Media Business and Innovation

Paul Murschetz *Editor*

State Aid for Newspapers

Theories, Cases, Actions

Springer

Media Business and Innovation

Series Editor:

M. Friedrichsen, Berlin, Germany

For further volumes:
http://www.springer.com/series/11520

Paul Murschetz
Editor

State Aid for Newspapers

Theories, Cases, Actions

Springer

Editor
Paul Murschetz
ICT&S Center
University of Salzburg
Austria

ISBN 978-3-642-35690-2 ISBN 978-3-642-35691-9 (eBook)
DOI 10.1007/978-3-642-35691-9
Springer Heidelberg New York Dordrecht London

Library of Congress Control Number: 2013956622

Printed on acid-free paper

Springer is part of Springer Science+Business Media (www.springer.com)

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 Bagnaia.

Contents

Part I State Aid for Newspapers: An Introduction

1 **The Context, Purpose, and Structure of the Book** 3
Paul Murschetz

2 **State Aid for Newspapers: First Theoretical Disputes** 21
Paul Murschetz

Part II Theoretical Explanations for State Intervention

3 **State Support for News: Why Subsidies? Why Now? What Kinds?** . . 49
Robert G. Picard

4 **Industrial Subsidies: Surveying Macroeconomic Policy Approaches** . . . 59
Nikolaos Zahariadis

5 **Good Intentions, Bad Results: The Effects of Newspaper Subsidies on Journalistic Quality** 73
Christian M. Wellbrock and Martin A. Leroch

6 **State Aid to the Press in the EU: Legal Issues and Trends** 85
Evangelia Psychogiopoulou

7 **Press Governance: A New Concept for Analyzing Press Regulation** . . 99
Manuel Puppis

Part III Case Study Evidence and Government Actions

8 **Australia: State Aid to Newspapers—Not a Priority** 115
Franco Papandrea and Matthew Ricketson

9 **Austria: Press Subsidies in Search of a New Design** 133
Paul Murschetz and Matthias Karmasin

10 **Belgium: Big Changes in a Small News Economy** 149
Ike Picone and Caroline Pauwels

11 Bulgaria: Press Subsidies in the Shadows 163
Georgi Kantchev and Nelly Ognyanova

12 Finland: The Rise and Fall of a Democratic Subsidy Scheme 179
Hannu Nieminen, Kaarle Nordenstreng, and Timo Harjuniemi

13 France: Press Subsidies—Inefficient but Enduring 195
Matthieu Lardeau and Patrick Le Floch

14 Germany: Evaluating Alternatives to Finance Quality Journalism . . . 215
Castulus Kolo and Stephan Weichert

15 Greece: Press Subsidies in Turmoil 237
Stylianos Papathanassopoulos

16 Hungary: The State as Strong Media Governor 253
Agnes Urban

17 The Netherlands: Initiatives to Subsidise Press Innovation 271
Lou Lichtenberg and Leen d'Haenens

18 Russia: Subsidies Between Industry Support and State Control . . . 291
Mikhail Makeenko

19 Sweden: State Support to Newspapers in Transition 307
Mart Ots

20 Switzerland: The Role of Swiss Post in Indirect Press Support . . . 323
Alfred Hugentobler and Christian Jaag

21 United Kingdom: Subsidies and Democratic Deficits in Local News . . . 337
David Baines

22 The United States of America: Unfounded Fears of Press Subsidies 357
Victor Pickard

Part IV Conclusion and Future Outlook

23 State Aid for Newspapers: A Summary Assessment 375
Paul Murschetz and Josef Trappel

Index 393

List of Figures

Fig. 2.1	The effect of a newspaper subsidy and deadweight loss	36
Fig. 7.1	Media governance as horizontal and vertical extension of government	103
Fig. 7.2	Domains of press governance	104
Fig. 8.1	Circulation of Australian daily newspapers, 1992–2012	122
Fig. 8.2	Main media advertising Revenue, 2001–2011	123
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	124
Fig. 12.1	Total annual expenditures for press subsidies 1950–2000	188
Fig. 14.1	Germany: Media—Daily reach (**a**) and contribution to total revenues (**b**) media	218
Fig. 14.2	Changing readership structure for national (**a**) and regional (**b**) dailies as well as declining overall audience (**c**)	219
Fig. 14.3	Germany: Newspaper titles—20 largest daily newspapers in terms of (paid) circulation (2010)	220
Fig. 14.4	Germany—Revenue structure (**a**) and long-term trends of revenue contributions (**b**)	222
Fig. 14.5	Relative importance of newspaper types (**a**) and key figures for largest titles and publishers (**b**)	222
Fig. 16.1	Revenue from government-sponsored advertisement at *Nepszava* (2007–2011)	263
Fig. 19.1	Annual costs of direct press subsidies 1990–2011	313
Fig. 19.2	Number of newspaper titles	315
Fig. 19.3	Newspaper circulation (weekdays)	316
Fig. 19.4	Ownership concentration, newspapers published 3–7 days/week	316
Fig. 20.1	Number of press titles and run 1995–2011	325
Fig. 20.2	Change in advertising revenues per media type (2001–2009) . . .	325
Fig. 20.3	Structure of the press titles delivered by *Swiss Post*/million copies per year	325
Fig. 20.4	Effective reduction for titles benefiting from press subsidies . . .	330

