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## **Freedom of Speech, the Market for Ideas and the Issue of Ownership and Concentration in the Newspaper Sector**

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## **Abstract**

The newspaper sector has a key role in a democratic state. The freedom to express ideas as well as pluralism in the supply of ideas, are fundamental to a democratic society. In many countries the constitution prevents government from regulating the market for ideas since Antitrust laws and Competition Acts cannot be used to the same extent as in other markets.

This paper will look more closely at the impact of ownership and concentration on performance in the Swedish newspaper sector and discuss if there is a clash between freedom of ideas and efficient performance in the media sector. Sweden offers an interesting case for two reasons. Firstly, there are different types of ownership categories and firm types that play important roles within the media sector. Secondly, the Swedish government has recently begun investigating whether the Competition Act can be applied to halt or slow down the concentration of media ownership. The purpose is to apply economic theory to the discussion of freedom of speech and ownership concentration, a discussion which is generally dominated by other disciplines.

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## 1. Introduction

Ownership of media companies has always triggered political debates, and also economists have contributed to this topic. There are several reasons for why the media sector is important to the rest of the economy. One reason is that media can play a major role in consumers' access to information, and thereby ensure that other markets work more efficiently. Secondly, the different media sectors contain strong elements of economies of scale and it can therefore be expected that the market results in a strong concentration of ownership. This is by many perceived as undesirable since pluralism in ownership is often considered a guarantee for pluralism of ideas. The debate over whether or not to regulate media ownership is therefore almost constantly on the political agenda in many countries.

The media sector has a unique position due to its importance for the freedom of speech, which is why the sector enjoys special legal attention in most democratic countries, such as being protected in the constitution from government regulation. To prevent an increased concentration of ownership and control can therefore be problematic. It can be considered a restriction in the free establishment of forums for expressing ideas. At the same time pluralism of ideas is an important issue from a democratic point of view. Concerns about pluralism are from time to time put forward for preventing ownership concentration through regulations.

However, the issue of how diversity of ideas is affected by ownership concentration and change in the balance of different ownership categories is an empirical question beyond the scope of this paper. We will however include a discussion of the issue in which we argue that efficiency should also be taken into account when determining the effects of increased concentration of the sector.

The purpose of this paper is to apply economic theory to the debate of media ownership and analyze how this may affect the conclusions drawn. We will apply the ideas presented in Coase (1974), Director (1964) and Posner (1992) to a modern media sector, or more specifically, to the Swedish newspaper sector.

Our point of departure is three classical studies that serve as an analytical framework for our work. Section 3 discusses some characteristics of the newspaper industry. Following that, section 4 presents an official Swedish report discussing regulation of media ownership. This report allows us to draw parallels with the reasoning of much earlier writings by Aaron Director and Ronald H. Coase. The economic conditions of the Swedish newspaper industry and the development of its ownership structure during the last decade are discussed in sections 5 and 6. In these and the succeeding section, the relationship between structure and performance is analyzed from different angles. The determinants of profitability and how these determinants square with freedom of the press, antitrust legislation and pluralism considerations are discussed. The succeeding section 7 offers an empirical study of determinants of profitability. In the light of empirical results, section 8 gives concluding comments on the problems of reconciling the constitutional law of freedom of ideas and the antitrust laws.

## 2. What is special about the market for ideas

In democratic societies, the freedom of speech is a cornerstone of the constitution. In the USA the First Amendment guarantees this freedom, while in Sweden the Freedom of the Press Act and the Fundamental Law on Freedom of Expression serve the same purpose. The constitutionally guaranteed freedom has implications on the organization of the media sector. It is the media sector that provides forums for expression of ideas in the form of newspaper articles, radio and television programs, and advertisements, among other things. Media companies supply these ideas and the public consumes them. In other words, there is an exchange of ideas taking place that to Director (1964) and Coase (1974 and 1977) makes it appropriate to apply the concept of “markets for ideas”.

