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Subsidies for Newspapers: Can the Nordic Model Remain Viable?

The general approaches of media policies in Europe involving newspapers during the last quarter of the twentieth century differed significantly from those for broadcasting. Policies toward broadcasting generally sought to reduce the state role in broadcasting by promoting increases in the number of channels and competition through commercialization. Policies involving newspapers, on the other hand, tended toward increasing the state role in media markets to ameliorate the effects of commercialization on newspaper market structure and performance.

The differing approaches reflected policy makers' perceptions of the roles and functions of the two media in society, levels of industry development, economic forces, and market structures. Governments across Europe and in North America began to supplement existing state intervention in press economics to provide a wide array of support designed to improve the finances of newspaper companies. By the late 1970s newspapers in many nations benefited from preferential tax rates, reductions in postal and telecommunications rates, reductions in rates for distributing newspapers, funding for research in industry problems, and in some cases exemptions from regulations on other industries and various forms of operating subsidies (SMITH 1977). Nordic nations created the most extensive and interventionist system of state support to address newspaper industry problems, which is often referred to as the ›Nordic model‹ in comparative studies of media and media policy.

The Nordic model and increased support in other nations developed after a wave of newspaper deaths in the 1960s and 1970s (see timeline in Figure 1). Nordic nations instituted policies designed to reduce the

decline in newspapers that went far beyond traditional means of state support for newspapers found in Western nations to include direct financial support of publications. The rationales behind these policies were based on the role of the press in political, social, and cultural debates and the unique role of newspapers in Nordic society. The democratic movements in the region had been promoted by antimonarchist newspapers and when the nations became democracies, political parties were formed with direct links to and ownership of newspapers. As a result, it was common for multiple newspapers to exist in cities throughout the region (PICARD 1988). The number of newspapers owned by political parties and foundations, and operated for non-commercial purposes, tends to be far higher than that found in other nations.

The tradition of multiple papers remained into the second half of the twentieth century, providing platforms for a spectrum of views associated with political parties. This central role was maintained despite the development of broadcasting because broadcasting services were limited by policy. Public service broadcasting monopolies were the norm in Scandinavian nations and commercial channels, cable, and satellite appeared very late by comparison to other European nations (NOAM 1991; SILJ 1992; COUNCIL OF EUROPE 1998).

Due to climatic conditions, cultural factors, high literacy rates, etc., members of nations in the region have long been among the most avid newspaper readers in the world, at the top of worldwide rankings of newspaper reading per inhabitants (EUROPEAN NEWSPAPER PUBLISHERS ASSOCIATION 1996), and a number of Nordic papers have long been regarded among the most significant papers in the world in terms of quality and service (MERRILL 1980).

As newspaper mortality increasingly appeared in the second half of the twentieth century, it was discussed with vigorous social rhetoric by policy makers and a strong need was perceived to respond to conditions creating newspaper failures. Nordic nations, which constructed the strongest social welfare systems in the world during the twentieth century, already had a tradition of state intervention for social purposes that extended to other industries, so turning attention to the newspaper industry was not out of character with other industry development and support policies (PICARD 1985b).

The difficulties in the Nordic newspaper industry were not unique. Mortality was being experienced in newspaper industries throughout

Europe and North America during the period, raising concern about its causes and extent. The Commission of the European Communities published a series of reports on newspaper deaths and concentration in its member states the 1970s. The Commission created an expert committee to assess and report on the issue (COUNCIL OF EUROPE 1974), as did individual governments in democratic nations worldwide. Although Nordic nations responded vigorously to the mortality in their countries, mortality rates in the region were far lower than that elsewhere in Western nations. Research has subsequently established that the amount of state intervention in the newspaper industry during the period was not linked to the level of mortality; rather, press policies mirrored those for other industries and state activities (PICARD 1987). Nevertheless, significant levels of intervention in newspaper economics were established in the Nordic nations and since that time they have frequently been cited as a means by which society can seek to preserve diversity of voices and political and social debate.