List of Tables

Table 2.1	Types of direct subsidies (selection)	24
Table 2.2	Types of indirect subsidies (selection)	26
Table 5.1	Model variables (in order of appearance)	80
Table 8.1	Diversity of sources of news and information in Australia	121
Table 9.1	Number of daily newspapers in Austria—Data for 2012	134
Table 9.2	Daily newspapers, circulation and reach (year average 2011)—Austria	135
Table 9.3	The Austrian press subsidy scheme, by type, amount and number of applications (in 2012)	144
Table 10.1	Financial data of the main Flemish editors (NBB 2012)	150
Table 10.2	Dedicated vs. innovation support measures to the press	152
Table 11.1	Daily newspapers in Bulgaria—Publishers, circulation and reach	166
Table 11.2	Indirect state subsidies for private media	171
Table 12.1	Circulation of newspapers per thousand inhabitants	182
Table 12.2	Advertising in newspapers 2008–2012 (million euros)	182
Table 12.3	State subsidies to newspapers 1989–2009 (million euros)	189
Table 13.1	Daily newspapers in France—Title, editorial orientation, and circulation	197
Table 13.2	Free daily newspapers in France: publication title, number of editions, and distributed circulation	198
Table 13.3	The big five daily regional newspapers in France	198
Table 13.4	Distribution subsidies	210
Table 13.5	Subsidies for safeguarding pluralism	210
Table 13.6	Modernization subsidies	210
Table 13.7	Other direct additional subsidies	210
Table 13.8	Total direct and indirect aid to newspapers in France	211
Table 15.1	Leading daily newspapers in Greece	244
Table 15.2	Public aid to the Greek press (in euros)	248
Table 16.1	Hungarian national newspapers	255
Table 16.2	Regional newspaper publishers in Hungary	256
Table 16.3	Revenues at major right-wing publishers (2008–2011)	264
Table 16.4	Revenues at selected left-wing publishers (2008–2011)	264

Table 17.1 Financial aid from *The Netherlands Press Fund* to the press in total 1972–2010 (in euros) 276
Table 18.1 Top paid-for dailies in Russia (2010) 296
Table 18.2 Types of state support (subsidizing) for newspapers in Russia as of 2012 303
Table 19.1 Top 15 daily newspapers in Sweden 2011 308
Table 19.2 Top 10 press support beneficiaries 2011 309
Table 20.1 Comparison of the pricing systems for subsidized and non-subsidized press 329
Table 20.2 Implementation of the new press subsidy scheme 334
Table 20.3 Advantages of the new press subsidy scheme 334
Table 21.1 *Trinity media North East*—Turnover and profit 347
Table 21.2 *Trinity media North East*: Changes in workforce 348
Table 21.3 *Trinity media*—Regional newspaper circulation and VAT subsidy 349
Table 21.4 *Journal*, *Chronicle*, *Sunday Sun* and *Teesside Gazette*: Circulation and VAT subsidy 349

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

P. Murschetz (ed.), *State Aid for Newspapers*, Media Business and Innovation,
DOI 10.1007/978-3-642-35691-9_1, © Springer-Verlag Berlin Heidelberg 2013

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,

[1] The 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://stateofthemedia.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/.

[2] In 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 polities. 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*, combing 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 lobbyism, 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 fundaments 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 (*Stylianos 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 unequaled 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

[5] The 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.

[6] This 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.

References

Anderson, C. W., Bell, E., & Shirky, C. (2012). *Post-industrial journalism: Adapting to the present*. Tow Center for Digital Journalism, Columbia Journalism School. http://towcenter.org/research/post-industrial-journalism/. Accessed 2 Dec 2012.

Barnett, S. (2009). *Journalism, democracy and the public interest. Reuters Institute for the study of journalism*. Oxford: Reuters Institute for the Study of Journalism.

Barthelemy, S., Bethell, M., Christiansen, T., Jarsvall, A., & Koinis, K. (2011). *The future of print media*. Capstone Report. Accessed December 4, 2012, from http://www.sipa.columbia.edu/academics/workshops/documents/WorldNewsmediaInnovationsStudy-CapstoneWorkshopSpring2011-ABRIDGED.pdf

Benson, R. (2011). Public funding and journalistic independence: What does research tell us? In R. W. McChesney & V. Pickard (Eds.), *Will the last reporter please turn out the lights:*

The collapse of journalism and what can be done to fix it (pp. 314–320). New York, NY: The Free Press.