Since a constitution is superior to other types of legislature, the market for ideas is by far less regulated than markets for goods and services. According to Director (1964, p. 5), this makes the market for ideas “the only area where laissez faire is still respectable”. Both Director (1964) and Coase (1974 and 1977) find it strange that these two types of markets are treated so differently.

In the words by Coase (1974), “[in the market for goods] ... the government is commonly regarded as competent to regulate and properly motivated. Consumers lack the ability to make the appropriate choices” (p.384). In the market for ideas “Consumers, on the other hand, if left free, exercise a fine discrimination in choosing between the alternative views placed before them” and producers “can be trusted to act in the public interest”, while “The government, if it attempted to regulate would be inefficient” (pp. 384-85). Although the view on regulation has changed in many aspects since Coase wrote his article, the dilemma of how to treat the media sector is still a current topic amongst legislators.

Coase sees no convincing reason for treating these markets differently and hence argues in favour of using the same approach for both markets when deciding on public policy. If the government is regarded as efficient, the market for ideas has to be increasingly regulated. If, on the other hand, the consumers and producers are viewed as more competent than the government in promoting the public interest, the market for goods should be deregulated. An alternative would be a combination of the two suggestions and reduce regulation of the goods market and increase government intervention in the market for ideas. Coase offers no explicit answer to which of these views is to be preferred, and it is up to the economics profession to decide about that matter.

Does a completely deregulated market for ideas promote economic efficiency and welfare of society best? By posing this question, Coase introduces the concept of efficiency into the market for ideas. But there is also a political science dimension not addressed by Coase. Efficiency has to do with the survival of firms which in turn influences pluralism. The flow of ideas important to a thriving democracy is supplied in the market for ideas.

This political dimension of the market has been commented by Posner (1992). Posner stresses that, in a democracy, it is important that political views not represented by the party/parties in power can be expressed. The reason is that government has access to the most fearsome monopoly of all; the coercive power of the state. He asserts that there is “a fundamental difference between free speech and free trade – that the former is necessary to prevent what we noted earlier was the most dangerous form of monopoly and the latter is

not?“ (Posner 1972, p. 676). Therefore, it is important that government cannot suppress political ideas, and hence, members of democratic states enjoy an extensive freedom of speech and opinion. The most fearsome monopoly has to be checked.

One of the oldest types of media is the newspaper and that is why we find it a suitable candidate for our analysis. The constitutionally guaranteed freedom of speech and writing implies that a lower ranking legislation such as the Competition Act is not to the same extent applicable to the newspaper industry as it is to other industries producing goods and services. One objective of the Competition Act in Sweden, as well as in many other countries, is to control market concentration that arises due to mergers. An increase in market share is likely to lead to a concentration of ownership. Owners of a firm can after acquiring a competitor attain market power. If the merger means that all competition is eliminated there are no alternatives available for the consumers, and the owners of the remaining firm have a powerful position. The problem of using the competition legislation against mergers leading to a dominant position is that the constitution can be interpreted as prescribing free establishment. A prohibition of a merger would according to this view mean that the acquirer of a new firm is prevented from using the means they think appropriate to express ideas and offering services for expressing ideas. A drawback of such an interpretation of the constitution is of course that pluralism of ideas can be negatively affected if there is a concentration of ownership. Pluralism is important if the press is supposed to work as a medium for political ideas that act as a constraint on the power of the government (the most fearsome monopoly).

In addition there is another efficiency aspect of the issue of a merger regulation to consider. That increased market power can result in allocation losses is well-known from basic microeconomics. But mergers can also bring efficiency gains in the form of lower production costs due to economies of scale as remarked by Williamson (1968). In order to evaluate the effects of a dominant position, both effects need to be taken into account.

An ownership feature noted by Demsetz and Lehn (1985) is that the amenity potential can be expected to be especially large in the media sector. To be able to influence the public debate is for some people a highly appreciated form of consumption. Ownership is therefore, according to Demsetz and Lehn, likely to be much more concentrated in the media sector and the for-profit-motive blended. They find that media companies have more concentrated ownership than firms in other industries.

