

Journalism As a Public Good

A Scandinavian Perspective

Sigurd Allern

University of Oslo, Norway

Ester Pollack

Stockholm University, Sweden

Abstract

The democratic importance of journalism is related to public good aspects of media products as well as news media's positive externalities. Journalism of high quality helps ensure we are all better informed and thus benefits democracy. Lack of investigative journalism may incur large social costs. However, journalism as a public good is difficult to fund on a commercial basis. Historically, an economic solution for media companies has been advertising subsidies, plus different types of public and private support. Today, the long-time marriage between news organisations and advertisers is severely weakened, and nothing so far suggests that digital revenues alone can finance a varied, broad and original news production. In the eyes of capitalist investors, news organisations represent the past, not the future. This paper discusses, on the basis of Scandinavian media experiences and recent policy reforms, the necessity of a

media policy and a funding system that acknowledges quality journalism as societal knowledge production and a public good.

Keywords

Journalism, Public good, Advertising, Externalities, Market failure, Media policy

1 Introduction

The digital revolution, especially the growth of global platforms on the Internet like Facebook, Google and YouTube, has undermined the economic foundations of the news media. The problem does not only concern legacy media; the development also weakens the revenue basis for professional, digital news sites. Traces from our use of search engines and social media platforms are used as a database to reach targeted sets of consumers, and the new global media giants get most of the revenues from the new types of advertising. The expansion of specialised online classified companies, independent of news media organisations, is an important part of the same picture. In Scandinavia, as in other parts of the world, media companies have come to realise that increased revenues from digital advertising are far from compensating the lost revenues from print advertising. The main growth in online advertising today takes place outside the news media.

Consequently, the long-time marriage between news organisations and advertisers is severely weakened. As a telling example, total advertising revenue (at constant prices) in Swedish paid-for newspapers was nearly halved in the period from 2000 to 2014.¹ This is also an international trend. According to the annual World Press Trends survey released by the World Association of Newspapers and News Publishers, circulation revenues (print and digital) represented 56 per cent of the overall industry revenue in 2016, confirming the development identified in the two years before: payments from audiences are today more

¹ Source: IRM (Institutet för reklam- och mediestatistik), 2013 and Carlsson and Facht (2014)

important for news publishers than income from advertising.² After two decades of digitalisation, most media houses still get a majority of their income from print.

This development has clearly demonstrated the economic naiveté of the hope (most typical in the first decade after the millennium) that *free digital journalism* can be funded through revenues from commercial advertising. As a consequence, an increasing number of media companies have, since 2010, revised their business strategies, putting the most ‘valuable’ parts of their news and feature productions behind different types of paywalls, further increasing the relative importance of payments from readers.

This article is based on Scandinavian experiences, media data and policy answers. In Section 2, we discuss the media and communication literature about public good attributes and the externalities of journalism. A basic problem is what neoclassical economics describes as *market failure* – defined as a systematic underinvestment in media content that has positive societal effects (Baker, 2002; Cooper, 2011; Kind and Møen, 2015; McChesney and Nichols, 2010; Pickard, 2015). This is an important argument for public intervention to safeguard media diversity, but seldom a part of the media industry’s own policy discussions.

The rest of the article is organised as follows. In Section 3, we examine some of the consequences that the last decade’s structural changes have had on the Nordic media markets. In Section 4, we discuss the challenges and implications this represents for media policies. Section 5 comprises some concluding remarks and questions for future research.

2 Public goods, externalities and market failures

Uncertainties concerning the financial basis of journalism are not, as Robert G. Picard (2010: 17) reminds us, a new historical problem: ‘News has never been a commercially viable

² <https://blog.wan-ifra.org/2017/06/08/world-press-trends-2017-the-audience-focused-era-arrives-0> (accessed July 1, 2017)

product'. One of the reasons is that journalism, like other types of knowledge production, has public good attributes.

Public goods are, in contrast to private goods, both non-excludable concerning access and non-rivalrous concerning use and consumption.³ The sun shines on both the rich and the poor. Typical public good examples in the economic literature are national defence, disease prevention, national parks, basic education and public street lighting. One individual using a public good does not reduce its availability to others and excludes nobody. They are, in most cases, provided collectively because the benefits are impossible or difficult to finance through private market transactions.