Benson, R., & Powers, M. (2011). *Public media and political independence. Lessons for the future of journalism from around the world*. Accessed September 30, 2011, from http://www.freepress.net

Chyi, H. I., & Sylvie, G. (1998). Competing with whom? Where? And how? A structural analysis of the electronic newspaper market. *Journal of Media Economics, 11*(2), 1–18.

Cowan, G., & Westphal, D. (2010). *Public policy and funding the news* (Research Series: January 2010). MA: Center on Communication and Journalism USC Annenberg.

Currah, A. (2009). *What's happening to our News?* Oxford: Reuters Institute of the Study of Journalism.

Curran, J. (1978). *The British press: A manifesto*. London: MacMillan Press.

Curran, J. (2010). Future of journalism. *Journalism Studies, 11*(4), 464–476.

De Bens, E. (2009). The Belgian case. The Role of the government in safeguarding the quality and pluralism of the press. In The Authors and the Netherlands Press Fund (Eds.), *Press and press support in a digital age* (pp. 65–72). *International conference on press and press support in a digital age*, 3–4 October 2007. The Hague: AMB Publishers.

Dimmick, J., & Rothenbuhler, E. (1984). The theory of the niche: Quantifying competition among media industries. *Journal of Communication, 34*(1), 103–119.

Doctor, K. (2010). *Newsonomics: Twelve new trends that will shape the news you get*. New York, NY: St. Martin's Press.

Engebretsen, T. E. (2009). Press support in Norway. Instruments of governmental press policy. In The Authors and the Netherlands Press Fund (Eds.), *Press and press support in a digital age* (pp. 108–118). *International conference on press and press support in a digital age*, 3–4. October 2007. The Hague: AMB Publishers.

Esser, F., & Brüggemann, M. (2010). The strategic crisis of German newspapers. In D. L. Levy & R. K. Nielsen (Eds.), *The changing Business of journalism and its implications for democracy* (pp. 39–54). Oxford: Reuters Institute of the Study of Journalism.

Fernandez Alonso, I., de Moragas, M., Blasco Gil, J. J., & Almiron, N. (Eds.). *Press Subsidies in Europe: Proceedings of the Symposium 'Press Subsidies in Europe: Development, Pluralism and Transparency', Barcelona, 19 and 20 June, 2006*. Maison d'edition: Generalitat de Catalunya.

Foster, R. (2012). *News plurality in a digital world*. Oxford: Reuters Institute of the Study of Journalism.

FTC – Federal Trade Commission Staff Discussion Draft. (2012). *Potential policy recommendation to support the reinvention of journalism*. Accessed April 3, 2013, from http://www.ftc.gov/opp/workshops/news/jun15/docs/new-staff-discussion.pdf

Greenberg, B. A. (2012). A public press? Evaluating the viability of government subsidies for the newspaper industry. *UCLA Entertainment Law Review, 19*, 189–244.

Hamelink, C. J., & Nordenstreng, K. (2007). Towards democratic media governance. In E. De Bens (Ed.), *Media between culture and commerce* (pp. 225–240). Bristol: Intellect.

Hollstein, M. (1978). Government and the press: The question of subsidies. *Journal of Communication, 28*(4), 46–53.

Holtz-Bacha, C. (1994). Presseförderung im westeuropäischen Vergleich. In P. A. Bruck (Ed.), *Medienmanager Staat. Von den Versuchen des Staates, Medienvielfalt zu ermöglichen. Medienpolitik im internationalen Vergleich* (pp. 443–567). München: Verlag Reinhard Fischer

Humphreys, P. (2006). Press subsidies in the context of the Information Society. Historical modalities, concept and justification. In I. Fernandez Alonso, M. de Moragas, J. J. Blasco Gil, & N. Almiron (Eds.), *Press subsidies in Europe*: *Proceedings of the symposium* '*Press subsidies in Europe*: *development*, *pluralism and transparency*', *Barcelona*, *19 and 20 June*, *2006* (pp. 38–55). Maison d'edition: Generalitat de Catalunya.

Kaye, J., & Quinn, S. (2010). *Funding journalism in the digital age. Business models, strategies, issues and trends*. New York: Peter Lang.

Kirchhoff, S. M. (2010). *The U.S. Newspaper industry in transition* (Research Paper No. R40700). Washington DC: Congressional Research Service, Report for Congress.

Lee-Wright, P., Philips, A., & Witschge, T. (2012). *Changing Journalism*. London/New York: Routledge.