A further distinguishing ownership feature, found in the Swedish newspaper market, is that there are firms with different types of ownership rights operating in the market. There are private owners who predominantly use the corporate form of business and there are also newspapers owned by foundations and organization. The purpose of these two last groups of owners is mostly to assure the existence of forums for certain political views. In this sense it can be claimed that they increase the pluralism in the newspaper industry. In Alchian and Demsetz (1972) these types of ownership are discussed. Their distinction is based on who is monitoring the firm and what rights to the residual of firm revenue that the monitor has. Using the terminology of Alchian and Demsetz, a distinction can be made between *private owners* who can exert direct control and appropriate the residual, *foundations* in which those who control cannot appropriate the residual and *organizations* of ideological kind in which the size of the residual could be expected to be of minor importance.

### 3. Market characteristics of the newspaper market

Although relatively modest in terms of its contribution to GDP, the media sector is often considered as very central to the economy as a whole. Media can play a major role in consumers' access to information, and thereby ensure that markets in general work more efficiently (for a discussion on information economics, see Stiglitz, 2000). For economic reasons, it is therefore of public interest that the sector works well.

Media companies often work on two markets in the sense that income is generated both through advertising and through sales revenue. We can therefore distinguish two products, namely advertising and content. *Advertising* constitutes economies of scale since advertisers want to reach as many potential consumers as possible. This means that in duopoly markets, a slight increase in the circulation of one paper may result in a very strong increase of advertising in that paper. The result is a 'winner takes it all' effect, where markets show strong tendencies of concentration. For newspaper companies, which are the focus of this paper, advertising is an important source of income and in many cases the most important one.

The discussion of the market for ideas is generally more concerned with the *content* production of the media. Contents can be considered a public good, since the consumption by one consumer does not reduce the availability to other consumers. As in the case of advertising, production of content contains elements of scale economies. Producing an article for one reader is no less costly than producing it for thousands of readers. However, the distribution of the media may be costly, depending on the type of media. TV and radio have less costly distribution systems, but for newspapers the distribution often becomes a natural boundary of the market. One way to circumvent this is to print the newspaper in different geographic locations, but even though this has become more common, there still seems to be strong tendencies for newspapers to work in limited geographic areas. Within these regions, competition is often very limited.

The strong scale economies and the public good characteristics have traditionally been considered strong arguments for regulating the sector. Chances are that the market will end up with monopoly in a sector that is vital for freedom of speech objectives. However, media markets differ from other markets in a couple of respects. First (as has been pointed out above), freedom of speech is often used as a reason to allow freedom of establishment. Regulations against any actor on the market can be seen to infringe not only on that actor's right to perform an economic activity, but also on their constitutional right to express themselves. This is especially noticeable in the Swedish constitution. This must however be seen against other actors' right to express their opinion. In the discussion on media concentration, it is often implicitly assumed that the owner is not just a passive owner, but that the owner participates actively in what is being published through their company. Second, the major concern in competition legislation in general is the higher price a monopoly company can charge. In order to evaluate the net effect on welfare, we must also consider efficiency gains achieved through exploiting scale economies. Media companies have experienced a large increase in competition over the last few years largely due to electronic access to information.

However, for this discussion the concern is content (variety) rather than price. Media firms produce differentiated products which in itself is considered to be important to most

policy makers. Unfortunately, the evidence of how ownership affects product variety is mixed. There is well-known theoretical evidence from the economic literature that free entry can result in too much or too little variety (Spence 1976, Dixit and Stiglitz 1977). There are two conditions that may result in social inefficiency. The first one is when firms produce close substitutes and the entry of a new firm can lead to ‘business stealing’. Secondly, when increasing output leads to lower average costs (Berry and Waldfogel, 1999). For newspapers, products are differentiated and as such they are to some extent substitutes for each other. If two similar newspapers merge, the new owner would either close one of the newspapers down or make sure the newspapers are differentiated enough not to compete for the same customers, thereby internalizing the ‘business stealing’ effect. Hence, mergers and acquisitions may, contrary to popular belief, result in more variety rather than less variety.