Although there are some important differences between the specific policies created by the individual Nordic states (PICARD 1985a), there are some significant commonalities among the policies that create the underlying foundations of the Nordic model of newspaper support. First, there is the fundamental belief that newspapers have special political and social roles and functions in society that have not been well served by other media. Second, there is an understanding that economic factors other than reader demand influence the success or failure of newspapers, particularly advertiser choices. Third, there is a conviction that the state should intervene in economic markets when their workings inhibit achievement of desired social outcomes. Finally, there is the belief that an array of support mechanisms designed to reduce costs for operations of newspapers needs to be in place.

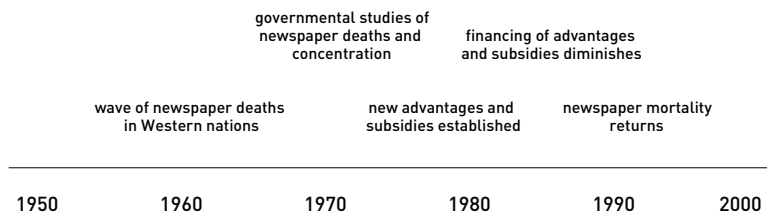


Figure 1. Timeline of State Support for Newspapers

State Intervention in Nordic Newspaper Economics

The Nordic nations share common histories and have developed significant similarities in social policies. Despite those similarities, differences are evident because of differences in geography, population distribution, economic bases, and other factors. Although similar concerns were expressed about newspaper mortality, no unified approach to the issue emerged and different types and patterns of support developed.

To comprehend these patterns, one must recognize the variety of ways in which states can intervene in newspaper economics (SMITH 1977; PICARD 1985B; MURSCHEZ 1997). State support takes a variety of forms including subsidies, fiscal advantages, and regulatory relief. Subsidies, in the purest use of the term, consist of actual cash transfers. Fiscal advantages provide reduced rates for services or obligations to government or quasi-government agencies, such as the postal system, state rail systems, or tax authorities. Regulatory relief exempts from or reduces firms' obligations regarding certain regulations applied to other firms or sectors, thus providing a fiscal or competitive advantage.

A variety of precise descriptions exist for the administrative and decision-making processes of state aid to newspapers, and these have been summarized in a comparative study of aid in four European nations (MURSCHEZ 1997). Most relevant are the concepts of direct and indirect aid and selective and general intervention. Direct aid is given directly to firms, while indirect aid assists a firm but does not directly enter a firm's accounts. Selective aid is that for which a decision to extend the aid to a specific recipient is required, whereas general aid is provided to all firms meeting broad guidelines.

From the financial perspective, it is also useful to consider state aid in terms of where it enters or affects the operating statements of firms and, thus, the overall effect it has on the financial performance of the company (PICARD 1994, 1995). This provides evidence of how the accounts of firms are affected and views of how the aid is actually employed by the recipients.

In the Nordic region, Sweden and Norway have tended to take a stronger welfare orientation, employing direct subsidies in addition to a range of fiscal advantages. Denmark, Iceland, and Finland have used direct subsidies to a lesser degree in their efforts to halt newspaper mortality (PICARD 1985a).

Many of the means of state support had been established long before the newspaper crises of the 1970s, but that era of crisis induced Nordic parliaments to increase the types of supports available and to enact pure cash subsidies for newspaper activities. The majority of nations relied heavily on general state revenues to fund the support, but Sweden established an advertising tax to help raise funds for its direct subsidies.

The Contemporary Subsidy Environment

Despite the strong rhetoric when the Nordic model of subsidies was established, interest in solving newspaper mortality problems soon diminished. Within a decade, changing economic conditions and fiscal constraints limited increases in funding for state aid to Nordic newspapers and new formulas for aid provision were established that reduced the number of recipients. State funding did not rise proportionally with increases in newspaper expenses because parliamentarians were willing to sacrifice increases in press support to provide more resources for other social welfare programs, such as medical care, child benefits, pensions, etc. (PICARD 1986).

