

Issues and Challenges in the Provision of Press Subsidies

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Press subsidies are provided for social purposes to promote political activities, spur cultural development, meet the needs of minority linguistic and ethnic groups, and promote religious and other organizations sanctioned by the State.

Press subsidies have existed since the first appearance of the press, but their scale and scope have changed over time as states have responded to national concerns over press developments. The policies developed over the past two centuries have created multiple means of support that are typically uncoordinated and involve multiple administrative agencies. Most press subsidies support newspapers, but some also support magazines and journals.

The first efforts to broadly address issues of press subsidies began three decades ago as states began to respond to a wave of newspaper mortality and a number of European nations constructed extensive subsidy mechanisms in efforts to reduce the demise of newspapers and the concurrent concentration in the newspaper industry.

Interest in newspaper subsidies began in response to increasing newspaper mortality during the 1960s and 1970s (see Table 1). A number of nations undertook parliamentary inquiries and conducted policy research as they created new subsidy policies. One of the earliest comparative studies of these support mechanisms was made by Anthony Smith (1977) and since that time a number of studies have described and compared national press support policies (Picard, 1985b; Santini, 1990; Holtz-Bacha, 1994; Murschetz, 1997).

Most studies have consisted of mere descriptions of the types of state intervention provided in various nations. Only a few have gone further to seek explanations of patterns and causes. Research that I conducted has found that patterns of press intervention were related to national economic and industrial policies (Picard, 1985a) and that the level or significance 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.

Table 1

Contemporary Press Subsidy Timeline					
		Governmental studies of newspaper deaths and concentration	Financing of advantages and subsidies diminishes		
Wave of newspaper deaths in Western nations			New advantages and subsidies established	Newspaper mortality returns	Newspaper mortality increases
1950	1960	1970	1980	1990	2000

Although support for subsidies was initially strong in many nations, reductions in financial support because of economic fluctuations and austerity programs began to significantly reduce the amount of support in Nordic nations during the 1970s (Picard, 1986), and that support and the types of aid continued to decline in the 1980s and 1990s. In Sweden, for example, the downward trend in subsidy financing over the past two decades resulted in total subsidies falling from 707 million Swedish kroner (€76.4 million) in 1980 to 514 million Swedish kroner (€55.57 million) in 2000, a decline of about 27% (Weibull, 2002) and in Finland total annual expenditures for press subsidies in 2000 had fallen in real terms to their lowest point since the early 1960s (Picard & Grönlund, 2003). This pattern of diminishing support is found in most nations.

The ability of subsidies to solve the problems for which they were provided is debatable because the number of papers has continued to decline. Studies have shown that subsidies often have not addressed the underlying economic problems of the press; that the amount of subsidy provided has diminished over time; that dependence on subsidies can harm the ability of publications to improve and grow, and that there is difficulty maintaining political support for the subsidies.

A significant change in subsidisation occurred when policy changes privatised post administrations and thus ended or reduced the postal subsidy, which was the largest subsidy in most nations. Another change is occurring because there are considerable concerns that direct subsidies — especially operating subsidies — violate contemporary competition policy on state aid due to rulings in other industries.

There are also concerns that the aid primarily benefits commercial firms that do not serve specific social purposes and that aid mechanisms have been used by publishers and dominant political parties to benefit their own purposes. Problems in this regard have been especially evident in the Swedish market where publishers often make operational and strategic choices to ensure their continued subsidisation rather than improvement of their papers (Picard, 2003; Ots, 2006). Two recent studies of Finnish newspaper subsidies have also shown that the effects of subsidies do not necessarily serve their stated purposes because they have primarily benefited the press of the dominant political parties; are distributed unevenly when compared to population geography; support fewer papers and readers than in the past, and have shown dramatic increases in cost per circulated copies (Grönlund, Ranniko, & Picard, 1999; Picard & Grönlund, 2003).

