in 1821 (Koumariou 2005), and its development paralleled the growth of political life in the nascent Greek nation-state (Papadimitriou 2005). One result of this growth process was that the state came to strongly intervene into its economy. Greek social life in the past had been dominated by profound schisms: between "modernists" vs. "traditionalists" in the cultural sphere, and "leftists" vs. "rightists." Each of these spheres came to oppose each other strongly over time (Demertzis and Charalambis 1993; Demertzis 1996).

Assumingly, these structural preconditions together with a weak or better atrophied civil society and a late development of the domestic capital stock have led to a model culture of an interventionist state. Much of Greece's uniqueness is said to reside within the leading role the state has taken in promoting the economic development of the country (Featherstone 1994). In fact, the slow development of the private industrial and services sector and its dependence on an interventionist state have meant that the state has become ever more autonomous from the rest of society. As Costas Vergopoulos, a Greek professor of the study of political economy, put it: "*Ever since the middle of the nineteenth century, nothing could be done in Greece without it necessarily passing through the machinery of the state*" (as quoted in Mouzelis 1980, p. 248). This situation has also been attributed to a weak civil society as a consequence of which the state has had to support society in building up politico-ideological orientations (Mouzelis 1980). On top, even the

S. Papathanassopoulos (✉)
National and Kapodistrian University of Athens, Athens, Greece
e-mail: spapath@media.uoa.gr

elites in the economy sector have not managed to form well-organized and cohesive pressure groups. Mouzelis (1980, p. 262) noted that because of the persistence of patronage politics, even political parties and interest groups had to be articulated within the state apparatus. Again, the fact that the state has played a decisive role in the formation of the Greek economy and polity highlights its importance and weight in today's autonomy from its people.

The growth of the modern Greek press in the mid-nineteenth century paralleled the establishment of political parties in the country. Then, each party had its own newspaper. Regardless of the fact that the political party system and newspaper ownership grew up separately, an identity of common interests was maintained. The press watched all developments of political life and became a distinct power player. This was because Greek newspapers were not only partisan but were also used by their owners as instrument of pressure against government in order to serve their own particular interests. In effect, the relationship between the press and the political power in the early days of the modern Greek state was eloquently commented by the then influential newspaper *Ephimeris ton Syzitizeon* (Greek: "Journal of Debates"): "*Everybody uses the press as a patron and as servant for the best or the worst. . . it is not the press' fault, but of the governments that are buying it*" (*Ephimeris ton Syzitizeon* 1874, p. 1).

Since the size of the Greek market was considered to be too small to support too many newspapers at the same time, the state and its political elite tried to appease the few press owners left through various press subsidy schemes. The press owners who also came from industry sectors such as construction and telecommunications had used their newspapers as a means of control of government. While the government wanted a friendly press, it had to mitigate the power of adversarial press barons through various appeasement media policies. The economic power of the press barons well corresponded with their power as opinion-maker, and, next to state broadcasting, newspapers were the key mass media for the dissemination of political information of PanHellenic interest (Hallin and Papathanassopoulos 2002).

In this chapter, I will critically analyze the Greek subsidy scheme for newspapers. I will argue that state aid for the press has been heavily influenced by the troubled Greek patronage politics. I will organize this chapter in two parts. The first part deals with the structure of the Greek media system, which has been heavily affected by the interplay between the political elite and the press. Second, I will point out that press subsidies have not been governed by a clear legal framework. Instead, I argue that press subsidies in Greece have been used as state instruments of appeasement and silencing the print media. I build on the suggestion that state-media relations in Greece are an asymmetric relationship and could best be described through the concept of *clientelism*, as I attempt to explain in the next section of this chapter. Finally, I will conclude that press subsidies in Greece are in a state of continuous turmoil. This is due to the financial crisis and the austerity package put in place which exerts huge pressure on the existing practices of the press support provisions.

15.2 Media, Clientelism, and the State

The interplay between the state and the media has largely arisen from the tensions within Greek society itself. In the case of the media, the state may intervene in various ways (Hallin and Mancini 2004). As for Greece, the state has played the role of censor. The direct authoritarian control of the years of dictatorship is presumably a thing of the past, but some remnants have carried over into the democratic period. Second, the state has also played an important role as an owner of media enterprises. The electronic media have traditionally been under the total and tight control of the state. Third, in a more indirect but nonetheless effective way, the state has enforced its policies on ownership as well as the unwritten rules of power politics by using a wide range of means of intervention. These means include sizeable financial aid to the press, on which individual enterprises have become dependent. Finally, the central role of the state in the Greek media system has no doubt limited the tendency of the media to play the “watchdog” role so widely valued in prevailing liberal media theory. The financial dependence of media on the state has combined with the intertwining of media and political elites within a highly centralized state polity. This has led to a journalistic culture which has historically been cautious about reporting news which would be embarrassing to state officials.

Clientelism refers to a pattern of social organization in which access to social resources is controlled by patrons and delivered to clients in exchange for deference and various kinds of support. It is a particularistic and asymmetrical form of social organization and is typically contrasted with forms of citizenship in which access to resources is based on universalistic criteria and formal equality before the law (Hallin and Papathanassopoulos 2002, pp. 184–185). Clientelistic relationships have been central to the social and political organization in most southern European countries (Hallin and Papathanassopoulos 2002, pp. 184–185). The greater prevalence of clientelism in southern than northern Europe is intimately connected with the late development of democracy in southern Europe. It is historically rooted in the fact that autocratic, patrimonial institutions were strongest in the south (*ibid.*). The emergence of clientelism represented not simply a persistence of traditional hierarchical social structures, but a response to their breakdown, in a social context in which individuals were isolated, without independent access to the political and economic center, e.g., through markets, representative political institutions, or a universalistic legal system, and in which “social capital” was lacking (see also Eisenstadt and Roniger 1984; Gellner and Waterbury 1977; Kourvetaris and Dobratz 1999; Mouzelis 1980; Roniger and Günes-Ayata 1994; Putnam 1993; Katzenstein 1985). “*Clientelism evolved as a correlate of modernity*”, write Roniger and Günes-Ayata (1994, pp. 24), thus providing mechanisms for social actors to gain access to resources as modernization disrupted traditional institutions. It is often said to be particularly prevalent under conditions of relative scarcity, where competition for meager resources is particularly sharp, leading to mistrust among people outside immediate families and patron–client relationships.

The classic form of clientelism is dyadic, based on individual relations of dependence. But as national political institutions developed, including parties and centralized administration, clientelistic relationships combined with them to create a more complex, pyramidal form of clientelism (Hallin and Papathanassopoulos 2002).

At the same time, clientelism may affect the development of the news media in many ways (Hallin and Papathanassopoulos 2002; Hallin and Mancini 2004; Papathanassopoulos 2004). First, it encourages the uses of the news media for other purposes than the balanced provision of news stories. The politicization of business is a result not only of the important role the state plays in the economy, but of the nature of the political process. “*What was important for an interest group*”, write Lanza and Lavdas (2000, p. 207) about Italy and Greece, “*was its ability to establish a special and privileged bond with a party, a sector in the public administration, a branch of the executive a politician or a civil servant. In this way, institutions became permeable; otherwise they remained totally impermeable.*” In northern Europe clientelist relationships have been displaced to a large extent by rational-legal forms of authority and, especially in the smaller continental European countries, by democratic corporatist politics, both of which decrease the need for economic elites to exert particularistic pressures and form partisan alliances (Hallin and Papathanassopoulos 2002; Hallin and Mancini 2004). In countries with a history of clientelism, rational-legal authority is less strongly developed. The judiciary and administrative apparatus are more party politicized and there is often a tradition of evasion of the law. The persistence of a culture in which evasion of the law is relatively common means that opportunities for particularistic pressures are common: governments can exercise pressure by enforcing the law selectively, and news media can do so by threatening selectively to expose wrongdoing. Legal proceedings against media owners are thus fairly common in many southern European countries (Papathanassopoulos 2004).

Second, clientelism makes the media systems less self-regulatory and the regulatory bodies less independent compared to their counterparts in liberal countries like the USA and Britain and in democratic corporatist countries. In southern Europe, the regulatory institutions tend to be more party politicized and weaker in their ability to enforce regulations.

Third, clientelism has also affected the content of the media, especially newspapers, as means of negotiation among conflicting elites rather than means for the information of the public and, therefore, mass circulation. It forces the logic of journalism to merge with other social logics—of party politics and family privilege, for instance. And it breaks down the horizontal solidarity of journalists as it does of other social groups. Thus, the journalistic culture of the Anglo-Saxon tradition which has once been manifested both in relatively strong journalistic autonomy and in highly developed systems of ethical self-regulation is absent in countries with a stronger history of clientelism because of the overriding importance of political interests. A sense of a public interest transcending particular interests has been more difficult to achieve in societies where political clientelism

is historically strong, and this contributes to the difficulty of developing a culture of journalistic professionalism.

15.3 The Media Ecosystem in Contemporary Greece

Since the fall of the military junta in 1974, the Greek press has undergone a process of modernization. Since then, the introduction of new printing technologies in the 1980s (Leandros 1992; Simmons and Leandros 1993), the entry of private investors into the media sector, and strong competition from television have changed the media sector at large (Psychoyios 1992; Zaoussis and Stratos 1995; Paraschos 1995). As a result, print media has had to reposition itself: editorial content has had become more objective, and close ties with political parties were being loosened. Partly, for the press this has arisen out of the need to attract a broader spectrum of readers in order to increase circulation in times when the rate of economic and social development in Greece was again declining. And it has partly reflected a drift away from the political party community itself toward the major political orientations of the modern Greek electorate. In effect, this means that the Greek media, collectively, is still a very influential institution, usually aggressive and sensationalist in tone, especially in periods characterized by a climate of political tension and, of course, during times of elections (Komninou 1990, 1996).

As far as its structure is concerned, the Greek media are primarily characterized by excess in supply over demand. This oversupply appears to be logical, since a plethora of newspapers, TV channels, magazines, and radio stations have to compete for a small-country audience and advertising market share (Papathanassopoulos 1999).

Although the developments in the Greek media sector may not entirely respond to the needs of its advertising industry, it has been surprisingly adaptable to swings in the economic business cycle (Papathanassopoulos 1997). The recent fiscal crisis, however, coupled with the crisis of the economy, brought major losses of advertising revenues for the media industry (Korderas 2012). On top, the current austerity package put forth by the so-called *Troika*, the *European Commission* (EC), the *International Monetary Fund* (IMF), and the *European Central Bank* (ECB), which aims at restoring the Greek economy, is set to deepen Greek woes.

While the advertising market has faced a collapse since 2007, orders from public works or other public sector government activities have also gradually worsened the situation of the press. This was due to the inability of the state either to pay off or reimburse the contractors for the public works it had asked for. This had a negative knock-on effect on the media and newspapers in particular, since entrepreneurs in public construction projects who were also active in the media field could not any more cross-subsidize their media outlets from revenues made out of public orders. As Leandros commented (2010): “*The entry of industrialists, ship-owners and other business interests into the media scene was an important way for these interests to try to influence public opinion and to exert pressure in the political*

arena to the benefit of their business interests” (p. 890). With the downturn of the economy, this potential benefit, however, turned out to become a structural flaw.

Today, all media outlets are facing their most difficult period ever, but it is the print media (newspapers and magazines) which are suffering the most (Papathanassopoulos 2010). Although press decline in terms of sales, readership, and advertising revenue is a worldwide phenomenon, the Greek press has entered a state of permanent crisis since the mid-1990s. Since then, fewer and fewer Greeks read a newspaper on a daily basis (Papathanassopoulos and Mpakounakis 2010). Total sales of the national newspaper sector have lost about 15 % of its readership while the biggest losses are seen in daily editions. Some have already closed, like the well-known *Eleftherotypia* (Greek: *Ελευθεροτυπία* means “freedom of the press”), a daily newspaper once published in Athens. It was once the most widely circulated newspapers in the country. Even worse, today, there does not seem to be any more political will to help newspapers out of a crisis. Indeed, the current center-right government is reluctant to help out the press by means of press aid or subsidies.

Regardless of the fact that the level of population literacy is high (1.5 out of 10 have a university degree; *Hellenic Statistical Authority* 2012), newspaper readership is very low (53 in 1,000 in 2010; WAN 2010). However, in 2010, there were around 280 local, regional, and national daily newspapers in Greece (Papathanassopoulos and Mpakounakis 2010). In 2012, the country had 15 national daily newspapers (among them *TA NEA*, *Kathimerini*, *Ethnos*, *Eleftheros Typos*, *Avgi*), 12 national daily sports newspapers (among them *Sportday*, *Goal News*, *Fos ton Sport*), four national business newspapers (among them *Imerisia*, *Naftemporiki*), 17 national Sunday papers (among them *To Vima*, *Proto Thema*, *Katimerini tis Kyriakis*, *Real News*, *Ethnos tis Kyriakis*, *Eleftheros Typos tis Kyriakis*), and 11 national weekly papers (among them *Parapolitika*, *Ependytis*, *Sto Karfi*), most of which have been located in Athens (ADNA 2012).

Moreover, in a highly centralized country with 40 % of the population residing in the wider Athens region, it is not surprising that the Athenian press dominates the national market. Therefore, more than half of the daily newspaper circulation resides in Athens and the Athenian press has become national in scope and in sales too (since half of its sales is made in the rest of Greece). Only some regions still prefer their local newspapers, but mainly as secondary offer. Another characteristic is that there is a strong Sunday press, again mainly originating from Athens, since almost all dailies have their Sunday edition. Most of the Sunday papers offer a supplement or they have increased their number of pages in order to cater for the interest of a wider readership, especially younger readers.

However, as mentioned above, Greece has one of the lowest newspaper readerships in the developed world (Papathanassopoulos 2004). Critically, the entry of new private TV channels and radio stations in the early 1990s, and the advent of free dailies and the Internet in the beginning of the new century, has led newsprint demand to further decrease every year (Papathanassopoulos 2010).

On the other hand, the Greek press has tried to cope with these new conditions, by redesigning their titles and/or publishing new ones (Papathanassopoulos 2001). To increase sales most of the Athenian newspapers have adopted a policy of

offering add-on services, such as books, free travels, flats, and other consumers goods to readers through coupons for readers to collect. Although these marketing and sales efforts were effective and somewhat stopped the decline in sales especially of the daily press, it has forced publishers to rethink their original offers, since selling editorial content without associated offers and products has become difficult (Papathanassopoulos 2001).

The Greek newspaper sector has some more peculiarities (Papathanassopoulos 2001). First, while the average circulation of newspapers in Greece is falling, the same cannot be said for the number of daily titles. Although a number of established newspapers have failed and ceased publication over the past 10 years, new titles, and old ones under new ownership, have sprung up all the time. Most recently, four new daily titles (*6 Imeres*, *Efimerida ton Syntakton*, *I Ellada Ayrio*, *Epikairobita*) and one new Sunday paper (*To Xoni*) were brought to life in Athens. Sales, however, remained significantly low.

The following Table 15.1 shows the leading daily newspapers in Greece. It shows the leading daily newspapers in Athens, their 2012 circulation which is very low, their ownership status, and their political affiliation and connections with other media outlets and other sectors of the economy. It further shows that two newspapers (*Avgi* and *Rizospastis*) are directly owned by political parties: *Avgi* is owned by the Radical Left *Syriza* party and *Rizospastis* by the Communist party.

15.4 Government Intervention into the Press

State subsidies for the press do not necessarily lead to government control or intervention in the content of newspapers (Sparks 1992). In practice, however, state aid for newspapers in Greece comes as some sort of special economic intervention with strong political repercussions on both politics and the press. First, the implementation of government help was and is still strongly linked to the political culture of the country. Broadly speaking, government intervention in Greece is signified by these more or less hidden practicalities of state–press relations.

First, most newspapers have become dependent on *occasional* government handouts, bank loans, and, likewise, the financial goodwill of their owners. Notably, a regular, transparent, and government-neutral public financial press subsidy scheme has not established in Greece, and state policies of this kind are not visible in the near future. But indirect subsidies are greatly supporting newspapers, and these are rather opaque. As mentioned above, media owners and the political elite have built up more or less invisible but yet close ties of mutual dependence, reliance, and control. According to Mouzelis and Pagoulatos, “*the owners of the media represent a center of power that no politician dares to question, unless he aims to commit political suicide. Their power is being reinforced by their dominant position in numerous business fields (telecommunications, information technologies, construction etc.)*” (Mouzelis and Pagoulatos 2003, p. 22). In effect, as Leandros noted, since the late 1980s, “*successive governments have tried to*

Table 15.1 Leading daily newspapers in Greece

Title	Ownership	National average daily sales in 2012 (in 000)	Political stance	Membership of a chain
TA NEA	Dimosiogragikos Oranismos Lambrakis	38	Liberal	TV: Mega Channel; press: Lambrakis Group (papers, magazines); travel, culture
<i>Eleftherotypia</i>	C. K. Tegopoulos	Ceased publication in 2011 <i>Republished in January 2013</i>	Liberal	TV: Mega Channel; press: magazines; telecommunication services
<i>Ethnos</i>	Pegasus (Bobolas family)	26	Liberal	TV: Mega Channel; press: magazines, Construction
<i>Eleftheros Typos</i>	Press Foundation S.A. (then to Angelopoulos Family and later to D. Mpenekos and A. Skanavis)	15	Conservative	Used to have some shares in Star Channel
<i>Kathimerini</i>	Alafouzou family	36	Independent	Radio: two stations (SKAI FM and Melodia FM; press: magazines; TV: SKAI TV, shipping
<i>Apogeymatini</i>	Karagiannis	Ceased publication in 2010	Conservative	NO
<i>Avgi</i>	Syriza-left coalition party	2.8	Left	Radio station: Sto Kokkino FM
<i>Vradyni</i>	Vradyni Ltd (K. Mitsis)	3	Conservative	Magazine
<i>Rizospastis</i>	Greek communist party	8.3	Communist	No; radio station “902 Aristera sta FM”; a TV (called 902) station ceased operations in 2012

Note: The circulation of the above leading dailies represents the 77 % of the average sales of the daily press (morning and evening). In terms of advertising they represent the 70 % of the advertising revenue of the daily press

Source: Athens Association of Newspaper Publishers (for sales), compilation by the author

promote transparency and limit concentration in the media sector. However, (...) their actions were contradictory and ineffective” (Leandros 2010, p. 891).

15.4.1 Press Subsidies After WWII

After the liberation in 1944, Greece descended into a civil war. This period not only signified one of censorship and restriction of the freedom of press but also saw the strengthening of the relationship between press owners, the state, and the political parties through a series of laws (Skamnakis 2006; Papadimitriou 2005). These types of press support were not aimed at safeguarding pluralism. Instead, the political elite handed out financial support to its press in order to get its views disseminated. Only this secured newspapers' economic survival. In fact, the political elite gave subsidies to the newspapers through a number of special laws based on their political stance rather than their market share (Antonopoulos 1973). Limited reader demand, small circulations, and low advertising revenues made subsidies an essential fact of life for newspapers and a weapon for the politically powerful. This reinforced the close ties between newspapers and the state. Increasing publishing costs led most publishers to establish even closer ties with the politically powerful. On each occasion, however, the respective governments defined by law which newspapers were entitled to newsprint subsidies and, second, to the exact amount of these (Antonopoulos 1973). Doing so, politicians were able to support government-friendly newspapers and denied subsidies to adversarial ones.

A "Bureau of Newsprint" was established in 1946, among other things, to set the criteria concerning the allocation of the newsprint subsidies. Moreover, governments regulated the maximum number of the pages a newspaper was to have in order to control newsprint subsidy costs (Antonopoulos 1973). Evidently, after the right-left civil war period (1946–1949), state subsidy support to left-orientation newspapers was turned down. On the upside, the daily newspaper publishers supported were not obliged to pay taxes on any printing machinery they imported in the period 1951–1957. Further, through a number of laws, all daily and weekly newspapers did not have to contribute to any of the employee insurance funds (see Skamnakis 2005, 2006). And, in 1946, the government decided to allocate a considerable amount of money for the purchase of copies of all national newspapers published. Another aid to the press was the decision to force all public institutions (ministries, prefectures, municipalities, public hospitals, universities, etc.) to publish their public announcements in the press and private companies to publish their annual balance sheets in at least two daily newspapers respectively. Journalists also had free entry to movie theaters, theaters, music shows, and even public transport. The military junta (1967–1974) later imposed censorship, surveillance, and imported duties on newsprint and, surprisingly or not, continued the policy of indirect press subsidization (Peponis 2002).

15.4.2 Press Subsidies in the Era of the Restoration of Parliament (1974–1990)

The restoration of the Greek parliamentary rule in 1974 did not change the interventionist role the Greek state was (and is still) playing with economic affairs.

In effect, between 1974 and 1990, the state as rule-maker largely defined the extent of autonomy it was willing to grant to the media. Consequently, it also defined press autonomy. Subsidies came in as most appropriate means to do so. The state used them to enforce written press limits by providing sizeable financial aid to the press, on which individual enterprises became dependent since they could not recover their production costs by themselves.

That time, Greek newspapers started gradually to replace their old technology with new forms of printing, mainly with the introduction of phototypesetting technologies (Leandros 1992). But the introduction of these new technologies was expansive, and they needed huge financial support, both from the state and the banking system, which in most of the cases belonged to the state. Interest-reduced government loans were given out to mainly Athenian newspapers and the regional press (Kominis 1985, p. 192). Notably, government loans to regional newspapers were even written off from time to time (Skamnakis 2005).

By and large, the state continued using all of these modes of enforcement to control the limits of the autonomy of the press or to negotiate with its owners. The scale of subsidies for newsprint on the basis of the newspaper sales that dictatorship had imposed was abolished. The system of subsidies for newsprint, however, led to the same situation as before the junta. With the introduction of VAT in 1986, the then government introduced a reduced rate of 5.5 % (Law 1676) on newspaper sales (for the other products the VAT rate at that time was 15–18 %). Another law in 1977 (Law 583) introduced another form of indirect aid that was equally important: it consisted of reduced tariffs for the Athenian press companies on telephones, transportation, and postage.

In all, generous subsidies have tightened the links between the government and the press at an early time. Thus, the interventionist nature of the Greek state has remained one of the most important parameters of the media. The entry of private investment in the press sector did not change this mode since the press had to rely on state contracts.

15.4.3 Press Subsidies in the Era of Broadcast Deregulation (1990–2008)

In the 1990s, the entry of private radio and television had exacerbated the crisis of the press as it drastically changed the ways in which the public acquired news and information. Newspapers, on their side, were unable to defend their competitive advantage in providing comment and in-depth analysis of societal affairs. In most cases, newspapers have mimicked the model of television journalism. Moreover, the political party affiliation of a newspaper used to be, by and large, a fairly accurate predictor of each daily's attitude toward political issues. But, since the mid-1980s, accusations concerning scandals and corruption have become a frequent issue on the public agenda and the newspapers have played their part in this. Parties and politicians, overtly, condemned clientelism and the corruption of the institutions, but, on the other, avoided acting accordingly, obviously due to the

apparent political cost. In a very short period of time—as indicated by the polls, as well as a growing abstention from elections and void votes—political parties in Greece had lost their touch with the voters.

This indifference to or abstention from politics, however, seems to have negative effects on newspapers sales. It is not a coincidence that the public has started to regard both institutions as dysfunctional (politicians and media). In a recent survey, the majority replied that it does not trust either politicians or journalists (V-PRC 2002). In other words, the lack of credibility in public and political life has resulted in public disillusion and a relative indifference toward politics, both reflected negatively in the circulation of dailies. This is admitted publicly by most Greek newspaper editors. In effect, what the public perceives as political incompetence has naturally had a negative effect on circulation figures of dailies that still focus on politics.

The development of a private broadcasting ecosystem motivated the state to continue supporting newspapers. In this context, public government advertising started to play an ever more important role. Here, the state acts as a hidden agent in advertising and may place respectable quantities of advertising from various ministries, state bureaucracies, and state-owned enterprises (e.g., state lottery, semi-state-owned banks such as the *National Bank of Greece* or *Postal Bank*) in the print media. For example, in 2007 the amount of state/government advertising rose to 65 million euros, while already in 2004, the year of the Olympic Games held in Athens, 36 million euros were allocated for public advertising in the media (Galanis 2008). However, according to Law 2328 of 1995, the allocation of total funds of state advertising was supposed to be split up between national and regional media. Nevertheless, this provision was never materialized, thus benefiting the national items (Skamnakis 2005). Major criticisms regarding the allocation of government advertisements in the media thus remained (*Kathimerini* 2008). Here, for example, it was observed that free plane tickets were given to accredited journalists who participated in the official visits abroad of the President of the Republic and the Prime Minister. The reduced tariffs for the Athenian press enterprises on telephones, transportation, and postage had also continued. For example, in 1998, public aid for air delivery of the Athenian newspapers into the Greek provinces and isles amounted up to ca. 95 % of total costs (Ntarzanou 1998). Up until then, the costs had to be carried by *Olympic Airways*, then Greece's state-owned airliner (Ntarzanou 1998).

By and large, the Greek model of state aid to newspaper in 1995–2008 may be summarized as follows:

- State assistance for the transportation of newspapers by air and railways. For example, in 2007 this aid cost to the state ca. 7.5 million euros (*General Secretariat of the Press* 2007).
- Financial support in the form of the subsidization of distribution costs given to the Greek press to help sales abroad, mainly to push reading of Greek people abroad. For example, in 2007, government spent 800,000 euros to assist air transportation of Greek newspapers toward the US and Northern Europe; however, this subsidy was abolished in 2012 (see Table 15.2).

Table 15.2 Public aid to the Greek press (in euros)

Year	Postage	Telephones	Air transportation—in Greece	Air transportation—out of Greece
2009	32,707,293.69	767,864.56	5,482,337.92	616,890.00
2010	27,872,214.26	650,809.79	5,953,442.32	467,649.37
2011	16,986,978.89	309,687.53	1,795,914.65	164,250.88
2012	5,653,990.05 (estimation)	Abolished	Abolished	Abolished

Source: *General Secretariat of Mass Media* (2012, *Press distribution costs*, Personal communication) (compilation by the author)

- Ministries, state bureaucracies, or state-owned enterprises (ministries, prefectures, municipalities, public hospitals, universities, etc.) being obliged to publish their announcements in the daily or Sunday newspapers.
- Private companies to publish their annual balance sheets in at least two daily newspapers.
- Various tax allowances and exemptions, and reductions in certain state tariffs (post, telegraph, telephone and electricity),
- Tax concessions on profits for investment purposes (e.g., the purchase of new equipment).
- A reduced VAT rate of (5.5 %) on newspaper sales to be raised to 6.5 % in January 2011 (Law 3899/2010).

15.4.4 Press Subsidies Since 2008

As known, Greece entered a deep recession from 2008 onwards and is still struggling to reemerge. As the Greek economist Manolopoulos pointed out: “*The Greek economy featured high levels of public debt, a large trade deficit, undiversified industries, an overextended public sector, militant trade unions, widespread corruption, uneven payment of taxes, an overvalued currency, consumers expecting rising living standards and Euro membership based on inaccurate data*” (Manolopoulos 2011, p. xi). The debt crisis has led government to adopt several harsh, multibillion Euro austerity packages and to tackle its fiscal imbalances as part of the fiscal stabilization program in order to achieve lasting economic recovery.

The current press subsidy scheme needs to be seen within this framework. In effect, since 2009, as is shown in Table 15.2, indirect public aid/subsidies to press have been either abolished from July 1, 2011, such as in the cases of reduced tariffs on telephones and air transportation, or have been drastically cut as in the case of postage subsidies (by 85 %).

It is rather obvious that the fiscal crisis may drive even prominent titles into extinction. For some observers, government subsidies are seen as an abuse of taxpayers’ money propping up a declining industry with limited readership. For others, newspapers still represent an important tradition for the functioning of

democracy and the pluralism of opinions. In Greece, the severe cuts in these overt indirect government subsidies, like government advertising and bank loans, may result into bankruptcy of most of the current titles, on either a national or regional scale.

Conclusion

This chapter has argued that press subsidies in Greece have not been governed by a clear legal framework. On the contrary, subsidies were handed over to the press through various rather clandestine channels. The overarching principle of these practices may be attributed to a paternalist and clientelist culture of Greek politics which has held together the state and the press in a network of mutual benefits. It is questionable whether the current financial crisis will ruin this model of press support and government intervention and so undermine the long-lived interdependent relationships between the press owners and the state, its respective governments, and its politicians.

Eventually, Greece's turn toward a neoliberal system of non-intervention into economic affairs may lead to a breakup of the strong ties between the state and the media. Consequently, newspaper companies may see the opportunity to become less dependent on political subsidies, substitute political criteria for a strict business agenda when making news, and discourage identification with particular political positions. It may also make running media enterprises too expensive for most politicians, and even industrialists may withdraw from buying into media for political motives. The financial crisis, together with the tough fiscal austerity measures, of course, creates problems of their own, which the Greek society increasingly has to face. Since the consumption of newspapers is falling year after year, there is already a big number of unemployed media people in general and press journalists in particular. I would think that this situation can easily undermine press autonomy from a different direction: it can drive newspaper companies to ask for new bank loans. But the banks due to their recapitalization needs are becoming more and more dependent on the Greek state and its lenders. This situation, again, may improve rather than disrupt the clientelist relationships between the state and the newspaper/media owners. Above and beyond, in the age of the Internet, it seems unlikely for newspapers to survive without subsidies from their owners, particularly from banks. Much will depend on the ownership structure of the industries involved, the nature of the party system, and, eventually, the political system in power.

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Agnes Urban

16.1 Print Media in Hungary: A Brief Overview

The organizing forces of the free market have long dominated the Hungarian mass media. Hungarian mass media have long been dominated by the organizing forces of the free market. However, this has now come to an end. Until the revolutionary changes of 1989/1990, the communist system dominated the media. There were no commercial broadcasting companies and print media were supervised by the state. After the Press Law of 1986, it became rather easy for publishers to start a media business. Only a special license was required from the authorities. However, after the political changes of 1989/1990 well-known foreign investors entered the Hungarian market. Similar to other CEE countries, Hungary was an attractive place for major international publishing houses to increase their market size and diversify their business operations (Bajomi-Lazar 2001, 2005a; Galik 2004).

In the early 1990s the print media market in Hungary entered into a growth phase: New publications and international formats appeared, and contents became more diversified than ever. This development was well apparent in the magazine sector, while the market for dailies proved relatively stable. Regional newspapers preserved their hegemony in each region and each of the four major political broadsheets survived the collapse of communism. It seemed that readers continued to prefer well-known brands, even though now these newspapers served a different political regime than before. Some new titles appeared, especially in the tabloid sector, but they were not strong enough to survive market pressures. Eventually, however, the “golden age” of tabloid newspapers started in the new millennium. At that time there was considerable turnover in titles, the extent of which varied by market segments. Many of the new titles disappeared after a short while, but new ones sprang up every year. The number of titles grew most quickly during the first years of the post-communist era, but by the mid-1990s this growth had slowed

A. Urban (✉)

Department of Infocommunications, Corvinus University of Budapest, Budapest, Hungary
e-mail: agnes.urban@uni-corvinus.hu

down. This was due to a number of factors, including the consolidation of the post-communist system and its underlying conditions, market saturation, and a Hungarian recession beginning in 1995. Changes in supply also showed that print media markets had become segmented (Gulyas 1999).

Changes in ownership structures and the appearance of international investors did not give rise to a completely new era in the press. The professional ethos of journalism was much weaker compared to well-developed democracies. Journalists' political identities often prevailed over their professional identity. Partisan and opinionated journalism became dominant, while investigative reporting and watchdog functions of journalism were relegated to the background (Sukosd and Bajomi-Lazar 2003). A survey conducted among journalists found that in 1997 a mere 27 % of respondents thought that the press in Hungary was free, while in 1992 this figure had stood at 45 %. The change was explained by the concentrated ownership structure of the 1990s and the ways in which some powerful media owners influenced editorial content in the publishing sector (Vince 1998).

As Gulyas (2003) pointed out, some measure of politically motivated government intervention in the print media continued, for example, via indirect subsidies to publications whose political outlook was similar to that of the incumbent government. In Hungary, just like in other Eastern and Central European countries, some politicians had paternalistic views on the media and tried to use it to "teach" the population what democracy, democratic transformation, and democratic media meant—from the given politicians' vantage point.

Newspaper readership in Hungary is in the middle tier of European countries (145 paid-for papers per 1,000 inhabitants in 2010): consumers read fewer newspapers than in Nordic countries and more than in southern Europe (ENPA 2012). Differences in newspaper circulations typically affect the relationship of the press and state. Where circulation is low, the press is more closely connected to politics. Where circulation is high, more revenues are generated by commercial advertising and the press is less dependent on political sponsorship (Starr 2011).

The Media Act of 1996 opened up the radio and television broadcasting sector to foreign investors. Two national radio stations and two national television channels were launched in 1997 and new channels emerged as a result of the development of cable and satellite broadcasting. Multichannel television became widespread and with the deployment of broadband networks online content entered the scene in the first decade of the 2000s. The international financial crisis and the new Media Act of 2010 ended this boom period in the Hungarian media. Since the end of 2010, international critics have stimulated Hungarian media policy debates. They question whether the 2011 adopted press is genuinely free and also express doubts as to whether the new constitution is entirely democratic (Demsey 2010; A.L.B. 2011; Mueller 2011). Due to poor economic indicators, there is no chance for a resurgence in the media industries any time soon (Eddy 2013).

Table 16.1 Hungarian national newspapers

	Type	Owner	Circulation (2011Q4)	Readership (2011Q4)
<i>Nepszabadsag</i>	Political	<i>Nepszabadság Zrt</i> (Ringier AG)	62,483	222,000
<i>Magyar Nemzet</i>	Political	<i>Nemzet Lap- és Konyvkiado Kft</i> (Hungarian)	44,792	n.a.
<i>Nepszava</i>	Political	<i>Nepszava Lapkiado Kft</i> (Hungarian)	19,507	n.a.
<i>Magyar Hirlap</i>	Political	<i>Magyar Hirlap Kiadoi Kft</i> (Hungarian)	10,838	n.a.
<i>Blikk</i>	Tabloid	<i>Ringier</i>	175,171	1,043,000
<i>Bors</i>	Tabloid	<i>Kurens Press Media</i> (foreign)	79,889	341,000
<i>Metropol</i>	Free	<i>MTG Metro Gratis Kft</i> (Hungarian)	274,296	623,000
<i>Nemzeti Sport</i>	Sport	<i>Ringier</i>	59,424	261,000
<i>Vilaggazdasag</i>	Business	<i>Axel Springer</i>	n.a.	29,000
<i>Napi Gazdasag</i>	Business	<i>CEMP</i> (Hungarian)	n.a.	32,000

Source: <http://www.e-cegjegyzek.hu/index.html>, <http://www.matesz.hu>, Marketing & Média (April 25–May 8, 2012, p. 22)

16.2 The Hungarian Newspaper Market

This chapter provides an overview of the current state of the newspaper market in Hungary. I shall argue that though the Hungarian print media market is dominated by commercial enterprises, most of them are highly influenced by political forces.

The Hungarian newspaper and magazine market is currently dominated by three large international publishers: *Axel Springer* of Germany, *Ringier* of Switzerland, and *Sanoma* of Finland are the main players in terms of turnover and the number of titles they publish. *Ringier* is a significant player in the national newspaper market, while *Springer* holds interests in the regional newspaper market. *Sanoma* exclusively publishes magazines. Other international and domestic investors are less significant in economic terms, but daily newspapers are mainly owned by smaller companies. In the fourth quarter of 2011, a total of 5,704 brands were reported in the print media market, including titles published at least once in each quarter. This figure includes all titles, not only papers published by commercial enterprises, but also the professional periodicals or periodicals published by municipalities (*Mediatudományi Intezet* 2012) (Table 16.1).

Ringier publishes the market-leading tabloid newspaper as well as the only sport newspaper and has a majority share in the leading broadsheet newspaper (*Nepszabadsag*). *Axel Springer* owns a business newspaper, but most of the other national newspaper publishers are owned by Hungarian investors.

The future of *Nepszabadsag* is highly uncertain. *Ringier* owns the majority share, while the *Free Press Foundation* (*Szabad Sajto Alapitvány*), controlled by the Hungarian Socialist Party (*Magyar Szocialista party*, MSZP), has a 27 %

Table 16.2 Regional newspaper publishers in Hungary

Publisher	Owner	Regions	Average daily circulation (2011Q4)
<i>Axel Springer Magyarorszag</i>	<i>Axel Springer AG</i>	9	165,180
<i>Pannon Lapok Tarsasaga</i>	<i>Westdeutsche Allgemeine Zeitung AG</i>	4	172,274
<i>Inform</i>	<i>Inform Media GmbH</i>	3	124,571
<i>Lapkom</i>	<i>Kurens Press Media</i>	2	113,030

Source: <http://www.e-ceggyzek.hu/index.html>, <http://www.matesz.hu>

interest. Lately, different scenarios concerning an impending sale of *Nepszabadsag* were circulated. This would only mark the end of a long process: the other three national political dailies (*Magyar Nemzet*, *Magyar Hirlap*, and *Nepszava*) are clearly linked with political parties by virtue of their ownership—two are tied to the political right (*Fidesz*) and one to the left (MSZP). A potential acquisition of *Nepszabadsag* by the MSZP-affiliated Free Press Foundation would mean that none of the national political dailies would operate as an independent business venture any more. More likely than not, this would cause incalculable damage to democratic transparency and would hardly promote the emergence of a pluralistic media system.