Today, subsidization plays a far less important role than many might imagine, given the clarity of the foundations of the Nordic model and the philosophy and arguments supporting its provision. Significant questions are now being increasingly raised about the need for and efficacy and future of subsidies.

Despite the subsidies and an array of other support, the total number of daily newspapers in Finland, for example, has declined steadily since the mid 1980s and political papers have nearly disappeared altogether (PICARD/GRÖNLUND 2003b). The number of papers subsidized also declined regularly in the period, and subsidies supported only 10 percent of total newspaper circulation by the year 2000. Despite the support, only 6 percent of all newspapers maintained specific political affiliations in 2000 – the primary rationale for instituting subsidization (PICARD/GRÖNLUND 2003a). This situation resulted despite taxpayers contributing EUR 2.5 billion (in constant currency) to the newspaper industry from 1950 to 2000. Support of various kinds peaked in the late 1980s and early 1990s, and the country ended postal transportation support in 1995 when the national post office was privatized. The biggest beneficiaries of support

have been dominant political parties, and money is increasingly being shifted to non-dailies that are highly dependent upon the subsidies and in poor financial condition because of their inability to attract readers and advertisers (GRÖNLUND/RANNIKKO/PICARD 1999).

In Sweden, the number of paid dailies has declined since the mid 1980s, diminishing the number of communities served by multiple voices despite significant state support. Today, the subsidies account for 3 percent of total turnover for Swedish newspapers and the funding declined about 27 percent from 1980 to 2000 (WEIBULL 2002). Strangely, about half of all subsidized papers have made profits that are directly attributable to the subsidies, and many papers received more income from subsidies than circulation or advertising (PICARD 2003).

The daily newspaper industry in Denmark has struggled with a number of dailies disappearing during the era of the Nordic model. Many of its leading papers continue to perform poorly, resulting in sales to new owners in recent years. Today it has one of the weakest daily paid general circulation newspaper sectors in all of Europe. The newspaper industry in Norway is relatively stable by comparison to those in the other Nordic nations, primarily because many of the weakest papers disappeared before additional support was provided and because it was a more commercialized industry earlier than in other Nordic nations.

Although Nordic newspapers enjoy many advantages from their position in society and state support, the factors underlying general newspaper developments in the Western world are negatively affecting Nordic newspapers. Declining penetration and reach in the population, poor use among persons below 40, diminishing shares of advertising, competition from free newspapers, and significant threats to important ad categories from Internet services are all affecting the revenue base. On the cost side, newspapers are faced with rising labor, production, and distribution costs. Despite these financial pressures, there now appears to be little political will or support for increasing support for newspapers.

Discussion

The question posed in this chapter is whether the Nordic model can remain viable. It has shown that the types of Nordic newspaper subsidies and resources devoted to those subsidies have been altered since their

inception. The overall trend has been one of diminishing importance and effectiveness of subsidies, fiscal advantages, and other means of state intervention in the economics of the papers in terms of preserving political newspapers and the associated political debate in the region.

Despite the support, newspaper mortality has continued and newspapers have become increasingly commercial, shedding overt political identities to appeal to broader audiences. The few politically focused papers that remain tend to have extremely small readership and poorer quality content, and – in many ways – tend to act as paper organizational newsletters rather than newspapers whose voices contribute to wider political discourse.

From a public policy analysis perspective, the Nordic model would appear not to pass benefit-cost, welfare distributional effectiveness, or incentive effectiveness analyses. Despite more than three decades of subsidies, no such studies have been undertaken in the Nordic nations. The Nordic model appears to be based more on rhetoric and good intentions than actually producing and operating a system of support that leads to the desired outcomes.