Using US data on newspapers, George (2001) finds that concentration of ownership leads to more variety rather than less. She finds that larger papers has more possibilities to cover more topics and employ more specialized reporters, whereas smaller papers become less specialized given the fixed costs associated with producing content. Variety is of course a complex concept, and the different ways of measuring applied in the George article (George, 2001) only covers a few dimensions of it. Political pluralism, which is what is most interesting for our study, is inherently difficult to measure and evaluate. From this perspective, different owners may at least reduce the risk of a monopoly of public opinion.

#### **4. A Swedish Official Report – Director and Coase Revisited**

The question posed by Director and Coase a long time ago has recently popped up in the Swedish debate. In an official report from a committee appointed by the government the question of how to use competition law also in the market for ideas, and not only in the market for goods and services, is investigated (SOU 1999:30). Of special concern is how to apply the rules of merger regulation in the competition law to the media sector. The merger regulation in the competition law has as its purpose to prevent mergers that lead to such a dominant market position of a firm that there is a risk of abuse of market power. In practice it has meant a look at market shares/concentration in a national market. If the market share/concentration gets above a certain level the merger is stopped by the competition authority. If merger regulation cannot be used the risk is, according to the official report, that Sweden will be stuck with a very concentrated media sector. However, the Swedish constitution guarantees extensive rights to the media sector.

It is not only abuse of market power in pricing that is of concern but also the question of pluralism in produced ideas. In other words, there is an implicit assumption that owners also participate actively in the publication process and that what is eventually published is a result of the identity of the owner. This is in similar to Demsetz argument that media owners not necessarily have profit maximization as their primary goal but that there is also an amenity potential in the media sector. The Committee responsible for the official report therefore claims that regulations rules used for goods and services are not enough restrictive for a media sector like the newspaper one. According to the rules for goods and services it is stipulated that deals where the merging firms together have a turnover exceeding EURO one billion (SEK 4 billion) must apply for permission from the Swedish Competition Authority. However, there are very few firms in the media sector, especially in the newspaper industry, that are that large. The market is geographically segmented and consists of many small

markets. In these regional markets pluralism is also deemed to be important. Increase in regional concentration was therefore also proposed in the Committee report to be ground for preventing mergers. A few family-owned firms have been very active in mergers in the newspaper industry and thereby become the dominating firm in several regional markets.<sup>1</sup>

A question that the Committee does not address is that there might be underlying market conditions leading to the observed market concentration in the newspaper industry. Perhaps the mergers are triggered by efficiency reason. In order to survive in the competition from substitute media, such as television, internet, radio and in the near future news in the mobile telephone, the newspaper has to have a high market shares in the local/regional markets. We will look more closely into these efficiency conditions.

## 5. The Swedish Newspaper Industry

The Swedish newspaper market contains around 160 newspapers, but many of these are published only once or twice a week and reach a small number of readers. Together with other Scandinavian countries, Sweden has among the highest level of newspaper reading in the world (SOU 1999).

Another characteristic of importance, at least in the case of the Swedish market is that there are three different types of markets to be considered. Among the morning papers, there are newspapers catering to a regional market and newspapers of a national character. A third category is the evening papers that have a national character.<sup>2</sup>

Looking at the two main revenue sources it can be concluded from Table 1 that advertising is the most important one for both national and regional morning papers. In contrast the evening papers are dependent on the readers as the main source of income.

Table 2. The Revenue structure of Daily Newspapers in 2001

	Urban papers	Evening papers	Provincial papers	All papers
Circulation revenue	36%	79%	42%	47%
Advertising revenue	64%	21%	58%	58%

Source: Institutet för reklam- och medieforskning, IRM

A third source of revenue that we will return to is different types of subsidies peculiar to the newspaper sector. Although having a history of independence from the government,

<sup>1</sup> See section 6.

