



State versus private ownership: A look at the implications for local media freedom

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Relationship between the role of the media in society and media-ownership

The availability of information and its accessibility is central to the functioning of contemporary democracies and in modern economies and societies in general. It is vital to the ability of constituencies to make informed political and economic decisions during voting and when making economic decisions. Much information is provided by the media, including newspapers, television and radio, which collect information and disseminate it to the public. With technological advancement and the development of new forms of mass media, like the Internet and digital television, the important role of the media is continuously increasing in the age of the “information society”, both in terms of their economic and socio-political significance. A crucial question, then, is how the media should be optimally organised in order to better accomplish its public role. This question in turn is directly linked to the issue of media-ownership – state vs. privately owned as well as issues of concentration of ownership and cross media ownership.

Although there exists little comprehensive empirical and theoretical study on the issue, the relationship between media-ownership and economics, and the media’s role in society provides plenty of content for active public and policy debate at the international and national levels, including discussions within the European Union and the Council of Europe.¹

It is logical to relate the media structures and management systems to the content produced by the media, and to ask how various structures and operations affect homogenisation or diversification and whether consumers really get the kinds of

¹Commission of the European Communities (1992) *Pluralism and Media Concentration in the Internal Market*. COM (92) 480. Brussels, Belgium: Commission of the European Communities.
Council of Europe (1998) *Media and Democracy*. Strasbourg: Council of Europe Publishing.

communication they want and need. Any credible conclusions on this, however, would have to be based on systematic and comprehensive research, which unfortunately has seldom been done. Media studies have typically been fragmented and examined one dimension at a time. Even research on media content has been mostly short-term and case-based, although currently there is a growing interest in monitoring media content overall. Linking results of the monitoring with media-ownership and editorial/decision making structures will be the next step in establishing the relationship between the two.

Unfortunately, so far even less research exists on the issue of local media ownership and its effects on the role played by the local media in communities, in local democratic processes and in local economics.

Social and political theorists recognise that preconditions for the establishment and preservation of democratic governance include freedom of expression for individuals and groups with divergent views. The basic doctrine of democracy holds that through the airing of such views, citizens will be able to choose the most commendable and credible ideas, and that society will thus advance. In the realm of media theory and policy, this concept has been manifested in the idea that media plurality, i.e., multiple media outlets, is a primary element of providing the opportunity for diverse voices to be heard and for ideas to be circulated. The number of views about a particular event and the amount of information that each medium can carry are already limited by time and space constraints.

Although the existence of multiple media outlets makes it theoretically possible for a larger number of views and opinions to be communicated, the mere existence of media plurality does not ensure message pluralism, i.e., a diversity of viewpoints. Most studies on media content have shown that different units of a medium and different media in some cases tend to provide relatively similar content, programming, and views because of commercial concerns, the adoption of standard industry norms and business practices, and dependence on a small number of similar sources of news and opinion².

The answer to such problems then must come in the form of not merely anti-monopoly and anti-cartel laws and regulations limiting ownership, but also from policies and regulations that create space for independent voices. In addition, policies should ensure the promotion of domestic media and content, encourage the establishment of additional competing media and, more importantly – because of the homogenisation problem – provide for access to non-mainstream voices and alternative means of coverage of social and political issues³.

² See Nimmo, Dan, and James E. Combs (1990) *Mediated Political Realities*. 2nd ed. New York: Longman; Gaunt, Philip (1990) *Choosing the News: The Profit Factor in News Selection*. Westport, Conn.: Greenwood Press; McManus, John (1993) *Market Driven Journalism: Let the Citizen Beware?* Thousand Oaks, Calif.: Sage Publications.

³ See Picard, Robert G. (1985) *The Press and the Decline of Democracy: The Democratic Socialist Response in Public Policy*. Westport, Conn.: Greenwood Press; Gustafsson, Karl Erik (ed.) (1995) *Media Structure and the State: Concepts, Issues, Measures*. Göteborg, Sweden: Mass Media Research Unit, School of Economics and Commercial Law, Göteborg University.