Basic research and public knowledge production are other important examples of such collective, non-rivalrous and non-excludable goods (Krugman and Wells, 2013: 481). Information from a published news story falls into the same category. As James T. Hamilton (2004: 9) reminds us in his book about the news economy, you can eat an apple (a private good), making it unavailable for others, but reading a news story about apple production does not prevent others from consuming the same text. Millions can see the same TV program without reducing the individual viewer's enjoyment. The marginal costs of allowing one extra person to see the program is zero. While journalism in different 'packages' has been and still can be sold as products on the market, the information and ideas in these articles 'can then be passed along at no charge to others' (McChesney and Nichols, 2010: 102).

However, in commercial market terms, this represents a problem. Original news production, based on research, fact checking and professional editing, incurs extremely high 'first copy-costs', but the public good attributes of journalistic products create a free-rider problem which makes it problematic to produce enough revenue (Baker, 2002: 9). A common

³ In a seminal article, Paul A. Samuelson (1954: 357) distinguished between 'private consumption goods' and 'collective consumption goods'. The latter category is characterised as goods which all enjoy in common 'in the sense that each individual's consumption of such goods leads to no subtraction from any other individual's consumption of that good'.

answer and strategy in the media sector, as well as in other types of knowledge production, is attempting to restrict audiences' access. As a result, products or services that in theory could be public goods in the economic sense – fully available and free for all – are instead changed to 'artificially scarce goods' (or club goods⁴); still non-rivalled in consumption, but excludable (Krugman and Wells, 2013: 491–92). Technology and legislation (like patents or copyrights) are used to control entry: to get access, you have to pay. Pay-per-view television, Netflix subscriptions and different types of digital paywalls on the Internet are familiar examples. As mentioned above, another basic part of the revenue strategy has been to produce audiences of interest for advertisers, creating revenues that can subsidise the production of journalism and entertainment – and/or increase profits for investors.

As a consequence, Pickard (2015: 214) sums up, 'journalism has never been fully supported by direct market transactions; it has always been subsidised to some degree'. Besides advertising, different types of public and private subsidies have always served as contributions to the funding, but on various scales in different parts of the world. Many private newspapers have been subsidised by families, organisations or foundations, often with political or cultural motives and aims. In the Nordic countries and other parts of Europe, in contrast to the United States (US), a large number of national public service radio and television channels have been wholly financed through licence fees or other types of state support.

The last point also underlines the media's importance for political institutions and power holders, not necessarily for the sake of truth, public interest and the common good, but because media organisations 'play a pivotal role in shaping social consciousness', representing a link and a relationship between economic and cultural power (Murdock, 1982: 118).

⁴ See Buchanan (1965) for a theory of consumption ownership-membership arrangements.

2.1 The external effects of journalism

Externalities arise from the side effects of economic actions, which are of importance to others than those who are directly involved in a specific market transaction. From a societal perspective, such effects can be positive or negative. A classic textbook example of a negative externality is the environmental cost of pollution from a factory producing private goods. Side effects can also be positive, such as when preserved farmland provides natural beauty, fresh local food and the conservation of wild bird populations. In modern societies, the most important source of external benefits is the creation of *knowledge* across individuals, firms and organisations, often with universities and research institutions as the greatest source (Krugman and Wells, 2013: 467). Investigative journalism, based on independent research and the verification of facts, providing a critical account of power holders, belongs to the same category (Christians et al., 2009; Kovach and Rosenstiel, 2007).

However, normative claims and guidelines, important as they may be, should never be confused with what news organisations effectively prioritise and how journalism is practised. Too many media organisations, offline and online, regularly produce superficial news stories, neglect important societal issues, disseminate non-checked rumours and take truth claims less seriously (Davies, 2008; Silverman, 2007). Concerning the informational needs in democracies, journalism might have both positive and negative societal effects.

These effects are, as Robert W. McChesney (2008: 422) has noted, of vital importance for understanding the societal importance of the news media:

Media have enormous externalities. If the market generates a lousy journalism that keeps the citizens poorly informed, the entire society suffers—not just the consumers of particular media—because the resulting political governance will be shoddy. If it leads to an unnecessary war or to massive corruption, for example, we all pay. It does

not affect the buyer and seller. Conversely, if the market generates a splendid journalism that leads to wise policies, everybody benefits, even those who are not purchasing specific media products.

In economic terms, quality journalism often incurs large costs, as it requires research, contact with different sources and time-consuming fact checking. At the same time, good-quality news and reportages can be of great value not only for individual news consumers, but also for other people and societal institutions. Throughout history, even small, local media and other media organisations with limited resources have shown their importance as publishers of public information and discussions about current affairs. No one else monitors local political decisions and public administration, and the digital revolution has not changed this.