<sup>2</sup> It should be noted at this point that Swedish newspapers are local products; only two newspapers are considered to be completely national (Weibull & Gustafsson, 1999).

especially in comparison to other types of media, such as television, newspapers have received some financial support from the government. Results of newspaper companies are and have traditionally been very heterogeneous. There are examples of thriving companies, but the past decades of ‘newspaper death’ show us that far from all do. As a means of securing multiple outcomes in the market, the Swedish government launched a press subsidy program in 1971.<sup>3</sup> It is especially smaller newspapers or newspapers in the local market that are targeted in this program, since the aim is to avoid local monopoly. In 1998, 85% of the total support to newspapers was directed to this type of subsidies.<sup>4</sup>

An interplay between the two main sources of revenue, circulation and advertising, can be envisioned. Surveys have shown that advertisements in morning papers have a strong impact on a decision to buy a certain product (see Svensk Dagspress 2003). A majority of Swedes read the morning papers for information about vacation trips, vacation resorts, new and used cars and houses and apartments. Advertisement of groceries and home appliances as well as entertainment and job offerings are of keen interest to the readers. Advertisements are in other words of interest both to readers and advertisers. The more potential customers that can be reached through the newspaper, the more interested the advertiser is of advertising in the newspaper. At the same time the reader is, other things equal, more interested in a newspaper that has a richer and more diverse set of advertisement than a newspaper with just a few ads.

But the reader is of course not just interested in ads. The prime interest is the news and other editorial material, which constitute a major part of the costs of producing a newspaper. In order to cover these costs the revenue from ads are important. At the same time as the advertisement revenues make it possible to cover the costs of providing interesting information to the reader of a news character it also as such raises the interest of buying the newspaper. These are self-enforcing characteristics since an increase in advertising may attract new readers (given the price of the newspaper) and an increase in number of readers in turn increases advertising revenues which in turn makes the paper more informative to the reader and put the newspaper in a position to spend more resources on news. Because of this, 50 percent coverage of a market is an important yardstick. As soon as a newspaper reaches more than 50 percent, it comes into a positive spiral (see Gustafsson, 1996, Ch. 4). Less than 50 percent brings analogously a negative spiral.

Besides coverage economies (caused by being the largest newspaper in a region) there are also economies purely related to scale. A large size makes a specialized labour force economically viable. Subsequently, a larger newspaper can employ specialized journalists to a larger extent than a small paper. A newspaper with specialists writing about topics such as economy and sport, are in turn likely to be appreciated by readers as well as advertisers. A local paper must at least have a minimum degree of specialization in the covering of local news but at the same time also cover other news, as the subscriber mostly cannot afford more than one newspaper (see e.g. Gustafsson 1996, Ch.5). In addition, there are vast economies of

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<sup>3</sup> Although the programme did exist before this, the previous programme was limited and therefore of less interest for this study.

<sup>4</sup> Previously there was also a type of subsidy directed towards improving the co-operation between newspapers in order to achieve scale economies, but this has been considerably reduced over the years.

scale in the printing stage. Technological advances have rapidly increased the minimum efficient scale in this stage. A way to allow companies to reap scale advantages is to share the capacity of a printing plant. The second largest morning paper Svenska Dagbladet and the largest evening paper Aftonbladet share the same printing facility in Akalla in Stockholm.

Other economies of scale make it economically beneficial for one firm to own many different newspapers. Some journalistic material of a non-local character can be used in several local papers, and as indicated above, several newspapers can make use of the same printing facility. Common ownership can in this case facilitate decisions of priority in access to the printing press (note that in the sample above there is a morning paper and an evening paper from two different firms that share the same facility. It is likely to be much more problematic if two morning papers or two evening papers from different firms share the same facility).