Metro (later relaunched as *Metropol*) was launched in 1998 by the Swedish MTG. Its business model, which is based on the distribution of free copies available throughout various segments of the public transportation network, proved successful in Hungary (Fabian 2007). In its own segment of the market, *Metro* continues to hold a monopoly position in Hungary. No rival free daily paper has been launched since. In 2011, the Swedish owner sold the newspaper to the well-known Hungarian businessman, Karoly Fonyo. He is considered as one of the oligarchs supporting the current government (Batorfy and Kovacs 2012).

The regional newspaper market is dominated by horizontally integrated companies. The Hungarian affiliate of *Axel Springer* owns nine regional newspapers, followed by *Pannon Lapok Tarsasaga* with four newspapers. Interestingly, *Pannon Lapok Tarsasaga*'s regional newspapers might well combine for a higher average daily circulation than the *Springer* papers, since the former had interests in larger regions. The one region/one paper model still prevails in Hungary, so that each region has its own newspaper (Table 16.2).

Altogether, the structure of the publishing sector has changed considerably over the past 20 years. New titles were launched and foreign and domestic investors entered the market. As for newspapers, it was the era of tabloids and of the free daily *Metropol*, while circulation and readership of political newspapers had dropped sharply. Regional newspapers maintained their strong positions as their markets remained stable during the last two decades.

The market for political weeklies is less concentrated: numerous titles have been published, representing a range of views, from left-wing over right-wing to liberal. Most of them are owned by Hungarian investors.

16.3 Media Regulation: Current Changes

The new media act (Act CLXXXV of 2010 on *Media Services and Mass Media*) became effective on January 1, 2011, just a few months after the right-of-center *Fidesz* party won a two-thirds parliamentary majority at the national election of 2010. The new law immediately became the target of international criticisms for the following reasons (Article 19 2011a; Center for Media and Communication Studies 2012; European Parliament 2011; Freedom House 2012; Mertek 2012a):

- The scope of the law is too broad; all kinds of text-based media products (print and online) are included. Content regulation tools such as the requirement of a “balanced” dissemination of information, or the obligation to respect the “constitutional order,” and a provision banning content that offends “public morality” are defined vaguely and cause uncertainty among journalists/editors.
- The Media Council shows obvious signs of political bias. The rules allow the larger governing party to nominate all members of the Media Council, leaving opposition parties and independent experts excluded from the control of the Hungarian media system. Even worse, Media Council members are elected for 9 years, even though a parliamentary term lasts only 4 years. The Media Council has significant control over the entire media system, since it adjudicates tenders applying for frequencies, monitors program requirements, and imposes fines for violations of law.
- The restructuring of public service broadcasting and the integration of public radio, public television, and the national news agency into a non-transparent organization. Responsibilities are unclear, decision-making processes are incoherent, and political influence is extremely strong. The fundamental principles underlying the operations of public service broadcasting have not been worked out: there are no lists of obligations, quality indicators, or well-defined goals. Lack of transparency in financing casts doubt on the legitimacy of the entire restructuring program.

Print and text-based online media products are required to register, but the Act does not clearly define the consequence if one fails to do so (Polyak 2011). Partly because of these criticisms and the pressure of European institutions, Parliament modified some of the regulations on July 1, 2011. Among other changes, the amendment modified the scope of certain content regulation instruments and the rules on the obligation to register. Pursuant to a decision by the Constitutional Court, the act was also modified in 2012 and provided better protection for journalists’ sources (Bayer 2011).

Nevertheless, the Media Law continues to be the subject of controversy. There are voices that underestimate the impact of the new regulatory environment. These claim that the new Media Law will not dramatically alter the country’s media

landscape. In fact, the Media Council did not close any media outlets. And watchdog journalism still seems to be working: an online portal published an investigative report about the President's PhD thesis and the President was ultimately forced to step down as a result of an ensuing plagiarism scandal. Many view the fact that even a ruling party buttressed by a two-thirds majority is unable to evade scandals and its political consequences as clear evidence that the press in Hungary is still free.

Still, there are also more pessimistic views. Civil and professional organizations and domestic and international institutions continue to criticize the media regulatory environment in Hungary. It is clear that the regulatory changes exerted an impact on the media system as a whole. The media regulatory think tank *Mertek Media Monitor* summarized the main consequences of the new Media Law (Mertek 2012b) as follows:

- It is threatening media owners, editors, and journalists, which results in uncertainty and self-censorship.
- The Media Act instituted single-party control over the public media and it resulted in the total and unlimited control by the ruling party. It is unclear what the public service mission entails and there are no guarantees for the transparency of asset management and financing.
- The operation of the Media Council is not transparent. Processes of decision making and background analysis are not available to the public.
- Media regulation has had direct impact on the media markets. Delays in digital switchover, decisions in frequency tendering that appear politically motivated, and the blocking of the *Axel Springer–Ringier* merger influence the whole media system. The Hungarian media market has become more risky for the investors.

As Bajomi-Lazar (2013) points out the new media law marks the beginning of a new era in Hungary, mainly on account of the political influence on the regulatory authority and on public service broadcasting. Between 1996 and 2010 the media regulatory system was designed based on a multiparty agreement, as a result of which all parliamentary parties were represented in the various supervisory bodies. This allowed for a check on political influence in media governance and forestalled single-party domination of public service media. Since 2011 a single-party system has prevailed: the ruling party can abuse its influence over the media without encountering much resistance. Nevertheless, there are enduring debates about media regulation between the Hungarian government and European institutions (Krugman 2012; Toth 2012). Some amendments to the act have already been enacted and further modifications are possible in the future. However, it would take a completely new media policy drive to ensure that Hungarian regulations are compatible with fundamental European principles.

The latest developments paint a dark picture of the democratic system in Hungary. In March 2013 Parliament adopted a constitutional amendment that was the subject of fiercer international criticisms than any of its previous legislative acts. Among other changes, the most recent amendment enables the parliamentary majority to ban political campaigning on commercial radio and television, which clearly limits free expression (Human Rights Watch 2013; Scheppele 2013;

Verhofstadt 2013). The international media are concerned about the antidemocratic changes in Hungary (*Economist* 2013; *Guardian* 2013; *New York Times* 2013; *Der Spiegel* 2013).

The state has a dual role in the Hungarian media. Despite the new media law, it only has limited impact as a regulator. This is because market forces remain dominant as most of the owners are commercial enterprises with clear profit goals. The uncertainty of the regulatory environment is enhanced by the regulator's right to control content and impose fines. A research conducted among legal representatives of large media corporations found that the regulatory constraints and fines definitely constitute a business risk for the companies, although the level of this risk varies widely depending on the type of the media product (Polyak 2012). In any case, even under the current regulatory regime there is no way around the market-driven nature of media production.

In Hungary, there are two ways in which a media regulator may directly influence the market structure: (1) tendering radio frequencies and (2) reviewing media merger notifications. The broadcasting market was fundamentally restructured by the radio frequency tender scheme initiated pursuant to decisions taken by the Media Council in 2011. As Mertek (2012c) pointed out, incumbent radio stations were marginalized and new stations supportive of the current government won the frequencies. The situation of the station called "*Klub Radio*" is illustrative of direct regulatory intervention in Hungary. *Klub Radio* is a regional radio station that is highly critical of the current government. Through a series of unfavorable frequency decisions, the Media Council has sought to close the station. As a summary provided by Article 19 (2011b) indicates, the Council's proceedings suggest a "*serious neglect of the internationally acknowledged value of pluralism, with greater weight being attached to commercial expediency than to unfettered political debate.*" As of early 2013, *Klub Radio* is still on air, but only in Budapest, as it has been deprived of its frequencies outside the capital. Several actions are currently pending in court, and *Klub Radio* has emerged as the symbol freedom of the press in Hungary (see Kroes 2012). The procedure for distributing radio frequencies is an important illustrative tool to show how media policy in Hungary serves as a political instrument for the current government. Publishing, online media, and television are dominated by market forces, and the regulator has a limited array of tools for intervention in these sectors. In the radio broadcasting market, however, the role of the regulator is apparent even for those who do not follow media policy decisions.

The other regulatory instrument to influence the market structure is the Media Council's veto right in media mergers. It was employed in the *Axel Springer–Ringier* case, when the Media Council blocked the merger of the Hungarian affiliates of the two major publishing houses. According to the Media Act, the Hungarian Competition Authority shall obtain the position statement of the Media Council for the approval of concentration of enterprises, in cases in which the activities of the enterprises involved include editorial responsibility and activities whose primary objective is to disseminate information to the public. The Media Council's statement is binding for the Hungarian Competition

Authority. This rule also had to be applied to ongoing procedures. Interestingly, there was only one ongoing procedure before the competition authority when the act was adopted. It was the *Axel Springer–Ringier* merger case, making the political intention to block this merger obvious.

The blocking of the merger made it obvious that the Media Council intends to intervene in the market. Companies would seek to consolidate in an era of economic recession and declining revenues are understandable. Mergers and acquisitions occur in the publishing industry all over the world, since previously experienced levels of profitability in the industry are no longer sustainable. The Media Council's statement on the merger was based on an analysis that failed to take market trends into account. It merely calculated the static market data of the two largest publishers in Hungary, but ignored declining industry trends. Overall, the methodology used for the analysis was not sophisticated; there are no benchmarks for measuring pluralism (Galik and Vogl 2011). There are also no signs that the Media Council intends to work out a proper methodology to measure media concentration and media pluralism. Consequently, a new merger application would be evaluated based on an oversimplified analysis just like in the *Axel Springer–Ringier* merger case. A proper methodology would be required for evaluating merger notifications, which should take into consideration the decline of print media as a whole.

16.4 State Subsidies: What Subsidies?

16.4.1 No Direct State Aid

In Hungary, government media subsidies practically equal the financing available to Public Service Broadcasting (PSB). The Media Support and Asset Management Fund (MTVA, *Hungarian*) was created on January 1, 2011, by combining previously separate institutions, specifically, Hungarian Television (*Magyar Televízió*), *Duna Television (Duna Televízió)*, Hungarian Radio (*Magyar Rádió*), and the national Hungarian News Agency (*Magyar Távirati Iroda*). There are no license fees for any of these providers; public media is directly financed by the state budget with revenues also coming from the advertising market. Considering the Hungarian economy and the small market share of public television channels, the state subsidy to PSB in 2013 is relatively high: 68.6 billion HUF (i.e., 236.5 million euros). Interestingly, the Hungarian News Agency (MTI, *Hungarian*) is also part of the Public Service Broadcasting Corporation. In May 2011, MTI changed its business model to provide free services; its news service is available to all media outlets without fees. (Its) Their former competitor, the private Independent News Agency, lost all of its customers and went out of business.

Besides public media financing, various state funds are granted to cultural industries, including the publishing of periodicals (art, literature, history, etc.), filmmaking, and so on. Importantly, there is no funding scheme to subsidize newspaper publishing. After the collapse of communism there was an unequivocal

enthusiasm for free markets. Before 1990, the press was dependent upon the communist party and, at the same time, it was a propaganda tool for the regime. Newspaper prices were distorted (e.g., a daily newspaper was about 2 forints, which is less than 1 eurocent at current prices) and circulations were very high. After the collapse of communism and the end of price controls newspaper prices started to increase; people accepted that press freedom is somehow related to free market conditions. State funding of newspapers was not considered an option under free market conditions (Galik 2000). There was a definite fear that any kind of state intervention would increase political influence in the publishing sector.

Government aid to the publishing sector is provided through the tax system. The VAT rate for publishing is 5 %, the lowest rate in Hungary (generally, medicines and medical equipment fall into the low-VAT category), which otherwise boasts the EU's highest VAT rate at 27 %. This clearly signifies the preferred status accorded to the publishing sector by the government. Furthermore, this form of state subsidy does not distort the market, since it is applied to all newspapers and magazines.

However, in the middle of the last decade state funding of newspapers was hotly debated by researchers. At the time, the publishing sector was hit by a decline of revenues. In a small market such as Hungary, publishers hardly managed to break even. International investors who had bought up the Hungarian political newspapers in the 1990s realized that it was not a profitable business to operate in. The papers in question were quickly sold to Hungarian investors who were formally or informally affiliated with Hungarian political parties. The new owners were motivated by political goals; profitability was just a secondary consideration. Consequently, newspapers became loyal to political parties, thus expelling independent and professional free voice in political newspaper publishing. Therefore under state communism the state monopoly in publishing had proved to be a failure, but within a relatively brief span of time after regime transition the market, too, failed in this sector. Peter Bajomi-Lazar, a well-known Hungarian media researcher and political scientist, argues in favor of newspaper subsidies as the only way to preserve pluralism in the sector. He admits that there are serious counterarguments, such as the risk of political influence, the distortion of the market for political news and opinion-making, and subsidizing tabloid or hate speech content. Nevertheless, he believes the pros outweigh the cons. A well-defined and transparent subsidy scheme would limit these risks. In his view, Hungarians will have to learn to view the negative historical experience of state influence in the media in context and distinguish from policies enacted in the framework of democratic governance. He argues that newspapers would not only be subject to political pressures, but would have to face higher pressure from the market as well. These considerations would legitimize a newspaper subsidy scheme (Bajomi-Lazar 2005b).

16.4.2 Indirect Subsidies

Although direct forms of newspaper subsidies have never been introduced in Hungary, state subsidies do exist in indirect form. In this case newspapers are not

subsidized through the formal allocation of state funds. Instead, government influence is exerted on market conditions through government-sponsored advertisements. What this gray zone of subsidies means in practice is that governments, municipalities, or state-owned companies prefer to buy ads in newspapers whose editorial policies reflect the government's official views. Galik (2004) estimated the proportion of these nonmarket sources to represent 8–10 % of total advertisement revenues in the Hungarian media. A study analyzing spending on government-sponsored advertising in Hungary found that in the period between 2003 and 2012 the share of state spending varied between 6 and 14 % of total advertising revenue (BCE KKK 2013).

The global crisis and the sharp decline of advertisement revenues since 2009 obviously increased the market share of government-sponsored advertisements. In theory, print publishers operating at the breakeven point can be easily influenced by a big advertisement package. The practice is not new: Since the early days of regime transition all governments have tried to support ideologically friendly newspapers. The situation in the last years has become worse, however, because publishers are considerably more vulnerable than ever before (Mertek 2013). This development threatens the quality of journalism: newspapers cannot sustain themselves solely from sales and advertising revenues and hence often relying on state subsidies. In turn, they have to show loyalty towards their supporters, which prevents the manifestation of a true diversity of views in the daily press (Bozoki 2010).

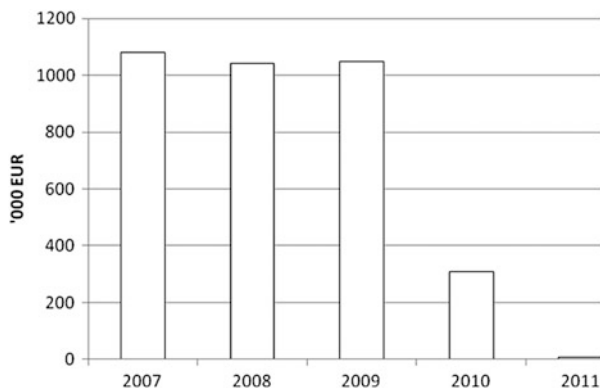
It is highly questionable whether there is any pluralism in the political newspaper market today: there are two left-wing and two right-wing national dailies, while a real independent voice is still missing. Three national newspapers out of four are owned by party-related investors, and the future of the fourth is still uncertain. The market for political weeklies is more colorful. There are several titles representing different political views, and most are independent from political parties, at least in terms of ownership.

The level of income that media companies derive from the state is not exactly known, although *atlatzso.hu*, an investigative nonprofit journalism portal, asked 17 media companies about this issue.¹ Only one newspaper publisher (*Nepszava*) and a weekly answered the question, and a conservative online portal (*mandiner.hu*) published the relevant data itself. It is important to note that the ethos of editorial credibility and accountability in Hungary is much weaker than at prominent quality newspapers in developed democracies (Nolan and Marjoribanks 2010).

The data published are illustrative; however, left-wing *Nepszava* received significant revenue from government-sponsored advertising until 2009. In April 2010, the right-of-center *Fidesz* party won the parliamentary elections, and *Nepszava*'s government-funded revenues went into steep decline. In 2011, the newspaper received practically no more funds from the public sector. It also needs to be noted that *Nepszava* is not a widely popular newspaper, it is the smaller left-wing

¹ http://atlatzso.hu/2012/10/26/nepszava_eletesirodalom_advertisement/

Fig. 16.1 Revenue from government-sponsored advertisement at *Nepszava* (2007–2011) (at 2011 exchange rate, 1 euro = 279.21 HUF).
Source: Kovacs 2012



daily, but the trend clearly showed the political influence of state advertisement spending. Interestingly, a political weekly (*Elet es Irodalom*) also answered *atlatszo.hu*'s question concerning advertisement revenues from government-sponsored ads, but the silence of the other 15 media companies raises questions about their transparency and independence from state funding (Fig. 16.1).

The data prove two interesting phenomena. On the one hand, under the left-wing government (2007–2010 April) the newspaper was clearly excessively subsidized by the state. In the year 2009, the company's net revenue was 1,130 million HUF (ca. 4 million euros), while revenue from government-sponsored advertising reached 293 million HUF (ca. 1 million euros). Thus 26 % of the revenue in that year came from state sources, and the remaining 74 % from commercial advertisers and distribution revenues. But the revenue stream from public funds simply vanished when the new *Fidesz* government entered office. In practice, the sudden cessation of public funds for *Nepszava* constituted a punishment of sorts applied to newspapers that supported opposition parties; it seems that political players use taxpayers' money for their own political purposes.

Until the global crisis, publishing was a flourishing sector, although the migration of readers from print to online services made the entire sector vulnerable. The real shock was the dramatic decrease of advertisement revenues starting in 2009. In Hungary, its impact on newspaper publishing was different for right-wing and left-wing papers (Table 16.3).

As is evident from the table above, the impact of the crisis and decline in commercial revenues did not seriously affect the major right-wing publishers (*MTG Metro Gratis Kft.* was sold to a Hungarian businessman in 2011). It seems that the change in the political climate and the consequent stream of government-funded revenues were sufficient to balance the negative effects of the crisis.

The picture is completely different in the case of left-wing players, who experienced a dual shock stemming from the global crisis and the change in the political environment. These newspapers lost significant revenues from both commercial and government-sponsored advertising (Table 16.4).

Table 16.3 Revenues at major right-wing publishers (2008–2011)

Brand	Type	Company	Net revenue (In 1,000 HUF)				2011/ 2008 (%)
			2008	2009	2010	2011	
<i>Magyar Nemzet</i>	Political daily	<i>Nemzet Lap- es Konyvkiado Kft</i>	2,724.343	2,844.395	2,781.828	2,733.153	100.3
<i>Heti valasz</i>	Political weekly	<i>Heti Valasz Kiado Kft</i>	850.840	857.931	989.152	922.709	108.4
<i>Metropol</i>	Free daily	<i>MTG Metro Gratis Kft.</i>	2,592.480	1,989.025	2,189.155	2,492.110	96.1
<i>Helyi Tema</i>	Free weekly	<i>Thema Lapkiado Kft.</i>	866.327	1,039.345	1,290.289	1,109.017	128.0

Source: <http://www.e-ceggyezek.hu/index.html>, <http://e-beszamolo.kim.gov.hu/>

Table 16.4 Revenues at selected left-wing publishers (2008–2011)

Brand	Type	Company	Net revenue (In 1,000 HUF)				2011/ 2008 (%)
			2008	2009	2010	2011	
<i>Nepszabadsag</i>	Political daily	<i>Nepszabadsag Zrt.</i>	6,591.819	5,330.131	4,465.848	3,797.245	57.6
<i>Nepszava</i> ^a	Political daily	<i>Nepszava Lapkiado Kft</i>	262.178	1,129.873	950.144	779.541	69.0
<i>168 Ora</i>	Political weekly	<i>Telegraf Kiado Kft</i>	704.007	583.678	510.472	448.305	63.7

Source: <http://www.e-ceggyezek.hu/index.html>, <http://e-beszamolo.kim.gov.hu/>

^aThere was an ownership change in the case of *Nepszava*; the distribution and advertising revenues first appeared in the 2009 results. 2011/2009 data are used in the last column

A report about government-sponsored advertisement in the print media analyzed the allocation of spending in papers opposed to and supportive of the government. Between 2003 and 2006, the share of government-sponsored advertising spending received by opposition papers stood at roughly 20 %. Between 2007 and 2009, this share increased to around 30 %. This change may have occurred because of the unprecedented low popularity of the parties in government. In 2012, the share of publicly funded advertising revenues received by opposition papers declined below 10 % (BCE KKK 2013). The data in this report support the hypothesis that the current government in Hungary prefers spending state money discretionally in order to further its own political interests.

Total government spending on advertisement (including spending by state-owned companies, ministries, local municipalities, etc.) plays a significant role in the media market, especially in an era of decreasing commercial revenues. As Bednarik and Nyusztay (2012) calculated, total advertisement revenues in the media declined by 18 % between 2008 and 2011, and 39 % in the publishing sector. Under these circumstances, the support of the state can balance the losses, while withdrawing ads can constitute the final blow for a media affiliate.

It is also interesting to see how the main players perceive political influence in journalism. A report of *Mertek Media Monitor* based on in-depth interviews with journalists found that self-censorship is widespread in the Hungarian press. “*Of course, everyone censors oneself*” is how one journalist described the situation critically (Mertek 2012d). Journalists often act against their professional ethos. The role of the editor-in-chief is crucial: It seems they often mediate the expectations of management or external players (Mertek 2012d). As a journalist said, “*editors-in-chief think of themselves as being part of the political-economic power structure. They have tendencies and occasionally political objectives as well. As a result, a story that fails to satisfy these expectations never gets published, or else must be written to conform to them*” (Mertek 2012d). The report points out that self-censorship has a long tradition in the Hungarian media. Such practices have their origins in the communist era, and the period of market-based media operations has not been able to change the way of thinking (Mertek 2012d).

Another qualitative research conducted by Mertek (2013) on political and economic pressure in the Hungarian media analyzed the phenomenon from the management’s point of view. In-depth interviews with managers of the largest media companies helped describe the nature of the pressure they face. The research project found that in the case of the largest companies (publishing houses, broadcasters, and online content providers) direct pressure from politicians is not really effective and is in fact quite rare. Some of the interviewees said that only 10–20 % of requests came from politicians; business players are much more active in this context.

At the same time the advertising packages of state-owned and commercial companies that support the government (e.g., the biggest Hungarian bank, the largest Hungarian-owned retail chain, or a gasoline company) also exert pressure on the media companies themselves. “*A media agency that is responsible for distributing government advertising money can easily transmit political messages: it is much more effective than a phone call from a state secretariat*”, said one of the media managers. The interviewees argued that in light of the fact that revenue structure depends on government-sponsored advertising, the revenue structure is in effect clearly dependent on the ruling parties. “*Government-sponsored advertising is not diabolical per se, but you cannot build your company on such subsidies. It has its price and the consequences are serious*”, said the CEO of one of the major publishing houses (Mertek 2013).

The developments in government-sponsored advertising described above raise several questions. The first issue is how the market distortion effects can be measured, and which indicator would best serve this goal. Despite the fact that government-sponsored advertising is by no means an exclusively post-communist phenomenon and is in fact fairly widespread, the question of its market-distorting impact has—in my view—not been satisfactorily resolved thus far.

The other question is how commercial ad spending is influenced by state spending. There are rumors in Hungary that the advertising activity of *Szerencsejatek Zrt.* (i.e., the national lottery monopoly) is seen as a clear indicator for the markets as to which media the state prefers and which it does not at any

given moment. Wherever the state-owned *Szerencsejatek Zrt* chooses to spend its advertising budget is considered a preferred medium by the ruling party. Commercial companies tend to follow the instructions: they avoid any confrontation with the government and for the most part refrain from advertising in opposition media. This effect works both ways: the migration of commercial advertisements from one media to another can legitimize the decision of state advertisers. The borderline between political pressure and the natural migration of commercial advertisers from one medium to another is not clear either. However, as things currently stand, it is almost impossible to prove how, if at all, commercial enterprises take these political aspects into consideration.

The real question is how transparency can be increased in the advertising market. Any kind of overregulation or limitation of government-sponsored advertising can be harmful if it utilizes an oversimplified methodology or is purely about banning rational advertising decisions. It is impossible to set a definitive advertising limit or to prescribe a spending strategy, e.g., for the national lottery company or the national gasoline company. Publicly releasing advertising contracts can serve as a control of sorts, but in and of itself it cannot fully preempt political influence.

Conclusion

The role of the state in the media varies widely between democratic regimes; there is no universal rule for the appropriate level of state influence (Galik and Polyak 2005; Keane 1999). In analyzing media policies one has to be mindful of differences between countries (Sorbets 1998). In the 1990s, immediately after the fall of communism, a free market ethos prevailed in Hungary. Foreign investors entered the media market, professional and business standards were established domestically, and the market became more diversified than ever before. Revenues increased and a flourishing market signaled the beginning of a new era. Any kind of state participation in the publishing sector was rejected based on negative historical experiences.

The first decade of new millennium revealed the other side of the non-involvement coin. The diffusion of broadband Internet posed a threat for the sector, but the international financial crisis marked the biggest blow for the industry. Migration of readers to online content market and a continuous decline in revenue jeopardized the future of print media. Alternatives to the current business models have not emerged causing market players to strictly focus on cost-saving strategies. This may decrease editorial quality, and more expensive content types, such as investigative reports, can hardly be financed.

The lack of quality content and decreasing pluralism prove that there is a market failure in newspaper publishing, at least in a small country such as Hungary, where economies of scale do not prevail. The sector is not entirely financed by commercial revenues and the players are not independent business units. Daily newspapers are closely aligned with political parties, and revenue streams are influenced by state advertisements. No doubt, the state plays an important role in the market, even without directly funding media. It comes as no surprise that some experts argue for a more transparent system where publicly

accessible and nominal government grants allow for more stability in the market. As it stands, the current form of state subsidies to print media is unlikely to contribute to building a democratic society.

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Lou Lichtenberg and Leen d'Haenens

17.1 Introduction

Driven by financial pressures, and challenged by rapid technological changes, unpredictable consumer markets, and shortened product life cycles, news media company executives have to be determined to further streamline their operations and stimulate innovation processes, while also looking for ways to make the most money out of their existing product lines. According to early innovation theories, the greater the turbulence and change within an industry, the greater the market opportunities, and the more one should open up one's horizons to the outside world (e.g. Dean et al. 1993; Utterback 1994). One proven method of creating innovation is by internalising external knowledge (Weerawardena et al. 2006; Hagedoorn 2002; Capron and Mitchell 2004). Moreover, such forms of collaboration help reduce or share the innovation costs (Chesbrough 2007; Sakakibara 2003).

In the third annual *World Newsmedia Innovation Study* of 2012, published by *The World Newsmedia Network*, innovation evidently continues to be seen as the key driving force if a newsmedia company wants to ensure future success. Of the nearly 250 managers, all commercial executives, and editorial staff being surveyed, 75 % said new products need to be developed within the media sector. 21 % believed that between 21 and 30 % of their companies' revenues will need to come from sources outside traditional print media in the next 5 years, while 14 % indicated that between 31 and 40 % will need to be non-print revenues: 35 % of the interviewees said they

L. Lichtenberg (✉)

Stimuleringsfonds voor de Pers (The Netherlands Press Fund), The Hague, The Netherlands
e-mail: loulichtenberg@home.nl

L. d'Haenens

Stimuleringsfonds voor de Pers (The Netherlands Press Fund), The Hague, The Netherlands
Institute for Media Studies KU Leuven, Leuven, Belgium

Radboud University Nijmegen, Nijmegen, The Netherlands
e-mail: leen.dhaenens@soc.kuleuven.be

think more than 40 % will have to come from nontraditional sources. The need to make the most of their print products is evidently top of mind for senior management, thus prioritising marketing and branding of the newspapers, extending it into products for tablets and e-readers and on mobile phone platforms. Ongoing development of journalistic skills comes out as a key priority, with an emphasis on training intended to improve journalists' efficiency to work with editorial technologies and content management systems. The prospect of the need to develop products outside the range of existing brands understandably provokes the most worries among executives and editorial staff. This implies a clear-cut vision to be shared by all layers in the organisation, grown out of an organisational climate which encourages everybody to "be innovative". That is precisely the Achilles' heel identified in the survey: there seems to be a lack of confidence about the competences of the editorial, commercial, and IT departments to carve out such an innovation-oriented vision, which should be "*driven by the ability to see connections, to spot opportunities and to take advantage of them*" (Tidd et al. 2005, p. 165).

This is exactly where the *Netherlands Press Fund* comes in. In this chapter we will describe the background, content, and scope of each support measure of the government press policies from its beginning up until today. There, the Fund acts as a cornerstone and a driving force of news media innovation policy. This chapter is written from an insider's perspective, as the authors have been involved or continue to be involved in the policy of the Netherlands Press Fund. Nevertheless, this contribution is meant to be factual and analytical when referring to the Fund's policy outcomes and reactions elicited from the government or from players in the journalistic field.

17.1.1 The "Duty of Care" Rule on Freedom of Speech

It is well known that public governmental media policy in the Netherlands is aiming at maintaining and promoting diversity of the media, in order to safeguard information supply and opinion formation of the public. Similarly, this goal has also been declared for press policy in many government policy memoranda, followed by many heated debates in parliament and among influential media actors (Lichtenberg 2005). Several press policy instruments were introduced especially after World War II. These instruments together form a rather complex governance system of mutually reinforcing measures and instruments whereby the effectiveness of each measure is potentially multiplied by the extent to which another measure is focused on and effectively governed.

In fact, the media policy debates in the Netherlands started from the notion that freedom of speech, being of fundamental importance for the social, economic, cultural, and political self-development of each individual in society, includes not only freedom of expression and distribution of opinions, but also freedom of information, i.e. the right to receive as wide and diverse a range of information as possible. Therefore, public freedom should encompass more than just the freedom to express views or cancel a newspaper subscription. To guarantee *real* freedom of

information, communication, speech, and press freedom it was desired that, next to its passive attitude and defensive position, the government should be more active, especially in creating the conditions for freedom and committing to a policy aimed at upholding and enhancing media diversity. Such care function should not be implemented as an element of a welfare state, but mainly as a policy instrument based on the concept of a civil society, a kind of state formed by social contract, in which people operate more as citizens instead of being primarily addressed as customers or consumers. A state in which government acknowledges that society may do what society can do and where public and general resources are being used primarily to take care of vulnerable groups, to help them soon to reach a situation in which self-help dominates. As a result, a “duty of care” approach was being promoted as an element of press policy, based on the vision of a more active receiver’s freedom and right of information as a basic common right in *Article 10 European Convention on Human Rights*. This duty of care has been accepted more and more by constitutional courts, by the *European Court of Human Rights*, and by governmental memoranda in several countries of the *Council of Europe* (Lichtenberg 2008a, 2009).

Acknowledging this “duty of care” rule, states in general have developed certain instruments for intervention, such as:

- Limits to horizontal concentration or to vertical concentration
- Setting initiatives for improving effective competition
- Restricting dominant media ownership
- Stimulating internal pluralism
- Enhancing content-related diversity
- Enabling transparency in respect to media concentration

In addition, an updated “duty of care” policy also includes a policy aimed at upholding and enhancing the diversity of the public domain on the Internet.

Today, the Dutch press policy is based on the following three pillars (Lichtenberg 2008b):

1. Measures aimed at maintaining maximum diversity through financial support
2. Regulating measures setting do’s and don’t’s, e.g. media concentration regulation
3. Stimulating self-regulation of the press

This chapter will discuss the first of these three pillars: i.e. measures aimed at maintaining maximum press diversity through financial support. There, we shall particularly focus on innovation policies. Notably, press innovation policies generally aim at stimulating press diversity and have gradually become an ever more important aim of this type of financial aid.

17.1.2 Historical Perspective: The Creation of a Press Fund

In the 1950s and 1960s, some *general support measures* were instrumental for the press in general. Measures such as special reduced rates for postal services, telefax, and value-added tax were meant to promote the general financial economic

situation of the press as a whole, without considering the specific economic positions of individual newspapers or magazines. In 1967, an additional temporary support measure was introduced for newspapers to compensate some of their losses due to the introduction of commercials on radio and television. Later on in the 1960s, due to growing mergers and acquisitions activities especially in the daily press, more support was created. First there was an extension of the financial compensation measure related to the introduction of broadcast commercials. This extension was partly more in favour of newspapers which could not adjust to this new competitive market situation. In 1971, the government also decided to establish the Press Fund as a form of *direct financial support* for individual newspapers and magazines (Lichtenberg 1995, 1996, 2005). The Press Fund was later continued on the basis of the 1987 Media Act.

The *Netherlands Press Fund (Stimuleringsfonds voor de Pers)* is an independent governmental agency which aims at increasing the freedom and diversity of the press by financially strengthening the position of print media. The fund offers loans and subventions on a temporary basis to dailies, non-dailies, and magazines in order to assist them with reorganisation or restructuring plans and thus aims at helping them becoming profitable again in the near future. The agency also promotes research into the press industry.

The Fund is being run by a board whose members are appointed and dismissed by the Minister for Culture. In the Media Act the rule is established that board membership may not be combined with an employment at a Ministry or with a board membership of or an employment at a newspaper, magazine, or publishing company. The board of the Press Fund decides on applications for financial help. Resolutions of the board may be overturned by Royal Decree only on grounds of incompatibility with the law. In the beginning, the Press Fund was paid as part of the funds from advertising revenues generated by the Radio and Television Advertising Foundation and the commercial broadcasting organisations. Today, the Fund is subsidised by the Ministry of Culture. Each year, the Minister may decide upon the necessity of injecting more cash into the Press Fund.

Newspapers or magazines have to respond to a number of criteria in order to successfully apply for this financial support. According to these criteria it is only possible to support newspapers or magazines if their business is loss-making or in danger and if they cannot be helped by other financial institutions. Those dailies, non-dailies, or magazines can only be helped with temporary loans and credit facilities for the benefit of their reorganisation or restructuring plans in order to make them profitable again. Examples of these dailies, non-dailies, and magazines, which have benefitted from this support and thereby succeeded to stay in the market, are of diverse origin, scale, and orientation: *dagblad Trouw*, *Het Parool*, *HP/De Tijd*, *Nieuw Israëlietisch Weekblad*, *Friesch Dagblad*, *Nederlands Dagblad*, *Limburgs Dagblad*, *De Groene Amsterdammer*, *de GayKrant*, and *Katholiek Nieuwsblad*. Generally, only if there is a plausible prospect on profitability in the near future a grant of this type is to be given out. Gifts may only be given on special occasions, if it is plausible that loans with credit facilities cannot be paid back in the foreseeable future and may not really help to survive.

Financial support may only be provided for press products which also meet a set of the following legal criteria. In order to be eligible for funds, newspapers or magazines should:

- Bring news, commentaries, and background information covering diverse aspects of present-day society to a significant extent, with a view to political opinion formation.
- Be edited by an independent editing team on the basis of a statute expressing the editorial identity of that press product.
- Be generally available and have an explicit sales price (free sheets can also be helped if they match with the other legal criteria).

Since the beginning of the 1980s it is also possible for the Press Fund to support *research projects* targeting the press industry in general and *joint projects* of newspapers or magazines aimed at improving the general position of the companies involved.¹

Finally, some special additional temporary support measures should be mentioned. First, a special temporary compensation measure for loss-making newspapers needs to be mentioned (Lichtenberg 2005). This *general-specific measure* was introduced in 1981 for all dailies in comparable circumstances: with a relatively unstable competitive position in the market for readers and advertisements, showing both a limited circulation and a wide geographical distribution. This experimental compensation support operated in the eighties over a period of 6 years and provided subventions to 16 dailies for almost 41 million euros in total. Since 1990, this compensation decree was stopped to evaluate it in order to decide whether or not it should be continued. On the basis of this evaluation, the Board of the Press Fund concluded that the measure in the 1980s had been an adequate instrument for maintaining the diversity of the daily press, but also that such a compensation measure did no longer match a policy stimulating innovation (Lichtenberg 2005). Following these conclusions this temporary support measure was not continued.

In July 2002, following the advice of the Press Fund, *two new experimental support measures* were added to the possibility for direct financial support. First an experimental support measure for newspapers and magazines of *minority groups*

¹ On the basis of this support measure the Press Fund participated in financing research and joint projects aimed at problems such as:

- The functioning of journalism; the positions of dailies;
- The improvement of the position of dailies as advertising platforms;
- Functions of dailies aimed at youth and ethnic cultural minorities residing in the Netherlands;
- Ethics and the Internet; the functions of the Internet for information supply and formation of opinions;
- The improvement of the distribution of dailies;
- The creation of a code for mergers;
- Financial position and functions of the local newspapers;
- The positioning of evening dailies;
- Civic journalism experiments of a regional newspaper;
- New business models for internet information products.