The international cooperation between media outlets organising the publication of the ‘Panama Papers’ in spring 2016 is a recent and important example of journalism’s positive externalities (Fitzgibbon and Diaz-Struck, 2016; Guavara, 2016). Critical business journalism is of interest not only to news subscribers, but also more generally to employees, investors and tax authorities who need information regarding developing trends of importance for future decisions. Another example is the role investigative journalists in Sweden and Norway played when they, in a long series of reportages (2012–2015), exposed corrupt business relations between the telecom companies, Telia Sonera (Sweden/Finland) and Vimpelcom/Telenor (Russia and Norway), and influential political actors in Uzbekistan. Good, professional journalism can generally contribute to democratic opinion building, better-quality public decisions and prevention of unethical behaviour and crime (Møen, 2010: 4, 2011). Journalism with positive externalities *serves* the public good – outside the realm of economics.

However, negative externalities are the other side of the coin. ‘Sensational’ news based on inadequate investigations, without verification, may harm both individuals and

institutions. Crime stories based on rumours, erroneous testimonies or misleading identification are well-known examples (Allern, 2015). Superficial, sensationalised journalism may also lead to intense media coverage of politicians' minor and personal norm violations, while far more important political scandals – which demand thorough media investigations to expose – are overlooked (Entman, 2012; Allern and Pollack, 2012).

Media dissemination of governments' false propaganda can have long-term adverse effects. This was the case in 2003 when media organisations all over the world swallowed the false documentation about Iraq's 'weapons of mass destruction' that Colin Powell, the then US Secretary of State, presented to the UN Security Council (Bennett, 2007). Other negative externalities fall into the category 'sins of omission': a *lack* of critical journalism may incur large social costs. A tragic Nordic example is the passivity and incompetence of Icelandic media in relation to the financial speculation and corruption in the Icelandic bank system before the financial crisis in 2008 (Kind and Møen, 2013). A weakening of investigative journalism will make it easier to cover up malpractice and corruption in economic and political life. Editorial staff reductions, resulting in more limited possibilities for time-consuming fact checking, and reportages based on observation and direct contact with people, will reduce news organisations' critical surveillance of both business institutions and public authorities in the long run.

2.2 The consequences of market failure

Current media research has shown that people who have access to professionally produced news have better knowledge about the outside world, a better understanding of political processes, and can generally be expected to participate in political life to a higher degree than others (Aalberg and Curran, 2012). A recent comparative study of 27 countries documented that those who have access to television news on public service channels increase their

political knowledge more than those who primarily rely on news programs on commercial channels (Fraile and Iyengar, 2014). Rasmus Kleis Nielsen (2012: 7) notes that at their democratic best, ‘news media empower citizens by keeping them informed about *res publica*, public matters’.

Market failure, in relation to journalism, can be framed as insufficient investments in and production of journalism with positive externalities. In this respect, *quality journalism* is not merely a business term, ‘a question of increasing the value of a product to consumers but is a central element in achieving the social, political and cultural goals asserted for journalism in democratic societies . . . providing comprehensive coverage and information that produces understanding’ (Picard, 2004: 61). This societal aspect distinguishes it from most traditional ‘products’ on the market: its main societal value ‘lies in the polity, not the economy’ (Cooper, 2011: 321). A related way to think about journalism is that news media institutions represent a democratic and economic infrastructure, necessary for all markets, but also as ‘an independent realm, a public sphere, a commons, where citizens could meet to discuss and debate politics as equals free of government scrutiny or interference’ (McChesney and Nichols, 2010: 107).

A key economic factor causing underproduction of societal news of importance is related to the public character of news, characterised by economists as *pure knowledge externalities* (Kind and Møen, 2015). An editorial organisation that put time and other resources into covering an interesting case and publishing a news story will soon experience the same news being repeated, disseminated and followed up by other news media, thereby leading to public reactions and discussions (Hamilton, 2004: 9). The news stories become a legitimate part of society’s information and knowledge base.

At the same time, this makes it difficult for media organisations to monetise their investments in journalism. Comprehensive reuse of news is documented in both Denmark and Norway (Erdal, 2010; Lund et al., 2009). In news work, not least in online journalism, reuse

of material from other media sources – sometimes as ‘loans and robbery’ hidden through lack of references to the original source – is common (Albrecht and Andreassen, 2014; Lund et al., 2009). Media organisations can easily use and build upon each other’s news. Many online news sites and free papers are in practice heavily dependent on other news organisations’ original editorial work.