In constructing and managing policy, policy makers must correctly identify the problem they wish to address, construct solutions that actually address the root causes of the problem, and review effectiveness of policies and revise them accordingly. In the case of Nordic newspaper subsidies, policy makers identified cost and advertiser choice issues underlying mortality and created mechanisms to reduce distribution costs and provide operating aid for secondary papers. The difficulty the Nordic model has in producing effects is that state support enters and affects the operating statements as revenue but does not affect the underlying high fixed costs of operations or strengthen the balance sheets of recipient firms (PICARD 1994). Further, levels of support have been so low that they do not effectively provide resources equivalent to the advertising income necessary to maintain budgets at a level that sustains the content quality demanded by audiences. The policies have also done nothing to respond to diminishing readership of newspapers overall and their substitution with other media use.

The inability of the policies in the Nordic model to adequately address the root causes of newspaper difficulties has been compounded by the self-interested behavior of many newspaper publishers who use it to their advantage beyond the purposes of the policies. Some have

knowingly organized their firms in ways to deliberately achieve losses that qualify them for more types of support. A classic example is publishers who have spun off profitable commercial printing activities that previously kept the newspaper firms in the black. Others have foregone circulation and advertising sales and marketing investments that would improve their economic conditions. Most troubling, many of the subsidized publishers have done little to improve the content or appearance of the publications to meet changing needs and wants of readers and, instead, pay more attention to the requirements of subsidy agencies than to the readers themselves.

Overall there appears to be a diminishing need for the subsidies, regardless of their effectiveness or ineffectiveness. Deaths of marginal papers are continuing, and numerous political papers are choosing to become commercial, non-party publications. Newspaper trends indicate that papers have lost their prominent roles in information delivery and public discourse among large amounts of the population. More significantly, broadcasting, journals, and new media are increasingly taking on the functions previously played by newspapers as vehicles of political and social communication and discourse.

This raises the real question of whether newspapers remain as necessary for public information and political debate as in the past. It is no longer fanciful to question whether newspaper subsidies have become primarily a means of preserving a declining potential forum of political debate rather than the function of that debate. Serious political, social, and cultural discussion and debate is taking place in the expanding services of public service broadcasting that is well regarded in the Nordic region, a wide range of opinion is expressed in magazines devoted to social commentary, and new media use is especially high in the Nordic nations. Use of new media among citizens is among the highest in the world for technologies including computers, Internet, e-mail, mobile services, multimedia and broadband. Throughout the region individuals, political parties, non-governmental organizations, and governments at regional, national, provincial, and local levels are already making significant use of information and communication technologies to provide information, facilitate debate, and allow citizens to participate in e-governance activities. Clearly these activities are carrying out functions necessary to democratic participation that are equal to or surpassing those carried out in newspapers now or in the past.

Newspaper subsidies are also a risk because they have many of the characteristics of state support for public service broadcasting that ran afoul of national and European competition law in recent years. Some of the most significant subsidies in the Nordic model can only be regarded as operating aid, a form of assistance that is generally prohibited by the European Commission competition regulations. Although operating aid may be desirable to achieve beneficial aims, it is generally forbidden, particularly if it provides advantages to one firm in competition with an unsubsidized firm. Should the subsidies be challenged by profitable, leading newspapers, it would be difficult for them to be seen as outside the scope of existing competition regulations.

Diminishing support for subsidies also exists within the industry itself, evidenced by the Finnish newspaper publishers association, which now generally opposes the subsidies, and by the Swedish newspaper publishers association that wants the advertising tax ended because it does not apply to commercial television or new media, which were nonexistent when the statute was created. This, of course, leaves open the question of where the government would get funding for the subsidies. Interestingly, the Swedish publishers deliberately are not linking the advertising tax and subsidies in the debate over the tax, although it was passed only for the purpose of generating funds for subsidies.

Governments throughout the region are experiencing growing financial stress that is making it difficult for them to maintain existing health care services and pension benefits because of rising costs and population demographics patterns. This stress is far stronger than that which existed when the governments sacrificed increases in subsidies in the 1980s, so it is not difficult to assume they will do so again.

All of these factors indicate that we are in the twilight of the Nordic model. Although elements of the model may be retained to soothe social consciences, its viability as a policy that actually addresses and solves the problems for which it was intended appears negligible.

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