Table 17.1 Financial aid from *The Netherlands Press Fund* to the press in total 1972–2010 (in euros)

Exploitations of printed press	Subsidy	Loan	Total
Dailies, non-dailies and magazines (104 projects)	10,550,289	14,753,799	25,304,088
Internet-information products (44 projects)	2,801,585	1,779,159	4,580,744
Research for press and press industry (114 projects)	8,538,438	1,354,158	9,892,596
Compensation decree for dailies			
6 years during 1981–1989 (72 projects for 16 dailies)	40,838,865	0	40,838,865
Temporary measure press innovation (2 rounds in 2010, 36 projects)	6,156,035	0	6,156,035
Total	68,885,212	17,887,116	86,772,328

Note: Data considering 2010 of the temporary support measure for press innovation are included

was introduced and especially for new papers or existing ones with lower frequencies than once a month. In the years 2002–2010, 16 applications from these papers were granted for 1.9 million euros in total.² And secondly, an experimental stimulation measure was introduced for the benefit of *Internet information products* with innovative plans. In the period 2002–2010, 45 applications for this kind of financial support were granted, 4.5 million euros in total.³ In 2010, these two experimental support measures were evaluated. On the basis of this evaluation and on the advice of the Fund the Minister decided to finish these temporary measures in 2011. Two reasons were claimed for this: first, during the last 2 years, there was hardly any application for financial support from newspapers or magazines aimed at minority groups, and most projects of supported papers in these groups ended up being unsuccessful. Second, the temporary support measure for Internet information products was rather successful, but it was expected that in future there would be much overlap with another temporary support measure, namely the temporary stimulation subsidy for press innovation that had been introduced in the meantime. Some backgrounds and results of that new measure and of that new policy line will be explained in the following subchapter. An overview of this financial support from the Fund is provided in Table 17.1.

17.1.3 Special Focus: Innovation Support

The temporary support measure for Internet information products (2002–2011) was one of the first attempts in the press policy of the government to anticipate new developments in the press industry. During the last decades the printed press throughout the world was confronted more and more with many similar problems;

² For example, *Colorfull Magazine*, *Zaman Hollanda*, *Ekin Media*, *Parbode*, *Tulpia*, *Dalili*.

³ For example, *Wereldjournalisten*, *nieuws.marokko*, *Narrow the Gap*, *Brug.tv*, *Pluspost*, *BredaVandaag*, *ex Ponto*, *WijLimburg*, *Follow the Money*, *Eilandennieuws*, *Debunschoter*, *Latitudes*, *Zicco.tv*, *Leap Online*, *Eutopia*.

general indications were observed that print had and has to deal with structural stagnations (KPMG BEA 2004; also confirmed in *Tijdelijke Commissie Innovatie en Toekomst Pers* 2009). The newspaper and magazine market is showing signs of saturation: circulation figures show stability or decline in many countries; the average time spent on reading has a downward tendency. Advertisers seem to be less interested in printed products than in the past. Print also has to deal with raising costs of home delivery, postal services, newsprint, and investments in new techniques. At the same time newspapers and magazines face more competition, especially from other suppliers of information, such as websites, audiovisual media, and free papers. Commercials on television, direct marketing, online advertising, and online selling practices are growing in popularity. Those developments also lead to a change of the financial economic policy of the publishing companies: they preferred more a policy of saving costs particularly through economies of scale. That stimulated forming of groups. But also ties with readers and advertisers declined and companies showed less interest in innovation. Through all this in some cases newspapers and magazines just disappeared and press concentration grew. Other media were not always able to substitute the news, opinion, and background information which print media traditionally represented.

From this analysis it was generally concluded (KPMG BEA 2004; *Bedrijfsfonds voor de Pers* 2004; *Stimuleringsfonds voor de Pers* 2007) that publishing companies, in order to survive in the market, need to do more for renewing their ties with readers and advertisers. It was also concluded that the press could only survive if it was recognised that innovation is inevitable. And, according to this vision, real innovation could only become at hand through making use of media convergence (KPMG BEA 2004). The publishing companies should realise that their information products could be published not only on printed paper. Their products may be conceived as a branded identity of content published through both “old” and “new” media platforms. Innovation should be recognised as very important for them to find new strategic positions in present and future media developments, but also this could be very important for society as a whole. Especially minority groups and people in remote regions and situations of social and economic deprivation would lack information focusing on their personal needs. Publishing companies may also have to take advantage of the fact that several functions of printed media can be fulfilled easier, faster, and perhaps also more adequately by electronic means. Practically all what is needed to know and special interest information would be fit for electronic publishing, it was argued. People in general all over the world, the younger ones in particular, would prefer more audiovisual media and do read less, and if they read papers or magazines, they prefer images, infographics, and colourful presentations. Stimulating the production and use of new electronic services could be essential also for supplying information of specific groups in society (Lichtenberg 1998; Lichtenberg 1999).

17.1.4 Towards a Policy Aimed at Stimulating Press Innovation

These facts and visions, experienced not only in the Netherlands, made it clear that all the players in the field had to change their positions. In the framework of its tasks the Dutch Press Fund was continuously concerned about the financial and economic developments and positions of the printed press and tried to stimulate changes that could bring about innovation. As was explained before, within the limits of the current Media Act, the Fund could already grant the publisher of a press product financial support for a reorganisation project of this type. The Fund could also grant applications aimed at innovative internet information products and applications submitted by organisations of publishers and of journalists requiring financial support for joint projects of newspapers or magazines aimed at improving the general position of the companies involved. The Fund could also finance research into the press industry. However, some restrictions are made: The Fund could (and still can) only consider applications concerning the products which contain news, analyses, commentaries, and background information to a significant extent, covering the diverse aspects of present-day society, with a view to political opinion-forming. Besides newspapers, opinion weeklies, and monthlies, also Internet information products can be taken into consideration. Further, research projects can be considered if they contribute to the benefit of the industry as a whole.

In the first years of the new millennium several innovation projects were launched thanks to the financial support of the Press Fund, as enshrined in the current Media Act. The following examples of these innovation projects may illustrate this trend (Lichtenberg 2009):

- Newspapers and magazines with reorganisation plans for their printed products, including a restyling or other changes like their periodic distribution, their formats, more colour, and replacement of the computer equipment of the editorial staff⁴;
- Newspapers and magazines with reorganisation plans for their websites, to bring more diverse, interactive, and more current 24/7 information⁵;
- New Internet information products specific for young people, for cultural or ethnic minorities, and for local groups to present more local information or more national and international information⁶;
- Research for publishers on, among others:
 - conditions and foundation of a new association for the publishers of small papers and magazines
 - multimedia steps for local newspapers
 - conditions for distribution cooperation of newspapers
 - new business models for internet information products⁷

⁴ For example, *Eilanden Nieuws*, *Gay Krant*, *Nieuw Israëlietisch Weekblad*, *Volzin*.

⁵ For example, *Friesch Dagblad*, *Nederlands Dagblad*.

⁶ For example, *Moveyourass.tv* (*De Nieuwe Omroep/Llink*), *Mira Media*, *SEN*, *Hindulife.nl*, *News4all*, *Netkwesties*, *Wereldbuurt.nl*.

⁷ For example, *Bladwijzer*, *NNP*, *NUV Groep Dagbladen*, *Cebuco*, *Phaff & Partners*.

- Research aimed at journalists on, among others:
 - the position of freelancers in journalism
 - ethical standards and the internet
 - courses for editors of local newspapers
 - founding of an organisation for science and research journalists
 - position of women in the media⁸
- Research on audiences, such as:
 - the future of media consumption in general
 - the reach of ethnic media and media consumption of ethnic youth
 - consumption of online news sites versus printed newspapers⁹
- Other research such as:
 - a reference book for publishers and editors of magazines
 - the history of non-dailies in the Netherlands
 - creation of a news monitor
 - the history of printing companies
 - role and functions of magazines for women¹⁰

17.2 The Press Fund: Innovation Policy Advice

In several advisory reports for the government (*Stimuleringsfonds voor de Pers 2007, 2008*), the Fund presented new facts and views considering the necessity of a more fundamental press innovation scheme. In these views it was put forward that the problems of entrepreneurs and their efforts to solve problems through experimenting with new markets were and are primarily concerns of their own. In general, larger companies have enough time and money for experimenting. But sometimes smaller companies are not in such an equal position to experiment with new services. Moreover, society in general also has to deal with some problems of information supply: Next to the fact that there is more and more information available there are individual persons, groups, and companies with disproportional chances to equally accessing the information market. And it should also be taken into account that print media are genuinely of public interest. They communicate the news, deliver background information and commentary, and largely, contribute to the well-functioning of society by delivering impartial information about it. This means that leaving their problems completely to them is too risky for a free and diverse information supply through the press. In brief, if print media falter, society is at risk. Consequently, government needed to support newspapers. But how effectively?

⁸ For example, *Freelancers Associatie, Fontys, NNP, VVOJ, NVJ, Rijksuniversiteit Groningen*.

⁹ For example, *BVA, SVMK, Universiteit van Amsterdam, Radboud Universiteit Nijmegen*.

¹⁰ For example, *Koninklijke Bibliotheek, Mira Media, Handboek Tijdschrijfters, NNP, Persinstituut/Universiteit van Amsterdam, Persmuseum*.

In any case, in the new millennium the Press Fund confirmed that government to act as detached observer of press affairs would be insufficient to safeguard freedom of information, communication, speech, and the press itself. Indeed, there was more and more support for the idea that, like in other fields of policy such as health care or education, government should be intervening more actively by creating the conditions for a “real” freedom of the press. Basically, for real freedom to happen government should fulfil a duty of care role, in an effort to commit to a policy aimed at upholding and enhancing the diversity of the media.

This role of the government also asked for a new governance concept: Present-day media policy was to change from a conservative position (a policy with do's and don't's, more or less permanent financial contributions, compensating for losses) into a more progressive policy with (albeit only) temporary help through instruments of a more stimulating and innovating character. And, secondly, government was to stimulate publishers and editors to deliver news across diverse media platforms. Accordingly, the Fund recommended allocating a yearly budget of 2.3 million euros for the implementation of its regular scheme on support and research measures. Further, it was recommended that another 4-year budget of 7.3 million euros in total should be given out to projects aiming at local, regional, and national press innovation, experiments, and research.

17.2.1 The Temporary Innovation Commission for the Press

In November 2008, the Dutch government published a new memorandum on press policy (*Ministerie van Onderwijs, Cultuur en Wetenschap 2008a, b*). In reaction to a set of advice of the Press Fund the Dutch government presented proposals for some new thoughts on media policy and suggested changes of some current support measures. Next to continuing the temporary and modest financial support to newspapers, magazines, and Internet information products, the government proposed the introduction of new additional financial support measures. Among them financial help from the Fund for (1) newspapers and magazines of *profitable groups*, for (2) *new* newspapers and magazines, and for (3) *free-of-charge* newspapers and magazines. Besides that, the government decided for some more financial support for activities concerning self-regulation of the press and for more research into the information supply in local and regional areas. In this policy letter was also stated that the government was not yet convinced of the necessity to subsidise press innovation. However, due to new developments in the financial situation of especially the daily press the government sent an additional letter to the parliament on December 12, 2008, in which the formation of a Temporary Innovation Commission for the Press was announced, together with the possibility of special funds for co-financing press innovation and lower tax rates for the press. In December 2008 the House of Representatives accepted these policy proposals.

The *Temporary Innovation Commission for the Press*, chaired by former Dutch politician and Minister of Education, Science and Culture, Elco Brinkman, was asked to investigate at the shortest term possible the innovation needs and plans of

the press and propose some concrete funds for this in combination with financial support from the Press Fund. The Commission was also invited to launch new ideas for the improvement of the future information supply in the Netherlands. In June 2009, the “Brinkman Commission” presented its conclusions and recommendations (*Tijdelijke Commissie Innovatie en Toekomst Pers 2009*). Considering the government’s position to press innovation, the Commission was convinced that the following three tasks would be most appropriate to fulfil:

1. To slow down, halt, or even turn around turnover decreases by innovation of existing (paper-based) business models.
2. To develop leverage by using the current power of the known printed brands to develop strong online positions.
3. To innovate current journalism to improve its bond with society, both regarding the type and content of journalistic products as well as the used instruments and media (online, print, or in combination).

The Commission declared to be interested primarily in journalism’s future and its role in the democratic system, although not being insensitive towards the sector’s financial interests. The current phase of transition threatens to damage the journalistic infrastructure, the impact of which would not be counterbalanced by new media and online institutions, the Commission declared. The Commission considered this and presented a series of recommendations for the print sector, journalism, and government. These recommendations aimed to stimulate innovation in the print media business model, to improve market results and perhaps even stimulate market growth. Moreover, the Commission sought for ways to perpetuate the journalistic infrastructure in the new digital domain, preferably combined with innovation of journalism itself resulting in a stronger relation with society.

Starting from its vision to support journalism’s social role and function, the Commission recommended assisting the daily press by thoroughly reorganising its graphic branch and restructuring its distribution. These improvements would leave the printed press cost-effective for a long time, even in a dwindling market. Important tools herein can be fiscal measures as well as adaptations in laws and regulations. Moreover, the Commission pleaded to expand possibilities for papers and news magazines to cooperate with the public broadcasting stations, most importantly in the development of online services. Commercial broadcasters already enjoy wide possibilities of cooperation, but these are used only limitedly because the commercial broadcasters create relatively few journalistic productions, aside from some notable exceptions. In the current converging fields of media, the quality of information supply and the vitality of the media would benefit from far-reaching cooperation. New as well as existing initiatives could join in this cooperation. Furthermore, the Commission requested specific attention for the quality of the journalistic infrastructure and advised to allocate a large part of public innovation funds towards its exploration. Moreover, the Commission stated that the regional situation merits specific attention. Regional journalism too could profit from assisted reorganisations and cross-medial cooperation. Additionally the

Commission suggested the founding of regional media centres, through which public and commercial, regional, and local media could inventively cooperate on regional news reports.

The Commission proposed to assign the Press Fund with the encouragement of innovation in the print media, giving this Fund partly a new task. The Fund should also stimulate innovation in journalistic production and infrastructure. This mostly entails content innovation and the development of new printed and cross-medial concepts. In addition, the Fund would be given the task to investigate and encourage innovation in media exploitation and distribution, which should be done in close cooperation with the media and, where possible, with research institutions. The Fund's investments should be granted based on "matching funds" by the sector. The Commission recommended that the budget of the Press Fund should be supplemented with 8 million euros promised by the Minister of Education, Culture and Science for at least the duration of his term of office. In these recommendations the Commission deliberately refrained from creating specific proposals for the allocation of the 8 million euros. As a result of its investigative task, the Commission had become convinced that the print sector suffers from structural problems, which need to be solved with structural solutions. Temporary measures could alleviate the transition, but these should also be created in close consultation with those involved in the sector.

17.2.2 Temporary Subsidy Measure for Press Innovation

In September 2009, the Minister of Education, Culture and Science decided to accept most of the recommendations of the *Brinkman Commission*. As for press innovation the Minister decided to budget the Fund with the proposed additional non-recurrent 8 million euros, of which 25 % should be reserved for local and regional projects. In addition, it was also announced that 8 million euros should be budgeted in total for a time period of 2 years extra the goal of which was to help the appointment of young journalists at editorial staff members of newspapers, magazines, and news agencies. In December 2009, the House of Representative approved these recommendations and the Minister's decisions.

The "Temporary subsidy measure for press innovation" started to operate in the first months of 2010 and was meant for two subsidy rounds of 4 million euros in total for each round. Subsidy applications for each round had to be sent to the Press Fund and were to be related to projects of press innovation in the Netherlands. To be successful, they should aim at research for or the development of models concerning the exploitation and distribution of news, research for or the development of Dutch journalism, or renewing and strengthening the links between journalism and society. In its decision on applications the Press Fund took especially two criteria into consideration: (1) The way in which projects are directed to journalistic products, services, or performances considering the collection and interpretation of news and the forming of opinions about diverse aspects of present-day society especially related to political opinion-forming and (2) the innovative aspects of the projects. Only those activities were considered to be

subsidised which would bring such a renewal of journalism and its role in enlarging diversity in a democratic society. Furthermore, the innovative nature of the project was to be related to at least one of the following areas:

- The improvement of accessibility of the audience as users of journalistic information
- New (combinations of) journalistic products, services, markets, and organisations
- New journalistic models, activities, and presentations
- New models for acquiring and enhancing revenues
- Local or regional journalistic activities, whereby at least half of the budget of this subsidy measure should be reserved for these activities

In all, the Fund was to subsidise only half of the budget needed for each project. This matching principle was to guarantee that only those projects could expect public money if the project's remaining costs were financed from other sources.

In the two rounds of this subsidy measure in 2010, 36 innovative projects received more than 6.1 million euros in total. In February 2011, the Minister for Culture agreed together with a recommendation of the Press Fund that the remaining part of the 8 million euros budget for this measure was to be prolonged for a third round in 2011. In this third round 18 projects received nearly 1.8 million euros in total. In all the three rounds together 7.9 million euros was granted for 54 projects.¹¹ Nearly 4.5 million euros of this total amount was meant to be allocated for projects with reference to local or regional issues (56 %). In 2012, the Press Fund reserved 800,000 euros for a fourth round of this press innovation subsidy scheme. In 2013 the Fund will decide on applications for this round.

Besides this press innovation measure (and the regular subsidy measures for exploitation, research, and joint projects of newspapers and magazines, described above) the Press Fund created another measure following the advice of the Brinkman Commission. This is the temporary subsidy measure regional journalistic cooperation 2012, aimed at improving the quality of the news supply in a region. For this measure a budget was reserved of in total 450,000 euros in 2012 and 300,000 euros in 2013.

¹¹ Among them projects such as the development of a national journalistic online network for local activities, information, and service; an online journalistic service desk for news media and opinion leaders of ethnic groups; the development of a new digital cross-media product in addition to a printed regional newspaper; a platform for high-quality, independent video journalism from different perspectives; business models for online products of printed newspapers; experiments with local news sites for a printed regional newspaper; crowd sourced news gathering and aggregation for editorial boards of online newspapers on demand; experiments with editorial and commercial aspects of new cross-media products for news and background information on culture and lifestyle; online news gaming for youngsters; and feasibility study for an online platform of a market place for civic journalism.

17.2.3 Sharing Knowledge and Know-How

Next to the implementation of above support measures, the Netherlands Press Fund is currently making efforts, more than it used to, to publish as much relevant information as possible on the projects it subsidises. The ambition expressed in 2006 that the Fund should be more than a mere safety net and should instead be a stepping stone has thus acquired the dynamic drive it needed, also thanks to the temporary press innovation support measure which was implemented by the centre-left coalition government in 2010. It follows that all the projects supported by the Fund must have a strong stimulating character and that innovation is heavily accentuated. As a result, the Fund's impact on the press industry has become greater and at the same time more clearly outlined when viewed in the context of a government which is willing to accept co-responsibility while still wishing to remain cautious when faced with the necessity to guarantee the independence of news gathering. The Fund's position is intended to be that of a responsible facilitator keeping a respectful distance from the initiatives taken in the sector. A study trip in the USA and Canada in the Autumn of 2011 and extensive discussions with innovation experts and players throughout the industry have caused the Fund to review its position and to redirect its work in three ways: (1) With regard to its nature, i.e. from an institution to a service-oriented organisation, (2) its field of action, i.e. from giving support to press organs to journalistic infrastructure, and (3) its methodology, i.e. from providing funding to passing on know-how.

The Fund's main effort aims to make sure that publications, which are potentially important for the sector, can be found and accessed (always by ways of the website, sometimes as publications in the Fund's series of studies, or as separate books). Even more than in the past any research undertaken needs to concern itself with issues alive in the industry and must thus be useful for the sector as a whole. In other words, research must focus on solutions and practical application. An adequate marketing and communication strategy can help to publicise the findings of these studies: discussions, platforms, and events such as the "Spring Break", the Fund's annual congress which attracts a large number of people working in the media industry, are also instrumental. This obviously implies that the Fund has had to assume a strong directive role. In addition, external experts are consulted. A distinct line is drawn between scientific research, which looks into fundamental developments, and practical studies. The latter seek to further innovation in the production and transmission of journalistic content (crowd-funding, storytelling, games, entrepreneurial journalism) or deal with the business planning process and operational models in the journalistic sector.¹²

¹² In 2011 seven studies, funded by the Press Fund, were published in books, most of them in the series *Studies van het Stimuleringsfonds*. Examples of them are as follows:

"*Dangerous game*": This book by Prenger, Van der Valk, Van Vree, and Van der Wal presents the findings of a study on "journalism in a changing field of force" into the relationship between journalism on the one hand and the PR and communication sector on the other.

In order to share the know-how and expertise acquired, several meetings and conferences have been organised on a number of topics dealing with press innovation (tablets, earnings models, regional cooperation, social media, data-driven journalism, hyper-local journalism). In 2010, the Press Fund published its first news bulletin *De Nieuwe Pers*, initially in a printed version but after four issues in an online version (in order to reduce costs). The findings of all the projects and all the publications and announcements can be consulted on the websites of the Press Fund (<http://www.stimuleringsfonds.nl> and <http://www.persinnovatie.nl>).

One of the recommendations formulated by the *Brinkman Commission* (2009) was to pool the journalistic forces of the regional press in so-called regional media centres. The commission felt that it was necessary that the various players should cooperate more intensively, thus preparing the ground for the future setting up of regional media centres which would take care of the production of regional news. One suggestion of the advisory report released in 2011 is to supplement the Media Law with an experimental article providing for project-based cooperation between broadcasters and newspapers: if a particular project does not involve more than 5 % of the annual budget, the regional broadcaster should be allowed to enter upon the cooperation without prior consent of the *Dutch Media Authority (Commissariaat voor de Media)*. Another suggestion involves the setting up of a platform or a new entity by the various media partners in a given region. The new entity should focus on the elaboration of new concepts from a journalistic, technological, and commercial point of view. The report states that a financial stimulus from the Press Fund will provide a major push towards the implementation of cooperative efforts. By way of response, the Fund has decided to draw up a subsidisation scheme in order to enable regional cooperative projects to be initiated.¹³

“*Room for change*”: The research and consultancy bureau *Considerati* has looked into the potential for innovation in the sector of the printed press and submits recommendations to widen the potential.

“*Research into journalistic creativity*”: a study by Karel van den Berg, founder of *De Mediapraktijk*, a centre for creative journalism, into the potential and the difficulties of creativity and innovation in journalism. In 2011 Van den Berg’s findings were presented in a handbook for creative journalism (“*Think of something new. A Handbook for the development of journalistic ideas*”) and in a manifesto (“*You cannot invent news. Manifesto for the journalistic idea*”).

¹³ One research project of the Press Fund currently under way is a so-called *Atlas* of regional and local news in the approximately 400 municipalities of the Netherlands. The *Atlas* will offer a survey of regional and local news platforms (print press, radio, television, and online channels) as well as a content analysis of the various news channels to find out what part of the news is genuinely new and what part is merely copied or perhaps just filled out with quotes from the protagonists concerned with online links. As far as media policy is concerned the following issues will be addressed: What major lessons can be learned from the press innovation projects in the field of regional news supply and cooperation? Are there any examples abroad of successful scenarios for cooperation?

Conclusion: Managing Innovation and Change

One thing is clear: In order to guarantee freedom of information and the press in a democratic society, journalism will continue having to play an important role in Dutch society. But journalism needs to reinvent itself. It needs to find new ways of gathering, selecting, interpreting, and distributing news and other information. In fact, these ways may become clearer when the concept of “innovation management” is better understood by all market participants. We believe that innovation management is what better describes the daily practices of journalism today, particularly when openness towards anything new/novel is of key importance for the survival of the profession (Kramp and Weichert 2012). We also wish to confirm this attitude for openness towards innovation more broadly as follows: “*Innovation management goes beyond the management of ideas generation and implementation processes. The main objective of innovation management is to effectively and efficiently organize innovative activities, so that their implementation supports the strategic and operative goals of a firm. As innovative ideas and activities are mostly unstructured, related objectives and their link to the general firm goals are unclear and uncertain. Thus innovation management means mastering complexity. (...) Establishing and maintaining the contact with the external environment is of extreme importance in order to keep track of environmental changes, new technological developments, as well as to source and exchange ideas*” (Dal Zotto and Van Kranenburg 2008, p. XIV).

Further, the notion of *change management* is of equal importance, which entails adopting new processes and a willingness to adapt to new structures. To get familiar with new practices such as *data journalism*, *Twitter*, or *Facebook* as potentially interesting news sources may also trigger this type of innovation.

Together with these new ways of improving the openness of journalism, we wish to list set of change objects including some best practices which may innovate on journalism of the future. Following Kramp and Weichert (2012), innovation thrives when journalists are endowed with:

- Producing news content specially for digital channels
- Bringing news content which provides a better fit with the life world of readers (higher usability)
- Investing more in digital-only teams
- Conducting research into news consumption patterns on mobile devices
- Developing new business models and alternative financing models (like *Spot.us*)
- Optimising the view/knowledge of the target group (get to know your audience better e.g. by making use of innovation in audience measurement)
- Looking into new working processes, media organisational culture, and innovative performance (new news desk concepts, e.g. the *Register Citizen Open Newsroom* concept, setting up a community media lab, partnering with local bloggers, establishing an open library and a coffee shop where people can walk in, thus creating a new news ecosystem)

- Looking for strategies to exploit the advantages of new targeting technologies
- Understanding innovation in start-ups or small and young media firms

However, many players in the media sector remain being worried about their future, as far as they realise that print is still making the money while new ventures into electronic futures remain a cost unit only. However, in stimulating media players to find new ways of presenting information, government may help. Still, many of the subsidy measures and initiatives for press innovation supported by the *Dutch Press Fund* are meant to help newspapers for self-help. It is not for giving financial support only, but also for stimulating experiments and discussions about innovation topics or by showing ways to build up knowledge and experience in the field. In periods of government austerity, showing up new ways how newspapers could innovate without a financial stimulus from outside comes is only logical. Not surprisingly, in 2011 the Fund decided to change its policy mission into “money to knowledge”. This means that the government will continue—where and if possible—to support innovative projects and organising and sharing the information, knowledge, and experience of those projects among all stakeholders (*Stimuleringsfonds voor de Pers* 2012). Recently, the government explicitly stated in a new coalition agreement that the Press Fund itself will be continued as well (Rutte and Samsom 2012). Considering the important role of journalism for society, we believe that such a supportive policy is of great help especially when cutbacks in future media policy expenditures are inevitable in times of general economic and financial crisis.

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Mikhail Makeenko

18.1 Introduction

Since the first days of the Russian independence the national newspaper press has been allowed to sell advertising and manage revenues from circulation sales. However, the economic situation of most newspapers has remained dire: commercial activities of the vast majority of general interest dailies and weeklies are still in the red financially and thus heavily rely on other nonmarket sources of revenue. Under these circumstances newspapers in most cases are being kept afloat by national and regional authorities and some elite groups, who traditionally see newspapers as effective instrument of PR and propaganda. Further, the press plays an important role in consolidating the modern Russia nation, covering its 83 diverse regions and more than 180 nationalities and ethnic groups.

After the seismic shifts of the 1990s (Mickiewicz 2008; Rantanen 2002; Zassoursky 2002), the interrelations between the Russian media system and the political and economic powers that rule it have remained complicated, a situation much bespoken of in the respective literature (Arutunyan 2009; Beumers et al. 2008; Burnett 2011; Koltsova 2006; Oates 2006, 2007; Streuer 2009; White 2008). In my view, the Russian newspaper industry is currently shaped by a few major factors which are important to better understand the national system of subsidization. First, the country is very decentralized and statistically dominated by regional and municipal titles. Second, newspaper economics is underdeveloped with very weak advertising, retail, and subscription markets. And third, the state is still a dominant actor as a major owner of newspapers and a major distributor of funds.

Today there are more than 500 active daily newspapers (with about 20 national titles) and more than 2,000 weeklies in Russian media market, with total number of registered papers exceeding 28,000 for the last 20 years. Among national or so-called federal dailies only two titles are printed in a few dozen biggest

M. Makeenko (✉)

Lomonosov Moscow State University, Moscow, Russia

e-mail: makeenko.mikhail@smi.msu.ru

cities—tabloid *Komsomolskaya Pravda* (that follows the *Bild Zeitung* model with many regional editions) and state-controlled quality paper *Rossiyskaya Gazeta*. Most other nationals are mostly distributed in Moscow and less often in Saint Petersburg regions. Among them two business press titles *Vedomosti* (joint project of *The Financial Times*, *Wall Street Journal*, and the *Independent Media* company) and *Kommersant*, two sport dailies *Sport Express* and *Sovietsky Sport*, the widely read tabloid *Tvoi Den*, and titles that inherit a reputation capital from the Soviet past, such as *Izvestia* or *Trud*. Among weeklies pre-weekend national editions of *Komsomolskaya Pravda* and *Moskovsky Komsomolets* and *Argumenty i Fakty* (that once had the biggest circulation in the world with 34 million copies in 1990) stand out. More than 90 % of the titles are regional and municipal papers, with medium circulation rarely above 15,000 copies.

This chapter reviews some crucial factors of the current situation of state support for newspapers in the Russian Federation. It starts with an analysis of the major factors that affect the Russian media system and offers an analytical approach to press governance in the country. The practice of subsidizing the press is described for the post-Soviet period, first, by looking at the initial period of the 1990s as a historical background, and, second, by giving a typology of the modern state support and the peculiarities of federal and regional policy in the field.

The data for this chapter were collected from reviewing secondary data sources, open sources, mostly from official documents of federal and regional legislative output and publications of executive authorities. Additionally, 16 in-depth interviews with top managers of Russian publishing companies and editors-in-chief of state-controlled and private daily newspapers in various regions (*Central*, *North-Western*, *Southern*, *Ural*, *Privolzhsky*) were made between September 2011 and August 2012.

I hypothesize that various types of press subsidization are applied in Russia and that these practices heavily influence the country's newspaper markets, especially on a regional level. Further I acknowledge that subsidies have been a reliable instrument of keeping weaker newspapers on the market, while also being a major revenue source for top papers in many regional markets.

However press subsidies are not the secure instruments of promoting diversity of views and positions in press and society. I posit that subsidies are a specific form of media governance which is rooted in the nonmarket ideology of actively intervening into the economics of newspapers, while private funding from the country's economic elite plays another vital revenue source. In the situation when revenue from advertising and circulation is mostly not enough for sustainable daily and even weekly newspaper operation the state through budget and state affiliated enterprises' funds distribution can control and govern national newspaper system.

Among the salient factors which directly and indirectly shape the modern system of subsidizing newspapers in Russia, the following three features should be looked at more carefully: (a) The territorial division of the country, (b) public consensus on the institutional role of the state to intervene in economics (media, in particular), and (c) the structural and economic characteristics of the Russian print media ecosystem itself.

In response to the cumulative influence of these factors, most Russian newspapers, especially regional and municipal ones, heavily rely on state subsidies. On the federal (national) as well as regional levels, the most important role is played by direct budget subsidies, grants for social projects, and contracts for the information servicing of legislative and executive bodies. What remains a tangible drawback of state support in Russia is that most of it is allocated to state-owned print media outlets. In addition, current state regulation in the area of tax benefits is underused, clearly lagging behind best-practice examples of Western European funding schemes.

18.2 The News Media Market

In order to fully understand the specific features of state regulation and economic support for newspapers in Russia, it is essential to outline the context for press operations and its need for subsidies, the context which is shaped by a number of industrial and market environmental factors. These factors shall be analyzed by answering the following questions: What is the impact of the territorial shape of Russia? What is the Russian tradition in organizing its economy? What is the state of the art of the Russian media? And what is actually a typically modern Russian newspaper?

A couple of environmental factors enable one to understand the specific features of the state's attitude to the media and of mass media regulation, including all forms of public subsidization.

First, the need for various kinds of state support for the press and the Russian mass media in general is primarily determined by the territorial division of the country. Here, a large number of territorial entities and huge distances between cities and urban-type settlements can be found. Russia is the largest political federation in the world: At present, it consists of 83 regions subdivided into 1,820 municipal districts. The country has about 1,100 cities and towns and 1,800 urban-type settlements (with a population between 2,000 and 15,000 people). Over 60 % of the population lives in rural areas and semi-urban environments (Zubarevich 2005); the average distance between cities and rural towns is significantly larger than in Europe: from an average of 70 km in the European part of the country to 300 km in the Far East of Russia. All this means that the potential information environment is extremely fragmented. There are about 165 large cities (with the population of 100,000 people and over), but only 80 of them (with the population exceeding 250,000 people) could be described as relatively stable consumer and hence advertising markets, in which print and electronic media can rely on advertising revenues as a tangible source of income.

Meanwhile, political, social, economic, and cultural needs of regions and municipalities require information and communication support on a constant basis. Almost each territorial entity has its print media, mostly newspapers of varying periodicity. And a huge number of publications, which might be referred to as the minor press, are not based on any viable business model. Almost all of

these newspapers, whether state-owned or private, need financial support. Each level of governance is characterized by its special policies and, accordingly, special approaches to print media regulation. The determinant level is federal; further approaches are worked out at the levels of regions and municipalities.

The other environmental factor which determines the development of the country's politics and economics, media economics in particular, could be described by its cultural or social features and is heavily dependent on the national mentality (thought pattern). It manifests itself in the fact that Russia has a strong and long-standing tradition of the state's active participation in economics at all levels: as an owner, regulator, and investor/creditor/funds and resources distributor. However, as some leading Russian researchers believe (Kyria 2010; Balabanova 2001; Bessonova 1994), this is not a remnant of the Soviet or tsarist past. Rather, it is a fundamental historical phenomenon accompanied by undisputable social consensus.

As far as the Russian newspaper sector and partly magazine sector (with the exception of glossy and B2B magazines) are concerned, the idea of a near inevitable dependence on noncommercial, nonmarket funding (occasionally combined with commercial activity) remains one of the key conceptions about how the Russian media system and media industry are organized. The foundations for the contemporary interpretation of this conceptual approach were laid back as far as to the times of *perestroika* (1985–1991). In those days, newspapers gradually received an opportunity to sell advertising space (at non-fixed, but fast-growing rates) and to significantly increase the budget revenue due to the immense growth of circulations of the leading publications, while production and distribution in those years were at fixed, state-controlled prices. As a result, in the late 1980s, most newspapers and magazines gained excess profits. However, as soon as prices on products and services necessary for print media production and distribution were organized by market mechanisms and costs started to grow faster than revenues, print media managers and owners did not hesitate to go back to the idea of nonmarket support. Starting from the mid-1990s, for most Russian newspapers this approach involved two sources of existence (often simultaneously): (a) being financed by non-media-related commercial organizations (as investors/owners) or (b) being subsidized, this way or another, by the state.

Let me now turn to two significant factors that reflect the specifics of Russian media industry itself.

First, a crucially important factor dealing with media economics in Russia is the above-mentioned weakness of its print media markets, which is especially true for hard news and general interest newspapers at all levels. In 2011, the total volume of print media's advertising revenues and circulation sales revenues amounted to 113 billion rubles (less than 3 billion euros) (*Rosiyskaya periodicheskaya pechat* 2012), of which, as I estimate, newspapers accounted for as little as 600–700 million euros. Gross revenue of the largest daily of the third largest region of the country (the *Republic of Tatarstan*) in 2010–2011 slightly exceeded 1.5 million euros annually. Only three or four quality dailies in the two capitals of Moscow and St. Petersburg, the same number of tabloid dailies (collecting the main bulk of money in the

Moscow region), and fewer than 10 regional daily newspapers published in metropolitan cities (i.e., with inhabitants larger than one million) work within fully elaborated advertising markets. Weekly newspapers in Moscow and in the regions provide significant advertising space more frequently, but the number of private and state-owned publications that are successful in the advertising market is, in my estimates, limited to several dozens. Circulation sales contribute to profitability of fewer than 10 national and regional tabloids.

An important reason for this imbalance in the advertising market for newspapers is the predominance of specialized national as well as regional advertising publications (often with free distribution), controlling the major share of classified and retail advertising in the country. In addition, advertising revenues of political and general interest newspapers are negatively affected by regulation to cap the maximum volume of advertising per issue. This means that advertising cannot exceed 40 % of a newspaper's total content (as said in *Federalniy zakon o reklame* (Federal Advertising Law) of 2006, article 16). However, my calculations show that in national, regional, and local publications the volume of advertising space rarely exceeds 25–30 %, which is indicative also of the problems in the area of sales divisions.

Finally, the last seminal factor for understanding the role of state support for the press is the poor contemporary condition of Russian newspapers from the point of view of statistics. Taking into account the territorial division of the country and the immense information needs of the state and society at all levels, one may come to the conclusion that the number of periodical publications in Russia must be very high. Indeed, *Roskomsvyaznadzor*, a Federal agency engaged in media registration in Russia, issued about 28,000 licenses to newspapers by 2010, fewer than half of which were actually published. As in any other country, the basis of the newspaper press in Russia is made out of dailies (in the Russian classification, with the periodicity of 3–6 times a week) and weeklies (issued one or two times a week), although the periodicity of most newspapers is different. In 2010, national press in Russia was represented by 24 daily newspapers and about 100 weekly newspapers, and the regional and municipal press by more than 510 dailies and 2,000 weeklies. In terms of territorial division, the press is divided into federal, regional (that of areas, territories, and republics), and municipal (including urban press and district press) geographic regions. The average circulation of a regional newspaper is in between 10,000 and 30,000 copies and that of a district newspaper is up to 10,000 copies, the average circulation of dailies in Russia being 15,000–17,000 copies. More than 65 % of the circulation account for regional and municipal publications.