It is ‘expensive to generate new knowledge, but relatively easy to copy, disseminate and build on others’ knowledge once it is made publicly available’, Kind and Mjøen (2015: 354) sum up. This is the main reason for subsidising production of knowledge through public research and development support, an argument that is also relevant for the public support of quality journalism

Market failure can also take many other forms, one being the structural effects of the advertising market, strongly favouring media outlets that can either sell access to mass audiences or to special market segments that are highly valued by commercial actors. This may result in a systematic under-production of investigative journalism, leaving institutions and geographical areas in a ‘media shadow’ (Nord and Nygren, 2002). Another effect is favouring ‘soft news’ as opposed to ‘hard news’ (Hamilton, 2004: 120). In addition to this, the high fixed costs of print journalism and the dependence on advertising subsidies have generally made new entries in the news media market difficult. In the newspaper industry, this has reduced competition in the local markets and made one-newspaper towns typical, resulting in limited diversity concerning both market orientation and political outlook.

In relation to the last decades’ media development in the US, Mark Cooper has characterised the outcome as a ‘pervasive market failure’: the ratio of professional journalists has been decreasing for decades in relation to population size, corporate activity, economic activity and government activity (Cooper, 2011: 211 ff.). According to the business logic of commercial media, the editorial organisation, its staff and research resources are ‘an item of

expenditure' that necessarily has to be reduced whenever cost reductions are needed to satisfy the economic expectations of shareholders (Østbye and Kvalheim, 2009). The problems with the advertising markets have unavoidably sharpened the conflict between the assumed public service role of journalism and the self-interest and heavy commercialisation of market-based media. The consequences should also be regarded as a policy failure, i.e. the lack of will and ability to achieve journalistic institutions that serve democratic goals (Pickard, 2015: 216 ff.)

3 Structural changes in the Nordic media system

The Nordic countries generally have a solid political, economic and technological base for modern news media: strong democratic traditions, a high educational level, a rich flora of printed and online newspapers, influential public service broadcasting institutions and a developed digital infrastructure. Few countries in the world have daily news consumption at the same level in large population groups.

In their seminal study of Western media systems, Hallin and Mancini (2004) characterised the Nordic area as typical for the Democratic Corporatist (North European) Media Model, in sharp contrast to the Liberal Media Model (with the US as the prime example). In a recent study, Syvertsen et al. (2014: 17) point to four pillars of what they call the Nordic Media Welfare State: vital communication services that underscore their character as public goods; institutionalised freedom from editorial interference; a cultural policy that aims to secure diversity and quality; and a preference for consensual solutions and cooperation between the main stakeholders – the state, media and communication industries, and the public.

During the last three decades, we have, however, seen important structural changes in the media system in the Nordic region, as in other parts of the Western world. From the 1980s on, extensive commercial investments in a deregulated media sector have resulted in

increased competition with a wide range of new actors, a concentration of media ownership and increased profit demands in the commercial sector (Hallin and Mancini, 2004; Ohlsson, 2015, 2016; Syvertsen et al., 2015). Media organisations that once published only newspapers are today active on several platforms, some of the largest ‘media houses’ even include streaming TV services. The new digital media landscape is more fragmented and unstable than the media landscape of a few decades ago.

3.1 Broadcasting as a public good

Public service broadcasting, originally established as radio monopolies before WW2, have been and still are the most important form of state media involvement in the Nordic media sector, and ‘no other commercial or publicly funded medium or cultural institution plays a similar role. Practically everybody uses their services, most on a daily basis’ (Syvertsen et al., 2014: 73).

This media policy, where broadcasting is conceived as a public good, also has broad popular support, and in Scandinavia, neoliberal arguments for the privatisation of the broadcasting system have been met with little enthusiasm in most political parties. However, some of the large commercial media groups in Sweden have recently (so far without any political success) lobbied for a reformed ‘public service model’, proposing that commercial companies should be given access to tax-financed public service funds – and that the role of the publicly owned broadcasters should be more restricted than today (Public Service Broadcasting Commission, 2016⁵). Thus far, nothing has indicated that this type of lobbying

⁵ The Bauer Media Group, Bonnier, Mittmedia, Schibsted, and the newspaper branch organisation, TU, initiated this private lobbying group.