Effects of Subsidies on Press Economics

Newspaper subsidies are a form of state intervention in the economics of competitive markets that provide additional resources or reduce costs in the industry or in specific firms. State intervention includes direct and indirect subsidies, fiscal advantages and regulatory relief. The mechanisms selected to support the press are nation-specific and produce patterns of intervention reflecting the cultures, political realities and economic policies of the nations.

Press support to individual firms affects company finances, allowing firms to use the financial resources to pay expenses or to improve their balance sheets. To understand the impact of the support, one needs to consider how it enters and affects the operating statements and balance sheets of firms and the effect it has on the financial performance of the company (Picard, 1995).

Most types of support simply help pay variable costs rather than fixed costs of newspaper publishers so aid does not solve the fundamental economic

and market problems of papers (Picard, 1994). If subsidies have little effect on the financial or market situations of newspapers they cannot create long-term sustainability but instead create dependence on the annual handout of subsidies. Subsidies can only support sustainability if they change the financial and market conditions of the recipient by helping them restructure their operations, expand markets or acquire cost saving technologies (Picard, 1991). Clear market strategies, improved management practices and lower cost structures are necessary to improve the conditions of most marginal newspapers. Subsidies can be directed to support such activities (Lichtenberg, 1995).

Part of the difficulty in achieving intended goals with non-selective general subsidies is that they do not change the competitive situation of firms. Because dominant papers in a market also receive the subsidy, it provides an additional revenue stream and gives greater resources that can be put to use to provide advantages against secondary papers in the market.

Some states have indirectly subsidised press activities and avoided competitive effects by providing support to journalists in the form of price reductions for travel and telecommunications. In France, for example, journalists have a tax rate 30 percent lower than that of other workers (Harcourt, 2005: 193).

Most aid has historically taken the form of fiscal advantages and indirect subsidies, usually provided equally to all papers. Large direct aid is primarily found in Northern Europe and has a clear link to political and cultural purposes.

State support can promote competition, have no effect or harm competition in both the economic and information/idea markets. If one considers different types of support, it is clear that most press subsidies provided by states fall into categories that harm or have no significant effect on either the economic or information markets (Table 2). Because they do not change the competitiveness or sustainability of firms receiving the aid, they cannot be a long-term solution to the economic and informational problems that led to their implementation.

Subsidies and Competition Law

Table 2

Effects of Press Support on the Economic and Information/Ideas Markets		
	Economic Market	Information/Idea Market
Promote Competition	Equipment/facility loans Selective production Subsidies Ownership regulation ¹ Political party aid ²	Equipment/facility loans Graduated transportation rate Selective production subsidy Ownership regulation ¹ Political party aid ²
No Major Competitive Effects	Equipment/facility loans Selective production Subsidies Ownership regulation ¹ Political party aid ²	Equipment/facility loans Graduated transportation rate Selective production subsidy Ownership regulation ¹ Political party aid ²
Harms Competition	Non-selective postal rate Advantage Weak regulation of anti-competitive acts Ownership regulation ¹ Political party aid ² Price regulation	Price regulation Weak regulation of anticompetitive acts Ownership regulation ¹ Political party aid ²

¹ May promote or have no effect in the economic market or information/idea market depending upon its structure.
² May or may not have effects depending upon conditions.

There is currently no clear European Union position on press subsidies, primarily because it has not had a direct occasion to consider the issue. Subsidy issues would potentially be taken up by the Competition Directorate General, the Internal Market and Services directorate General, or the Information Society and Media Directorate General.

To date no major complaints or case has been taken up by the competition DG, which would address issues of distortion of competition that might result. The EU has, however, taken up similar cases regarding subsidies for motion pictures and broadcasting, particularly public service broadcasting, and have established a body of principles that have significant implications for press subsidies should they be addressed on competition grounds.

In my estimation, the primary reason that subsidies have not been subject to EU review is that those papers receiving the aid are so weak and the amounts of aid so low, that their competitors do not see it as significantly altering competition, particularly in the crucial advertising market.

