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

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## 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

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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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