will succeed. In Norway, the parliament in May 2017 unanimously supported publicly funded broadcasting as a key part of the Norwegian media policy.⁶

A compulsory licence fee, the size being regulated by the governments and national assemblies, has traditionally financed Nordic public broadcasting companies. In 2013, the Finnish funding system was changed to a broadcasting tax, linked to personal income and levied for each adult (Herzog and Karppinen, 2014). A similar type of reform is being discussed today in Norway (among the alternatives is a household tax). Sweden still has a traditional licence fee system. In Denmark, the publicly owned DR is funded through a licence fee, while its main competitor, the publicly owned TV 2, is financed mainly by advertising and partly by the licence fee. One of the strengths of licence fee funding (and similar systems, independent of the ordinary state budgets) is that it reduces market pressures from advertisers who favour light entertainment, and at the same time, represents a type of self-funding, independent of day-to-day politics and government pressures (Moe and Mjøs, 2013).

The loss of a national monopoly in the 1980s and 1990s – as well as the digital revolution from the mid-1990s – has represented major challenges concerning competition and market shares. At the same time, digitalisation has made it possible for public broadcasters to set up new and more specialised channels, and has allowed them ‘to enter new platforms, including the Internet and mobile telephony’ (Syvertsen et al.: 2014: 77).

In general, Scandinavian public broadcasters during the last decade seem to have consolidated their position vis-à-vis the commercial sector. In each of the countries, their leading channels have a larger audience share than the biggest private channel.⁷ In addition, most of the numerous private channels are focused on entertainment and sports, whereas the

⁶ Recommendation (Innst. 332 S (2016-2017)) from Stortinget’s Family and Culture Committee concerning White Paper no. 15 (2016–2017), *Eit moderne og framtidsretta NRK*.

⁷ Source: Nordicom, Media Statistics.

public service channels are predominantly producers of broadcasted news and current affairs programs. And while foreign correspondents are generally regarded as an endangered species in today's Western media organisations (Archetti, 2012; Emery, 1989), the Nordic public broadcasters still prioritise to have their own correspondents in different parts of the world.

3.2 The challenges of the printed press

As in other parts of the Western world, circulation of the Scandinavian paid printed press has been significantly weakened in the last two decades. However, Norway, Finland and Sweden still have a particularly strong local press, and the total number of newspapers remains relatively high.⁸ Most digital news sites, including apps on mobile platforms, belong to established media houses that still have their main economic basis in the print sector.

The readership of printed newspapers has declined in all Nordic countries over the last decade, and far more among the younger generations than in the age groups 45+. In Sweden, the daily reach of printed newspapers for all age groups was 46 per cent in 2016, while the daily readership of print and/or online editions was 62 per cent.⁹ In Norway, the daily reach of printed newspapers was 39 per cent, while the daily readership for print and/or online editions was as high as 73 per cent.¹⁰ According to Reuter Institute's Digital News Report 2017, Norway, Sweden and Denmark were the three countries in the world with the highest proportion paying for online news in the last year (Fletcher, 2017).

The most dramatic circulation reductions concern the printed versions of popular national tabloids, formerly the largest news outlets. The 'tabloid populars' have for two decades 'gone digital' and have chosen to give away a large part of their news content for

⁸ Source: *Nordicom*, Media Statistics (Paid for newspapers: Circulation 2003–2014).

⁹ *Nordicom-Sweden's Media Barometer*.

¹⁰ *Statistics Norway (Norwegian Media Barometer)*.

free. Local and regional newspapers have retained their market position in print to a stronger degree (Høst, 2015, 2017).

The same can be said of the national niche papers, some of which specialise in economic and financial news while others have a more political and cultural profile. Among the daily printed papers in Norway in the last decade, the circulation winner has been, surprisingly for most observers, the expanding left socialist daily, *Klassekampen*.¹¹ In Sweden, *Dagens ETC*, an independent red-green opinion paper, was established in 2014 as both a printed and online daily, and later added some local editions.

During the last decade, the Internet and the emergence of social media platforms have given political parties, lobbyists, interest groups and other actors – even legacy media organisations – new channels and platforms for dissemination and communication. However, so far these changes have not challenged the legacy media's dominant societal role as primary news producers, agenda setters and political interpreters in the Nordic countries (Ohlsson, 2015). Online standalones remain marginal; legacy media continue to dominate (Blach-Ørsten, 2014: 96).