Levy, D., & Nielsen, R. K. (2010). *Changing business of journalism and its implications for democracy, Reuters Institute for the Study of Journalism*. Oxford: Reuters Institute of the Study of Journalism.

Murschetz, P. (1997). *State support for the press. Theory and practice – A survey of Austria, France, Norway and Sweden*. European Institute for the Media, Düsseldorf: Mediafact Series.

Murschetz, P. (1998). State support for the press: A critical appraisal – Austria, France, Norway and Sweden compared. *European Journal of Communication, 1*(3), 291–313.

Nielsen, R. (2012). *10 years that shook the media world. Big questions and big trends in international media developments*. Oxford: Reuters Institute for the Study of Journalism.

Nielsen, R. K., & Linnebank, G. (2011). *Public support for the media: A six-country overview of direct and indirect subsidies*. Oxford: Reuters Institute for the Study of Journalism.

Nilikantan, R. (2010). *Postal subsidies*. Los Angeles, CA: University of Southern California. Accessed March 3, 2013, from http://fundingthenews.usc.edu/related_research/1_Carnegie_PostalSubsidies.pdf

OECD – Organization for Economic Cooperation and Development. (2010). *The evolution of news and the internet*. DSTI/ICCP/IE(2009)14/FINAL. Accessed March 10, 2011, from http://www.oecd.org

Østeraas, B. T. (2006). Press subsidies in Norway. In I. Fernánez Alonso, M. de Moragas, J. J. Blasco Gil, & N. Almiron (Eds.), *Press subsidies in Europe* (pp. 80–86). Universitat Autonoma: Generalitat de Catalunya Institut de la Communicacio.

Picard, R. G. (1984). Levels of state intervention in the Western Press. *Mass Communication Review*, (Winter/Spring), 24–35

Picard, R. G. (1985). Patterns of state intervention in Western press economics. *Journalism Quarterly, 62*, 3–9.

Picard, R. G. (2003). Press support and company performance. In U. Carlsson (Ed.), *Pennan, Penningen & Politiken: Medieföretag förroch nu* (pp. 96–107). Göteborg University: Nordicom.

Picard, R. G. (2010). The future of the news industry. In J. Curran (Ed.), *Media and society* (pp. 365–379). London: Bloomsbury Academic.

Raeymaeckers, K., De Bens, E., Paulussen, S., Deprez, A., & Tenret, Y. (2007). Belgium. In European Journalism Centre (Ed.), *Media landscapes*. Accessed March 3, 2013, from http://ejc.net/media_landscapes/belgium

Santini, A. (1990). *L'Étât et la presse*. Paris: LITEC.

Schizer, D. M. (2010). *Subsidizing the press*. The Center for Law and Economic Studies (Working Paper No. 376). Columbia University School of Law. Accessed April 6, 2013, from http://www.law.columbia.edu/lawec/

Schmalbeck, R. (2010). Financing the American newspaper in the twenty-first century. *Vermont Law Review, 35*, 251–271.

Skogerbø, E. (1997). The press subsidy system in Norway. Controversial Past – Unpredictable Future? *European Journal of Communication, 12*(1), 99–118.

Smith, A. (1977). Subsidies and the press in Europe. *Political and Economic Planning, 43*, 569.

Smith, A. (1978). State intervention and the management of the press. In J. Curran (Ed.), *The British press: A manifesto*. London: Macmillan.

Sparks, C. (1992). The press, the market, and democracy. *Journal of Communication, 42*(1), 36–51.

Stone, M., Nel, F., McBride Mensching, L., & Lin, E. (2012). *World Newsmedia innovation study 2012*. Chicago, IL: The World Newsmedia Network.

The PEW's Research Center's Project for Excellence in Journalism. (2013). *The state of the news media 2012*. Accessed April 5, 2013, from http://stateofthemedia.org/

The Royal Commission on the Press. (1977). *Final report*, RCP 1977, Cmnd 6810. London: HMSO

Tunstall, J. (1996). *Newspaper power. The new national press in Britain*. Oxford: Clarendon.

WAN-IFRA (2012). *World Press Trends 2012*, World Association of Newspapers and Publishers. Accessed December 12, 2012, from http://www.wan-ifra.org/press-releases/2012/11/29/just-published-world-press-trends-2012

Weichert, S., & Kramp, L. (2009). *Das Verschwinden der Zeitung? Internationale Trends und medienpolitische Problemfelder*. Bonn: Friedrich-Ebert-Stiftung.

Yin, R. K. (2002). *Case study research, design and methods* (3rd ed.). Newbury Park: Sage.

State Aid for Newspapers: First Theoretical Disputes

2

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

P. Murschetz (ed.), *State Aid for Newspapers*, Media Business and Innovation,
DOI 10.1007/978-3-642-35691-9_2,

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

[2] For 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

[5] Timo 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; Zerbe 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

[6] Gordon 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