The following Table 18.1 shows estimated circulation figures for top newspaper titles in the country on national and regional levels.

Like any other media in Russia, the press could be divided into private and state-owned outlets. Among national newspapers, the influence of state-owned publications is not so obvious, but at the municipal level the ratio of private and state newspapers is on average level throughout the country, 1–3 or 1–4. State-owned newspapers of most forms of ownership have an opportunity to engage in commercial activity (selling advertising space included), yet at the same time they

Table 18.1 Top paid-for dailies in Russia (2010)

National titles				Regional titles			
Title	Circulation	Format	Ownership	Title	Circulation	Format	Ownership
Komsomolskaya Pravda	670,000	Tabloid	Private	Oblastnaya Gazeta (Ekateringurg)	100,000	Broadsheet	State
Rossijskaya Gazeta	220,000	Broadsheet	State	Magnitogorsky Metall (Magnitogorsk)	80,000	Broadsheet	Private
Trud	220,000	Tabloid	Private	Kuban Segodnya (Krasnodar)	35,000	Broadsheet	Private
Sport Express	200,000	Broadsheet	Private	Vecherniy Ekaterinburg	30,000	Broadsheet	Private
Sovietsky Sport	180,000	Tabloid	Private	Vecherniy Rostov (Rostov-on-Don)	25,000	Broadsheet	Private

Source: Audit Bureau of Circulation (2012), the author

are subsidized. Private newspapers also gain from commercial operations, but for them the major source of funding is the money provided by the owners most often representing regional and local enterprises.

Thus, it is obvious that state support for all media, including newspapers, does not only *exist* in Russia, but is actively sought after, accepted, and encouraged by both members of the media community and various groups of the Russian society. The major drivers of subsidization were found to be the spatial and territorial division of the country, the weakness of the newspaper industry's economic basis, and the historical traditions of relationships between the state and Russian society, economics, and the media.

18.3 Regulating Newspaper Subsidies in Russia

The basic formal reason for any kind of state support for the press in Russia is social interest manifested in two major directions: first, a natural need to create the information and communication environment in the country and maintain its functioning and, second, the solution of more precise social tasks related to social, national, or cultural policies at the national or regional levels. Experts point out (Kachkaeva and Kyria 2010), however, that Russian specifics manifest themselves in the fact that the media outlets' political loyalty and approval of the federal or regional authorities are an extremely important, though informal, criterion. As a result, state-owned publications turn out to be the main recipients of focused state support.

The basic source of support is federal, regional, and municipal budgets.

The major versions of support are the following: (a) Direct budget maintenance and subsidizing (via separate lines in the budget), mostly for state-owned titles which compose the biggest group in the market, (b) competitive grants from the budget distributed by specialized ministries, (c) Contracts for so called information servicing, paid publication of laws and other documents issued by the legislative and executive powers and the execution of municipal tasks, and d) tax benefits.

By law, no subsidies, grants, or tax benefits should by any means involve titles concentrating on advertising and erotic content. The so-called advertising press includes those publications in which the advertising space occupies more than 40 % of the issue's volume.

18.3.1 Subsidy History: The 1990s

In the 1990s, the state has already practiced providing subsidies to mass media directly from the public budget, on both the federal and regional levels, as far back as in 1992–1995, the first years that followed the collapse of the USSR. The distribution services, however, were not written into the legislation and could thus be described as “unregulated.”

The first federal normative act to establish the rules for budget financing of newspapers was the Federal Law “*On the economic support for district (urban) newspapers*” passed in 1995. As it is clear from the wording of the law, the addressees of support were regional and municipal print media. According to the Law, funds from the federal budget were to be allocated for the development of newspapers’ technical facilities, payments for postal delivery (that still remains main distribution channel for many titles), and the purchases of paper and printing services. The state budget support was available for state-owned as well as public (but non-party) and private newspapers.

A publication could claim budget subsidies if it was listed in the Federal Register of district and urban newspapers drawn up by a special board which included representatives of regional legislative and executive bodies of the Russian Federation and the regional departments of the Russian Union of Journalists. The Register was annually agreed upon with the Russian Government and approved by the State Duma at the stage of enacting the federal budget.

Each district (city, town) could be represented in the Register by only one newspaper, so there was a tender. As the ultimate decision rested with local officials, it was the publication founded by the municipal authorities that usually won the subsidies (Richter 2002).

The funds were distributed by the federal Ministry of Press, Television and Radio Broadcasting and Mass Communications. The law “*On the economic support for district (urban) newspapers*” fully operated in 2000–2002, a time when subsidies would be distributed to 1950 newspapers of varied periodicity. In 2000, 150 million rubles (about 6–6.5 million euros) from the federal budget were given out on subsidies, in 2001 the sum amounted to 225 million rubles (about 8.5–9 million euros), and in 2002 it was 170 million rubles (about 5.5 million euros) (Richter 2002).

Another direction of state support which started to develop in the 1990s was aimed at tax benefits for the press. The Law on Mass Media of 1991, part 3 of Article 19 (no longer operative) contained a provision saying that for 2 years after its first issue (in the case of the electronic media—the first broadcast) a media enterprise was not obliged to pay the tax. If, however, the founder discontinued the activity of the outlet prior to the expiration of the term, taxes were collected in full for the whole period of its existence.

In 1995, the Federal Law “*On State Support for the Mass Media and Book Publishing in the Russian Federation*” was passed and remained operative until 2001. By this law, the media were endowed with a number of benefits:

- No VAT on printing, distribution, sales, and subscription
- No profit taxes (from production and distribution) entered into the federal budget
- No duties on imported paper and equipment as well as on imported/exported periodical publications (which is why for about 10 years plenty of magazines were printed abroad, most often in Finland)
- Media outlets paid for postal services, telephone and telegraph communication, and rent of premises (provided those were situated in federally owned buildings, which was not very common) at the lowest tariffs reserved for budget organizations

Meanwhile, in the period of 1995–2000, a number of regional laws on support for the press were passed in Russia. These primarily contained additions to the Federal Law, concerned with reductions of the taxes entered into local budgets, and rental payments for premises in regionally and municipally owned buildings (Richter 2002).

Moreover, on the regional level regular subsidies for direct media support were quite common. Relevant articles were included in annual regional budget laws (for instance, the Law of the Kaluga area “*On the area budget for 2000*”) and/or in the local laws on the economic support for municipal newspapers (for instance, the Law “*On the economic support for district and urban newspapers of the Altai territory*”). Notably, already at that time most of such laws were primarily aimed at supporting official regional newspapers. Under the budget laws, the main state publication often received as much as 40–60 % (Richter 2002) of the total allocated funds.

18.3.2 State Support for Newspapers in the 2000s

In the early 2000s, the main federal laws passed in the previous decade were no longer operating. A new stage of the government’s policies towards the mass media began. Those policies were shaped by the federal center and applied to the regions. The changes touched upon both the mechanisms of directly financing the press and all kinds of tax and tariff benefits.

Today, the country has no federal laws of the 1995 type; the legal basis of state support has henceforth been written into the budget and tax legislation.

Only state publications at all levels (federal, regional, and municipal) are directly subsidized from the budget. In 2011, the total sum allocated in the federal budget for subsidies to the state-owned mass media amounted to 61.5 billion rubles (about 1.5–1.6 billion euros). In 2012, it was 75.4 billion rubles (about 1.8 billion euros), of which 64.9 billion rubles were channeled to state radio and television companies. Periodical publications and publishing houses received in 2012 5.5 billion rubles (about 135 million euros), of which 4.5 billion rubles (110 million euros) were channeled to the periodical publications founded by the federal legislative and executive authorities (Pravitelstvo sokratit finansirovanie gosudartvennih smi, 2012)—*Parlamentskaya Gazeta (The Parliament Gazette)*, *Rossiyskaya Federatsiya Segodnya (Russian Federation Today)* and the like. It is unknown, however, which amount of this money was eventually concretely granted to the newspapers. The sum allocated can be interpreted, on the one hand, as direct subsidies, but, on the other hand, some of the national state newspapers that receive these monies are so-called official “publicators” (distributors) of news, laws, and the regulations of the federal authorities. Hence, for these state-funded newspapers, these subsidies can be regarded as some kind of contract for information servicing at the federal level.

Today, there is hardly any consolidated statistics on the volume of state support for the press in the regions; thus the data on the scale of the allocated sums are

obtained discretely from open sources. In the Lipetsk area, for instance, the state media received from the regional budget 148 million rubles (about 3.6 million euros) in 2010 and 176 million rubles (about 4.4 million euros) in 2011. In the *Tyumen* area, *Yamalo-Nenetskiy* autonomous area, and *Khanty-Mansiyskiy* autonomous area, the state print media received from the 2011 budget 104 million rubles (about 2.6 million euros), in the *Arkhangelsk* area 68 million rubles (1.7 million euros) in 2010 and 170 million rubles (4.4 million euros) in 2011, and in the *Tula* area in 2011 500 million rubles (12.5 million euros).

In individual regions, budget financing is provided in the schemes of the local target programs for mass media development. For instance, in *Tatarstan*, the largest republic of the country in *Privolzhsky* region, a corporate target program issued by the Republican Agency of Print Media and Mass Communications *Tatmedia* and called “*The development and improvement of the information space infrastructure in the Republic of Tatarstan (in a particular year)*” has been operating since 2007. In the framework of this program, the volume of state support for socially significant periodical publications (republican, urban, and district newspapers in the Russian, *Tatar*, *Chuvash*, and *Udmurt* languages) amounted in 2007 (*Tatmedia* 2012) to 335 million rubles (8.5 million euros), in 2008 to 366 million rubles (9 million euros), in 2009 to 427 million rubles (10.5 million euros), and in 2010 to 394 million rubles (10 million euros).

In 2011, local programs for mass media development were adopted in some other regions. For instance, in the *Republic of Sakha (Yakutia)* a state program called “*The development of regional print and electronic media in 2012–2016*” was adopted. The total volume of financing is expected to be about RUB 5–6 billion, of which the press is to receive 2.47–2.64 billion rubles [on average, about 500 million rubles (12.5 million euros as of 2012 rates) per year].

Funds from regional budgets are directly allocated either in the leading state newspaper of the region and dozens of other state publications or in a kind of publishing firms (which usually take the shape of state unitary enterprises) integrating the regional and municipal state-owned print media. As mentioned above, state publications of some forms of ownership have an opportunity to engage in commercial activity, but state subsidies are their major revenue item.

Budget financing on the regional level can take the form of direct subsidization or that of distributing the state order for information servicing. Thus, of the above-mentioned 394 million rubles distributed in 2010 by the *Tatmedia* agency in the Republic of *Tatarstan*, the newspapers received 111 million rubles (2.8 million euros) in the form of subsidies, while under the state order for covering the activity of *Tatarstan*’s government bodies they received 283 million rubles (7.1 million euros) (*Tatmedia* 2012).

It should be noted that, on the regional level, the role of contracts for information servicing among the varieties of state support is extremely high. There are two major forms of information servicing: (1) the news coverage of authorities’ activities and (2) the publication of legislative acts. On the federal level, these are federal constitutional laws, federal laws, and acts by the houses of the Federal Assembly, in the regions — corresponding documents at the local levels.

Newspapers operating as such “publicators” exist at all levels, the municipal level included. And the first of the above-mentioned forms of information servicing deals with regular and in many cases self-censored media coverage of activities (meetings, official visits, public appearances, etc.) and initiatives of government executives and legislators.

To get contractors for servicing, formally open tenders are held in most regions, in which newspapers of any form of ownership can participate. In most cases, however, the winners are state-owned publications or those via various schemes affiliated with regional and municipal governance, which are not necessarily the largest in the region.

Another important source of revenues for the press in Russia is publishing bankruptcy data. The choice of the publications is also made at regular open tenders. These tenders are sometimes won by independent private publications. For instance, publishing bankruptcy data were for a long time a tangible revenue item for *Kommersant*, one of the most reputable newspapers and often critical toward the country’s federal authorities. In the regions, however, this function often also goes to state-owned publications, which owe this indirect financial support to their official status.

Yet another source of state budget support for newspapers (and the press as a whole) is competitive grants. Today, the most large-scale initiative in this field is supporting the publications that implement socially significant projects. Since 2006, the funds have been distributed by the *Federal Agency for Press and Mass Communications of the Russian Federation* (FAPMK). A wide variety of initiatives can be defined as socially significant projects; in the late 2000s among the major national project the following ones were mentioned in particular (Seslavinsky 2007): Forming the cult of the family and healthy way of life, fighting against corruption, crime, drug addiction, and racial and inter-confessional hatred, providing road safety, and promoting interethnic communication and creativity. In addition, special grants are distributed to publications for handicapped and visually handicapped people.

Notably, in the FAPMK orders pertaining to the rules of allocating grants (subsidies) for socially significant projects it is stipulated (*Prikaz Rospechaty ot 2012*) that the publications existing in the form of state (municipal) bodies are not allowed to participate in the tenders. Moreover, the publications that are founded by religious unions, political parties, and political social movements cannot claim support either. All this widens the opportunities of private newspapers, although the leading private regional and municipal newspapers do not actually participate in the tenders, so that industry wide the total volume of grants is insignificant.

Once received, the subsidies can be used to compensate for the following expenses: (a) Paying author’s royalties and salaries; (b) paying premiums for compulsory pension insurance, compulsory medical insurance, and compulsory social insurance in the case of temporary disability, maternity, accidents at work, and occupational diseases; (c) paying for printing, paper, and distribution of periodicals that implement socially significant projects.

The volume of financing socially significant projects remains stable enough. In 2006, the first year of the distribution, 54 regions received 359 grants for 404 projects worth 128.5 million rubles (3.8 million euros) (Seslavinsky 2007). In 2011, there were 358 grants in 51 regions for 417 projects worth 165.6 million rubles (4.2 million euros) plus 35.2 million rubles allocated in the publications for handicapped and visually impaired people (*Rosiyskaya periodicheskaya pechat* 2012). Of the 165.6 million rubles, grants to the enterprises with an invariably private form of ownership amounted to 138 million rubles (3.5 million euros).

As for one more key element of state support for the press, tax and tariff benefits, this appears to be very poorly developed: Russia is one of those countries of the world where the print media really suffer from a heavy tax burden.

After the Law “*On State Support for the Mass Media and Book Publishing in the Russian Federation*” was discontinued in 2001, another law that was operative in 2002–2004 became an extremely important document introducing changes and additions into Articles 149 and 164 of part 2 of the RF Tax Code. Under the Law, the VAT rate was lower (10 % as compared to the general VAT rate of 18 % in Russia starting from 2001) for print media products, with the exception of the advertising and erotic press. In addition, for the period until 01/01/2003 (then until 01/01/2005) this low VAT rate was applied to forwarding services, delivery of periodicals and book products, as well as editorial and publishing services involved in the production of the publications.

At present, newspapers (also magazines and books) enjoy only one regular tax benefit: VAT on circulation retail sales amounts to 10 %. Tax benefits are not applied to other operations including subscription circulation sales. As a result, in the past 2–3 years, that is in the post-crisis period, all kinds of public organizations (publishers and distributors’ associations) and lawmaker groups at the federal and regional levels have put forward a number of initiatives to grant the political and general interest press with the status of socially significant products and mitigate the tax burden by reducing or zeroing VAT on distribution and providing VAT reductions on other operations of newspapers.

Apart from this, when it comes to individual taxes and fees, special amendments to the laws ensuring favorable terms for the press are possible. For instance, today the 2010 amendments to the Federal Law “*On insurance premiums to Pension Fund of the RF, Social Insurance Fund of the RF, Federal Fund of Compulsory Medical Insurance and Territorial Funds of Compulsory Medical Insurance*” are valid, and these enable the press (with the exception of advertising and erotic publications), newspapers included, to make payments until 2015 at reduced tariffs: 2011—26 %, 2012—27 %, 2013—28 %, 2014—30 %. It is only in 2015 that a transition to the rate of 34 %, used since 2011, is likely to take place.

As it stands, the amount and volume of indirect state support for the newspaper business is not impressive either. Considering 2010–2011, one could mention the exemption from duties for printing equipment imported to Russia and federal subsidies to the Federal State Unitary Enterprise *The Post of Russia* aimed at sustaining prices for the local delivery of the subscribed press (since 2009) (Table 18.2).

Table 18.2 Types of state support (subsidizing) for newspapers in Russia as of 2012

Types of state support (subsidizing) for newspapers	Newspapers' types of ownership and distribution range			
	State-owned federal (national)	State-owned regional and municipal	Private federal (national)	Private regional and municipal
Direct budget subsidies (federal budget)	++			
Direct budget subsidies (regional and municipal budgets)		++		+ ^a
Grants for social projects (federal budget)			++	++
Grants for social projects (regional and municipal budgets)		++		+
Contracts for information servicing (publishing official documents, media coverage of authorities' activities)		++	+	+
Reduced VAT rates for distribution	++	++	++	++
Reduced rates of payments on pension insurance and social insurance	++	++	++	++
Indirect subsidizing (subsidies for sustaining local subscription prices)	++	++	++	++

Source: The author

^aSupport is officially available but for this type of newspapers its availability is often limited

+ Support is officially available for anyone in the respective category but its factual availability is often limited to non-formal criteria

++ Support is available for anyone in the respective category

Conclusion

Putting the Russian situation into the European context, I conclude that the Russian approach to media and particularly press governance remains specific in many ways. And, importantly, the case of state subsidizing newspapers in Russia is common practice. Moreover, the specific differences in handing over the subsidies do not deal just with the instruments used but with the national archetype of this kind of governance. To my knowledge, the European model mostly assumes that subsidies are mainly used to maintain competition and pluralism in the newspaper market by supporting financially weaker papers. I do further perceive state support in the form of subsidies to being more of a kind of supplementary nonmarket instrument on press markets where advertising and circulation revenues are not enough for profitably operating competing newspapers (Ots 2006). Notably, the Russian approach differs significantly to this European model.

In modern Russia, the state financial support is the core of the economy of the press and its importance is equaled only to another vital element—financial

support of newspapers by big and medium-sized enterprises or businessmen personally, be they overt or hidden in nature. Without these monies almost all dailies would operate with chronically uncovered losses. In Russia, state subsidizing not just supplement these other revenue sources but are a vital source to keep the daily press alive, especially the regional press system. As shown, in many cities and regions the volume of state support can even exceed the volume of traditional commercial advertising for general interest dailies.

At the same time one can witness another specificity of Russian media governance: too often, financial state subsidies go to titles that are state controlled, state affiliated, or openly loyal to federal and regional authorities. These assumptions illustrate a trend whereby state support does seem not to stimulate pluralism but to minimize diversity of views. This is because, in effect, it weakens economic and market positions of the independent and alternative press.

Last but not the least, another important detail in understanding Russian media governance is the stern position of the state in all issues dealing with softer tax policy matters. While there are various elements of economic support for the press in active use, tax benefits and reductions—most widely used on a global scale—are used only minimally in Russia.

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Mart Ots

19.1 The Market and the Subsidies

Newspapers in Sweden have traditionally held a strong position in the media landscape. They have long been in the centre of public debate and stood out as dominant sources of local and regional news coverage in the country. Readership figures are still among the highest in the world, and until the 1990s, when the audiovisual sector was deregulated, the newspaper industry enjoyed an unrivalled position also on the advertising market. However, during the last decade, the shift has been dramatic. Competition from commercial Internet and TV companies has since cut deep into the newspaper advertising market share, and circulation figures dropped relentlessly year by year.

Table 19.1 below shows Sweden's 15 largest newspaper publications. As far as national circulation is concerned, the largest daily titles include two national evening tabloids, a handful of subscribed and home-delivered metropolitan morning dailies, and the free daily *Metro* (see, Table 19.1). The three largest media conglomerates, *Bonnier*, *Schibsted*, and MTG, have primarily focused their Swedish newspaper holdings to these national and metropolitan markets, leaving the regional press to smaller media owners. Among the newspapers, the evening tabloid *Aftonbladet* has been the most aggressive and successfully started up its online activities. Today the website *Aftonbladet.se* has more than five million unique visitors per week¹. On top of this, it holds several digital media operations, particularly in classified advertising, and thus dominates these segments. At the same time, as print editions continue to plummet, newspapers on all markets are

¹According to the leading institute for measuring internet traffic in Sweden, KIA Index, *Aftonbladet* has had five to six million unique weekly browsers visiting the site during 2012 (<http://www.kiaindex.se>).

M. Ots (✉)

Media Management and Transformation Centre (MMTC), Jönköping International Business School, Jönköping University, Jönköping, Sweden
e-mail: mart.ots@hjk.hj.se

Table 19.1 Top 15 daily newspapers in Sweden 2011

Title	Circulation	Type	Owner
<i>Metro Stockholm</i>	305,200	Free daily	MTG
<i>Dagens Nyheter</i>	285,700	Metropolitan daily	<i>Bonnier</i>
<i>Aftonbladet</i>	271,700	Evening tabloid	<i>Schibsted</i>
<i>Expressen (all editions)</i>	248,500	Evening tabloid	<i>Bonnier</i>
<i>Göteborgs-Posten</i>	215,600	Metropolitan daily	<i>Stampen</i>
<i>Svenska Dagbladet</i>	185,600	Metropolitan daily	<i>Schibsted</i>
<i>Metro Göteborg</i>	151,500	Free daily	MTG
<i>Metro Skåne</i>	124,600	Free daily	MTG
<i>Sydsvenskan</i>	110,200	Metropolitan daily	<i>Bonnier</i>
<i>Dagens Industri</i>	103,100	Business daily	<i>Bonnier</i>
<i>Helsingborgs Dagblad (all editions)</i>	74,800	Regional daily	<i>Helsingborgs Dagblad</i>
<i>Dalarnas Tidningar (all editions)</i>	57,100	Regional daily	<i>Mittmedia</i>
<i>Nerikes Allehanda</i>	54,700	Regional daily	<i>Stampen</i>
<i>Nya Wermlands-Tidningen (all editions)</i>	51,900	Regional daily	NWT
<i>Östgöta Correspondenten</i>	51,600	Regional daily	NTM

Source: *Tidningsstatistik AB (2012)*

still searching for ways to monetize their journalistic content in the digital environment.

When looking into the Swedish newspaper market as a whole, it is the large number of subscribed and home-delivered regional and local morning papers that collectively represent the largest share of newspaper circulation and readership. Whether surprisingly or not, this is also where most of the beneficiaries from the operational government-backed press support to newspapers are to be found. Papers eligible to be supported need to be funded by paid subscription, which automatically disqualifies evening tabloids and free dailies from the press subsidy program. On the list of the 15 largest publications (see Table 19.2) only the *Schibsted*-owned *Svenska Dagbladet* receives operating support. It qualifies for support by being the only subscribed paper on the list that is not a leader on its home market (in this case Stockholm). Economically speaking, while a majority of the companies receiving subsidies in 2011 were in the red, *Svenska Dagbladet* had a record profit of more than 11.1 million euros² (10.7 % net margin). At the same time it was collecting more than 6.6 million euros in subsidies from the state (Olsson et al. 2012). A list of the ten largest beneficiaries is presented in Table 19.2 below.

This contribution will look at the development of the Swedish newspaper market over the past 40 years and discuss the objectives and effects of the press subsidy scheme in this context. The chapter starts with introducing the political context of

² Throughout this paper monetary figures are translated into Euros at the rate 1 Euro = 9 Swedish kronor.

Table 19.2 Top 10 press support beneficiaries 2011

Newspaper title	Operating support (million euros)	Distribution support (million euros)	Circulation
<i>Svenska dagbladet</i>	6.6	0.4	185,600
<i>Skånska dagbladet</i>	6.6	0.1	29,400
<i>Norrländska Socialdemokraten</i>	1.9	0.1	32,300
<i>Arbetarbladet</i>	1.9	0.09	21,600
<i>Värmlands Folkblad</i>	1.9	0.06	17,800
<i>Dala-Demokraten</i>	1.9	0.05	16,100
<i>Länstidningen Östersund</i>	1.9	0.04	18,500
<i>Västerbottens Folkblad</i>	1.9	0.04	11,700
<i>Dagbladet Nya Samhället</i>	1.8	0.04	10,700
<i>Sydöstran</i>	1.8	0.04	10,400

Source: Data from *Press Subsidies Council* (Olsson et al. 2012)

the Swedish media system, the historical background to the press support scheme, and its mechanisms and costs. It then continues compiling and discussing results from academic studies, database sources, and materials from prior press investigations about known effects of the scheme. The chapter then concludes by providing some insights into current political discussions and identifies future challenges for subsidizing a media sector which finds itself in a structural change process of transition towards digital ventures.

19.2 The Political Context

Historically, Sweden is known to host one of the most generous systems for distributing direct support to newspapers. Annually, subsidies amounting to a value of more than 500 million SEK (ca. 55 million euros) are selectively handed out from the state to non-market leading newspapers. The magnitude of the direct support places Sweden in the European top tier behind France, which is known to be Europe's most avid provider of state funding to the press (*World Association of Newspapers* 2012). However, when including also the value of indirect support of non-selective character, such as VAT exemptions, it stands clear that there are several countries in Europe that effectively spend more money than Sweden in supporting their press sectors (Nielsen and Linnebank 2011; Jauert 2010).

The rationale for Swedish newspaper subsidies is best understood in its cultural and political context. Like in many countries with Germanic languages, the printed press historically holds a strong position (Weibull 2008). In terms of newspaper readership Sweden occupies one of the top positions in Europe and newspapers traditionally target broad segments of society (Färdigh 2008). Readership is largely regional in character, which means that few or no national morning newspapers have managed to be established. Consequently, the provincial press is strong and

contains a large number of papers that are important news providers in their respective local or regional markets.

All in all, it has been recognized that the Swedish press sector, which historically is made out of newspapers with affiliations to different political parties, requires a range of newspaper titles in order to get a diversity of political perspectives represented. The democratic corporatist media model as proposed by Hallin and Mancini (2004) comes with an in-built acceptance for undertaking state initiated policy measures such as direct subsidies in order to achieve that end. In the Swedish version, the press policy objectives “diversity and choice”, which have been echoed in various policy documents for the past 30 years, reflect this need for the reader to select his or her news sources from a range of options with different political flavours (SOU 1975: p. 79).

While this political affiliation of the press remains historically valid, there are vital signs of change in the Swedish media markets. First, academics have noticed a depoliticization of the press (Østbye and de Bens 1998; Weibull 1995; Weibull and Anshelm 1991) in favour of a more commercial and market-oriented news journalism (Jönsson and Strömbäck 2007). This trend is interpreted as a gradual shift towards a politically independent press and the liberal media systems of the UK and USA in general (Weibull 2008). In this process, most political parties have divested their newspaper holdings and sold to commercial interests, thus further weakening the political ties of newspapers, while leaving room for a new type of commercial block-building to establish (Ots 2011; Gustafsson 2010a). Overall, to claim that the Swedish press subsidy scheme has gained its legitimacy from the political, technological, and societal view of the corporate democratic media system in the 1960s is reasonable. However today the political, technological, and societal context in which newspapers are embedded is a fundamentally different one. These structural changes will be further discussed below.

19.3 The History of Press Subsidies

During the 1950s and 1960s, the number of newspaper titles in Sweden was in sharp decline. In 1946, Sweden could count 231 daily publications, a figure that had dropped to 108 by 1970 (Nord 2008). History has shown that this market concentration has had negative impact on monopolists on small single-paper markets and newspapers with low market share in competitive markets (Nord 2008; Furhoff 1964). In order to address the concerns raised about the potentially negative impact this development might have had on the formation of public opinion in a democratic society, two parliamentary inquiries were initiated in 1963 and 1967 (SOU 1965: 22, 1968: 48). Their conclusions for intervention was based on the relative competitive market positions of newspapers and in particular on the negative impact that the competitive situation had on the opportunities for weaker newspapers to attract advertisers. This also explained why the earlier general support measures such as reduced post tariffs and tax exemptions had not halted the process of market concentration. According to the *theory of the “circulation spiral”* (Furhoff 1964)

market leaders were in a positive spiral of gaining more circulation and more advertisers, whereas their weaker competitors were stuck in a negative spiral, losing a disproportionate amount of advertising revenue for every lost subscriber. By then, the design of an appropriate state support system needed to take into account this imbalance between market leaders and their challengers. The Social Democratic party, which was in office at the time, saw many of their affiliated newspapers in weakening positions going down the spiral, while the competing liberal and conservative market leaders mostly were growing stronger. In just a few months a proposal of a selective press subsidy was drafted and later passed in Parliament in summer of 1971 backed by a coalition of the Social Democrats (*Socialdemokraterna*) and the agrarian/liberal Centre party (*Centerpartiet*) (Nord 2008). The proposal included a production support to newspapers in inferior competitive position. Only a year earlier, a distribution support had been launched based on the recommendations of the 1967 press committee (Prop. 1971: 27). Ever since, many of the liberal and conservative newspapers who represent the lion's share of the total newspaper circulation have remained critical towards selective operational subsidies, and this divide within the industry has left the *Newspaper Publishers Association* (TU) ambivalent.

Over the following decades a number of parliamentary commissions fine-tuned the detailed functioning of the press subsidy system. The 1972 press investigation defined the objectives of the Swedish press policy as to promote *diversity* in supply, leading to *choice* for the reader, and opportunities for a *diverse debate and formation of public opinion* (SOU 1975: 79). For the coming press investigations these formulations became guiding principles in their work.

In the operationalization of Swedish press policy it has been clear that focus has been on external diversity (i.e. the number of newspaper titles and the total range of opinions represented in the market) rather than on internal diversity (i.e. balanced reporting and diversity of views represented in each newspaper). The 1985 press commission elaborated this concept from *newspaper titles* to the preservation of *independent editorial products*. Then, the idea was that these independent products would collectively represent a diverse range of opinions (Ds 1985: 2; SOU 1988: 48).

19.4 The Design and Function of Press Subsidy Elements

The current functioning of the Swedish press subsidy system is governed in law by the Statute of Annual Press Subsidies (SFS 1990: 524)³. The statute is time limited and expires on 1st January 2017; thereafter a new statute is needed to be passed by parliament. The basic function of the press subsidy system rests on two types of subsidies: *operational support* and *distribution support*.

³ The Statute of Annual Press Subsidies (*Presstödsförordningen*) was passed in 1990 and has been modified a number of times since then; see <http://www.notisum.se/rnp/sls/fakta/a9900524.htm>.

Operational support is the dominant form of subsidy and amounts to 80–90 % of the total press subsidy budget. It is given to newspapers with low household coverage in their home region in order to compensate them for their weaker market position. A number of conditions need to be met before a newspaper can apply for support at the Press subsidy council. For a high- or medium-periodicity publication the following general requirements apply (SFS 1990: 524):

- A subscribed circulation of at least 1,500 copies.
- Total circulation shall primarily be based on subscriptions.⁴
- The subscription price shall not be patently lower than that generally applied by newspapers in a corresponding category.⁵
- Household coverage in the home region may not exceed 30 %.

Besides the general requirements stated above, a number of additional conditions need to be met when the council decides whether an applicant is a newspaper which qualifies for support (KRFS 2011: 2). A set of guidelines further defines central concepts such as “newspaper”, “unique editorial production”, and “editorial independence”. In effect, these definitions require more than half of the newspaper content to be unique for the publication⁶, and the newspaper needs to have independent editorial staff to produce this content. A recent addition requires each receiver to demonstrate how the operational support has been used in the editorial operations.

If the conditions are met, a high-periodicity newspaper may qualify for an operational support up to 45 million SEK⁷ (5 million euros per year for a metropolitan newspaper and 16 million SEK (1.8 million euros) for a provincial newspaper depending on its total circulation. A low-periodicity newspaper with one or two issues per week can receive a maximum of 6 million SEK (700,000 euros).

The distribution support is designed to lower the entry barriers for newspapers with lower household coverage to get their publications delivered to the home. Traditionally, the Swedish distribution system for newspapers has been designed to be allocated for subscribed and home-delivered morning papers and operated by special distribution companies, often affiliated with some of the larger newspaper groups. Gaining access to these distribution networks is crucial for smaller papers to get their products to market. All newspapers participating in a joint distribution scheme open for all other newspapers in the area receive a subsidy up to 0.1 SEK per distributed copy (SFS 1990: 524). Within each joint distribution network, all newspapers should in principle pay the same fee per distributed copy. However, the distribution agent is allowed to raise the price for an individual title by up to 10 % above the least costly publication if the title incurs significantly higher costs due to

⁴ Consequently, free dailies and evening tabloids have never been eligible for support.

⁵ This means that a newspaper cannot use the support to dump market prices of subscriptions.

⁶ This helps preventing newspapers from applying multiple times for each of its different editions.

⁷ The upper ceiling of the subsidy levels for urban newspapers has been lowered after an EU complaint 2007 (SFS 2010:1119).

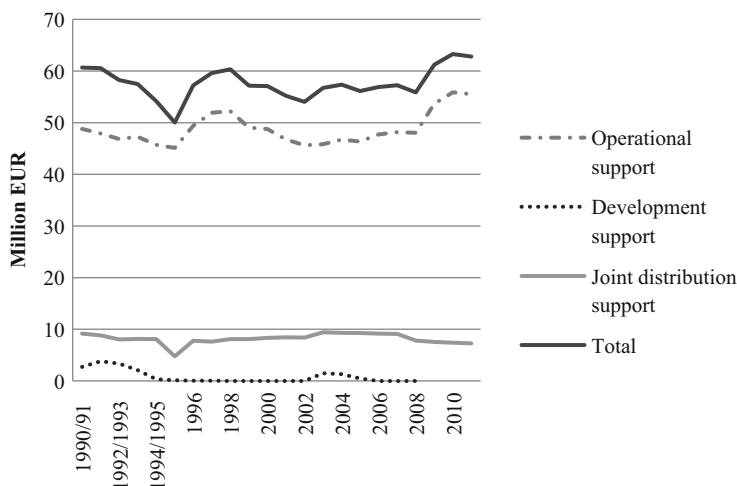


Fig. 19.1 Annual costs of direct press subsidies 1990–2011. Source: Data from *Press Subsidies Council* (Olsson et al. 2012)

for instance administrative work, additional transportation, or a higher weight of the publication.

The implementation of the press subsidy statute is handled by the Press Subsidies Council⁸. The council convenes six times a year and consists of 24 members and substitutes representing all political parties in Parliament. An administrative office based in Stockholm implements the Council's decisions and runs the daily operations, including administration, financial transfers, and communication with the newspapers affected. According to its instructions (SFS 1977: 1151), the Council also monitors and assesses the financial development of the Swedish newspaper industry. A financial analysis conducted for the 1972 press investigation had revealed a dramatic difference in economic performance between newspapers with high and low household coverage (SOU 1975: 79, p. 381). Later, such knowledge was judged to be of high importance for the future development of the subsidy system. Since 1979 the data consist of annual reports of all Swedish newspaper companies (Gustafsson 2012). The objective for this is to present the state with the intelligence needed to make necessary political measures and adjustments of the press subsidy scheme.⁹

Figure 19.1 below illustrates the changes in costs for the Swedish press subsidies have since 1990. In 2010, the amount of state funding was 568 million SEK (around 63 million euros). Of this total, the operating support accounted for 502 million

⁸ *Presstödsnämnden*, <http://www.presstodsnamnden.se>

⁹ These annual reports have been produced since 1976 by the *Press Subsidies Council* <http://www.presstodsnamnden.se>. The developments of the reports and their methods applied have been more explicitly described by Gustafsson (2010b, 2012).

SEK (56 million euros), whereas the distribution support amounted to 68 million SEK (7.6 million euros). During a few years, a small development support has been provided (see Fig. 19.1). In nominal terms, the cost for the subsidy system has remained relatively stable over the past two decades, but nonetheless shows a decrease in real terms. Over the past 5 years, however, the overall trend has been an increase in the operating support due to the influx of new newspapers published once or twice a week. This increase has partly been offset by a decrease in distribution support due to overall falling circulation figures in the industry.

Originally, the subsidies were financed through an advertising tax collected on all printed media. As the advertising sector grew, the tax soon brought in twice the cost of the subsidies to the state, and the official connection between the two was broken. As commercial audiovisual and digital media have entered the commercial advertising market, the advertising tax has been seen to disadvantage print media against their new competitors. In 1998, a commission came to conclude that the advertising tax should be abandoned altogether (SOU 1997: 53), a recommendation that was later voted through by Parliament in 2002. The decision was to be realized when the state budget allowed so. Due to other priorities, the advertising tax has only been lowered stepwise over the past decade and still remains in parts. As of 2013, the consequence for the newspaper industry is that they enjoy the benefits of a “cultural” VAT on newspaper sales (6 %), at the same time as they are subject to an advertising tax (3 %) which few other media types have to pay.