In the first decade of the new millennium, the strategy of all leading Nordic media companies was to combine the traditional business model – based on circulation and advertisement revenues – with free online news. The hope was that online advertising could gradually fund the expansion of online news providers. Instead, the media companies gradually weakened readers' loyalty and undermined their main product. Why pay for a newspaper subscription if you can get most of the editorial content for free online?

The gratis strategy turned out to be a fiasco, and from 2010–11, a growing number of media organisations started to place their more exclusive digital media material behind a paywall (Høst, 2015; Ohlsson, 2015). In Norway, the Nordic country where this strategy is

¹¹ *Klassekampen's* (paid) net circulation increased from 8,759 in 2005 to 22,420 in 2016. Only a tiny amount of the circulation is the paid e-version of the printed newspaper.

most developed, the most successful alternative is the Bundled Subscription Model, which includes the printed paper as well as access to the e-version and to the outlet's online news services. Digital-only options are also an alternative, but so far only represent 13 per cent of the paid circulation numbers. However, digital subscriptions are growing supplementary revenue for the popular tabloids and for some of the large national and regional newspapers. For local media houses, the online revenues, including that from advertising, are far more modest (Høst, 2017: 17).

The digital ad market has – so far – been expanding, but statistics concerning *total* advertising investments per capita in Sweden, Norway, Denmark and Finland in the period from 2008 to 2015 show a decrease in all four countries, even in Norway, the country with the highest advertising investments per capita both offline and online (Ohlsson and Facht, 2017: 55). Global giants like Google, YouTube and Facebook take an increasing share of the digital ad revenues. The lack of information from the leading global actors makes it difficult to analyse the different national markets. However, estimates show that non-Nordic actors today get approximately half of the digital advertising revenues (Ohlsson and Facht, 2017: 122).

The main growth in *online classified advertising* today also takes place outside the news media. The listed Norwegian media group, Schibsted, can serve as an illustrative example of this development. In 2000, a few large Norwegian regional newspapers initiated and established a new digital company for classified ads (jobs, housing, cars, etc.). The intention was to keep the regional newspapers' strong position in the classified market. Schibsted was one of the owners, yet lacked full control. The site became a commercial success, but when Schibsted later succeeded to become a majority owner, the media group quickly made *online classifieds* a separate business area within the media group, outside the control of the newspapers. The growing digital classified advertising revenues were not

included in the accounts of the newspapers, reducing their revenues and profit margins.

Schibsted has followed the same policy in Sweden and other countries.

The business logic of this operation is easy to understand. The gross operating profit margin (EBITDA) for Schibsted's online classifieds in 2016 was 43 per cent. Online classifieds represented more than three-fourths of the corporation's total gross operating profit. In the last decade, Schibsted has forced their editorial organisations to accept several rounds of downsizing and other cost-cutting measures. The media group has liquidated its owner interests in international free papers (*20 Minutes* in different countries and the Swedish *Metro*) and has sold its shares in Estonian media companies. Officially, the strategy is still to transform the media houses 'into world-class digital media houses based on strong editorial products',¹² but Schibsted's investment strategy can better be described as an attempt to keep the share owners happy by expanding the corporation's role as a 'world-class' advertising company. In the eyes of institutional, capitalist investors, news organisations represent the past, not the future.

In spite of these structural problems, after several years with systematic cost cuts combined with price hikes on the printed product, the two largest Swedish and Norwegian media groups, Bonnier and Schibsted, have reported solid profits for their media houses for the last years, with EBITDA-margins between 7–16 per cent.¹³ The long-term problem is that nothing so far suggests that digital revenues alone can finance varied, broad and original news production.

4 Direct and indirect media subsidies

Direct and indirect forms of press subsidies were introduced in the Nordic countries in the late 1960s and early 1970s. The background was the economic problems of the party press,

¹² Schibsted Media Group, Q4 Interim Report 2016, p. 10.

¹³ Bonnier, News Division, Yearly Report 2014, 2015. Schibsted, Yearly Report, 2014, 2015, 2016.

especially in areas with local newspaper competition and low advertising revenues for number two newspapers. The main formulated aim for the direct support was, in the service of democracy, to reduce the effects of market failure and maintain an information and press system with many and diverse voices (Gustafsson, 1980: 104). However, by far the largest subsidy form was then – and still is – zero or reduced value-added-tax (VAT) on newspaper sales.