In the absence of significant complaints from other press competitors, EU and domestic competition regulators have turned a blind eye to press subsidies because they have greater competition issues to address in other industries. This situation may change, however, if member states restructure existing subsidies, provide them to new competitors, or create new types of subsidies.

The ability of the EU to respond to cultural and social policy issues is more limited than its ability to address economic policy issues because it has been fundamentally empowered and structured as an economic and industrial policy organisation. Although there are efforts to increase the scope of its activities, consensus among member states is mixed. The lack of broad agreement about expanding its roles has made it difficult for the EU to respond to media policy issues raised by the European Parliament and Council of Europe.

Discussion

Research on the utility of subsidies indicates that state support can be successful in the long run only if it is utilised as more than operating aid that cover losses, that is, only if it results in a change in managerial and market strategies and is accompanied by a restructuring of the costs of operations. If used merely to pay operating costs and cover losses, subsidies ultimately lead to resource dependency on the state aid and the firm loses market incentives to improve their product and operations.

The optimal outcomes from the policy standpoint are for subsidies to enhance the condition of papers so that their cost structures and market situations improve and so that papers reinvest to enhance sustainability. Negative outcomes are inability to save papers, long-term dependency on aid or overprovision of subsidies that transfer wealth to produce unearned profits.

For subsidies to be effective they need clarity in purpose and must address the fundamental causes of the problems they are intended to solve. In the contemporary environment of the so-called Information Society — with more types of media than ever available and an enormous number of content providers — explicit purposes and unambiguous rationales for providing subsidies need to be provided and specific objectives and goals need to be presented. Because of the expansion of the media, cross-media activities

and changes in audience use patterns, “press policy is increasingly difficult to pursue in isolation from other media” (Ots, 2006, p. 15).

Subsidies need to be constructed to actually address the underlying economic and market issues that have led to the purposes and rationale for subsidies, and subsidies should be designed to produce effects that make it possible for subsidised publications to free themselves from state support at some point in their future.

In considering policy and its potential benefits we need to recognise two distinct environments of press subsidies. First, there is an environment in which market failure results from a general lack of interest and support by audiences because of their preferences to use other media or other press publications. In the second environment, market failure results from structural and financial challenges despite interest and support by audiences.

The difficulties in the first environment cannot be easily solved by offering press subsidies because the state subsidises something that the public neither wants nor consumes — thus the policy merely expends limited public resources and does not produce the benefits desired.

Subsidies to address problems in the second environment can produce benefits, however, particularly when they are intended to support regional and secondary languages and cultures that may be less interesting to national and international advertisers. To do so, however, requires the presence of strong local identity and audiences willing to consume. If those are absent, they must first be built up through cultural organisations and educational institutions before benefits can be produced through press subsidies.

Subsidies for print media appear to work best when provided to book literature and magazines because they have low fixed costs and the subsidies can easily be provided on a project or fixed term basis. Subsidies to the daily press, however, tend to fail because they tend to deal only with variable costs rather than the fixed cost issues that present the primary cost problems for daily newspapers.

In the current environment the wide range of media available and audience and advertiser choices that spread use across media have negated

many of the previous effects of press subsidies. In making contemporary policy, one needs to recognise that this changing media environment is presenting more choices to audiences and significantly altering media use patterns. This raises the question of whether press subsidies are the most effective means for serving the laudable social purposes that prompt interest in them. Policy makers need to consider whether their existing or planned subsidy systems are designed to preserve the form of communication (the press) or to preserve its functions (facilitating social, political and cultural interaction and development). If the latter is the purpose they will have to consider broader options involving other media rather than merely focusing on press subsidies.

In the short to mid-term, however, judiciously used subsidies can help the press adjust to the changing environment and public goals can be served with some well placed support. In the end, however, relying upon press subsidies alone to produce and maintain the desired social benefits will be futile.

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Press Subsidies in Europe

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