19.5 Market Trends and Effects

As already mentioned above, the objective of the Swedish press policy scheme is to promote “diversity and choice” (SOU 1975: 79). In practice, this objective has assumingly met its goal: to provide for a large number of newspaper titles to coexist, even in times of a market decline. Against this background, the Swedish press support can rightfully be seen as having achieved its merits (Gustafsson 2007). Little surprise the scheme has been awarded the title “model system” by international observers (Humphries 2006).

Figure 19.2 below shows the number of news publications in Sweden and how they have developed over the past 30 years. Notably, following the period of dramatic market concentration that took place during the 1950s and 1960s, the number of published titles has remained stable since 1980, and the number of one- and two-day publications has even shown a slight increase in recent years (see Fig. 19.2). Several researchers have credited this to the presence of direct press subsidies. Often, the development in neighbouring country Denmark is used as evidence to support this conclusion. Denmark faced a similar problem in the early 1970s but chose only to use general indirect support measures such as VAT exemption. Since then, the country has noted a continuous decline in the number of newspaper titles (Gustafsson 2007; Humphries 2009; Østbye and de Bens 1998).

In 2010, the total amount of subsidies spent equalled 2.7 % of total costs in the newspaper industry. For benefitting newspapers, however, they have been

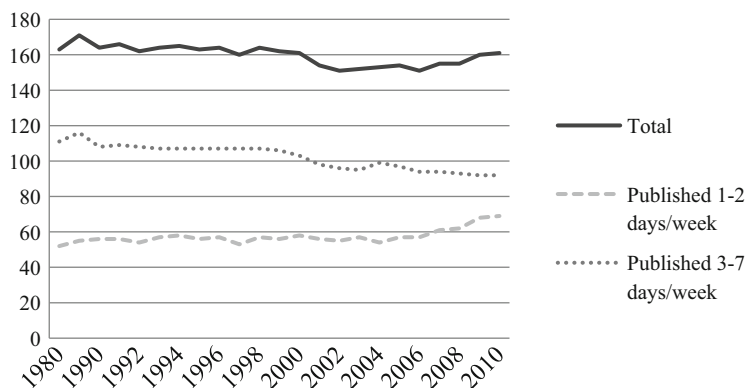


Fig. 19.2 Number of newspaper titles. Source: Data from *Nordicom* (2012)

estimated to account for 15–20 % of total turnover (Gustafsson et al. 2009). The annual reports conducted by the Press Subsidies Council have also shown that, generally, the Financial state of the newspaper companies is surprisingly good. Over the years the net margins have largely followed the development of the economy at large. More so, single years during the 2000s have been exceptionally good, with net margins of around 10 %. In 2006, a cut in the advertising tax from 4 % to 3 % actually helped in making it one of the best years in the history of the Swedish press with a median net margin of 12 % (Gustafsson 2012)¹⁰.

However, there is still a paucity of more detailed and structured assessments of the effects of the direct subsidies (Østbye and de Bens 1998). It has also been noted that the underlying aims of the Swedish press policy regime as formulated by the 1972 press committee have come to be taken for granted by one press commission after the other, without questioning whether they still remain valid (McQuail 2009).

Looking beyond the mere preservation of newspaper titles, it is clear that subsidies have not been able to halt a number of other alarming trends in the Swedish newspaper market. These trends are assumed to decrease the contribution of the press to societal pluralism. Figure 19.3 below shows how the Swedish newspaper circulation ecosystem has developed since 1980. Data are provided for the industry as a whole as well as for the major market segments. The diagram demonstrates that the total weekday circulation has dropped by 30 % from close to 5 million daily copies in 1990 to less than 3.5 million daily copies in 2010. This decline cuts across all the largest market segments—provincial dailies, metropolitan dailies, and evening tabloids. Considering that the number of newspaper titles has remained stable over the same period, newspapers, as depicted below, are on average getting smaller and smaller. Over the same period, newspaper readership is decreasing and advertising revenues have stagnated. On the advertising market, the

¹⁰ This figure is calculated based on newspaper companies without operating support (Gustafsson 2012).

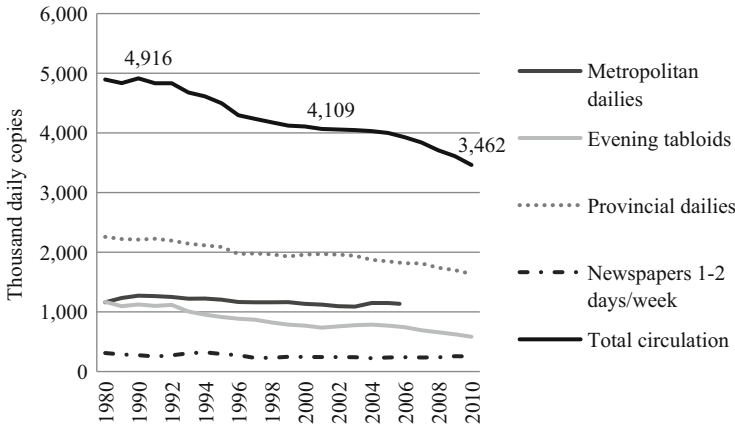


Fig. 19.3 Newspaper circulation (weekdays). Source: Data from Tidningsstatistik (TS)

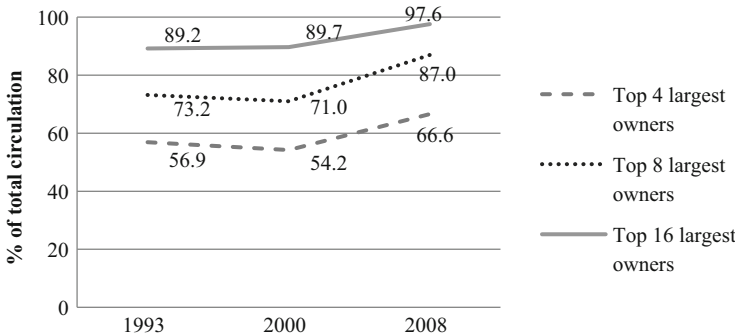


Fig. 19.4 Ownership concentration, newspapers published 3-7 days/week. Source: Data from Nordicom (2012)

metropolitan press is suffering the most having lost half of its market share between 2000 and 2011 (Hedström et al. 2012).

Additionally, the preservation of newspaper titles has not stopped the process of ownership concentration. In 1975, there were 130 newspaper companies in the country. By 2010, this number had dropped to 74. In order to compensate for decreasing circulation figures and stagnating advertising revenues, newspapers have, particularly during the 2000s, been acquired by larger newspaper groups in order to gain access to better technologies and achieve production efficiencies (Ots 2009, 2012a). As of 2008, the eight largest owners controlled 87 % of the total newspaper circulation in Sweden (see Fig. 19.4). To date, there are 15 regions in Sweden that host two competing newspaper titles. However, in 12 of these regions, these newspapers share the same owner and collaborate around administrative functions, advertising sales, and increasingly also journalistic functions such as shared pools of journalists and photographers (Ots 2012a). These structural changes

have opened up for cuts in the number of employed journalists, administrators, and managers by 25–30 % since 1990. Only three remaining regions can still demonstrate a competitive situation in its original sense, i.e. one between two truly independent newspaper publishers.

Hence, in times of decreasing circulation figures and stagnating advertising revenues, the relatively stable economic performance of the newspaper industry can be attributed to heavy cost rationalization and production efficiencies in fewer but larger newspaper companies, along with a rapid increase in consumer subscription prices (Ots 2012b). As noted by several researchers, the direct subsidies have not managed to significantly change the underlying performance of recipient newspapers (Murschetz 1998; Ots 2009; Picard 2003). On Swedish market this has led to ownership concentration as many recipient newspapers have been sold to larger newspaper groups due to their weak economic condition (Ots 2006). Any performance improvements have primarily been enabled when independent newspapers are acquired by larger owners granting them access to efficiencies and better production technologies. However, the presence of subsidies and their demand for at least 55 % of unique content in each publication has incentivized even the larger owners to carry a range of newspaper titles rather than merely producing one newspaper with several regional editions.

19.6 Current Debates and New Policies

Over the years, the Swedish subsidy system has attracted considerable attention. However, it has also been criticized for its inability to provide changes to a market and its companies in need of restructuration (Picard 2003). This critique has been dismissed as a misunderstanding of the underlying purpose of the Swedish press policy regime—the purpose is not to change markets, but rather to preserve the structures and the existing diversity in a declining industry (Gustafsson 2007).

As this chapter has shown, the Swedish press support scheme has contributed to the preservation of newspaper titles, but it has not been able to slow down the processes of ownership concentration, declining circulation and advertising revenues, and reduction of editorial staff. On top of this, national press support systems are under pressure in many European countries, and Sweden is no exception. For quite some years, the Swedish government has indicated that they don't intend to raise subsidy levels anymore¹¹. The technological development and the process of media convergence are additionally attacking the rationale of a specific support scheme for print media as audiences are spreading their media consumption patterns over more access channels. From a policy perspective there is a trend of closer harmonization within the EU, and the 2009 critique raised by EU competition commissioner Neelie Kroes against the Swedish press subsidy scheme (IP/09/

¹¹ In the directives to the 2012 press investigation it is explicitly stated that resource efficiency is a priority in any changes of the subsidy system (Dir. 2011: 112).

940) increased the Swedish government's attentiveness to the European Commission as a stakeholder. The complaint which led the European Commission to investigate into Swedish press subsidies claimed that these created unfair competition. However, the conclusions by the commission acknowledged the overall benefits of the system and their recommendation was largely restricted to advocate lowered subsidy ceilings for the metropolitan press (IP/09/940).

At the same time, there is an important discussion about the role that the state should play in supporting mass media beyond public service operations. The challenges of promoting diversity may be as important as ever. Indeed, it is a different media landscape today than 50 years ago. The total supply of news content in the digital world is increasing, and yet reports show that news reporting tends to be lighter, more entertaining, and more repetitive in its character both in Sweden (Jönsson and Strömbäck 2007) and its neighbouring countries (Curran et al. 2009). Although more than 60 % of Swedes still read printed newspaper at least five days per week, the printed news are inevitably playing a diminishing role in peoples' lives as circulation and readership continue to decrease. This is not to say that the news organizations as institutions are obsolete—particularly on the local and regional level they still have a unique function in reporting and debating current issues and public events.

Press subsidies as one such initiative to support independent news production are still considered important. The directives that the Swedish government issued to the 2011 parliamentary press investigation (DIR 2011: 112) clarify the need to find a new model that can be put into place when the current statute of annual press support (SFS 1990: 524) expires in 2017. One challenge in this task is the one-dimensional focus of Swedish press policy objectives on one particular type of market diversity, and that is the number of newspaper titles. The press policy objectives defined 40 years ago (SOU 1975: 79) were formulated in ways that diversity of newspaper titles would automatically lead to more choice for the reader and a more multifaceted debate thereafter. This focus on the supply side, i.e. to state that newspaper titles are the primary objective, has also left the reader's perspective on the diversity of news largely missing from the policymaker's agenda (Ots 2009). Perhaps, a better question is to ask how and where citizens consume news and what institutions and editorial processes support these democratic practices. This goes in line with an increased international interest in defining new goals and vehicles for future media support in a digital media landscape. Researchers continue to support the role of government-backed state subsidies in supporting journalistic production and facilitating a diverse public debate but, however, acknowledge the challenges this entails (McQuail 2009; Humphries 2009). Propositions include that future media subsidies should be media neutral and flexible rather than limited to a technology (Nord 2008; Gibbons 1998) and that these should focus on citizens and their democratic practices rather than on the supply side (Bardoel 2009; Ots 2009). It has been suggested that it is the editorial functions and the journalistic work that should be subsidized rather than the production of newspapers (Skogerbø 1997; Bardoel 2002).

Conclusion and Outlook

It is clear that subsidies cannot in the long term save an industry which is battling against changing consumer preferences and media consumption patterns. As illustrated here, the Swedish success model has indeed preserved newspaper titles, but the scheme's original idea of providing the media audience with a choice between different local newspaper providers appears increasingly futile. Today, the local market arena is different. Commercial TV broadcasters show increasing interest in local audiences, while free sheets and online businesses eat into the shares of the traditional print advertising markets. Yet, like the press has been struggling to find viable business models in the digital media landscape, the state is trying to identify stable platforms and mechanisms on which it can support a pluralistic and democratic news provision in the future. One major problem in this transition from print to digital is the absence of successful examples of how a future media subsidy scheme should be designed. A further complicating factor is the inability of news organizations to establish viable business models for online news. Subsidies are traditionally given to news organizations in a defined sector, working along an established business model—as in the Swedish case—the production and distribution of subscribed newspapers. As this model now fades, there is no single business model to replace it. During 2012, the digital transition gained momentum and some media companies even started to prepare for a future without analogue newspaper operations. Still, online advertising revenues have not been sufficient to recoup the operating costs of the news organizations and online consumer revenues for news content continue to appear elusive. Some companies are putting trust in the rapid penetration of the iPad, testing mobile subscriptions. However, such initiatives do not at this point provide solid foundations for the radical reformulation of a new media policy regime. It is by now clear that press subsidies cannot save the press—and the press companies are yet struggling to find their future roles in the media landscape.

The work in Sweden is now to take one step back and look at the construction of their media policies and press policies and to rethink how well they serve their underlying purpose—that is “to facilitate a diverse debate and formation of public opinion”. Further, the assumption of a unique position of the press in this process stems from an image of the media landscape as it looked like in the late 1960s. As newspaper publishers go online and develop integrated platform strategies that encompass audiovisual elements, it seems difficult to single out the printed product as a distinct element in the overall process of content production to receive state support. After all, it is within the political objectives to keep people informed and stimulate the democratic debate. How printed newspapers should contribute to this remains critical.

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Alfred Hugentobler and Christian Jaag

20.1 Introduction

Switzerland is a highly federalised state with a population of approximately eight million people including some two million foreign nationals. Covering a national territory of 41,000 km², it incorporates four language regions (German, French, Italian, and Rhaeto-Romanic). With this in mind, the press is accorded considerable national importance in consolidating cohesion within the country.

According to Hugentobler (2003), the issue of press subsidies in Switzerland has always been a subject of controversy. In recent decades, several attempts to accommodate a dedicated press subsidy article in the federal constitution have failed. A minimum consensus existed with regard to indirect press subsidies via the daily postal delivery channel and hence the major role assigned to Swiss Post. Until the end of 2007, all newspapers transported by *Swiss Post* in the daily delivery channel could benefit from highly advantageous transport prices which, however, in no way, covered the costs incurred. From 2008, more stringent legislation relating to the press was introduced resulting in better targeted press subsidies. The aim was first and foremost to support the small-scale and independent publishers in order to preserve a diverse regional and local press. It was Swiss Post's role to decide whether or not a publication satisfied the press-specific guidelines stipulated in the Postal Act.

The views expressed are those of the authors and do not necessarily reflect the opinion of the institutions with which they are affiliated.

A. Hugentobler (✉)

Print Media, Swiss Post, Bern, Switzerland

e-mail: alfred.hugentobler@post.ch

C. Jaag

Swiss Economics, Zürich, Switzerland

e-mail: christian.jaag@swiss-economics.ch

In the complete revision of the Postal Act (which took effect on 1 October 2012), the role of *Swiss Post* in relation to indirect press subsidies was redefined. *Swiss Post* continues to have a universal service obligation. The rationale behind this is to provide the population and the economy with a wide range of affordable high-quality postal services as well as monetary transaction services. Among other things, the universal service obligation includes the transport of subscription newspapers and magazines and the implementation of indirect press subsidies by granting price reductions for delivery.

Under the new Postal Act, *Swiss Post* is only responsible for allocating the annual federal subsidies totalling CHF 50 million (ca. 40 million euros) to the publications eligible for subsidies. The thorny issue of the eligibility of individual publications for the subsidies no longer falls under its responsibility. This sovereign task now falls to the *Federal Office of Communications (Bundesamt für Kommunikation)*, thereby eliminating the dual role of *Swiss Post*. While the new legal guidelines introduced significant improvements for all stakeholders, they must nevertheless be seen as being somewhat marginal in the general context of press subsidies. That is to say that the new regulation continues to demonstrate weaknesses and the range of press subsidy instruments has largely remained unchanged. Therefore, for the foreseeable future this topic will stay on the political agenda.

In addition to a description of the press industry as a whole, the discussions concerning the press, and the historical and current forms of subsidising the press in Switzerland, the remainder of this chapter will also offer a brief insight into emerging challenges to be faced in the future.

20.1.1 Print Media in Switzerland

The press industry in Switzerland has undergone profound change in recent decades. As information carriers, traditional paid-for newspapers have found themselves in competition with free daily papers and commuter papers as well as radio, television, and online content. Over the past 70 years, the press industry in Switzerland has been characterised by a steady fall in independent newspapers. In contrast, the circulation of the remaining newspapers increased considerably until the mid-1980s. The concentration in the supply of topical newspapers available for purchase was therefore accompanied by a broader circulation. With this concentration in supply, a trend developed whereby an increasingly large share of newspapers was produced by larger publishing houses. This provided an opportunity to create synergies between different publications as well as between different types of media. In recent years, however, Switzerland has witnessed a steady fall in the number of newspapers available for purchase by subscription or in shops which appear at least once a week (see Fig. 20.1). The total run and average daily run increased steadily until 1986. Since then, however, the average daily run has once again fallen while the total run remained at a largely stable high level until 2003. Since 2003, however, a clear downward trend can also be seen for the total run.

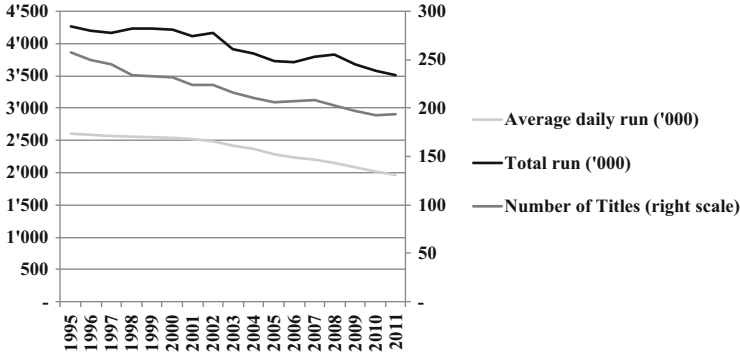


Fig. 20.1 Number of press titles and run 1995–2011. Source: Swiss Federal Statistical Office (2013)

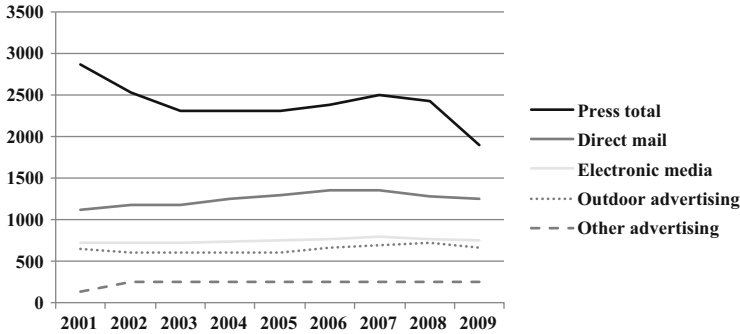


Fig. 20.2 Change in advertising revenues per media type (2001–2009, in CHF millions). Source: Kradolfer et al. (2010)

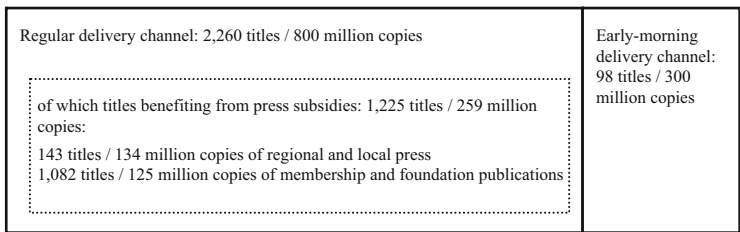


Fig. 20.3 Structure of the press titles delivered by Swiss Post/million copies per year

In addition to falling circulation, falling advertising revenues also increase economic pressure on the press industry (see Fig. 20.2).

In addition to being sold at newsstands, newspapers can be delivered via regular letter delivery or via early-morning delivery. Under certain conditions, indirect press subsidies are granted for titles which are distributed to readers via Swiss Post’s regular mail delivery channel (see Fig. 20.3). Early-morning delivery is

generally excluded from press subsidies. It is provided by *Swiss Post* subsidiaries and private delivery organisations.

Swiss Post is the market leader in both the regular mail delivery and early-morning delivery. In the early-morning delivery segment, consolidations can be noted. Organisations are merged or several publishers participate in an organisation. The strong position of *Swiss Post* in the daily delivery and early-morning delivery segments is mirrored by equally strong publishers. As a consequence of the superior bargaining position of these publishers (due to potential competition and the implicit threat that they will develop their own private delivery organisations), *Swiss Post* has not succeeded in recent years to operate a daily newspaper delivery service which covers its costs. The deficit in the newspaper segment amounts to approximately CHF 100 million (ca. 80 million euros), with about half of this total accounted for by titles benefiting from press subsidies (base: 2011).

The Swiss press industry and the possibilities for subsidising it were analysed in depth in 2011. In its report entitled “*Ensuring the plurality of the press*” (Swiss Federal Council 2011), the Swiss Federal Council, in reply to two postulates, asked in particular whether the press, in light of the structural change witnessed in the media sector, would be able to continue fulfilling its opinion-making function in democracy or whether government measures would be required. The Swiss Federal Council’s Report is based on five media science studies focusing not only on the press but on the media in general. An additional study examines current press subsidies in Switzerland (Ecoplan 2010). The media science studies describe the economic developments and changing media use in Switzerland. They illustrate the media concentration processes, the disappearance of political news coverage in regional newspapers, and the slump in advertising revenues in subscription newspapers. Furthermore, a decline in the quality of reporting is observed not only in the (regional) press but at least equally as much in other media types, in particular online and free media.

The studies came to the following conclusions: Kradolfer et al. (2010) found that the evolution of the press industry in Switzerland is in a negative spiral under the combined effects of declining use and falling advertising revenues. An end to this downward spiral is not in sight. From a democratic standpoint, it is questionable to which extent the demanding production of high-quality journalistic content can be financed in the long run. Von Rimscha et al. (2010) used a mathematical forecasting model to show that since the crisis years of 2008 and 2009 general advertising revenues have been enjoying a gradual recovery. In contrast, the press sector nevertheless continues to follow a downward trend. The decline in the number of news stand titles available persists. Based on their empirically founded projection, the authors doubted whether it would be possible to finance quality in the print industry through advertising and newspaper sales. Scenarios which paint an unedifying picture of the future of the press industry would appear far more likely. Kamber and Imhof (2010) focused on the two regions of north-west Switzerland and south-east Switzerland to analyse the question of whether media companies are coming to resemble each other more and more due to the increasingly economic orientation of media systems, the media crisis, media concentration, and the

convergence of media content and whether the diversity of stakeholders and opinion would tend to become more restricted. They found that in both regions, more than one media company in the market is unrealistic. The diversity of information within a press title could also lead to a broad dissemination of information by means of zoned editions (with different titles). In this way, small media markets would also be supplied with press titles reporting on foreign, domestic, economic, cultural, and regional news. Meier et al. (2010) concluded that one dominant media company per region is the general rule. Their structural analysis demonstrated that the reporting relevant to democracy is often limited to uncritical event reporting without providing any background information on sociopolitical topics. Regional reporting is provided in varying levels. Controversial themes are favoured; political reporting is also characterised by increased personalisation and tabloidisation. Keel et al. (2010) showed that the increasing pressure on productivity and the prioritisation of corporate goals over journalistic considerations are more damaging to journalistic diversity than convergent editorial structures. The Internet would only partially promote journalistic diversity: it is not technological factors which are decisive for diversity but economic and social factors as well as industry-specific standards. Ecoplan (2010) deemed the effectiveness of indirect press subsidies to be very limited in view of the political goals of journalistic diversity and the political relevance of the press benefiting from subsidies. The study recommended that the press be subsidised in a targeted and selective manner in accordance with transparent criteria and that the reduction in the postal tax for membership publications be abolished or be made more restrictive. Furthermore, the press could also be supported directly, for example by subsidising projects which contribute to a diversity of opinion.

In light of these studies, the Swiss Federal Council (2011) came to the conclusion that both direct and indirect assistance can, in principle, be implemented with a view to consolidating the media and their democratic services. Examining the current press subsidy regime shows that while the economic burden is removed from publishers and organisations, no direct effect can be felt with regard to the political goal of journalistic diversity in the media. However, there is very little, if any, constitutional scope for new measures and in particular for direct subsidies for the media. Within the framework of the new postal legislation, no revolutionary changes were made to the system of indirect press subsidies via *Swiss Post*, a more gentle evolution being favoured.

20.2 Indirect Subsidies: The Old Postal Act

20.2.1 Media Policy Considerations

According to Hugentobler (2003), Switzerland has attached considerable value to the role of the press as a custodian of freedom of expression and the diversity of opinion within the context of democracy since the founding of the Federal state (1848). For national political reasons, the parliament and the national government

have always exercised considerable influence on the organisation of the postal newspaper service as well as on the related price structure. For more than 160 years, publishers have therefore benefited from a considerable price reduction for the transport of newspapers and magazines by *Swiss Post*. The government nevertheless has very little constitutional scope to subsidise the press. In contrast to the situation with audiovisual media (Art. 93 of the Federal Constitution), the government has no regulatory authority with regard to print media. The introduction of direct subsidies would therefore not be covered by the existing Federal Constitution. To guard against any suspicion of or attempt at state control over the press, the constitution currently only allows to implement indirect subsidies.

In recent decades, several attempts to accommodate a dedicated press subsidy article in the Swiss Federal Constitution have failed. In somewhat simplified terms, while a certain need for regulations could be observed at the political level, no political majority could be found in favour of direct interventionist approaches or interference in the freedom of the press. Even within the publishing sector itself, the majority of stakeholders resist any form of direct payments. Indirect press subsidy measures therefore exist in two areas:

- The press is subsidised indirectly via *Swiss Post*: selected press products benefit from reduced daily delivery rates.
- A reduced VAT rate of 2.5 % instead of the standard rate of 8 % applies to newspapers, magazines, books, and other printed matter of a non-advertising nature.

20.2.2 Indirect Press Subsidies

Until the end of 2007, the Postal Act provided a regulatory framework for indirect press subsidies for all subscription newspapers and magazines. *Swiss Post* was required to offer especially low rates for these titles. Nevertheless, the Federal Government only reimbursed *Swiss Post* a small proportion of the costs of providing these so-called “services in the common interest” leading to chronic deficits in its newspaper delivery business.

The missing focus of the press subsidies began to meet with increasing political opposition, giving rise to a reorientation: since 2008, they have been severely restricted and applied in a more targeted manner. The focus was on the regional and local press (a daily run of up to 40,000 copies on average) and non-profit membership publications (a run of up to 300,000 copies). At the same time, a market-oriented pricing system was introduced for titles not eligible for press subsidies, which was developed in close collaboration with the publishing sector.

20.2.3 The Swiss Post Pricing System

For political reasons, the pricing system had to be maintained unchanged for titles benefiting from press subsidies. In practice, this led to a situation whereby *Swiss*

Table 20.1 Comparison of the pricing systems for subsidized and non-subsidized press

Price components	Historical pricing system (by end of 2012 only in force for titles <i>benefiting from</i> press subsidies)	Standard pricing system (applicable since 2008 for titles <i>without</i> press subsidies and since 2013 for both categories)
Volume price/basic price	Positioned low, differentiated according to frequency of publication and also according to the run	Positioned high, differentiated according to frequency of publication
Price by weight per 25 g	Positioned high, differentiated according to frequency of publication	Positioned low, no differentiation according to frequency of publication
Sorting degree	Differentiated fee according to weight for copies in postal service area	Differentiated supplement according to sorting degree (copies in postal service area: no supplement)
Format	Differentiated supplement according to weight for formats larger than B5	No supplement (standard B4 format)
Volume quota for sample issues	Identical	Identical
Large run (delivery to non-subscribers in a specific area)	Differentiated supplement	Standard supplement
Delivery list (no address on the newspaper itself)	No supplement	Supplement
Increased processing costs/efforts	Identical	Identical
Insert rate	Identical	Identical
Price increase	6.9 % price increase on all price components	No supplement
Press subsidy	Press subsidies are applied via a separate pricing system offering particularly low prices	Price reduction per copy for regional/local press membership/foundation publications

Post was required to offer two entirely different pricing systems in both structural and pricing terms for the same range of services (see the comparison of the two systems in Table 20.1).

20.2.4 Deficit in Newspaper Delivery

Within this framework prices for the subsidised press and the related compensation to *Swiss Post* were determined independently of one another. The political desire for subsidies exceeded the resources available. Consequently, *Swiss Post* had to

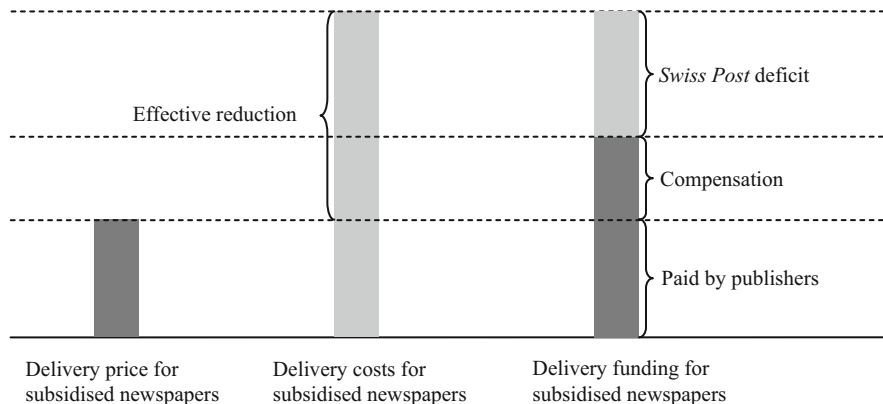


Fig. 20.4 Effective reduction for titles benefiting from press subsidies (Ecoplan 2010)

contend with deficits in its newspaper delivery business and could only take very limited measures with a view to eliminating them. This can be demonstrated by means of the following example: With regard to reducing the deficit in the *Swiss Post* newspaper accounts, the so-called “one-third model” was negotiated in the 1990s between the publishing sector, *Swiss Post*, and the Federal government, whereby the deficit was absorbed in equal parts by the parties concerned. The publishers paid for their share in the form of price increases (staggered over 1996/97/98), while *Swiss Post* reduced its costs and the Federal government paid *Swiss Post* press subsidies totalling approximately CHF 100 million (ca. 80 million euros). These measures led to a steady reduction in the deficit which had fallen to a very low figure by 2004. From 2005, the contributions of the Federal government were reduced to CHF 80 million (ca. 65 million euros) and a meagre CHF 30 million (ca. 25 million euros) from 2008. *Swiss Post* could transfer these dwindling subsidies to the publishing sector only on a modest scale by means of price increases, leading to a renewed sharp increase in its deficit in the newspaper accounts. Ultimately, the publishing sector was inadvertently subsidised by other *Swiss Post* customer groups (see Fig. 20.4).

It is questionable whether this excess subsidisation can be justified by *Swiss Post*’s universal service obligation. Gadenz (2012) argues that it is unfair vis-à-vis other *Swiss Post* customer groups which is why he deems price increases necessary. He argues that in light of the severe pressure from politicians and the market, prices should be increased only moderately and in a continuous fashion.

20.2.5 Plurality of Roles at Swiss Post

A further difficulty in the regulatory framework was the fact that *Swiss Post* was required by law to provide the indirect press subsidy in its entirety. That meant that it had to evaluate the requests for press subsidies based on a small number of

legislative guidelines and—in the event of a positive finding—offer rates which clearly did not cover its costs. Furthermore, it had to tackle media-technical issues related to the eligibility of regional and local newspapers for subsidies. A number of such cases finally had to be judged by the Swiss Federal Court. For *Swiss Post*, which enjoys strong backing among the Swiss population, the publication of such court rulings was always accompanied by unwanted damage to its reputation and troubled customer relations.

The recent revision of the Swiss Postal Act provided an opportunity to challenge press subsidies and reorganise them with a view to future development. The revision of the law was a chance to correct the following weaknesses in the old form of press subsidies together with their consequences:

- Lack of focus of the subsidies
- Conflicting roles of *Swiss Post* in financing, delivering, and implementing the subsidies
- Persistent deficit in *Swiss Post*'s newspaper delivery business.

20.3 Indirect Press Subsidies in the New Postal Act

In connection with the revision of the Swiss Postal Act, the weaknesses outlined above were examined for their optimisation potential. At the end of 2010, the Swiss Parliament approved the entirely revised Postal Act. This act came into force in autumn 2012. The new Postal Act contained a number of modifications concerning indirect press subsidies which are described in greater detail below.

In principle, indirect press subsidies are retained. With annual subsidies for the delivery of newspapers and magazines totalling CHF 50 million (ca. 40 million euros), the Federal government continues to contribute to maintaining the diversity of the press and opinions in Switzerland. Eligibility criteria were in part taken from the previous Postal Act (Article 15) and specified in the ordinance on the Postal Act. With regard to membership and foundation publications as well as the regional and local press, certain criteria were adapted and/or additional criteria were incorporated.

Eligibility is no longer examined and granted by *Swiss Post* but by the Swiss *Federal Office of Communications*. Parties deemed eligible are daily and weekly newspapers on subscription produced by the regional and local press which satisfy the cumulative criteria of the ordinance on the new Postal Act as described in Article 36, paragraph 1, letters a to m. The regional and/or local nature of the publication is no longer defined by geographic, linguistic, or content-related criteria concerning the printed matter, but rather through the criteria mentioned above. Regional and local press is defined as small newspapers, in particular with a daily print run of between 1,000 and 40,000 copies on average and which satisfy all the criteria from a to m. Any express definition of regional and local press being limited to a linguistic or geographical region or to a requirement concerning the reporting of regional and local themes will thus be avoided as difficulties arise in

defining the boundaries and an examination of the content of the printed matter is not desirable (*Secretariat General GS-UVEK 2012*). In addition to the regional and local press, non-profit membership and foundation publications are also eligible for subsidies if they satisfy the cumulative criteria of the Postal Act as described in Article 36, paragraph 3. Membership and foundation publications are also defined exclusively by these criteria. The Federal Office of Communications publishes the list of newspaper titles eligible for subsidies on its homepage.

20.3.1 Universal Service Obligation

In Switzerland, *Swiss Post* has a legal universal service obligation (USO). The rationale behind this is to provide the population and the economy with a wide range of affordable and high-quality postal services as well as monetary transaction services. Among other things, the USO includes the transport of newspapers and magazines and the implementation of indirect press subsidies by granting of price reductions in delivery. Indirect press subsidies through *Swiss Post* are provided under the banner of the universal service (Article 16 of the Postal Act). In addition to press subsidies, the universal postal service also includes guidelines on the range of addressed items (Article 29 of the ordinance on the Postal Act), home delivery (Article 31), quality of service (Article 32), and the accessibility of the network of post offices and agencies (Article 33). The obligation to home delivery refers to all items sent (addressed letters, parcels, and newspapers) in the regular mail delivery channel. Within the framework of the USO, only newspapers and magazines distributed via the regular mail delivery channel can therefore benefit from press subsidies.

In relation to the financing of the USO, press subsidies assume a special role: The *Swiss Post* mandate to offer reduced rates to titles eligible for subsidies is compensated by the subsidy payment from the Federal government. *Swiss Post* must finance the other elements of the universal service itself, i.e. without external funding. It nevertheless has the possibility of redistributing the net cost of the universal service obligation through transfer payments between its units and subsidiaries (“*net cost balancing*”; see Article 51 of the ordinance on the new Postal Act). In this way, it can call on all its services to fund the universal service obligation (Jaag 2007, 2011).

20.3.2 Price Setting with the New Press Subsidies

The rates for newspapers and magazines within the USO as described in Article 29, paragraph 1, letter c of the ordinance on the Postal Act are to be determined according to economic principles independent of distance. When setting prices, *Swiss Post* can thus adopt a standard price system for all subscription newspapers and magazines covered by the universal service obligation. Different price criteria

(e.g. volume and weight) and supplements are relevant which take account of the costs involved in delivering newspapers.

The reduced rates applied to titles eligible for subsidies are based on the rates for subscription newspapers and magazines covered by the universal service obligation. *Swiss Post* shares the delivery reductions transparently across the number of titles eligible for subsidies. The reduction is calculated by dividing the subsidy per category by the number of copies sent every year per category. The relevant volumes are those from the previous year. That means that a change in the number of titles or copies eligible for press subsidies is rebalanced by greater or smaller reductions the following year. In this way, the size of the reduction per copy can vary slightly from 1 year to the next. This mechanism ensures that the price reduction to be granted by *Swiss Post* does not systematically exceed the subsidies provided by government. Nevertheless, the calculations must be checked by the Federal Council (*Bundesrat*) while it must also approve the reduced rates. In approving the reduced rates, the Federal Council has a certain political scope for discretion (*Secretariat General GS-UVEK 2012*). A deviation from the mathematically calculated price reduction may be envisaged in the event of a transition from the old ordinance and with a view to avoiding cases of hardship. However, a long-term obligation imposed on *Swiss Post* by the Federal Council to reduce prices for the press industry beyond the subsidies would call the consistency of the press subsidy system and the *Swiss Post* pricing system in the newspaper domain into question. This would undo the considerable progress made in relation to the old Act, namely a standard pricing system for the delivery of newspapers together with a transparent subsidy system. Consequently, when approving the price reduction for the first time, the Federal Council abstained from asking *Swiss Post* to bear an additional subsidy.