4.1 Direct media subsidies

In **Denmark**, subsidies to newspapers were for decades generally less direct than in the other Nordic countries; tax exemptions and reduced postal rates were the main sources of support (Esmark and Ørsten, 2008; Flensburg, 2015). In 2014, Denmark introduced a new law on media support, implying direct state subsidies for the production of journalism, both in printed and online media. In the new subsidy system, the size of the journalistic workforce – not circulation figures – is the basis for receiving public funding. However, the same rules are applied to small and large media houses (covering a maximum of 35 per cent of the editorial costs), and three large media corporations get approximately half of the production support.¹⁴

The new support system has been interpreted as a ‘brake pad’ against further development of a liberal media model (Flensburg, 2015: 98), accentuating the public value of newspapers and journalism, and reflecting continued support for the democratic corporatist model (Hjarvard and Kammer, 2015).

In **Finland**, the last remnants of small, traditional direct press subsidies were abolished in 2012.¹⁵ Nieminen et al. (2014: 188) interpret this demise of the Finnish model as a symptom of more general societal and cultural trends: ‘instead of social welfare, economic competitiveness and efficiency have been adopted as the main goals for national policy’.

¹⁴ Information given by Danish media authorities, referred in SOU 2016:8 (p. 308).

¹⁵ A limited exception being some support to Swedish and minority language media.

In **Norway**, the most important direct press subsidy is production support for newspapers, plus grants to five national weeklies and publications in the Sami language. Two-thirds (147) of the 220 newspapers reporting to the Norwegian Media Authority (2017) received a production subsidy in 2016. The beneficiaries' share of the total paid circulation was 28.9 per cent; many of them are small local newspapers published once or a few times during a week. Of the total production support this year (313 million NOK), 70 per cent went to niche papers (most of them have a national distribution and a weak advertising base) and to remaining number two newspapers in the cities. Production subsidies in Norway are – in contrast to the new Danish system – based on *paid circulation figures*. Since 2014, the system has been 'platform neutral', i.e. including the newspaper's digital sales, and also supports some purely digital news outlets.

A recent green paper (NOU, 2017:7) from a commission appointed by the Ministry of Culture proposes *extending* this production subsidy scheme, but with some changes that first and foremost benefit the smaller, local newspapers. The commission also proposes reducing the dynamic support ceiling; individual beneficiaries should not receive grants exceeding 27 per cent of operating costs. Other proposals include supporting innovation projects and a grant to stimulate journalism of 'vital importance to society and the public discourse'.

Today, **Sweden** has three different types of direct press subsidies: production support, distribution support and development support concerning electronic publication services. The production support (436 million SEK in 2015) is, in economic terms, the largest. It is primarily distributed to small local newspapers, number two newspapers in the big cities, and to other news outlets with a household coverage less than 30 per cent. The support is based on paid circulation figures, which today includes online subscription revenues. A slight majority (84) of 163 newspapers registered by the Swedish Press and Broadcasting Authority received production support in 2015. In addition to this comes *distribution support* (51 million SEK in

2015). Distribution support is also based on circulation figures and is given to newspapers that cooperate concerning print distribution. The subsidy system therefore includes all the market-leading subscription papers (Myndigheten för press, radio och tv, 2017).

The newspapers' decreasing circulation figures over the last years have reduced the state's expenditures to both production and distribution support.

A recent green paper (SOU, 2016:80), produced by a reviewer appointed by the Ministry of Culture, proposes replacing the present regulation with a new media law. The basic subsidy forms will be the same, but with a basic change concerning the support criteria. While the present direct press subsidy system in Sweden (as in Norway) is based on simple, *objective* and countable criteria (paid circulation and demands concerning editorial content versus advertisement), the proposed revision adds some new and 'qualitative' criteria: media support should only be given to news media organisations paying respect to human rights principles and producing content 'of high quality and internal diversity'. A new commission with a majority of members from the media branch is proposed to make the decisions.

The demands may seem general and uncontroversial, but they have a political background: the present subsidy system is not based on any content evaluation, and has therefore included support publications of all political shades. A few of these publications are right-wing outlets, representing a political line many observers regard as racist. However, to make an ideological evaluation part of the media support system will represent a dramatic change. In a comment, the Faculty of Humanities, Stockholm University, characterises this proposal as a step in the wrong direction concerning free speech, generally opening the system up for subjective judgements, instead of one based on clear and objective rules.¹⁶

4.2 Indirect media support

¹⁶ Comment concerning SOU 2016:80 from the Faculty of Humanities (March 13, 2017).