## **6. Ownership**

There are essentially three types of owners in the newspaper sector: families, foundations and interest organizations (political and others). Family and interest organization ownership date back to the 19<sup>th</sup> century. Family ownership dominated then as now. Perhaps the most well-known owner family is Bonnier, who controls two large national as well as some regional newspapers. There are also owners of several regional papers such as the Hamrin, Ander and Pers families. A century back in time there was a pattern with family ownership with the owner family living in the region of circulation. During the 20th century the ownership pattern has changed. An important cause of the changes has been succession problems. Due to problems of organizing the succession, newspapers have either been sold to other family-owned newspaper firms, sold to a foundation or the ownership was simply transferred to a newly created foundation. As a result of these changes, a third type of owners, the foundations, has emerged as an important ownership category. A thorough description of Swedish media ownership is provided by Sundin (2003).

A picture of the ownership pattern is provided in Table 2, which shows the involvement and coverage of large ownership groups on different regional markets in 1995. Each column represents different degrees of coverage by the respective owners. The total number of regional markets is 105. The largest owner, Bonnier, is present with a coverage of more than 10 percent of the households in 65 of these markets; however, in most markets they are a small owner with quite a low coverage. In other words, Bonnier is a large owner in the sense that they are present at many markets simultaneously, but within each market they are a small actor. Only in two markets, Stockholm and Malmö, do they reach more than 40% of the households. The labor movement is the dominant actor in a few markets, but for most markets they are more modest. These two owners are present across the country, but for the other owners there is a clear regional focus and the owners tend to be strong in their own areas. Some regions are completely dominated by a single owner.

Table 2. Large ownership groups and the number of regional market where a group had more than 10 percent coverage in 1995.

Coverage	>80%	70-79%	60-69%	50-59%	40-49%	30-39%	20-29%	10-19%	Total
Group of owner									
The Bonnier family			2			3	13	47	65
Labour movement	2	1	1	2	5	8	10	21	50
The Ander family	2	2	1	3	1		1	1	11
The Hamrin family	1	3	2			1	1		8
Center movement		1	2	2	2			1	8
The Hjärne family		1					2	5	8
The Pers family	1	1	2	1	1				6
The Barometern (F)			3	1		1		1	6
Liberal consortia		2	1			1		1	5
Nya Stiftelsen Gefle Dagblad (F)	1		1		1	1			4
The Bengtsson family		1		1			1		3
The conservative editorial (F)				1	1			1	3

Source: Munck (1997)

(F): foundation

During the 1990s, foreign owners have emerged as the fourth ownership group in terms of size in the Swedish newspaper sector. Two large Norwegian media conglomerates, Schibsted and Orkla, represent this new foreign ownership. Schibsted made its way into the Swedish market in 1996 by buying 49.9 percent of Sweden's largest newspaper *Aftonbladet* from the labor movement. In 1998 Schibsted also acquired a majority of the shares in Sweden's fifth largest newspaper *Svenska Dagbladet*. Orkla acquired 49 percent of *Norrländska Socialdemokraten*, a medium sized regional paper in the northern part of Sweden, from the labor movement in 1998. In terms of circulation Schibsted is now the largest actor on the Swedish market (Munck, 1997).

In aggregate terms Table 3 shows that private owners and foundations have increased their shares of the total circulation for daily press with more than three issues a week. Private owners have between 1978 and 2003 increased their share substantially from 59 to 73 percent, while the foundations have slightly increased their share from 15 to 18 percent. The losers are the interest organizations that during the same time period have decreased from 26 to 9 percent of the total circulation. A major part of this decrease is on the part of Social democratic newspapers.

Table 3. Circulation Shares for Different Types of Owners in the Swedish Daily Press 1978 and 2003

Type of owner:	Circulation 1978	Share in % 1978	Circulation 2003	Share in 2003
Private	2 660 600	59	2 802 000	73
Foundation	680 300	15	672 950	18
Organization	1 150 100	26	341 900	9
Totally	4 491 000	100	3 816 300	100

Source: Petersson et al (2005)

A further remark to make on ownership is that ownership in Swedish newspapers is very homogenous. Either a family and its close relatives, an organization or a foundation owns the majority of the shares. There is no mixture of these three categories in the majority of the cases (see Sundin 2003)

## 7. Determinants of Profitability – An Empirical Study

The discussion has so far focused on structural features of the newspaper industry such as supply and demand characteristics and ownership characteristics. A next step is to investigate how performance of the newspaper industry is related to these structural features. The performance measure to be used in this study is profit margin. How the profit margin is defined together with the different structural variables are described in Table 4.