In 2013, in the regional and local press category, 143 publications with a total run of 134 million copies satisfy the requirements for a delivery discount. The Federal Government provides an annual contribution towards this discount of CHF 30 million (ca. 25 million euros). This results in a reduction of CHF 0.22 (0.18 euros) per copy. In the membership and foundation publications category, 1,082 publications with an annual circulation of approximately 125 million copies satisfy the requirements for a delivery discount. The Federal Government provides this category with annual support totalling CHF 20 million (ca. 15 million euros). This results in a reduction of CHF 0.16 per copy (0.13 euros). Because not all listed publishers had submitted their request by the cut-off date in December 2012, further requests are expected during the course of 2013. The Federal Council therefore set the delivery discount for this category at CHF 0.15 per copy (0.12 euros).

20.3.3 Implementing the New Press Subsidy Scheme

Schematically speaking, the actual implementation of indirect press subsidies occurs on three levels (see Table 20.2).

Table 20.2 Implementation of the new press subsidy scheme

Level	Legislation
1	The Postal Law and the ordinance on the Postal Act govern the level and recipients of the press subsidies CHF 30 million (ca. 25 million euros) for subscription daily and weekly newspapers in the regional and local press CHF 20 million (ca. 15 million euros) for newspapers and magazines from non-profit organisations (membership and foundation publications)
Level	Administration
2	The Federal Office of Communications assesses requests for press subsidies and in the event of a positive decision, it authorises <i>Swiss Post</i> to grant a price reduction to the corresponding newspaper titles
Level	Swiss Post
3	<i>Swiss Post</i> grants a price reduction per copy in relation to its standard pricing system for newspapers and magazines and indicates this transparently on the customer invoice

Table 20.3 Advantages of the new press subsidy scheme

Stakeholder	Improvements from their standpoint
Administration	The subsidy is provided on the basis of media policy goals
	The level of the press subsidies and their recipients are clearly defined
	Requests for press subsidies are assessed by a neutral authority
Swiss Post	Released from its conflicting roles in financing, delivering and implementing the subsidies
	Limited to transferring press subsidies to the beneficiary of the subsidy
	Standard pricing system for titles with and without press subsidies
	Easier reduction of the deficit in the newspaper delivery business
Publishing sector	Title-specific press subsidies
	Has the federal administration as a neutral contact partner
	Transparent and reliable prices

20.3.4 Advantages of the New Press Subsidies

The new press subsidies offer considerable improvement not only for *Swiss Post* but also for the administration and the publishing sector. These are summarised in Table 20.3.

Conclusion and Outlook

For all stakeholders, the legal reorganisation of indirect press subsidies brings considerable improvements compared to the regulation enforced between 2007 and 2012.

The following major improvements are to be noted:

- The press-specific guidelines are newly materialised in the ordinance on the Postal Act, thereby facilitating the assessment of requests for press subsidies.
- Requests for press subsidies are no longer assessed by *Swiss Post* but by a public authority (the *Federal Office of Communications*).

- The press subsidies made available by the Federal Government are provided in the form of a reduction on standard postal rates and are transferred in a transparent manner to the beneficiary of the subsidy.

However, one has to note that the present legal framework is not yet fully coherent, in particular with regard to the following aspects:

- The subsidy is still dependent on the delivery channel. Newspapers and magazines in the early-morning delivery channel and/or the channel of delivery organisations other than *Swiss Post* are not eligible for the subsidy. In light of media policy to be attained by subsidies, this discrimination makes little sense. The discrimination could be avoided without any major implementation problems by subsidising the qualified press titles irrespective of the delivery channel.
- For historical reasons, the price level for titles with or without the benefit of press subsidies is generally set too low and cannot be increased as necessary due to the market power of the publishers. For example, the rate for a newspaper is four times lower than a comparably large letter. *Swiss Post* has taken initial measures against below-cost selling by adopting higher rates in 2012 and officially announcing their application for 2014, 2015, and 2016.
- Nevertheless, under-cost selling in the newspaper business continues to exist. As long as there is a residual monopoly (with the necessary funding basis) and the right to finance the USO by net cost balancing, a deficit in its newspaper account should be bearable for *Swiss Post* up to a certain level. In the medium term, a solution must nevertheless be found to enable *Swiss Post* to cover its costs without threatening the very existence of many of the press titles.
- Indirect press subsidies (CHF 0.22 or 0.15 per copy; 0.18 euros or 0.12 euros) are very high. This holds the danger of market distortions and could lead to situations which threaten the existence of the publishers concerned if the legislator were to reduce press subsidies significantly or even eliminate them altogether.
- When approving the reduced prices, offering the Federal Council the possibility of deviating from the mechanism defined holds the danger of overdetermination and thus of inconsistencies in the price structure for the subsidised and non-subsidised press.
- Article 16, paragraph 3, of the Postal Act stipulates that delivery rates for subscription newspapers and magazines should correspond to “the standard prices in major cities”. Per se, this paragraph just reinforces the obligation to set uniform rates for the delivery of these products. However, it may be mistaken and interpreted as an obligation to set rates corresponding to the *costs* of delivery in major cities. Such an interpretation would result in a systematic deficit due to the heterogeneous cost structure in delivery and would contradict the tenet that rates be established according to economic principles (Article 16 paragraph 1 of the Postal Act).

To ensure an enduringly consistent regulation of press subsidies, the consensus in the political sphere and the publishing sector must be much more

pronounced than is currently the case. The roles of the individual stakeholders are nevertheless now clearer and the subsidies flow in a more targeted manner than before. In December 2012, the Federal Council adopted a proposal concerning the consolidation of the Federal budget. Savings measures which can be implemented in the short term include abandoning indirect press subsidies from 2015. In light of the long-standing and complex history of the press sector, it remains to be seen whether the Swiss Parliament will approve the abandonment of indirect subsidies.

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David Baines

21.1 The UK News Media Ecosystem

Britain has a complex, mature media system (Bromley 2010). It has two publicly owned public service broadcasters: the BBC, which is funded by a compulsory licence fee and governed by a board of Trustees, and *Channel 4*, a publicly owned corporation whose board is appointed by broadcasting regulator *Ofcom*, in agreement with the *Secretary of State for Culture, Media and Sport*. The commercial terrestrial broadcaster ITV is publicly quoted, as is satellite broadcaster BSkyB, in which *News Corporation* has a 39 % controlling stake. At the time of writing, broadcast regulator *Ofcom* was in the process of awarding licences to organisations to run local digital terrestrial television services.

In the United Kingdom, there are 11 national daily and 10 Sunday newspapers and some 1,100 regional and local newspapers.¹ Both sectors have endured a long period of slow circulation decline, accelerated by the global financial crisis, and the regional press has undergone a prolonged period of concentration of ownership (e.g. Temple 2008).

There is a public perception that the British press is not subsidised. In fact, it enjoys zero-rated VAT on newspaper sales: a 20 % relief in 2012. Nielsen and Linnebank (2011, p. 8) reported that this subsidy was worth 748 million euros to the UK press in 2008, and the UK Newspaper Society, representing publishers of regional and local newspapers, the specific focus of this article, claims that zero rating for VAT is worth 120 million euros a year to its members.² The minority Welsh language press is also subsidised by the Arts Council and Welsh Assembly to

¹ The Newspaper Society, <http://www.newspapersoc.org.uk/>.

² See <http://www.newspapersoc.org.uk/importance-of-ns-membership>.

D. Baines (✉)

School of Arts and Cultures, Newcastle University, Newcastle upon Tyne NE1 7RU, UK
e-mail: david.baines@ncl.ac.uk

sustain cultural and linguistic diversity (Jones 1999). Humpreys (1996), in his survey of the media in Western Europe, listed no further form of subsidy for UK newspapers (p. 105). But Anderson et al. (2012), addressing the US context, noted that: "... *subsidy, in the sense of support granted to work seen to be in the public good, comes in many flavors. It can be direct or indirect, and it can come from public or private sources. Citizen donations are as much a subsidy as government grants*" (pp. 4–5).

Tunstall (2002) noted "*the general rule about 'purely political' journalism has always been that it needs subsidy*" (p. 229). Witschge et al. (2010) pointed to the failings of a purely commercial model for local media and highlight the promise that greater engagement between civil society and the local media offers for a "*journalism that purports to be for the public good*" (p. 37). This would suggest that the situation in Britain is likely to be more complex, more nuanced, than it appears to be, but processes of public support for the press are not transparent and discussion and debate are often foreclosed. Indeed, Freedman (2005) found that attempts to explore alternative strategies to maintain a sustainable, pluralistic media are frustrated by the exclusion from policymaking circles of media trade unions, campaign bodies and civil society groups and the lack of transparency of such policymaking processes which arises out of a "*continuing and intimate relationship between key corporate interests and government policymakers, a relationship whose bonds are rarely exposed to the public*" (p. 14).

This chapter argues that, in Britain, subsidies "in many flavours" are in place, but remain unacknowledged, and in consequence some public goods that might be expected in return are not forthcoming. Furthermore, debates which might concern a wider role for civil society in sustaining a *press for the public good* are foreclosed as policymakers privilege corporate and commercial interests over public interests.

21.1.1 Focus: Local Perspectives

This chapter focuses on the local and regional press and political campaigns they have undertaken to preserve their hegemony in the local media sphere. In defending their interests they have deployed discourses which emphasise their independence and role in democratic processes: holding to account local political actors. But this article argues that these discourses have obscured the range and extent of processes of public support and subsidy from which the local press benefits. It argues that we need to adopt a more nuanced consideration of their relationships with the public sector than their discourse constructs. The chapter then reports on a case study of a North-East England regional newspaper organisation which illuminates significant unacknowledged channels of support for the industry from the public purse, and public itself. Where Currah (2009, p. 10) argued that *further* public support should be conditional on the industry reorientating its commercial goals towards more explicit civic goods, this article argues that *current* public support is sufficient to warrant delivery of more explicit civic goods.

Britain's regional newspapers recently launched campaigns to defeat two perceived threats to their hegemony: a plan by the BBC for online video news services

at town and city, rather than regional level, and local government tendencies to communicate with electors and taxpayers by publishing their own “newspapers”. The industry persuaded policymakers that publicly funded competition with commercial newspapers was unfair and jeopardised media plurality and diversity and the papers’ abilities to deliver democratic oversight.

21.1.2 Local Conflict

Local newspapers in Britain enjoyed high profitability from 1995 to 2007 with typical margins of 25–35 % (Baines 2012b, p. 131). During the last 5 years, however, this sector suffered a circulation collapse among the worst in Europe: 29 %, against a European average of 12 % (Chisholm 2012, p. 8). Long-term economic, social, cultural and technological factors affecting circulations since the 1960s were exacerbated in 2007/2008 by the global financial crisis and profit margins have since fallen to 12–18 % (Sweney 2012; *Trinity Mirror* 2012). But many publishers continue to concentrate on margins rather than sustainability.

During the last 30 years, local paper ownership concentrated in national and multinational corporations (Aldridge 2007; McNair 2003; Murphy 1998; Williams and Franklin 2008). At the time of writing, Britain’s *Trinity Mirror* publishes more than 120 regional daily and weekly newspapers; *Johnston Press*, 18 dailies and 245 weeklies; *Northcliffe* 77 regionals.³ In November 2012, *Northcliffe* sold its titles to *Local World*, for 65,1 million euros and a 38,7 % stake in the new group.⁴ *Gannett* has 81 US Community Publishing outlets and its UK subsidiary, *Newsquest*, more than 200 local titles.⁵ Such groups funded acquisitions through heavily leveraged borrowing and had to maintain high margins to service debts and shareholder expectations (Engel 2009, p. 60). They aggressively maximised income and minimised costs, primarily by cutting staff (Baines 2012b, p. 130; Franklin 2009, p. 3). When advertising abruptly fell this business model came under stress. Publishers which performed best had remained local, rather than regional, had grown organically, were least indebted and, often, had continued in family

³ Currency values in this article are given at the rate of exchange on December 10, 2012, at 1 euros = GBP 0,81, 1 GBP = 1,24 euros. However, currency values fluctuated significantly during the period 2008–2010. In January 2008, 1 euros was worth GBP 0,75; GBP 0,98 in December 2008; 0,85 in June 2009; 0,93 in October 2009; 0,82 in June 2010; 0,85 in December 2010. Source: *European Central Bank*. Historic exchange rates are available at: <http://www.ecb.int/stats/exchange/eurofxref/html/eurofxref-graph-gbp.en.html>. Accessed on June 24, 2013.

⁴ For details of the takeover, see *The Guardian*’s coverage, November 21, 2012: <http://www.guardian.co.uk/media/2012/nov/21/trinity-mirror-buy-20-percent-local-world>. Accessed on June 24, 2013.

⁵ For details of group publications, see *Trinity Mirror PLC* website: <http://www.trinitymirror.com/our-portfolio/regionals/>, *Johnston Press*: <http://www.johnstonpress.co.uk/jpplc/ourbusiness/>, *Northcliffe*: <http://www.northcliffemedia.co.uk/>, *Gannett*: <http://www.gannett.com/section/BRANDS&template=cover>, *Newsquest*: <http://www.newsquest.co.uk/>, *DMGT*, <http://www.dmgmt.co.uk/news/1020>, *Local World*: <http://www.local-world.co.uk/>. Accessed on June 24, 2013.

ownership (Oakley 2012, p. 64). This led to a resurgence of corporate interest in more local markets. Regional newspapers launched hyper-local news websites (Baines 2010, 2012a, b; Thurman et al. 2011). Critical to this business model was the recruitment of citizen journalists. A former *Johnston Press* chairman said journalists' jobs will be replaced "by enthusiastic amateurs for next to nothing" (Engel 2009, p. 60): a direct subsidy of free labour, content and intellectual property from the community. But publishers also prepared aggressively to defend their declining markets. Regional publishers launched extensive campaigns in 2006 to stop the BBC providing more locally relevant content and, again in 2008, to stop local government publishing information to electors and taxpayers in the form of printed newspapers and magazines.

Local newspapers play a multifaceted role in building networks and maintaining connectivity, generating and reinforcing representations of place, community and a sense of belonging. They create a communicative space of civic, social and cultural engagement. They host spaces for advertising and economic activity. But for commercial local media local communities also become commodities—audiences constructed by the media to be sold on to advertisers (Smythe 1977, 1981; Napoli 2010; Caraway 2011). In an advertising-supported system, "it is the sale of audiences that is the crucial media operation" (Tebbutt 2006, pp. 857–858). Thus, corporate conceptions of and relationships with a community can be determined not by the community's own interests—public good—but the manner by which that community commodity can be packaged and sold. Many British regional newspaper companies and corporations have developed local monopolies (Murphy 1998; p. 82; Franklin and Murphy 1991). When, in February 2009, executives of seven local newspaper corporations, with market control of 72 %, met the then minister for communications, technology and broadcasting "to plead for a loosening of rules to allow them to form even bigger and more powerful combines" (Engel 2009, p. 62), they were seeking more efficiently to commodify their communities. They were also placing their corporate interests ahead of the wider civic benefit of a plural and diverse media. But Murschetz has pointed out that in Britain, press policy relies "on general competition law to protect diversity in the press and [is] thus primarily concerned with the operation of the economic markets rather than with the distinctive wider needs of public policy, in particular the need to ensure the expression of a rich diversity of views and opinions" (Murschetz 1997, p. 23). This conflation of market function with civic good, the acceptance as unproblematic of newspaper groups' claims to be supportive of the democratic process, allows both publishers and policymakers to represent support for the economic interests of newspaper publishers as support for wider public goods and as a defence of the democratic process.

Local video news services offered by the BBC and local government publications were both designed to provide public benefit and fulfil those organisations' obligations to serve the public. Local newspapers argued that publicly funded ventures presented unfair competition and the commercial threat to them, as they faced wider commercial pressures, constituted a threat to the democratic process. These arguments were accepted and both ventures were halted, in the first instance by the *BBC Trust*, its governing body, and, in the case of municipal

authorities, by central government. Both sets of policymakers thus put the newspapers' interests before benefits to the public promised by the BBC and local government.

The local newspaper sector has, however, been held to be in many ways the author of its own ills. *Guardian* research fellow Neil Fowler, an experienced newspaper editor, criticises weak management which failed to innovate or invest in sustainable development (Fowler 2012, pp. 262–263). Mathew Engel of the *Financial Times* accuses them of incompetence and indifference to their staff and communities they serve (Engel 2009, p. 61).

Despite their claim to a public interest function, local paper's corporate owners appear to act primarily in their own interests, and where commercial and public interest compete, commercial interest prevails. Engel cites a former manager with Gannett, US owner of Britain's *Newsquest*, recalling a training seminar: "A corporate executive asked us, 'If you are a Gannett publisher, what is your first priority?' Serve the public, said one of the attendees. Sounds noble, but no, said the executive [. . .]. Make money, said another. You're on the right track, but not quite there, said the executive. Then he told us the right answer: "Your first priority is to make more money'" (Engel 2009, p. 58–9).

21.1.3 A Battle with the BBC

In contrast to newspapers which serve towns, cities and regions, Hargreaves and Thomas reported in 2002 that in Britain "most television news does not even attempt to focus at the truly local scale" (Hargreaves and Thomas 2002, p. 64). The public service, publicly funded BBC, obliged to serve *all* the public, planned in 2006 to recruit 300 journalists to 66 online video news services for town and city-sized audiences. Management had piloted the project from December 2005 to August 2006 and commissioned an independent evaluation from Professor Roger Laughton. This focused on "how the pilot developed the BBC's commitment to building public value" (author emphasis) and reported on whether new local TV and video services could be an efficient and effective use of the licence fee (Laughton 2006, p. 2). He looked specifically at the extent to which the BBC's local broadband model "might encourage or discourage the growth of other local services on all platforms, including broadband" (Laughton 2006, p. 2) and examined the impact on the market for independent terrestrial TV, commercial radio and local newspapers. Laughton concluded that the pilot did serve those public goods which the BBC was bound to uphold, and tended to enhance, rather than curtail, media plurality (Laughton 2006, p. 25). Specifically, it provided evidence that "the BBC can now demonstrate that the position it intends to occupy in local markets is unlikely to inhibit or eliminate opposition". On the contrary, its "market impact will stimulate economic activity such as the employment and training opportunities it can provide and the stimulus to independent production outside London" (Laughton 2006, p. 36). The report said the BBC would take 4 years from autumn 2007 to roll out the proposed services, giving ample time for local newspapers and others to put their own broadband video news in place (Laughton 2006, p. 36). Laughton found

the project offered specific public goods: expanding media literacy, developing relationships with community and civic organisations and enhancing plurality of voice (Laughton 2006, p. 40).

The *Newspaper Society*, which represents British local and regional newspaper owners, maintained its opposition and intensive lobbying and the BBC Trust aborted the project. In a statement, it said: "... although licence fee payers want better regional and local services from the BBC, this proposal is unlikely to achieve what they want. We also recognise the negative impact that the local video proposition could have on commercial media services which are valued by the public and are already under pressure" (BBC Trust, November 21, 2008).

Local communities were denied the benefits outlined by Laughton from a service they owned and were paying for. Hargreaves and Thomas (2002) had noted that newspapers, which can reach small localities, do not necessarily engage with all communities within their circulation areas. They have, for example, "a tenuous hold on young readers and a very weak position among the Black and Asian population" (p. 64). Whereas the BBC proposed a reinvestment in communities of their licence fees, high profit margins of local newspapers transfer resources from those commodity communities to shareholders. Savings through redundancies impose additional burdens of unemployment and narrower work and training opportunities. As converged companies enhance economies of scale, skilled newspaper work moves outside circulation areas (e.g. Luft 2011). Reporters are less likely to be local than graduates recruited centrally to an occupation people pay to enter by funding their own training and undertaking prolonged, unpaid work experience (*Journalism Training Forum* 2002, p. 25; Aldridge 2007, p. 155; Delano and Henningham 1995).

In 2009 ITV, Britain's commercial terrestrial TV broadcaster, indicated that it would not be able to sustain its regional news service beyond 2010 (*Ofcom*, November 2009). In June 2009, the Government *Department for Business Innovation and Skills* and the *Department for Culture, Media and Sport* announced the establishment of independently financed news consortia (IFNCs) to run local terrestrial TV and news online with pilots in Scotland, Wales and North-East England. This involved relaxation of cross-media ownership regulations (DCMS 2009, pp. 153–159) and a 58,28 million euros direct public subsidy. Members of consortia chosen to receive the subsidy to run the pilots included newspaper publishers *Johnston Press*, *Newsquest*, *DC Thomson*, *NWN media* and *Trinity Mirror* (Sweney 2010). The new Coalition Government, however, discontinued the project on taking power and instituted a different structure for local TV which, at the time of writing, was undergoing licensing.⁶ Unlike the press, the funding of national and local television has been subject to periodic review by policymakers

⁶ In December 2012, *Ofcom* awarded a licence to *Made TV* to broadcast in Tyne and Wear and the company announced that it would work in partnership with the *Trinity Mirror*-owned Newcastle newspapers the *Chronicle* and the *Journal*, which are the subject of the case study interrogated later in this chapter. See *Ofcom* announcement: <http://media.ofcom.org.uk/2012/12/06/ofcom-awards-newcastle-local-tv-licence/>. Accessed on June 24, 2013.

[see, for example, Peacock (1986), Collins et al. (1988), *House of Commons* (2010)].

21.1.4 A Battle with Local Government

In July 2008, the *Newspaper Society* turned to newspapers and magazines produced by local councils to communicate with taxpayers and citizens and found cross-party national political support. In a Parliamentary debate (January 20, 2009), Ed Balls, Economic and Business Minister in the then Labour government, and Ed Vaizey, Conservative (then opposition) spokesman for *Culture, Media and Sport*, both attacked local councils for producing newspapers which might compete with publishers for advertising. Economic and Business Minister Ian Pearson suggested relaxing competition law which moderated local monopolies. Labour MP Ashok Kumar suggested allocating government marketing budgets to local press advertising and proposed state assistance for regional press (Hansard Debates 2009, Column 185WH).

The Conservative–Liberal Democrat Coalition took power in 2010 and Communities and Local Government Secretary Eric Pickles announced a *Code of Recommended Practice on Local Authority Publicity* (taking effect in 2011) restricting the content and limiting to quarterly the frequency of council-funded newspapers, which he called “*town hall Pravdas*” (Pickles 2010). Referencing the newspaper once published by the Central Committee of the Communist Party of the Soviet Union, the trope characterised such publications as self-serving political propaganda and commercial newspapers as independent voices delivering essential democratic oversight.

Yet the *Audit Commission*, a public corporation which scrutinises public sector spending, had investigated local council newspapers and in January 2010 concluded that “*the current accountability framework provides adequate safeguards against misuse of public money for political ends*”. It continued: “*Communication is important to inform the public of the services councils provide and the functions they perform. It is also important to explain to voters and council taxpayers the reasons for particular policies and priorities. The Audit Commission encourages the provision of information to improve the accountability to taxpayers for spending The money being spent by councils is not unreasonable*” (Bundred 2010).

Bundred found that few publications appeared sufficiently frequently to attract most advertisers. But they were delivered free to every household, reached communities on which local newspapers had a tenuous hold, informed them of services for which they paid and explained policies and priorities. Richard Kemp, vice chair of the Local Government Association, told a *House of Commons* hearing in December 2010: “*We all have a symbiotic relationship with our local press, but the latter does not reach all the parts we need to reach as a local authority. Therefore, sometimes we do things ourselves*” (HoC Communities and Local Government Committee 2011, Ev2 Q3). Jules Pipe, mayor of Hackney in London and Chair of London Councils, said: “*My local newspaper, which is no longer*

based in the borough - it is two local authorities away in distance out in Essex - now sells only 8,000 copies a week [. . .] and that compares with the 100,000 copies that we publish" (HoC Communities and Local Government Committee 2011, Ev2 Q5).

He said council publications did not pretend to be independent newspapers and the cost of paying the local paper to carry "statutory notices"—matters such as planning applications which councils must by law publish every 2 weeks—was 674,193 euros, against a gross 556,240 euros for 25 editions of the authority's newspaper.⁷ *"We will have to find several hundred thousand pounds' worth of additional savings from other services so we can pay the local newspaper to carry those rather than publish them in our own newspaper"* (HoC Communities and Local Government Committee 2011, Q5) The Committee concluded that there was little evidence that local authority publications were a commercial threat to local papers and, challenging the publishers' discourse of public service, reported: *"The local newspaper industry should be encouraged to continue to strengthen their local presence, to improve what they offer local communities through their independent scrutiny and reporting of local government"* (HoC Communities and Local Government Committee 2011, pp. 28–29).

The publishers, however, gained further advantage. Media analyst Roy Greenslade reported that councils were signing long-term contracts with local newspaper publishers to print the papers to which they had objected. *Trinity Mirror's Fulham and Hammersmith Chronicle*, with a once-paid weekly circulation of 1,500, became a free delivered to 72,000 homes on the strength of the contract (Greenslade 2011). But did it deliver independent oversight? In June 2011, the satirical and investigative magazine *Private Eye* reported that the *Fulham and Hammersmith Chronicle* had edited out a question raised by its columnist, Hammersmith Member of Parliament Andrew Slaughter, over the newspaper's impartiality towards the council (*Private Eye* 2011, p. 12). In 2008, *The Journal*, a *Trinity Mirror* publication in North-East England, signed a 3-year 931,206 euros contract to produce a quarterly council magazine and establish and maintain 27 hyper-local news websites in the council's area. The tender document *"Communications with Communities"* stipulated in relation to the new publications: *"Proposals will need to ensure that the Council's reputation is upheld in all communications with its stakeholders"* (*Northumberland County Council* 2008, par 4.3.6). The council terminated the contract after 15 months to reduce its communications costs.

But research evidence to support local papers' claims to independence and democratic oversight is at best mixed. Hargreaves and Thomas (2002) reported: *"People feel less adequately informed about their locality than either the world at large, or the UK in general"* (p. 64). *Newspaper Society* communications director Lynne Anderson attributed this to the Local Government Act 2000 which allowed

⁷ The Newspaper Society estimates that statutory notices are worth 43,4 million euros per year to local and regional newspapers. See <http://www.newspapersoc.org.uk/importance-of-ns-membership>.

more secretive executive decision-making (HoC Communities and Local Government Committee 2011, Ev8, Q40). But Franklin's 2004 study of politics and media in Britain linked local newspapers' lack of political coverage to "*growing preoccupation with the 'bottom line' along with continuous cost-cutting and staff reductions*". Challenging independent oversight, he pointed to a dependency for coverage on press releases from local councils (Franklin 2004, p. 108). And this from the news editor of a big city evening paper in 1998: "*It's easier to use a press release, more convenient if the relevant information is summarized than if you have to go out and find it out yourself*" (Franklin 2004, p. 109). And from a council press officer: "It is a case of no press release, no coverage" [Cowley (1996, p. 8), as cited in Franklin (2004, p. 108)].

Franklin and Turk's (1988) study found that of 44 press releases issued by one English county council in 2 months, 96 % appeared in the local press (p. 81). Franklin attributed this willingness to accept "information subsidies" to the skills of press officers (many were former local journalists) and papers' lack of resources. This lack of resources, less transparent council decision-making and reliance on substantial content subsidies challenge papers' claims to deliver independent, democratic oversight.

21.1.5 Unacknowledged Support

In February 2012, Britain's House of Lords Communications Committee report on investigative journalism stated: "*We urge the government to recognise the financial problems facing newspapers and encourage them to think creatively about any tax breaks or other financial incentives which might help the industry through this difficult transitional stage*" (House of Lords 2012).

Yet local newspapers already enjoy substantial channels of public support:

1. Direct payments for advertising and other services.
2. A content subsidy of press releases.
3. Publicly funded information gathering and research services.
4. Newspapers are zero rated for VAT.
5. Increasing usage of unpaid "user-generated content".
6. Unpaid "work experience" by would-be journalists.

21.1.6 Case Study: Subsidies on Company Level

This paper reports on a case study of public support for North-East England newspaper publisher *Trinity Mirror North East*, part of national media company *Trinity Mirror*. The study forms part of a region-wide investigation. Data were collected from company accounts and freedom of information requests from public bodies. To focus on points 1–4 above, these bodies were asked how much they paid publishers for goods and services, which goods and services, how many press releases they issued and coverage generated, value of coverage and how much

they spent on press and communications departments. Requests covered accounting periods 2007/2008, 2008/2009 and 2009/2010, spanning the onset of the global financial crisis in July–August 2007 and the following 3 years. Data were gathered from local government, *National Health Service* bodies, police, colleges and universities and regional development agencies—government bodies established to stimulate economic development. Data gathering took from February 2011 to September 2012. In regard to user-generated copy, data were drawn from a 2009 study by the author of *Trinity Mirror North East's* establishment of hyper-local news sites. In relation to work experience, other publicly available information was accessed.

Although a large amount of data was gathered, it was not comprehensive. Different bodies collated data differently; some had no or partial records as a result of administrative reorganisations. Durham County Council and Northumberland County Council were dissolved and recreated as unitary authorities on April 1, 2009, so much data concerning the county councils for the 3 years were not available, and none was available for the 13 abolished lower-tier authorities. Some refused to supply all data requested under cost of compliance exemptions. Attempts to gather information on advertising, content and research services from central government were unsuccessful. The Central Office of Information which controlled most central government PR and advertising spending was abolished in March 2012 and did not respond to requests for information beforehand.

The available data thus under-represent public sector support for the newspapers. Nevertheless, results are indicative of the range, nature and extent of support. For the current article, the range and extent of support for *Trinity Mirror North East* have been examined. The subsidiary comprises *ncjMedia* in Newcastle upon Tyne and *Gazette Media Company* (GMC) in Middleborough. *ncjMedia* publishes three newspapers and associated websites: the morning *Journal*, evening *Chronicle* and *Sunday Sun*, the free weekly *Extra* series, a monthly *Culture Magazine* and the daily *Metro*, which is jointly owned by *Daily Mail and General Trust* and distributed free on public transport. GMC publishes the *Evening Gazette*, free weekly *Herald and Post* series and advertisement platforms *Jobs North East* and *AdMag*. *ncjMedia* and GMC share presses and editorial content across titles. Contract printing at both centres is operated by TM subsidiary *Trinity Mirror Printing* (TMP).

Company Profile: The following table compares turnover and profit for *Trinity Mirror North East*, TM's regional division and the group as a whole across the 3 years. They use calendar-year accounting (Table 21.1).

The North East consistently and substantially outperforms both group and regionals division in margins. This represents a transfer of substantial sums from the community to investors, yet the region is one of Britain's most deprived (Sutherland et al. 2010, p. 1).

Table 21.1 Trinity media North East—Turnover and profit

<i>Trinity mirror</i> group	2008	2009	2010	Total
Turnover	1,080 million euros	946,5 million euros	944,3 million euros	2,97 billion euros
Operating profit	179,8 million euros	130,7 million euros	152,9 million euros	463,4 million euros
Margin	16,7 %	13,8 %	16,2 %	15,5 %
<i>TM regionals division</i>				
Turnover	491 million euros	375,6 million euros	410 million euros	1,28 billion euros
Operating profit	84,6 million euros	44 million euros	64 million euros	192,6 million euros
Margin	17 %	11,9 %	15,6 %	15,3 %
<i>TM North East</i>				
Turnover	90,1 million euros	72 million euros	65 million euros	227 million euros
Operating profit	24,5 million euros	13,5 million euros	16,2 million euros	54,2 million euros
Margin	27 %	18,6 %	24,9 %	24 %

Source: *Trinity Mirror Plc.*, *ncjMedia Ltd.*, *Gazette Media Company Ltd.*, accounts

The following table lists *Trinity Mirror North East's* cuts in workforce during the period (Table 21.2).

The number of jobs lost is proportionally greater than the wage bill reduction, but both figures represent public burdens: in wages lost to the local economy and social and financial costs of unemployment.

The following table lists *Trinity Mirror's* regional paper circulation revenue and sums which would have been paid in VAT, had newspaper sales not been zero rated (Table 21.3).

In practice, the company might have lowered its cover price and taken a lower profit margin, so this subsidy is maintaining high margins, rather than sustainability. VAT in 2012 is 20 % and the subsidy, with public finances under greater pressure, is higher.

The following table gives circulation figures and VAT subsidy for *the Journal*, *Chronicle* and *Sunday Sun* (Table 21.4).

Trinity Mirror North East accounts do not itemise circulation revenue; however, *Trinity Mirror Plc* gives figures for the three *ncjMedia* titles and, combined with the *GMC ABC* audited circulation figures, these indicate the scale of subsidy which zero-VAT status represents: 14 million euros over 3 years.

Cash For Services: Local government, health, police, education and the *Regional Development Agency* (RDA), which closed in 2012.

Eleven local councils paid *ncjMedia* and GMC 5,033 million euros over 3 years. No data were available for 2 years of payments from *Durham County Council* and *Northumberland County Council*, or the 13 authorities abolished on April 1, 2009. One smaller authority presented its spending on local media as a total sum paid to all local papers, so that was disregarded for this study. Twelve health service organisations paid 524,439 euros. Of the health authorities, one provided no figure

Table 21.2 Trinity media North East: Changes in workforce

TM North East	2007	2008	2009	2010	% Cut 2007–2010	% Cut 2008–2010
Wage bill	23,8 million euros	22,8 million euros	18,7 million euros	16,4 million euros	31 %	28 %
Accumulated savings from 2007 base		-1 million euros	-22,8 million euros	-7,4 million euros		
Staff numbers	1,383	1,352	1,061	892	35,5	33 %
Accumulated jobs cut from 2007 base		-31	-322	-491		

Source: *ncjMedia Ltd and Gazette Media Company Ltd accounts*

Table 21.3 Trinity media—Regional newspaper circulation and VAT subsidy

	2008	2009	2010	Total
Trinity mirror regionals circulation revenue	95,6 million euros	90 million euros	90,8 million euros	276,4 million euros
17,5 %—prevailing VAT rate	16,7 million euros	15,7 million euros	15,8 million euros	48,2 million euros

Source: *Trinity Mirror Group* accounts

Table 21.4 *Journal, Chronicle, Sunday Sun* and *Teesside Gazette*: Circulation and VAT subsidy

	2008	2009	2010	Total for 3 years
<i>Journal</i> 17,5 % VAT at 50p ^a (0,62 euros); cover price	32,811 1,114,300 euros annually	30,147 1,024,000 euros annually	27,185 923,216 euros annually	
<i>Chronicle</i> 17,5 % VAT at 43,5p ^a (0,54 euros); cover price	66,861 1,975,500 euros annually	60,554 1,789,000 euros annually	54,874 1,621,000 euros annually	
<i>Sunday Sun</i> 17,5 % VAT at 92,5p ^a (1,15 euros); cover price	61,634 630,900 euros annually	58,882 602,800 euros annually	52,216 534,500 euros annually	
<i>Teesside Gazette</i> 17,5 % VAT at 42,5p ^a (0,52,5 euros) cover price	46,692 1,347,800 euros	43,937 1,268,300 euros	40,656 1,173,600 euros	
Total	5,068,500 euros	4,684,100 euros	4,252,300 euros	14,004,900 euros

Source: *Journal, Chronicle* and *Sunday Sun*: *Trinity Mirror Group* published accounts for annualised circulation figures. *Teesside Gazette*: Figures for average net circulation per issue provided by Audit Bureau of Circulations for December 2008; 2009 and 2010

^aVAT was charged at a rate of 17,5 % during this period. The calculation adopted a median figure for the cover price charged by each title between January 2008 and January 2011. During this period, the *Journal* remained at 50p (0,62 euros); the *Chronicle* rose in price from 42p (0,53 euros) to 45p (0,56 euros); the *Sunday Sun* rose from 85p (1,05 euros) to £1 (1,24 euros); the *Teesside Gazette* rose from 40p (0,50 euros) to 45p (0,56 euros). For the purpose of this calculation, it is assumed that all sales took place at the full cover price and no account is taken of any discounted sales which the company may have made during this period

for advertising with the companies in the years concerned, but ran several health campaigns and did advertise in the papers. There are three police forces in the area: Durham, Cleveland and Northumbria—one of Britain's largest forces covering metropolitan areas and the large rural county of Northumberland. Northumbria spent 934,322 euros on recruitment advertising, Cleveland 19,840 euros and Durham nothing. Universities and colleges reported payments for services to *Trinity Mirror North East* totaling 783,723 euros, but the largest college, Newcastle College Group, refused this information on grounds of commercial confidentiality. RDA *OneNorthEast* spent 270,489 euros.

The total reported from public bodies, excluding central government, was 7,566.346 euros, which equates to 14 % of *Trinity Mirror North East's* operating profits over that period of 54,2 million euros. The VAT subsidy of 14 million euros represents 26 % of the subsidiary's profits. These figures combined represent 40 % of the subsidiary's profits over this period.