Indirect economic support to media organisations can take several forms. Lower postal tariffs and reduced taxes are historical examples. Today, reduced or zero VAT, which can be regarded as ‘forgone state revenues’ (Ots et al., 2016), is the most typical indirect subsidy form. Among the Nordic countries, Norway and Denmark have full VAT exemption on newspaper sales, including digital subscriptions. In Sweden, the standard VAT rate is 25 per cent, reduced to 6 per cent for printed newspapers (and several other cultural products), but not yet for digital publications. Since the 1970s, Finland has had a zero per cent rate of VAT on sales of subscribed newspapers, but the rate was raised to 10 per cent in 2013.

In a review of six countries (Finland, France, Germany, Italy, the United Kingdom and the US), Nielsen (2014) estimate that indirect press support far outweighs direct press subsidies. The same characterises the press support systems in Sweden, Norway and Denmark (Flensburg, 2015; Ots et al., 2016).

In spite of their economic importance, VAT reductions are ‘rarely subject to scrutiny’ (Kind and Mjøen, 2015), and most policy debates concern the direct support schemes. VAT reductions are not visible in the same sense as direct subsidies, and it is less transparent how actors gain from the system (Murschetz, 2013). The main argument for VAT reductions in the cultural industries is that they will benefit both producers and consumers through lower prices. The system is also easy to administer. However, few empirical assessments of the effect of VAT exemptions exist, and concerning newspapers, they generally ‘disregard the two-sidedness of the market’ (Kind and Mjøen, 2015). Newspapers sell newspapers to consumers, but they also sell the attention of audiences to advertisers. The interrelationship (and externalities) between these two markets makes it difficult to calculate the effect of a reduced VAT rate: it may result in lower consumer prices, but it can also translate into higher margins for producers (Ots et al., 2016: 171).

VAT reductions also represent *branch* support, and the economic benefits are necessarily greater for the leading market actors than for the smaller players in the media market (Krumsvik, 2011).

5 Implications for a future media policy

The Internet has, in just a few decades, led to an exponentially growing amount of information, entertainment and user-generated content, continually increasing our media choices. As H. Iris Chui (2013: 21 ff) has pointed out, one consequence of this ‘information surplus’ is that news has to compete with everything else; therefore, ‘the decline in the attention share of any traditional news media is natural and inevitable’. However, the answer to this challenge should not be a technology-driven approach, focusing on digital distribution channels while downsizing editorial staff, but instead, a focus on journalistic quality and unique content that users consider noteworthy (Chui, 2013: 23).

From a limited technological (and economic) point of view, the conditions that led to state-owned radio and television channels, including the Nordic region, no longer exist. There has been a huge expansion of distribution capacity through the growth of new platforms, Internet delivery and mobile video. However, based on the priorities of for-profit media corporations, this seems to mainly lead to a steadily increasing amount of entertainment and sport, less original and domestic programming, and generally low prioritisation of current affairs and news. In our view, based on Scandinavian experiences, this development has *strengthened* the cultural arguments for safeguarding broadcasting as a public good, based on editorial independence in relation to governments and other power holders.

A second conclusion is the necessity of securing and developing the types of media support that make it possible for media organisations to *combine* the strength of the printed press with the development of new online news services. The printed newspaper had ‘its

golden age' concerning circulation decades ago, but it is a myth that, because of *technological* reasons, it is doomed to a quick death. Print media allows for other types of journalism – and other types of reading and reflection – than online, mobile platforms. Media support schemes should therefore give priority to innovative media organisations that aim to produce quality journalism *both on old and new platforms*. Innovation and digitalisation are not the same.

Concerning media support models, the Scandinavian experience is based on a combination of direct and indirect subsidies, which today includes both print and digital media. The least effective solution concerning media diversity, VAT exemptions or VAT reductions, is currently the dominant form. Unfortunately, this indirect subsidy system not only gains the strongest economic actors, but it is not bound to any investment in journalism either. A much better alternative may be tax rules that directly reduce the marginal costs of investing in journalism and stimulate investigative journalism (Kind and Møen, 2015). However, selective support to newspapers and other media organisations with limited or no advertising revenues will still be needed, and when necessary, also extended.

Journalism as a public good has been and will continue to be based on different types of ownership and different types of revenues, including audience payments, advertising, and private and public support. However, current international developments have increased the democratic necessity of increased public funding. The structural basis for the old marriage between news and advertising is severely weakened – and no amount of marriage counselling will repair it.

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