Table 4. Description of Variables

Margin	Calculated as income after depreciation (direct subsidies excluded) divided by sales.
Scale	Circulation of the newspaper measured in thousands of copies sold.
Coverage	Percentage of the total circulation in the market supplied by a newspaper firm.
Subsidy	One if the firm receives a direct state subsidy for its operations. Zero otherwise.
Foundation	One if the majority owner (majority of the votes) is a foundation. Zero otherwise.
Organization	One if the majority owner (majority of the votes) is an interest organization (political or interest group). Zero otherwise.

The market-related characteristics that have been discussed are estimated through the variables Scale and Coverage. There were reasons to believe that there were both economies of scale and a network type of economies that implied cost advantages of high coverage of a market. Both Scale and Coverage are thus expected to have a positive influence on profitability (Margin).

The three types of majority ownership could be discerned in the Swedish Newspaper sector are private owners, foundations and interest organizations. According to Alchian and Demsetz (1972) it is reasonable to believe that the profit incentive is stronger for the category ‘private’ than for foundation and organization.<sup>5</sup> The variables Foundation and Organization are therefore expected to show a negative relationship with Margin.

There is also a political dimension. According to this, there is a public interest of diversity in the newspaper sector. For this purpose direct subsidies are distributed to newspapers that are comparatively small in terms of coverage of the market. The subsidies are given in order to enable them to survive. Therefore a negative relationship is likely to exist between the measure Subsidy and our performance measure Margin (which excludes subsidies).

These hypotheses will be empirically tested by use of the following functional relationship (signs indicate expected influence on profitability):

$$\text{Margin} = f(\text{Scale}, \text{Coverage}, \text{Subsidy}, \text{Foundation}, \text{Organization})$$

+        +        -        -        -

Data about the economic situation is provided by Gustafsson and Westergren (2000; 20001; 2002; and 2003), Gunnarsson and Gustafsson (2004) and complemented by data from Sundin (2003). The empirical study is a panel data covering the years 1999-2003, which includes poor as well as good years in terms of economic performance. The newspaper firms studied are firms that publish at least two times a week, and the data covers 66 newspaper firms. The summary statistics for variables used are provided in Table 5.<sup>6</sup>

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<sup>5</sup> However, as pointed out by Demsetz and Lehn (1985) private media owners are also likely to have a preference for influencing the public debate through media content that sometimes is at the expense of profit.

<sup>6</sup> Since the margin is calculated withdrawing subsidies, the negative minimum value consists of a firm that receives a very large part of total income from the subsidies.

Table 5. Summary Statistics

	Observations	Mean	Std Error	Minimum	Maximum
Margin	331	-.006	.236	-1.014	1.041
Size	331	53.010	82.796	2.5	442.1
Coverage	331	51.030	24.447	1	92
Subsidy	331	.221	.415	0	1
Foundation	331	.208	.407	0	1
Organization	331	.281	.450	0	1

Concerning correlation between the explanatory variables, we find that subsidy and size are negatively correlated. This is not surprising since subsidies are given to the second largest newspaper in the market.

Table 6. Correlation matrix

	margin	size	coverage	subsidy	foundation	org
Margin	1.00					
Size	0.1835	1.00				
Coverage	0.4310	0.0147	1.00			
Subsidy	-0.4402	-0.3144	-0.8199	1.00		
Foundation	0.1557	-0.0350	0.4065	-0.3248	1.00	
Org	-0.1286	-0.2483	-0.3939	0.3798	-0.3074	1.00

On this data we performed fixed time effect robust error estimates. The results of the regressions are shown in Table 7. Furthermore, the equation provides a highly significant explanation of the performance since the F value is high.