Research and Information: Of the 11 councils which had paid for services from ncjM and GMG, nine spent between them 18,660.431 euros maintaining press and communications offices. But two of those councils together spent almost half: 9,467.216 euros. Two others were unable to provide figures because in one the costs were subsumed in budgets covering contracted-out services and another had reorganised departments. Figures were also affected by unitary authority reorganisation. The 12 health service organisations spent 5,416.705 euros on communications departments. *Northumbria Police* spent 4,336.809 euros, Cleveland 623.566 euros, and Durham 694,760 euros. Universities and colleges spent 2,345.882 euros. The RDA spent 8,002.183 euros. The total reported for all sectors was 31,036.780 euros, which is more than half, 52 %, of the publisher's own wage bill over 3 years.

Content Subsidy: The councils monitored press coverage in different ways. None maintained records of coverage by publication. But some had records of releases issued and these ranged from averages of 250 per year to 700 per year—750 to 2,100 over 3 years. Several reported that 95–98 % resulted in publication, but not necessarily in all titles. Of the health organisations only five gave figures for press releases. One issued 148 and these resulted in 66 stories in the titles concerned, but the area involved was primarily covered by a *Newsquest* title. *Northumbria Police* issued 6,027 (six per day), Cleveland 734 and Durham 313. Three colleges and four universities reported 1,596: in total, more than three a day. *Teesside University* issued 547 leading to 585 reports in the *Trinity Mirror* papers. The 206 by *Newcastle College* in 2009 and 2010 resulted in 313 reports by *ncjMedia* alone. The development agency issued 596.

Labour Subsidy: *NcjMedia* and GMC publish “hyper-local” news and information websites linked to the *Journal*, *Chronicle* and *Teesside Gazette*. In a contract tender document released under freedom of information legislation, *ncjMedia* said GMC's community sites hosted “more than 230 bloggers, or community correspondents”. The Newcastle head office of *ncjMedia* also houses a Press Association Training Centre, which has three cohorts of students every year including 28 *Newcastle University* journalism master's students. While there, students, mainly self-funded or funded by other employers, provide content for *ncjMedia*.

21.2 Discussion

From 2010, *Newcastle City Council* had a 47,500 euros pa contract with *Trinity Mirror* to print its quarterly *City Life* magazine distributed to all homes. Health authority NHS North of Tyne spent 49,600 euros annually sponsoring a weekly *Chronicle* health supplement, more than fully funding the health reporter. While the

public sector clearly derives value from publicity, marketing and media relations departments, and these work with all media regionally, nationally and—in education—globally, this still represents a significant resource subsidising the publisher's labour costs although available data do not allow precise quantification. Several authorities said answering media queries was only part of their work, but in 1995, the *Audit Commission* reported that, typically, media relations occupied at least 40 % of senior local government public relations officers' working time (*Audit Commission* 1995, p. 16) and Franklin (2004) found similar priorities in 2004 (p. 107).

Police PR spending, Northumbria in particular, and press releases reflect local media interest in crime and this service is in constant demand. *ncjMedia's* and GMC's circulation areas include five universities and several colleges. Their services and press releases appeared to be particularly valuable to local papers: *ncjMedia* titles carried 44 reports about *Newcastle University* alone in October 2012. Education press releases had a high "hit rate" and *Newcastle College* assessed the PR value of *ncjMedia* articles in which it featured from August 2009 to August 2010 at 7,94 million euros. The RDA valued regional media coverage from its 596 press releases at 6,764,000 euros. This benefits the organisations, but also represents a substantial content subsidy to publishers. Data did not allow determination of coverage generated, which would require close content analysis, but demonstrated that publicly funded work was equivalent to the labour of several reporters. This subsidy, and free information and research services, allows the publisher to save on staff and transfer to the public purse a proportion of production costs. The North of Tyne Health Authority's 49,600 euros per year contract for a weekly supplement more than covered the costs of a health reporter and the *ncjMedia* contract for the *Northumberland County Council* magazine and websites involved the recruitment of "a three-person content team" (contract tender).

The local news sites established under that contract were based on GMC's model, which, the bid document stated, "*now has more than 230 bloggers, or community correspondents, helping to populate the microsities – with people having the opportunity to respond to every article uploaded. [...] The Council/Journal association would allow us to launch 27 microsities at the same time. [...] We would also use the Council's database of clubs and organizations in each Belonging Community to contact each and every one and get them to nominate a correspondent to provide grassroots content on their activities on a regular basis*" (unpaginated).⁸

Free user-generated content is a supplement to and replacement for paid staff (see the reference above to *Johnston Press*: Engel 2009, p. 60) and as a means to access new audiences and advertisers (*European Newspaper Congress* 2010; Baines 2010, p. 586). *Trinity Mirror North East* developed UGC with both of these aims in mind and it was the latter which led to it continuing the project when the council terminated the contract.

⁸ *ncjMedia's* contract bid document was obtained by the author from Northumberland County Council under the UK Freedom of Information Act 2000 and is not publicly available.

Internships are valued by students and employers. Reeders (2000, p. 206) says they allow students to test learning against real-world problems. But local paper interns are often working for free in a company which has cut employees and there is evidence in Britain that the practice has resulted in a journalism workforce representative of groups who can afford to work for free, excluding most others (Kimball 2012; *Journalism Training Forum* 2002).

Conclusions

If the purpose of public subsidy and support is to maintain sustainable pluralistic local media and democratic oversight, the evident outcomes in Britain are not encouraging. Democratic legitimacy informs discourses from industry and policymakers, but is rarely tested and when it is—by parliamentary committees and academics—a more nuanced, complex reality emerges.

This chapter has made more transparent a number of concealed processes. Rather than embrace strategies supportive of sustainability, the industry continued to cut costs to maintain high returns to the detriment of public goods. It has lobbied to extend local monopolies and restrict plurality. The BBC Trust aborted 66 local video news projects which would have delivered social, cultural and economic public benefits. The government's regulation of council communications encouraged the transfer of public resources to private profit, which in some cases diminished the propensity of the press to maintain an independent democratic oversight (*Trinity Mirror* and Fulham and Hammersmith, *ncjMedia* and the publications contracted by the Northumberland County Council). Policymaking following commercial lobbying has in several cases supported greater commodification of local communities, privileging corporate over communities' interests at the expense of wider civic, social goods.

Subsidies and support for local publishers in Britain emerge as opaque, informal and multidirectional, are not determined by specific criteria and are not conditional on specific civic outcomes. They support the profitability of the publisher by providing direct revenue streams and tax relief (advertising and sponsorship, VAT concessions); content subsidies (press releases) and research services (press offices) which, along with free labour (user-generated copy and internships), transfer a proportion of production costs to the public purse and directly to the public. VAT relief for newspapers is predicated on the assumed public good they bring, but there is a case to be made that this should be conditional on papers demonstrating more explicit civic goals and business models orientated towards sustainability rather than high returns. Were policymakers and media corporations openly to acknowledge this support, a wider, better-informed public debate might take place about alternative models of local media engagement with civil society and the sustainability of media which bring public benefit.

More research needs to be conducted, but by making more transparent these hitherto largely unacknowledged processes, this chapter prepares the ground for making these conditional on "*reorienting commercial news provision towards*

more explicit civic goals” (Currah 2009, p. 10). Such goals could include plurality and diversity of media voices, scrutiny of the political process, the wider provision of training and employment opportunities and recruitment practices which reflect the diversity of the wider community.

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Victor Pickard

22.1 The US Print Media Ecosystem

One of the central assumptions of US political discourse is that state-funded media subsidies are deeply antithetical to American values, and democratic practice generally. This assumption is rarely challenged, though a good deal of historical evidence gives us reason to doubt it. Not only are various media subsidies firmly established in American traditions, but the historical record shows that both in the USA and across the globe, press subsidies are compatible with democratic self-governance (Pickard 2011b). Still, misconceptions about subsidies abound in the USA and continue to impede rational debates about an important policy option—an option that might be the last remaining systemic alternative to the failing model of ad revenue-supported journalism. The following chapter provides a brief overview of past and present American press subsidies. Drawing from historical and international research, the chapter sketches a political economic rationale for subsidizing media and concludes with some suggestions for future policy trajectories.

Before turning to an overview of subsidies, a brief description of the American print media ecosystem is in order.¹ The USA has approximately 1,350 daily newspapers, a number that has decreased slowly but steadily over the past 20 years. Based on the most recent year for which figures are available, the numbers have fallen from 1,611 in 1990 to 1,387 in 2009, a decline of 14 % (Edmonds et al. 2012). The American print media system is dominated by several large national papers (the following circulation numbers, which include digital subscriptions, are based on the Audit Bureau of Circulations 2012), including the *Wall Street Journal*

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V. Pickard (✉)

Annenberg School for Communication, University of Pennsylvania, 3620 Walnut Street,
Philadelphia, PA 19104, USA

e-mail: vpickard@asc.upenn.edu

(WSJ; 2,293,798), the *USA Today* (1,713,833), the *New York Times* (NYT; 1,613,865), and, to a lesser extent, the *Washington Post* (462,228). The *Post* and *USA Today* have experienced recent declines, but the *NYT* and *WSJ* have seen increases, largely due to their aggressive expansion into digital subscriptions. Suggesting that overall demand for print journalism has not waned, when print and online audiences are combined a number of papers are actually expanding their total audience reach, even as their paid circulation declines (Edmonds et al. 2012).

The journalism crisis that unfolded in 2009 hurt nearly all papers (as well as magazines and wire services like the Associated Press), but it disproportionately affected some types—especially in terms of size—more than others. Also, the extent to which papers have recovered or continue to decline seems to be at least partly determined by size. For example, big metro papers are losing paid circulation faster than the three national papers or smaller circulation mid-sized cities and community papers. Edmonds et al. (2012) find that “*The 25 top gainers, by percentage, in combined print-online audience include midsize papers like the Greenwich Time and Stamford Advocate in Connecticut and the Deseret News in Salt Lake City*” (n.p.). At the same time, a number of high-profile closings have dramatized the journalism crisis, particularly in the few cities where two major newspapers still coexisted. For example, the 150-year-old *Rocky Mountain News* shut down, and the *Seattle Post-Intelligencer* went online only, cutting all but a handful of employees.

While events like newspaper closures often draw the most attention, the core problem continues to be the industry’s rapidly declining advertising revenues. The most recent Pew study notes that the losses in 2011 were slightly worse than those of 2010: 7.3 % compared to 6.3 %. This means that ad revenues are now less than half of what they were in 2006 (Edmonds et al. 2012). Increasingly, the general trend appears to be newspapers moving into a digital format, reducing their delivery and dramatically cutting staff. This was exemplified by the *New Orleans Times-Picayune*’s decision to significantly cut news staff and move to a thrice-weekly delivery. Weekly news magazines are making similar moves; at the end of 2012 *Newsweek* went online only. These desperate moves to cut costs and counteract revenue losses result in many news-related jobs being lost. According to some estimates, nearly 16,000 journalists and newspaper employees lost their jobs in 2008 and nearly 15,000 in 2009 (Pickard 2011b, p. 75).

In more recent years, the rate of job loss has declined, but has remained steady, with no reversal expected. Pew’s summary of the *American Society of News Editors* (ASNE) Employment Census, released in April 2012, counted a loss of 1,000 full-time newsroom jobs in 2011, which amounted to a decline of 2.4 %. After these losses, 40,600 news professionals remain at newspapers, according to ASNE, which, the Pew study notes, is approximately a 28 % decline from its peak at the turn of the century (Edmonds et al. 2012). Using the same ASNE numbers, the *Federal Communications Commission* (FCC), the main regulatory agency that oversees much of the US media system (although not newspapers), concluded in a major report titled “*The Information Needs of Communities*” that rapid revenue losses “*precipitated a more than 25 percent reduction in newsroom staffs, affecting*

reporters, editors, online producers, photographers, artists, and videographers.” According to the FCC, “*The drop between 2006 and 2010 is particularly striking: in just four years, newspaper employment fell from 55,000 to roughly 41,600—about where it was before Watergate*” (Waldman 2011, p. 40). The FCC concluded that the remaining news organizations now have “*less time to investigate, to question, to take a story to the next level. Fewer newsrooms than ever can afford to deploy reporters to work on labor-intensive stories. That means not only fewer investigative stories, but, more commonly, less daily beat reporting about municipal government, schools, the environment, local businesses, and other topics that impact Americans’ future, their safety, their livelihood, and their everyday life. In very real ways, the dramatic newspaper-industry cutbacks appear to have caused genuine harm to American citizens and local communities*” (Waldman 2011, p. 57).

A major cause for alarm with these trends is that the entire US media ecosystem depends on the journalism produced by newspapers. This is true in large part because other news media—blogs, broadcast television and radio, cable television, etc.—do not produce actual journalism, but rather focus on political commentary and various forms of entertainment media. To the extent that these outlets do discuss hard news, it is often derived from stories that were initially reported by newspapers. One study that documented this trend was the Pew Center for the People and the Press’s 2010 report, which provided an exhaustive study of the city of Baltimore’s media ecology for 1 week in 2009 (PEW 2010). The objective was to determine how original news stories were being produced in a radically changing media environment. Tracking both old and new media—including newspapers, radio, television, websites, blogs, and even Twitter dispatches from the police department—the researchers found that despite the proliferation of media, much of the news people received contained no original reporting. The study revealed that “*Fully eight out of ten stories studied simply repeated or repackaged previously published information*” (n.p.). The researchers found that more than 95 % of original news stories were still generated by old media, particularly the *Baltimore Sun* newspaper. The study also found that the *Sun*’s production of original news stories was itself down more than 30 % from 10 years before and down 73 % from 20 years before. The Baltimore case study is representative of the 30 % declines in American newspapers’ reporting and editing capacity since 2000 (the numbers in this paragraph are cited in McChesney and Pickard [Forthcoming](#)).

Such long-term trends, especially the Internet’s devastating effects on newspapers’ advertising monopolies, have put the industry under increasing strain. As growing numbers of readers and advertisers migrate to the Internet (where websites like *Craigslist* offer classified ads for free), the business model for advertising-supported journalism is in a state of gradual collapse. With many papers across the country in various stages or at the edge of declaring bankruptcy, many more major cities likely will soon face drastic reductions or even closures of their daily newspaper. These developments draw renewed attention to the question of press subsidies.

22.2 Public Media Subsidies: An American Tradition?

As we compare democratic societies' approaches to press subsidies, we should recall that policy differences are socially constructed and contingent on a number of sociopolitical and historical factors. American newspapers receive no direct subsidies, and their biggest indirect subsidies come in the form of tax breaks and postal reductions. However, this economic relationship was not inevitable and divergent approaches toward public service media between the USA and virtually everywhere else should not be ascribed to cultural differences. Notions about US media's social responsibility and the government's role in mandating and protecting public services could have developed along alternative trajectories (Pickard 2010). Put differently, the current revenue model in American news media—namely, an advertising-supported, commercial system—was not a natural outgrowth of American culture, as is sometimes assumed. Rather, it was historically contingent: the country has tried different models (some of which continue to exist), and others may have taken root if political battles had gone differently (Pickard 2013). Although less common in the USA than in other leading democracies, experiments with noncommercial models have been tried more often than is usually recognized in public discourse and in the existing scholarship of journalism studies and media history (Pickard 2011a).

Government has in fact always been involved in American media. A growing number of scholars trace state interventions in shaping the press to the Republic's earliest days (Baker 2011; Cowan and Westphal 2011; John 1995; McChesney and Nichols 2010; Starr 2004). More importantly, early debates over press subsidies reflected a policy paradigm that was not in thrall to market fundamentalism. For example, the historian Richard John shows how the founders of the US government decided that the postal system should not have to be financially self-sufficient (what he terms a "fiscal rational") because it served a higher educational purpose. Instead, the government would subsidize the mail, thereby effectively subsidizing newspapers, which comprised as much as 70 % of the system's weight in the 1790s and 95 % in the 1830s (John 1995, p. 38).

Expanding on John's work, Cowan and Westphal (2011) remind us that the debate on postal policy ranged between those who believed postal fees should be waived for *all* news material (like *George Washington*) and those who thought news distribution should just be heavily subsidized (like *James Madison*). The latter idea was codified in the Post Office Act of 1792. McChesney and Nichols (2010) calculate that if the same size subsidies existed today, they would amount to billions of dollars. Even in the early twentieth century, according to a calculation by Edwin Baker (2011), postal subsidies in the form of significantly reduced costs for news-related materials still amounted to \$80 million, which in today's dollars would equal approximately \$6 billion. While these subsidies have been in steady decline since the Postal Reorganization Act of 1970—indeed, the entire postal system has come under attack from conservatives who reject the traditional consensus that did not require it to be self-funding—they nonetheless persist and still support media. According to one report, the US Postal Service calculates that the

total subsidy to all patrons (including but not limited to newspapers, journals, and magazines) of periodical mail was approximately \$273 million in 2006, worth about \$310 million in 2012. Of this, the share of daily newspapers was approximately \$13 million, worth close to \$15 million in 2012 (Nilikantan 2010). Leading political magazines ranging from the liberal *Nation* to the conservative *National Review* continue to rely on postal subsidies, and recent cuts in subsidies have hurt them at a particularly precarious time. Nonetheless, these government allocations are almost never acknowledged in debates about subsidies for news media.

Other affirmative governmental interventions to protect and encourage diverse voices and viewpoints in media were common until relatively recently. These actions ranged from antitrust measures to more content-oriented policies like the *Fairness Doctrine*, which mandated that broadcasters cover controversial issues important to local communities in a balanced manner from opposing views. Such efforts were reinforced by key court decisions like the 1945 Supreme Court Case *U.S. v. AP*, which legitimated an interventionist role for government to protect a diverse press system, and the Court's 1969 *Red Lion* decision, which held that the rights of the audience are paramount over those of media owners. Other well-known but rarely contemplated examples of state intervention in media include copyright protections and free exclusive licenses for broadcasters' use of the public airwaves, as well as the Internet, the development of which owes much to government subsidies. Despite such evidence, public policy's historically vital role in supporting media is all but lost in contemporary US political discourse, obscured by an emphasis on market mechanisms within the private sector.

Another key example of US media subsidies is the country's large international broadcasting apparatus. At present, the funding streams for government-sponsored international broadcasting services (\$671.3 million annually, according to a calculation by Powers 2011) and the domestic *Corporation for Public Broadcasting* (CPB) are kept separate because of Cold War era concerns about propaganda. One recent proposal (Powers 2011) suggests that international broadcasting services such as the *Voice of America* be repurposed to provide domestic news. Coincidentally, *Congress* is presently considering amending the law so that the international broadcasts can air within American borders (Weed 2012). Although funding public media was not the original intent of the legislation, these services could potentially be redirected to bolster investigative news media without requiring a large increase in government spending.

The most well-known media subsidy in the USA is government support for the public broadcasting system. For more than 40 years, the USA has supported a successful, if grossly underfunded and sometimes flawed, public broadcasting system. Governed by the CPB, a private, nonprofit corporation created by Congress in 1967 with the Public Broadcasting Act of 1967, the mission has been to take creative risks and provide public affairs and cultural and educational programming not typically supported by commercial media. The CPB receives congressionally approved annual appropriations that it then mostly disburses to local public television and radio stations. Despite the staying power of this model, American financial support for these efforts pales in global comparison.

Indeed, the \$448 million per year subsidy, which works out to \$1.46 per capita, makes the USA a global outlier among democracies in how little it allocates to public media. To put this contrast into stark relief, Canada spends \$30.42 per capita, the UK \$102.12, and Denmark \$130.52. This means Denmark spends nearly 90 times more than the USA on public media per capita. Like many other public media systems, such as the *British Broadcasting Corporation* (BBC) and the Japanese NHK, Denmark's system generates much of its funding from television license fees (Benson and Powers 2011). In general, these resource allocations have encouraged vibrant media systems that are more diverse and less crisis prone. McChesney and Nichols (2010), who note that American society spends more taxpayers' money on the pentagon's public relations than on public media, observe that other countries' public media investments have produced excellent international reporting, as well as programming that serves women, children, linguistic and ethnic minorities, and other groups and regions that would otherwise likely be neglected by for-profit media. At the very least, a healthier American public media system would require significantly expanded subsidies as well as reforms to the existing system; international models may provide some interesting leads.

22.3 Subsidies in a Comparative Context

One gap in American political discourse about press subsidies—to the extent that subsidies are discussed at all—has been a comparative perspective. A brief overview of some international subsidy models provides intriguing examples of alternative structures for funding journalism, while also underscoring the extent of American exceptionalism in this regard.

Press subsidies have long been used in democracies other than the USA, particularly where American-style market fundamentalism is not predominant. In addition to the vibrant public service broadcast systems paid for with various public subsidies, Western and Northern European countries have directly and indirectly subsidized newspapers (Murschetz 1998). For example, Norway has relied on state subsidies for newspapers to lessen commercial pressures, counteract the effects of competition, and prevent newspaper monopolies (Skogerbø 1997). Whereas the American paradigm often encourages a libertarian rendering of press protections, many international media policies mandate proactive government engagement to ensure diverse media (Benson and Powers 2011), offering some potential lessons for US policymakers.

One particularly interesting case is Sweden. When faced with a newspaper crisis in 1971, the main political parties in the Swedish parliament, which held a Social Democratic majority at the time, reached an agreement to help save struggling papers. Supported by taxing newspaper ads and creating a fund administered by an independent agency to support struggling papers, these press subsidies helped broaden the bounds of news discourse by supporting smaller newspapers and by

halting the increasing number of newspaper bankruptcies. Today an administrative governmental body called the “*Press Subsidies Council*” allocates funds on the basis of circulation and revenue to newspapers other than the dominant paper in a particular municipality or region (Nordenson 2007). These subsidies have helped ensure that towns are served by more than one newspaper, although, according to one analysis, the government support accounts for only about 3 % of the papers’ total revenue (roughly \$65.4 million in 2006 for newspapers with a maximum 30 % market share). Swedish newspapers also receive financial support from the government, in the form of reduced taxes and direct distribution subsidies (Hadenius and Weibull 1999; Murschetz 1998). Such government intervention was initially controversial—some feared it would render papers dependent on the state—and it continues to generate debate as digital media and other new developments put the system under increased pressure. But the system’s underlying principle that a plurality of voices is indispensable for a healthy democracy has been accepted over time.

Although such direct subsidies have yet to be widely implemented, many European countries face similar journalism crises and are pursuing alternatives. The British, for example, have discussed nonprofit models and other experiments to rescue failing newspapers, as well as more aggressive government intervention (see Baines 2013; Greenslade 2009; Toynbee 2009). Despite many shared trends related to a multinational journalism crisis, significant differences in severity are also apparent, particularly in countries with heavily subsidized press systems such as Sweden where the crisis manifested to a lesser extent than in the USA and Britain. Lesser declines or even increases in newspaper circulation have been evident in some European countries. A report by the German *Newspaper Publishers’ Association* attributes the healthier state of journalism in that country (where readership is 70 %) to structural differences. Whereas most German newspapers are “*owned by family concerns or other small companies with local roots*” (n.p.) the American industry is “*dominated by publicly traded chains*” (n.p.). In explaining the apparent differences between the overall health of the American and German newspaper industries, the report found that instead of focusing on journalism, and “*under pressure from shareholders clamoring for short-term results,*” American newspapers made “*reckless cuts in editorial and production quality, hastening the flight of readers and advertisers to the Web*” (Pfanner 2010, n.p.).

Even if many European press systems are not thriving economically, the sense of crisis is arguably less than America’s because of lower expectations of profitability and relatively fewer commercial pressures. European press institutions have been less likely than American ones to be traded on the stock market. Moreover, they tend not to be as dependent on advertising or as debt burdened from mergers and acquisitions. While these countries’ press systems might also be suffering from the shift to the Internet, they had neither the same expectations nor as far to fall because they were never commercialized to the same extent (Pickard 2011b).

22.4 Public Media Subsidies to Address Market Failure

Central to understanding the need for public media subsidies is the theoretical construct of “market failure,” which is often associated with mainstream neoclassical economic thought and has been explicated by various economists (see, for example, Bator 1958; Stiglitz 1989; Medema 2007). Market failure typically refers to a scenario in which the market is unable to efficiently allocate resources, especially public goods. Often this occurs when private enterprise will not invest in critical social services because it cannot extract the returns that would justify the necessary expenditures. Market failure has been used to legitimate state intervention in the provision of public education and other social services and goods not satisfied by market transactions.

Evidence that the US media system exhibits the telltale signs of market failure continues to accumulate, especially in the industry’s ongoing disinvestment in news production. The aforementioned reduction of the *New Orleans Times-Picayune*—in a city where 36 % of residents lack Internet connection—is a stark example of media market failure impacting local communities. Whether discussing the market’s inability to support journalism or its deficiencies in providing universal access to affordable and reliable Internet service, the term “market failure” should have earned a prominent place in American media policy discourse. Yet the discussion of market failure, and particularly its role in the journalism crisis, has been noticeably lacking. This absence has been largely evident even in the work of critical scholars—a consequence, perhaps, of the concept’s neoclassical origins. But to advance the case for public policy intervention, especially in American policymaking circles where market fundamentalism still reigns, articulating the case for recognizing and correcting market failure is an essential task (Pickard 2013).

As one potential antidote, a number of scholars have argued in recent years that the information produced by journalism should be treated as a public good (Hamilton 2006, pp. 8–9; Pickard et al. 2009, pp. 1–9; McChesney and Nichols 2010, pp. 101–103; Starr 2011, p. 31). Public goods, in the words of one economist, “*are both unique and fascinating because it is virtually impossible to allocate a pure public good through market mechanisms*” (Troger 2005, p. 169). Because public goods are non-rivalrous and non-excludable (Samuelson 1954), they are difficult to monetize and to protect from “free riders.” Journalism is a public good in both an economic sense—especially in its digital form—and in a social desirability sense. It is not merely a commodity bought and sold like shoes or cars; rather, journalism is an essential public service with social benefits that transcend its revenue stream. In its ideal form, journalism creates tremendous positive externalities by serving as an adversarial watchdog over the powerful, covering crucial social issues, and providing a forum for diverse voices and viewpoints. As a core component of civil society, journalism functions as democracy’s vital infrastructure.

Like many public goods, however, journalism has never been fully supported by simple market transactions; it always has been cross-subsidized. For over 125 years,

this subsidy primarily has taken the form of advertising revenues. But that revenue model is becoming increasingly unsustainable as audiences and advertisers migrate to the Internet, where ads sell for a mere fraction of what advertisers pay for paper-based products. Even as digital advertising revenues grow, they do not come close to offsetting losses with their paper-based counterparts. The 2012 Pew study found that losses in print ad revenues, which had fallen more than 50 % from 2003, far exceeded any gain in online digital revenue. For 2011, the study found, the ratio of losses to gains was greater than 10 to 1 (Edmonds et al. 2012). Thus, as an approach to supporting journalism, ad revenue-dependent models appear to be irreparably broken, and no other commercial models, including pay-wall subscriptions, come close to replacing it. The inadequacy of commercial support brings us to the next step in this formulation: recognizing that the market's systematic underproduction of the public good that is journalism qualifies as a clear case of market failure.

Mark Cooper (2011), one of the few analysts who have seriously considered market failure in the context of the journalism crisis, presents a traditional framework that is more familiar to policymakers, enabling them to “*become comfortable with the new direction of policy that is necessary to ensure a robust journalistic sector*” (p. 321). Addressing such market failure with public subsidies is not actually a “new direction” for American media policy, but this theoretical framework has largely receded from contemporary policy discourse. Cooper provides some analytical tools with which to recuperate these understandings. He describes the five kinds of market failure—societal failures, structural flaws, endemic problems, transaction costs, behavioral problems—and their implications for journalism.

Cooper notes that McChesney and Nichols (2010) have amply demonstrated how the first two kinds of market failure clearly afflict journalism: societal failures in the form of insufficient support for public goods and positive externalities, as well as structural flaws in the form of monopolistic concentration and profit maximization, abuse of market power, and the resulting degradation in the quality of journalism. In addition to adding empirical data to reinforce McChesney and Nichols' analysis, Cooper argues that the other three forms of market failure affect journalism as well: the journalism crisis features endemic problems (conflicts of interest and perverse incentives); transaction costs (the high costs of physical distribution); and behavioral problems (the misperception of the value of civic discourse). The key point here, however, is that when market failure is detected, the historical and logical response has been to address it via public policy intervention. Failure to act accordingly, we could argue, amounts to “policy failure” (Pickard 2013).

22.5 Toward a New Public Media System

The current journalism crisis presents a rare opportunity to revitalize US public broadcasting and repurpose it as a new public media system dedicated to local newsgathering, community service, and the use of digital media across multiple

platforms. Ideally, this would take the form of already existing community and public radio stations transitioning into multimedia centers (as many already are), to replace the news media production that is being lost with commercial newspapers. The *Indymedia* experiment of the early 2000s could serve as a potential model, allowing for the condition that these community media centers would be publicly funded and would receive various forms of support from local communities instead of relying on all-volunteer labor—a feature that weakened the sustainability of many centers (Pickard 2006).

However, this transition will require a reallocation of resources. To bolster existing infrastructure, funding for public media should be both guaranteed over the long term and carefully shielded from political pressures. This will require removing it from the congressional appropriation process and instead establishing a permanent trust, perhaps supported by spectrum fees paid by commercial operators, or something equivalent to the universal service fund that is added to monthly phone bills. Alternatively, the USA could increase direct congressional appropriations for public media via the *Corporation for Public Broadcasting*. By tripling current congressional appropriations to less than \$2 billion—a small fund compared to recent expenditures on critical infrastructure—the USA public media system could dramatically increase its capacity, reach, diversity, and relevance. These subsidies could also be used to streamline public media operations by developing new technology and archiving content across the system. Another possible reform would broaden the definition of public media to include not just the *Public Broadcasting Service* and *National Public Radio*, but also low-power FM stations, public access cable channels, and independent community websites, which would combine already existing news institutions to directly support investigative reporters in local communities. Such a policy plan may seem like a political nonstarter, especially when leading conservative politicians like Governor Mitt Romney target public broadcasting for proposed budget cuts, but polling data consistently show high levels of support for public broadcasting (Pickard et al. 2009).

There are other creative proposals, beyond public subsidies, to jumpstart innovative forms of public media that have been suggested over the past several years. For example, having the government support a journalism jobs program and a research and development fund could encourage innovative, multi-platform models of journalism (Pickard et al. 2009). Other methods for creatively subsidizing public media could include instituting \$200 tax vouchers to put toward taxpayers' choice of media (McChesney and Nichols 2010), repurposing funds currently used for international broadcasting (Powers 2011), charging commercial broadcasters for their use of the public spectrum (Lennett et al. 2012), and seeing journalism schools volunteer to take over news operations vacated by professional organizations (Downie and Schudson 2011). Other historical models include municipal-owned ad-free and worker-owned models (Pickard 2011a, b).

Of course, allowing for public subsidies does not mean that the state should exert direct control over media; rather, it should help foster the structural conditions necessary for it to thrive. Nonetheless, the idea of government-supported media is

uncomfortable for many Americans, who worry that media dependent on government funding will not make effective watchdogs. But a growing body of academic research demonstrates that publicly owned media and government-subsidized private media are no less critical of government than unsubsidized, privately owned media (Benson 2010; Benson and Hallin 2007; Benson and Powers 2011; Hallin and Mancini 2004). In fact, some scholars have suggested that in liberal democracies with predominantly commercial media systems, the state plays a larger role in shaping the news than in democracies with publicly subsidized media systems. Hallin, for example, told a journalist that his comparative analysis of media systems found “*very strong evidence that press subsidies don’t lead journalists to be timid*” (Nordenson 2007) and even suggests that the Swedish press was liberated to become more adversarial after public subsidies were introduced. Another comparative analysis shows that public service television devotes more attention than the US market model to public affairs and international news, which fosters greater knowledge of these subjects, encourages higher levels of news consumption, and shrinks the knowledge gap between the advantaged and disadvantaged citizens (Curran et al. 2009).

By funding a public support system, media arguably can become more autonomous. Drawing from a number of respected studies showing strong correlation between public media systems and vibrant democracies, recent research suggests that public press subsidies do not create a slippery slope toward totalitarianism (McChesney and Pickard *Forthcoming*). Other studies show that subsidies do not discourage critical journalism (Benson 2011) and do not encourage subservient, uneducated publics (Curran et al. 2009); often, the opposite appears to be true. Suggesting continued media independence despite press subsidies, a recent comparative analysis by the *Reuters Institute for the Study of Journalism* at the University of Oxford observes that these models are successful in remaining “*viewpoint neutral*” and do not disproportionately benefit or discriminate against specific media outlets (Nielsen and Linnebank 2011). When considering whether state-subsidized media is effective, it is also worth noting the popularity and quality of the BBC (although increasingly fraught with recent scandals). Over the past decade, more American scholars have begun to seriously examine the subsidy approach (Goodman 2002; *The Manship School of Mass Communication* 2004). More recently, US legal scholars like Greenberg (2012) and Schizer (2011) have noted that press subsidies would pass constitutional muster and have strong precedents in American history and international standards. Greenberg further suggests that press subsidies could be successful if Congress combined direct funding and tax-based incentives into a hybrid similar to that utilized by public broadcasting.

Regardless of the exact mechanism, for a public media model to be successful in the USA, its funding must be guaranteed over the long term and carefully shielded from political pressures. Whether this is a government trust, or some other financial set-aside, or based on fees from commercial broadcasters or even media consumers themselves, is less important than the condition that financial support is shielded from both commercial and political pressures.

Conclusion: A Turning Tide?

The American polity's thinking about the potential for media subsidies is currently constrained by misinformation and ideology. But if it can move beyond those constraints, the contemporary moment could be an opportunity to firmly establish an autonomous public media system devoted to public service. The money needed to support this system over the long term could be raised by Congress creating and funding a public trust, or perhaps from a small consumer tax on electronics. The *Fourth Estate* should be neither dependent on the whims of the market nor subject to shifting political landscapes. Proposals for press subsidies considered radical several years ago are gradually being mainstreamed, as evidenced by a number of government reports and newspaper op-eds putting forth ideas for bold policy interventions. For example, the *Federal Trade Commission's* (2010) draft report put forth a number of potential policy interventions ranging from tax incentives to more direct subsidies. Likewise in 2010, *Columbia University* president Lee Bollinger authored a *Wall Street Journal* op-ed titled "*Journalism Needs Government's Help.*" Judging from the steady trickle of such proposals, the beginnings of a consensus seem to be crystallizing around what Curran (2010, p. 472) refers to as "public reformism," which calls for strengthened public media and other policies to sustain the journalism that the private sector can no longer support.

This emerging consensus suggests that the present moment is an opportunity to transition from a commercial newspaper model to a public service media model, with a press that serves the public interest and does not improve and deteriorate with market fluctuations. Yet significant—largely ideological and political—barriers to implementation remain. What many reformers call for is governmental intervention in the form of supporting the key structures necessary for diverse media, but *not* intervening in media content. While the future of journalism in general and public media in particular is bound up in the political appeal of state activism, proposals for saving journalism are not statist. In other words, these public policies would support journalism without influencing the press's ideology or viewpoint.

Reform proposals also should emphasize that they are not focused on simply propping up corporate incumbents and paper-based media. Indeed, the objective should always be clearly stated as saving journalism, not necessarily newspapers. Few proponents of subsidies are advocating for a direct bailout of the commercial media system or the preservation of traditional news organizations as they currently exist—there is little room for nostalgia or sentimentality about ink-stained fingers from rustling through broadsheets. A critical point that often goes overlooked: subsidized media that would by necessity transition to non- or low-profit status would be structurally quite different from the current commercial press. Combine those restructured news organizations with a public media system whose support is brought in line with global democratic norms and, with time, a very different media system will

emerge. Presently, the politics to drive these policies are absent, but the first step is to reframe the debate.

To summarize, a healthy democratic society needs an alternative media infrastructure, one that is insulated from the commercial pressures that helped bring about the current journalism crisis. Within any media system, there is space for both commercial and noncommercial models; what is ideal is a *mixed* media system, one that restores balance between profit-making and democratic imperatives, and is better able to withstand dramatic fluctuations in the market. A wholly commercial system, especially one focused on advertising revenue optimization and profit maximization, is structurally vulnerable and not entirely adequate in supporting the needs of a democratic society. Historically, American media policy has reflected the understanding that the market alone cannot provide for all of society's communication requirements. While American media policy has largely favored incumbent media corporations for decades, a rare chance exists now to create a truly public media. But the current window of opportunity to make structural reforms may close quickly.

Of course, any public media subsidies should be based on complete transparency, systems of accountability, and numerous safeguards and firewalls to ensure that they do not become instruments of state control. But as the international and historical records show, many leading democracies—as well as the American republic at various points in its history—have successfully employed press subsidies without sliding toward totalitarianism. When assessing the current journalism crisis, which promises only to worsen over the coming years, historical knowledge is especially vital. As we look back and assay roads not taken, we may even consider revisiting some of them.

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Part IV

Conclusion and Future Outlook

Paul Murschetz and Josef Trappel

23.1 Policy Intervention Is Needed

It is no secret anymore: The newspaper publishing industry is in a permanent state of flux. Information and communication technologies (ICTs), and in particular the Internet, have had a profound impact on business activities of firms in the industry, including all subsectors. Impacts concern practically all areas of business activity, most importantly internal work processes, the products themselves, distribution, marketing strategies, and interfaces between companies and their customers in general. Newspaper publishers in particular have experienced substitution effects in advertising markets (i.e., particularly the migration of classified advertisements to the Internet). As a consequence, the sector is undergoing a substantial structural change both in terms of organizational processes and with respect to the type of products and services that are produced, delivered, and consumed (Nielsen 2012; WAN-IFRA 2010; WAN-IFRA 2012).

This book volume offered the opportunity to establish a comprehensive analysis for locating *State Aid for Newspapers* within different types of economic and cultural settings in Europe and abroad. It located the current disruptive challenges of the news industry as reference point for government intervention into the press. One might expect a rich literature and ample empirical insights into the important issue of government subsidies to newspapers. However, our own preliminary review of this literature concludes that a clear picture of the relationship between public subsidies and its efficacy on newspaper economics, public policymaking, the governance of newspaper firms, and the public and has not emerged from previous studies. *State Aid for Newspapers* has tried to help closing this gap by looking into the plethora of issues involved. It explored both theoretical arguments surrounding state aid for newspapers and added knowledge on current issues of subsidy governance in various empirical contexts through case study evidence collected from

P. Murschetz (✉) • J. Trappel
ICT&S Center, University of Salzburg, Sigmund-Haffner-Gasse 18, 5020 Salzburg, Austria
e-mail: paul.murschetz@sbg.ac.at; josef.trappel@sbg.ac.at

various countries across the globe. Let us summarize a few provisional conclusions from this prolix, complex, polyphonic, and politically charged discourse.

Naturally, to publish a book called *State Aid for Newspapers* insinuates the need for political intervention. This is because we believe that that state support to newspapers is not only legitimized on pure economic grounds. Media concentration is so pervasive in the newspaper industry that *press diversity* has become a major issue of concern for regulators across the globe. Generally, there is a strong argument among Western European countries that general competition policy combined with effective media rules should ensure the plurality of titles and thus diversity of opinion. However, much of the debate over the lack of clarity as to how to define diversity and the best way to achieve it reflects the complexity of issues involved. Not only are the terms plurality and diversity often used interchangeably, but also is the relationship between plurality of ownership and diversity of opinion not straightforward. Some critics have argued that where diversity of ownership is dispersed it may still speak with one voice. Conversely, a large number of titles controlled by the same interest may express a diverse range of views. Regulating to avoid dominance or market control by a single player in the press is subject to underlying ideological controversies over press diversity as divergent as those of the free market and the social responsibility school of thought. At one pole, hard-nosed proponents of the free-market school of thought argue that diversity of opinion is automatically promoted by market self-regulation. In this light, public policy measures aim at maximizing the allocative efficiency of the press market by way of ensuring an adequate number of suppliers and protecting their ability to serve customers' needs without unnecessary interference by government. Profoundly skeptical to government intervention, they assert that self-regulating competition is best harmonizing entrepreneurial activity and market demand. As priority is given to constitutionally guaranteed publishers' ownership rights and freedom of enterprise, selective state intervention on behalf of diversity is taboo and regulation reduced to general competition policy. On the other pole, adherents to the social responsibility school of thought argue strenuously, with strong empirical evidence, that unfettered competition may lead to its obverse, economic concentration which itself may reduce independent titles and may thus severely curtail the plurality of titles and thus diversity of opinion requisite to maintain a vigorous democracy. Thus, monopolist tendencies in the economic competition of newspapers seem to advise to look for models of active state regulation, with a government playing the prominent role to safeguard and promote press diversity. Discreet financial support might be one suitable policy instrument.

The thesis that the market needs the state has also gained considerable currency among theorists who have pointed to the importance and centrality of the provision of *political* information to the proper functioning of a democratic system. Colin Sparks (1992), for example, has adhered to this role by putting forward his concerns as follows: "*From the point of view of any democratic theory, the importance attached to the newspaper press is that it is one of the main channels by means of which citizens can be informed about the world and the problems and choices facing their government, and in which they can find reasoned discussion of alternative policies and*

possibilities. Also, according to this theory, it is essential that the same quality and variety of information and debate be available to all citizens equally since, just as gender, property, and educational franchise restrictions are obstacles to full democracy, so too are systematic informational imbalances between citizens. This is the only function of the press that is important for democratic theory" (Sparks 1992, p. 43).

However, while few serious observers would contend that the press is simply a tool of the government in power to distort the formation of public opinion in its favor, critical analyses have dampened the enthusiasm of state intervention into the press. It has been reported that particularly selective subsidies expose the press to the danger of covert government control since they could be allocated to favor pro-government papers. State control of the press may also take on more subtle forms. Close cooperation between the state and the press in the areas of ownership, finance, or employment may be the seeding ground for the authorities' control over information. By the same token, the conglomeration of large press groups may tip the balance in favor of public intervention as their ability to influence public opinion may transgress democratic principles. Although considered as inherently antithetical to democratic participation and diversity, the contrary argument has been aired that increased concentration of ownership in the hand of a few may have positive effects when controlling the acts of firms, so preventing anticompetitive action that might harm the market. In the same tone, Alfonso Sánchez-Tabernero et al. (1992) have pushed the viewpoint that "*only strong media companies can resist the pressure of governments and other public bodies, and thus exercise their crucial function in society*" (Sánchez-Tabernero et al. 1992, p. 6).

Similar arguments have been articulated by Richard Collins and Christina Murrone (1996) when looking for new policies to tackle with the central issue of concentration of ownership in the media. From their viewpoint, "*regulators may be faced with the invidious choice between allowing a media outlet to die, resulting in increased concentration of ownership, or be taken over by an established dominant player, also resulting in an increased concentration of ownership,*" but concede that "*the harm might be minimized by permitting a merger on condition that editorial and journalistic independence were strengthened*" (Collins and Murrone 1996, p. 74). By asserting that general competition law and the market supply the necessary diversity if only the editorial independence is strengthened, subsidies lose importance as structural guarantees of diversity.

Despite differences in political culture, media history, and situational factors determining a nation's subsidy scheme, theoretical controversies are foregrounded by the state-interventionist versus self-regulated, free-market paradigm, so purporting the deep-seated ambiguity ingrained in the role definition of the press in an advanced democratic society. What some market observers and practitioners believe to be inimical to a press thought as a public service, the need to turn a profit in a *market-is-king* environment, other observers call necessary market-driven adaptations to the requirements of the readers' changing desires. Governments tend to slip between the horns of this dilemma when asked for policy reaction.

Less cynical yet critical of the provisional character of such public interest, libertarian ideas, on the opposite, often promoted by newspaper industry associations and governments leaving the market to itself, put more faith in competition to ensure diversity in the press. The policy dilemma here is to greatly ignore the built-in impetus of the press market toward failure. However, against the background of major trends led by business and technology in general, among Western-style governments that emphasize the importance of the “free market” and the fundamental links between free enterprise and democracy, there is a general reluctance to accept that the liberal market economy as such could give rise to any more serious problems in the functioning of the press in a democratic society. Originally, this “libertarian,” free-market theory of the press, introduced in 1956 by three professors of communication studies Fred S. Siebert, Theodore Peterson, and Wilbur Schramm as part of their *Four Theories of the Press*, a groundbreaking work examining on what the press should be and do by analyzing authoritarian, libertarian, social responsibility, and Soviet communist theories, rests on the leading principle that the less government becomes involved in the press the better. They argued that freedom to publish and compete in an unrestricted market will produce a press which is diverse, accountable, and representative. The perennial problem of the extent to which the government should be allowed to participate is reduced to “*the more informal type of control through the self-righting process and through the free competition in the market place of information, opinions, entertainment. The principle function of the state is to maintain a stable framework within which the free forces of individualism may interact. At times this interaction may be chaotic and the results unproductive. Nevertheless, in the long run this process is to be preferred to authoritarian direction*” (Siebert et al. 1956, p. 53). As indicated, the libertarian ideal of the press is governed by constitutional rights to freedom of opinion and speech, ostensibly providing “*a firm defence against advance censorship, licensing, political control and victimisation of journalists for reporting unpopular opinions*” (McQuail 1994, p. 130).

In many contexts, press freedom has become identified as an individual’s right to property and has been taken to mean the right to own and use means of publication without restraint or interference from government. In this context, the fundamental issue is to safeguard as much diversity as exists and is expressed by free consumers bringing their demands to the marketplace. An optimal allocation of press resources is best realized by an unrestricted market by providing a general framework offering foreseeable and stable working conditions for free enterprise. Corrections should only aim at abolishing obstacles to competition and, above all, obstacles to market access.¹

While the traditional *liberal theory of the press* is formulated largely from an Anglo-American perspective and is promoted by governments with a liberal–conservative

¹ Policy action for this “hands-off approach” taken by many Western governments during the 1980s is additionally informed by more general processes of commercialization, liberalization, privatization, and internationalization, characterizing current liberal state-constitutive activity.

makeup, the *social responsibility theory of the press*, on the other side, represents a quintessential mainland European and Scandinavian creed designed to override or supplement the allocative decisions of free-market mechanisms, promote diversity through competing titles, protect the newspaper industry, inhibit undesirable outcomes, and promote desirable ones. Theoretically, the classical veto on state involvement in the economics of the press implies the notion of a positive freedom of the press, endowing it with a social responsibility to inform and educate in the widest sense. Theodore Peterson, who first formulated the theory in 1963, clarifies its ethos as follows: “*The social responsibility theory is grounded in a school of thought which sees a purely negative liberty as insufficient and ineffective. Negative liberty, according to this view, is an empty liberty; it is like telling a man that he is free to walk without first making sure that he is not crippled. To be real, freedom must be effective. It is not enough to tell a man that he is free to achieve his goals; one must provide him with the appropriate means of attaining those goals*” (Peterson, in Siebert et al. 1956, pp. 93–94).

Robert Picard introduced the concept of positive and negative freedom to media policy in his deliberations on the interdependencies between the press and the decline of democracy. While negative press freedom refers to the absence of legal and/or political prohibitions and the absence of censorship, positive press freedom relates to the effective capacity of individuals to have their opinions printed and circulated. “*Efforts to promote positive press freedom are seen in calls for social responsibility in the media, economic regulation, the right to reply, access to media, freedom of information, and state intervention in media economics (. . .)*” (Picard 1985, p. 43).

This means that governments have taken over responsibility to secure a varied choice of ideologically committed press products for readers and are thus supplementing political parties as active transaction partners in the political arena. But while most publishing houses seem unanimous in agreeing that subsidies are a tool of the government to try to gain control over editorial opinion or the way in which news are reported, some have yet not subsided to this transfer of control and have declared government subsidies a threat to the freedom of their press. On the whole, it has turned out that the long-standing paradigmatic divisions between the *free-market economics* and the *social responsibility* school of thought have sown more dissent among the modes of intervention into the press than necessary. Reconciling economic and noneconomic perspectives on press theories has become particularly advisable when considering that the standard arguments of both camps rather rest on differences in abstract assumptions than having been subjected to careful analysis.² Moreover, as has been stressed by Denis McQuail (1994),

² Although one might easily be dragged into the powerful sway of the two perspectives, Robert Entman and Steven Wildman (1992) have shown that the constructs implied by the *marketplace of ideas* metaphor that has guided much of the thinking by both camps and the ways that these constructs have been employed ought to be reassessed to find more effective communications policies (see Entman and Wildman 1992). Denis McQuail has suggested to rethink this theoretical juncture by broadening the research horizon beyond *Four Theories of the Press* and has pointed,

“underlying differences of interest and political ideology which are present in any society thus do not constitute ‘any single system’, with a single purpose or philosophy, but are composed of many separate, overlapping, often inconsistent elements of public regulation of the press, with appropriate differences of normative expectation and actual regulation” (McQuail 1994, p. 133).

Of course, *Four Theories of the Press* and its subsequent modifications have later been overturned by other models of media policy and the role of the state in shaping the structure and functioning of a media system. Here, a prominent example is Daniel C. Hallin and Paolo Mancini’s (2004) distinction between *liberal democracies* and *welfare state democracies*, and the main difference between these two categories is seen in the interventional activity of the state (e.g., *funding vs. free market*) (see Hallin and Mancini 2004, pp. 49–50).

Today, however, we know that government subsidies are to be critically discoursed as being maladjusted to safeguard economic viability and cultural diversity. Critics of public subsidies point to a plethora of failings of subsidy schemes. Subsidies may be controversial in rationale and design and thus drive market inefficient behavior of recipients and even their competitors. As a result, media economists would need to evaluate market performance as lacking allocative, productive, and—in recognition of the social responsibility function of the press—distributive efficiency.

23.2 Findings from Theory: Mixed Results

Research into the concepts for explaining the legitimacy and efficacy of *State Aid to Newspapers* has to concede that government intervention into the press is a slippery if not dangerous terrain. While acknowledging this general problem, this book has offered the opportunity to establish a comprehensive screening of conceptual and theoretical issues on *State Aid for Newspapers*. Hence, what do we know about the way newspaper markets are organized and how print media firms manage scarce resources for competitive advantage, and how governments may benevolently intervene into these markets? This review concedes that the academic field of building conceptual and theoretical frameworks that inform research on newspaper subsidies has developed rather sporadically, if not hesitantly. Nonetheless, the present reconstruction of the many concepts involved in *State Aid for Newspapers* has driven home a gallery of themes from various scholarly perspectives. Let us thus finally draw together and assess some crucial conceptual thoughts that we brought forward in this book.

Research revealed that various specificities for printed news qualify for applying the *paradigm of market failure*. Market failure sources range from the in-built feature of product and cost characteristics of media goods, to forces driving

inter alia, to Robert Picard’s distinctive “social democratic” version of press theory, stressing the notion of public intervention into the press, “so as to ensure true independence from vested interests, access and diversity of opinion” (McQuail 1994, p. 132).

competition toward failure, on both the supply and the demand side of a market transaction, to constraints embedded in the organizational structures of markets. In addition, dominant firms may raise market entry barriers or try to control successive value stages under their single roofs through strategies of ownership concentration and vertical integration. The consequences of failure can be profound: Resources are allocated inefficiently and consumers are not catered to their tastes and preferences. However, we have to admit that the theory of market failure is fallacious: It builds on the neoclassical model of market equilibrium under perfect competition and applies this model as benchmark for failure. All markets that fail to meet these requirements automatically fall victim to this verdict.³ These standard assumptions (e.g., multitude of firms as price-takers, goods as perfect substitutes, no market entry and exit barriers) of neoclassical economics are, however, widely criticized as unrealistic in real-life economic media practice. As it stands, market failure theories may still be considered as an option under conditions that these assumptions are *not* met while other models of competition may come closer to explaining reality. Despite this paradigmatic hiatus in applying the paradigm of market failure to issues of newspaper market failure, we insist on analyzing our big issue from multiple perspectives in order to provide significant explorations of the fissures within this discourse. Explanations from game theory and behavioral economics hopefully furthered this need for paradigmatic opening.

It has been reported that particularly selective subsidies expose the press to the danger of covert government control since they could be allocated to favor pro-government papers. But state control of the press may also—unrelated to subsidies—take on more subtle forms (Picard 2008). Close cooperation between the state and the press in the areas of ownership, finance, or employment may be the seeding ground for the authorities' control over information. By the same token, the conglomeration of large press groups may tip the balance in favor of public intervention as their ability to influence public opinion may transgress democratic principles. Although considered as inherently antithetical to democratic participation and diversity, the contrary argument has been aired, namely that increased concentration of ownership in the hand of a few may have positive effects when controlling the activities of firms. In this view, only strong media companies can resist the pressure of governments and other public bodies and thus exercise their crucial function in society. National press regulation should thus better aim at protecting the internal market by fortifying the national champion(s) through lenient anti-concentration laws. Similar arguments have been put forward to tackle new policies for central issue of concentration of ownership in the media (Baker 2007; Downing 2011). From that angle, regulators may be faced with the invidious choice between allowing a media outlet to die, resulting in increased concentration of ownership, or be taken over by an established dominant player, also resulting in an increased concentration of ownership, but the harm might be minimized by

³ Demsetz (1969) called this approach *Nirvana approach* as it benchmarks market failure with the utopian model of perfect competition.

permitting a merger on condition that editorial and journalistic independence was safeguarded. When asserting that general competition law and the market will supply the necessary diversity if only the editorial independence is strengthened, subsidies would lose importance as structural guarantors of diversity. As a result, research into the wider impacts of government subsidies into the press and its role in society at large should be driven by ethical claims toward more transparency and accountability before the larger background of press regulation, media governance, and accountability as such (*BBC Media Action* 2012; Bardoel and D'Haenens 2004; Besley and Prat 2006; Eberwein et al. 2011; Meier 2011; Meier and Trappel 2007). This book has tried to contribute to this end.

Subsidies are given to a broad spectrum of industries—agriculture, energy, higher education, and banks during the financial crisis, to name but a few.⁴ However, the political nature of subsidy allocation and individual industry characteristics expose similarities and differences across sectors, making it difficult to generalize their specific rationales to the print media. We have learned that some arguments which are in favor of subsidies to the print media seem to be the same as those of industrial subsidies. However, there are significant differences. The most important seems to be the political dimension of print media and that of political power and the ability to shape opinion for political gain. Consequently, maintaining a business for private gain with public money raises a host of thorny questions that go beyond usual arguments about asset specificity, economic efficiency, or political ideology. Dirk J. Wolfson (1989) helps us to understand this: “*Things do not receive subsidies, people do. Behind every subsidy there is someone reaping the benefits. That is the crux of the political economy of subsidization*” (p. 16). This means that public money can be used to alter not only the range of beneficiaries from the public purse but also the rule that the system uses to create beneficiaries in the first place. If given out to the wrong beneficiaries, subsidies to (not only) the print media may thus be used to create and perpetuate the same actors in power, so undermining democratic legitimacy and perceptions of accountability. In extremis, public subsidies might even create bottom-line profits for media conglomerates which are profitable in some business activities but loss-making in others.

Critical scholarly research posits that quality journalism plays a vital role in keeping the public informed and maintaining democratic processes. It is commonly agreed that news media should play a core role in the successful working of democratic societies: they guarantee that citizens have access to information, are accurately informed, and actively take part in the political process. And, a crucial factor for the effective fulfillment of these democratic functions is an adequate level of journalistic quality (Curran et al. 2009). But that essential function has come under threat as emerging technologies and changing social trends, sped up by global economic turmoil, have disrupted traditional business models and practices, creating news ecosystems in dynamic change. A purpose of this book was to critically

⁴The European Commission even differentiates between “non-crisis aid” and “crisis aid for the financial sector” (CEC—Commission of the European Communities 2012).

investigate this presumption, at least when it is held dogmatically. In fact, we conclude that the press is vital to democracy. Quality journalism is to contribute to this goal. To claim that it is the political duty of government to support this function, however, is to imply that state intervention for the preservation and promotion of the public value dimensions of the press is entwined with press freedom to control government. Good governance is to resolve this dilemma in the best of possible ways. News media are important in furthering democratic governance, provided they are set up in ways that allow them to act as effective watchdogs, agenda setters, and gatekeepers. The devil is in the details. Our research found that while governments in many countries subsidize their newspapers with the intention to guaranteeing high journalistic quality, it is much a matter of which types of subsidies are used in what type of policy culture in order to deliver the goods.

There is no European-level legislation on newspaper subsidies. The European Commission only ensures that national governments apply state aid and subsidy rules correctly. However, when subsidies distort or threaten to distort competition by benefiting certain undertakings or products or if such aid affects trade between Member states, the Commission is set to intervene more actively. In 2009, for example, the European Commission has formally proposed, under EC Treaty rules on state aid, appropriate measures to Sweden to make a Swedish scheme providing for state support to Swedish newspapers compatible with EU state aid rules. The Commission's investigation found that while aid can be compatible with the Single Market if it pursues a goal of common interest, is proportionate, and does not give beneficiaries an undue advantage over their competitors, the Swedish press aid scheme did not meet the proportionality test. Instead, it gave an excessive amount of aid to large press groups that publish wide circulation metropolitan newspapers, without fixing a threshold in relation to the total operating costs for publishing the newspapers. *"The commission recognizes the importance of media pluralism for the cultural, democratic and public debate in member states and the importance of newspapers in this context,"* EU Competition Commissioner Neelie Kroes said. *"However, running a newspaper is also a commercial activity and the commission has a duty to prevent undue distortions of competition and trade resulting from public subsidies,"* Kroes added.⁵ But while the Commission acknowledged the overall benefits of the Swedish state aid system, its recommendation was largely restricted to advocate lowered subsidy ceilings for the metropolitan press (CEC 2009). In all, the European Commission's work on State Aid confirms the necessity of intensified research in this matter. Its goals are already set out clearly across industries: lesser and more targeted aid (CEC 2012).

Only few can imagine public press policies veering off in a wholly new direction, but described pressures of change from outside the schemes together with inherent current deficits have forced governments into the need for reform. Yet wary of unleashing drastic cuts in subsidies as part of a radical rethink, current

⁵ <http://www.swedishwire.com/jobs/342-eu-tells-sweden-to-dump-newspaper-subsidies>

governments in many countries have sent out mixed signals as to how to adequately react to criticisms and adapt to changing economic and technological environments. Soul-searching gives some pointers as to where the future of *State Aid for Newspapers* might lie. Locked up in a power struggle between the government and the newspaper business, regulators grapple with the need for change of the schemes. On the one side, in a fit of neoliberalism, they now shift general attention to cash-neutral policies, thus pinning hopes on effective antitrust regulation, with rigid equity ownership rules the believed winning formula for a diverse press landscape. On the other side, subsidies are still considered a homemade answer in response to the heterogeneous problems of the newspaper industry, particularly high costs of production and distribution, accelerated concentration of ownership, a volatile advertising market, and a disengagement of readers. We think that the media governance concept is of great value for describing, explaining, and criticizing politics, politics, and policies in the media sector.

A key issue in effectively *designing a subsidy scheme* is to determine its policy targets (e.g., consumer, producer, value adding factor) and the desired output targets (how many titles should benefit from a scheme, what is the real value of subsidization for each paper, which title segments need state help, which content markets should be addressed, etc.), all in a transparent and, importantly, societally accountable way. Here, the main difficulty in such subsidy design work lies in recognizing the fact that state intervention into the press generally needs to balance between the economic objective of promoting competitiveness of print media in the wider media grid and the objectives of securing plurality of titles, diversity of views, content quality enhancement, innovativeness, and more, all in favor of satisfying reader needs and the wider public. After subsidy vision, mission, and objectives are identified, an effective governance strategy plan needed to formulate a subsidy-welfare roadmap. Such roadmap would have to analyze and understand the inner workings of an industry in terms of its market environment, the player's resources, competences, and capabilities, their corporate objectives and strategic plans, as well as civic stakeholder expectations. Further, as indicated above, targets should never be left out of sight and the market impacts be monitored regularly. All this is a herculean task and when aligned to a market failure test—and other important questions such as freedom of expression, corruption, and transparency needed to be addressed here as well—these indicative governance plans become complex. As a result, few would criticize that these circumstances impacting on an efficient design of a subsidy scheme are difficult to be tackled and resolved. Comparative experience indicates that subsidies have unintended adverse effects, could be difficult to sustain, and may lack accountability (OECD 2010). In my view, careful design is thus required.

While the news industry is struggling to find new revenue streams that can reshape their broken business model, the industry's future will be defined by *experiments in news media monetization*. This will also include content that is guided more than ever by the audience and ad revenue. The new publishing business model is indeed evolving, and companies are looking for new revenue streams, while also using cost-cutting as a tool to drive the business toward

innovation. But the advertising and subscription business models that supported traditional media companies in the past appear to do *not* so in the digital age (Picard 2005). Addressing the capitalization gap for news media and quality journalism raises the fundamental questions of how it will manage to survive as traditional sources of revenue shrink. Solving this issue is vital as the legacy subsidy model through advertising is failing. Advertising has found many outlets, atomized into thousands of blogs, *Facebook* pages, and specialized television and radio stations, so that nobody can make a living from it anymore, notably not print media.

23.3 Case Study Evidence: A Final Assessment

Now, let us learn some summary lessons in the context of selected empirical research evidence collected from case studies on *State Aid for Newspapers* around the world.

Australia has one of the most concentrated newspaper industries in the developed world. Policymakers have tended to counter related concerns about diversity of opinion in newspapers with measures promoting diversity of ownership of broadcast media including restrictions on newspaper control of other media. While subsidies to newspaper production have not been a feature of media policy, the industry has benefited from several direct and indirect assistance measures at various times in its 200-year history. As in many other countries, newspaper circulation has been declining for decades, but the primacy of newspapers in the advertising market was not seriously challenged until the recent rapid rise of the Internet as an advertising medium. The consequential structural adjustments have raised concerns about the future sustainability of the crucial role that newspapers play in a democratic society and have led to calls for government assistance and the issue was considered by recent federal government-initiated media inquiry on media and media regulation. However, while the inquiry acknowledged the difficulties facing the industry it stopped short of recommending financial assistance.

Austria has introduced a direct general government subsidy scheme for newspapers already in 1975. Operating across all daily and weekly newspapers, a unique feature in Europe, it was built on the original idea of compensating publishers for the then newly introduced value-added tax. While this general scheme is still running and distorts the market structure in favor of the market leading boulevard press, Austria introduced a selective financial subsidy scheme in 1985, the so-called *special subsidy for the maintenance of variety*, granted to secondary daily newspapers based on criteria of circulation and advertising volume. Today, the current scheme is set to be overhauled by the federal government, and its future is widely discussed by academics, lobbyists, political party representatives, and NGOs. At stake are principles, design, total amount of subsidies given, and general purpose to safeguard the future of the press and quality journalism, all difficult issues in a country of high press concentration and a low level of quality journalism. By extension, critical observers demand from government that the license fee funding to the Austrian public service broadcaster ORF (ca. 600 million euros per year)

should be taken into consideration when deciding upon the new subsidy budget to print media (VÖZ 2011). Finally, the notion that public advertising funds are spent for boulevard newspapers and some politicians in government were allegedly benefitting from these “information subsidies” left a bad aftertaste in the public mind. It even triggered an inquiry in Parliament for subsidy abuse.

The chapter on *Belgium* depicted the situation in Flanders, the Dutch speaking part of Belgium. In 1997, when the Flemish government decided to stop direct financial support to newspapers, it replaced it by specific projects: Government advertising campaigns (approx. 3.5 million euros yearly), support for investigative journalism projects (this resulted in the support of a permanent Fund), new media activities of newspapers (one of the important results was the development of a digital newspaper archiving service, called *Mediargus*), support for the *Raad voor Journalistiek*, a self-regulating ethical body, support for training of journalists, and support for a project that aims at stimulating the reading of newspapers by children and teenagers (Raeymaeckers et al. 2007) were replacing these direct grants, all paid out ad hoc). Flanders proved an interesting case as government measures to support innovation not only fit the strategic policy imperatives of the Flemish authorities to turn Flanders into a knowledge economy by 2020 but also served as test case for looking to the future of subsidies. To go there, newspapers need to take a more creative and proactive approach if they wanted to enjoy support measures. Innovation grants, it was suggested, could be a welcoming new source of funding for Flemish press companies.

While current media laws and regulations in *Bulgaria* do not foresee any direct state aid for newspapers, research revealed that several mechanisms allow for unofficial and shadowy practices to support the press with public funds. In Bulgaria, where corruption and kickbacks remain a significant problem, indirect subsidies come to support government by means of tax-funded promotional purposes, positive coverage for political parties in power, and private banks holding deposits of state enterprises which themselves finance newspapers. Today, Bulgaria is called on its government and other aid donors to publish more and better information about the money they give, who is involved in the transactions, and who benefits.

In recent decades, the media landscape in *Finland* has undergone fundamental changes. As a result of digital convergence and fragmentation, public governors have changed their priorities and increasingly treated news journalism more as a commodity product, while the ideals of public interest and social values traditionally attached to Finnish news journalism have given way to market values. These changes have strongly affected all forms of government-mandated public newspaper subsidies. At its final stage, the direct state aid subsidy scheme which was directed at the ailing party press in order to promote political pluralism was judged as a violation of the EU State Aid directive and was accordingly slashed by Finnish government in 2008. The only subsidy left is the selective subsidy granted to newspapers published in national minority languages (such as Sami and Romany) and in Swedish language (and corresponding electronic media) and grants for the production of Swedish-language news services. The Finnish government also introduced two crucial new policy measures: The long-standing policy according

to which newspapers were exempted from VAT was canceled and from 2012 a VAT of 9 % was imposed. Second, following the implementation of the EU Postal Directive, the Finnish Government decreed that the previous policy of cross-subsidizing the newspaper delivery costs from other postal income was classified as illegal state aid according to the new EU regulation. As a result, Finland is one of the few countries in Europe—if not the only one—where newspapers enjoy neither direct (apart from minority language subsidies mentioned above) nor indirect forms of state aid.

In *France*, the government press subsidies scheme is both one of the most extensive and at the same time most criticized subsidy systems. Created at the end of the Second World War, this system is characterized by a more than confusing pile of grants built up over decades. Evidently, the newspaper business model has come to automatically include these subsidies to such an extent that a cut or drastic reduction would trigger newspaper closures. The chapter authors criticized French subsidies for not being effective at all since they had done little to fulfill its original mission, namely to preserve a vivid, vibrant, and pluralistic press. Even worse, they are said to have triggered market failure effects by granting subsidies to print news outlets that needed no support and giving out money to newspapers on an utterly selective allocation mechanism.

Germany has acted very restrictively on any type of policy intervention in the press. While government subsidies to newspapers are still strongly rejected by most stakeholders, alternative models of funding newspapers are currently brought to public debate. As a country with a relatively large total reading audience, little local competition, and substantial profit margins over the years, the printed press is said to be in a healthy state. Still, publishers pledge for better copyright protection, fewer restrictions in their ambitions for M&A, or state protection against Internet spin-offs of public broadcasters. The authors peered far into the future of the funding for newspapers and suggested that new funding models such as crowd-funding, private sponsoring, establishing a public foundation for safeguarding the future of quality journalism, and reallocating some amount of the new public broadcasting license fee introduced in 2013 would be practicable alternatives to an otherwise unloved government subsidy scheme.

Much turmoiled *Greece* has not been governed by a clear legal framework for newspapers ever since. Government subsidies were handed over to the press through various rather clandestine practices. The author argued that a clientelist culture of Greek politics which has held together the state and the press in a network of mutual benefits is to be made responsible for this situation. It is questionable whether the current financial crisis will finally ruin the last remnants of a model of press support and government intervention and so undermine the long-lived interdependent relationships between the press owners and the state, its respective governments, and its politicians.

Lack of quality content and decreasing pluralism give evidence to market failure in the newspaper publishing industry of *Hungary*. There, daily newspapers are closely aligned with political parties, and their revenue streams are influenced by state advertisements. No doubt, the state plays an important role in the market, and

when the new right-of-center ruling *Fidesz* party entered office in April 2010, the revenue stream from public funds for the small left-wing daily *Nepszava* simply vanished. Now, government intervention also works without directly funding the media as government advertising does play a crucial role in the country. It comes as no surprise that some experts argue for a more transparent system where publicly accessible and nominal government grants allow for more stability in the market. As it stands, the author argued that the current form of state subsidies to print media is unlikely to contribute to building a more democratic society in the country.

In *the Netherlands*, the governance of rejuvenating journalism has brought to bear several government stimuli for innovation which should support and shape the future of Dutch newspapers. Many of these initiatives have been cofinanced by the Netherlands Press Fund, an independent government agency to support government press initiatives. The Dutch authors stressed the importance of innovation, a term used frequently and often loosely when discussing the future of the newsmedia industry, as a new and strong governance motive in the country. Based on survey results of *World Newsmedia Innovation Study* (Stone et al. 2012) that innovation will be driven by new product development and business opportunities for the emerging (digital) business of news which come from *outside* traditional sources, the authors presented initiatives to subsidize press innovation from a governor's point of view as has happened in the Netherlands. They acknowledged that the Fund has increasingly acted as a cornerstone and a driving force of news media innovation policy. While the government stimulated newspaper innovation as a "duty of care" policy in the public interest, and the Press Fund's impact on the press industry has become bigger and at the same time more clearly outlined, responsibility for innovation, the authors claim, must remain in the hands of newspaper managers, executives, and journalists. Indeed, the Press Fund's position is that of a responsible facilitator keeping a respectful distance from the initiatives taken in the sector.

In modern *Russia*, government financial support is right at the center of the newspaper business and its importance is equal only to financial support of newspapers undertaken by big and medium-sized enterprises from outside the industry or businessmen personally, be they overt or hidden in nature. Without these monies, the author claims, almost all dailies would operate with chronically uncovered losses. In Russia, state subsidizing not just supplements other revenue sources but is vital to keeping the daily press alive, especially the regional press. As shown, in many cities and regions the volume of state support can even exceed the volume of traditional commercial advertising for general interest dailies. At the same time, one can witness another specificity of Russian media governance: too often, financial state subsidies go to titles that are state controlled, state affiliated, or openly loyal to federal and regional authorities. These assumptions illustrate a trend whereby state support does seem not to stimulate pluralism but minimizes diversity of views. This is because, in effect, it weakens the market position of the independent and alternative press.

In *Sweden*, a long-standing best-practice Nordic model country for a very proactive government attitude to intervene into the economic well-being of the newspaper industry via financial subsidies and other measures, the question

whether or not financial subsidies are still viable tools to regulate an industry has been around for some time now (Picard 2007). But while the Swedish newspaper industry is going through what we could call a *disruptive change*, it remains more than doubtful that these changes and the challenges they pose for the industry will be properly resolved when thinking about building an effective subsidy scheme for the future. The author shares this pessimism and posits that although the Swedish model has preserved newspaper titles, the scheme's original idea of providing the media audience with a choice between different local newspaper providers appears increasingly futile. One major problem is the transition from print to digital and the absence of successful examples of how a future media subsidy scheme should be designed.

In *Switzerland*, the press has until recently benefitted from two forms of public subsidy: Selected press products have been indirectly subsidized through discounted postal transport prices, and secondly, a reduced value-added tax rate has been applied to certain printed matter. Here, the authors discussed the issue of indirect subsidies in the context of changes in the postal regulation. When a new Postal Act came into effect in 2012, it also reformed the indirect press subsidy scheme. While the scope of the subsidy was not changed significantly, Swiss Post's role as an intermediary in the subsidy scheme is now much clearer. This is because postal subsidies per title are now determined by a simple and transparent allocation mechanism. However, bigger changes are looming around the corner. In December 2012, the Federal Council adopted a proposal concerning the consolidation of the Federal budget. This included savings measures with a terminal effect on postal subsidies: They may be abandoned at short notice from 2015 onwards. All depends on whether the Swiss Parliament will approve the abandonment of these indirect subsidies.

In the *United Kingdom*, seen as a classical *no-subsidies* country, debates surrounding government support for newspapers have centered around the dogma that this type of intervention into press affairs would smack of too great a degree of interference with the press's editorial independence. Indeed, subsidies in the form of discretionary grants have until today been miniscule. Only Welsh language newspapers receive some subsidies via the *Arts Council of Wales* and the *Welsh Books Council* (Jones 1999). Recently, however, the debate has again been stirred by the conservative MP Louise Mensch who is worried about the consequences of the decline of the local press in the UK and what it means for local government accountability and democracy.⁶ She wanted a serious review and is calling on the government to introduce subsidies and tax advantages for local newspapers. It is known that the UK is awash with local "town hall pravda-type" propaganda news-sheets put out by local authorities and financed by council taxpayers. Other below-the-line subsidies come in the form of public notice advertising, again partly run through publications issued by the local councils across the UK (Greenslade 2012). Local newspapers have also got to compete against regional BBC television, again funded by the public. In this book, the author found that subsidies and support for

⁶ <http://www.guardian.co.uk/media/2012/apr/25/louise-mensch-subsidies-local-newspapers>

local publishers in Britain as yet emerge as opaque, informal, and multidirectional means of support. Were policymakers and media corporations openly to acknowledge the need and also appetite for public subsidies, a wider, better-informed public debate might take place about alternative models of local media engagement with civil society and the sustainability of media which bring public benefit.

In the *United States of America*, the issue of *State Aid for Newspapers* has gained increasing acclaim among scholars and politicians who argue that public policy interventions are needed to save the ailing industry in the country. Newspapers in the USA often are assumed to be entirely products of the market, beyond the reach of state intervention. This folk theorem is what the author aimed at reversing. He claimed that the American polity's thinking about the potential for media subsidies is currently constrained by misinformation and ideology. But if it can move beyond those constraints, the contemporary moment could be an opportunity to firmly establish an autonomous public media system really devoted to the interests of the public. While the time may have come for the state to step in to save a troubled industry, proposals for press subsidies considered radical several years ago are now gradually being mainstreamed. They range from financial grants to selected newspapers on the verge of failure, to tax breaks to hire additional journalists, to government-owned news organizations. In all, it seems as if the present moment is an opportunity to transition from a commercial newspaper model to a public service media model, the author concluded.

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