The variables Coverage and Size are significant and have the expected sign. Furthermore, the significant negative coefficient for Subsidy is in line with the expectation since direct subsidies are primarily given to otherwise unprofitable firms. Including subsidies have very little effect on the remaining coefficients but does decrease significance levels somewhat, which is in line with what we would suspect given the correlation of the variables. The variables, however, remain significant.

The results for the ownership categories provide no support for the hypothesis that private owners should be more profit maximizing than foundations or organizations. However, private ownership has, as shown in Table 3, increased considerably its share of the newspaper at the expense of interest organizations since 1978. Hence the available yearly statistics 1999-2003 might cover to short period to capture profit advantages properly.

Another explanation might be that in line with the findings of Demsetz and Lehn (1985) is that the profit incentive is for private owners equally blended with a desire to influence public opinion as it is for the other ownership categories and the interest organizations have had other reasons than cost efficiency to sell out.

Table 7. Robust Error Estimates of the Margin 1999-2003

Constant	-.181*** (-1.88)	-.390*** (-6.76)
Size	.001*** (2.67)	.001*** (4.82)
Coverage	.003 *** (2.62)	.006*** (8.36)
Subsidy	-.232*** (-3.11)	
Foundation	.002 (0.06)	.001 (0.05)
Organization	.036 (1.25)	.027 (0.79)
N. of observations	264	264
N. of groups	4	4
R <sup>2</sup>	0.461	0.397
F(5,255)	52.75	42.22

Note: t-statistics are in parentheses

\* Significantly different from zero at least at the 10 percent level

\*\* Significantly different from zero at least at the 5 percent level

\*\*\* Significantly different from zero at least at the 1 percent level

To sum up, the results from the regression can be interpreted as supporting Williamson's argument that there are efficiency gains to be made through large-scale production and market concentration.

## 8. Conclusions

The aim with this paper is to apply economic analysis to the problem of regulate or not regulate the newspaper sector. Data from the Swedish newspaper is used for this purpose. Two aspects of regulation are to be considered. On one hand there is the importance of the

newspaper sector for a thriving democracy. The pluralism of ideas expressed in newspapers is of concern. The second aspect concerns the issue of economic efficiency that applies for all sorts of goods and services, and this aspect is what Coase and Director initially addressed. In Sweden the increasing share of private ownership, the increase in the number of newspapers owned by one and the same firm as well as tendencies that also other types of media tend to be run by firms joined by common ownership have caused concern for both pluralism and economic efficiency. In light of these changes in the ownership structure, a Swedish official report proposes a new legislation that can stop mergers that give one group of owner a too dominant position on regional markets as well as on the national market.

Our empirical analysis deals primarily with economic efficiency. We find strong economies of scale represented by scale and coverage. This implies that efficiency gains can be made through increased market concentration, and it is therefore important to consider positive as well as negative effects of an eventual market concentration. Second, and not unexpected given the strong scale economies, we find that the market size is crucial when discussing concentration. In the Swedish case, there exist several small regional markets with only one local newspaper, but at a national level competition is strong. Attention has to be paid to the fact that increasing competition from new media limits the market power that can be exerted in the newspaper market. Third, economic theory is ambiguous in how an increased ownership concentration affects product diversification, and this should be evaluated empirically. Evidence is very scarce but the little evidence there is suggests that increased ownership concentration may actually be beneficial to the consumer. More research is needed on this issue and it should be addressed by policy makers.

As remarked, one problem put forward in a Swedish official report arguing for merger regulation is that one type of owners, the private, are thriving at the expense of primarily organization. In our empirical study we have not been able to find any profitability explanation to why private owners as an ownership category would outcompete organizations. Further research to explain this shift in ownership pattern is needed.

Of some importance for the government interest of ownership regulating similar to the market for goods and services might be that it is the organizations aligned to the Social Democrats that have lost most market shares. Perhaps this fact is the public choice explanation to the keen interest of using the Competition Act also in the markets for ideas and thereby moving in the direction of increased regulation. At the same time the decline in organization ownership of newspapers has not prevented the Swedish Social Democrats from winning most elections.

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