In most of the developed world, the first goal of establishing a pluralistic media has been and continues to be accomplished. Much of the world has had a history of at least some form of state-related telecommunications and broadcasting, supplemented by a media representing certain political interests, i.e. media associated with political parties, and a commercial press. In many nations, government monopolies on broadcasting and telecommunications were broken in the 1980s and 1990s, and they are now being supplemented by commercial systems.

The establishment of additional competing media, however, have led to new forms of private ownership and commercial operation. Because these tend to follow the same practises that have led to limitations on the marketplace of ideas, a great deal of interest is being raised about their effects. This is especially true where the deregulation and increasing commercialisation of the media and communications systems has been accompanied by the growth of large firms serving domestic and foreign markets worldwide.

However, the commercial media, while guaranteeing relative diversity, is still subject to other types of pressures that affect its content, thus these changes in media-ownership have created both more and less opportunity for political and social discourse and action. On one hand, changes in technology and deregulation have resulted in an increasing number of broadcast stations, cable and satellite distribution systems, and broadcast and cable/satellite networks throughout the world. These media changes, along with telecommunications developments that have made possible the wide diffusion of fax, e-mail, and related Internet services, have created more opportunities and means for communications. On the other hand, however, these changes have created conditions that have resulted in the formation of larger, more commercialised media businesses.

The conditions of media markets, including competition, production, sales and other relevant economic developments all have an effect on the conduct and thus also on the content of the media. The means of financing the media, as well as changes in technology and in telecommunications policy also contributed to changes in the structure and economics of the media in recent decades. If the pre-1960s era can be described as the era of the print press and public service radio, and from 1957 also as the era of public service television, the 1970s became the era of commercialisation of the media, and 1985 to the present can be considered the era of media businesses due to the levels of economic concentration and ownership concentration by media industries.⁴

In terms of the content, the first era was characterised by the limited amount of communication through the print media and public service radio, and by the cultural, social and political orientation of those media. With the launch of television, first with only public-service broadcasting and later with the introduction of more and more commercial channels, the media also increasingly started to provide entertainment. The following periods of media development were defined by increasing commercial

⁴ Pigar, Robert G (2001), *Relations among Media Economics, Content, and Diversity*, Media Group, Turku School of Economics and Business Administration

broadcasting and also by the growing commercial print press (mostly in the form of the tabloid press). The increasing commercialisation of the media also brought about significant change in the outlook of media owners, managers and investors, as well as the structure of media markets, leading to the transformation of media companies into media businesses.⁵

⁵ Ibid.

State vs Privately Owned

Once we have established the interconnection between the type of media ownership and the media's role in society, the question remains: should the media be state or privately owned? Should the media industry be organised as a monopoly or competitively? Which of the ownership structures is most beneficial for the audience and encourages a pluralistic media while providing the media with the conditions necessary to accomplish its public role?

In this part of the paper, we will review two broad theories on the organisation of the media. The first theory of the media—and of institutions more generally—is the public interest (Pigouvian) theory, in which governments maximise the welfare of consumers. Consequently, according to that theory, state ownership of the media, perhaps even as a monopoly, is then desirable for three reasons. First, information is a public good—once it is supplied to some consumers, it is costly to keep it away from others, even if they have not paid for it. Second, the provision, as well as dissemination, of information is subject to strong, increasing returns: there are significant fixed costs in organising information-gathering and distribution facilities, but once these costs are incurred, the marginal costs of making the information available are relatively low. Third, if consumers are ignorant, and especially if private media outlets serve the governing classes, then state ownership of media can expose the public to less biased, more complete, and more accurate information than it could obtain with private ownership⁶.

Interestingly enough, all these arguments were later adduced by the management of the newly formed British Broadcasting Corporation (BBC) in support of maintaining a publicly subsidised monopoly on radio and television in Britain,⁷ and subsequently repeated in many developing countries.

In contrast, the public choice theory holds that a state-owned media would distort and manipulate information to entrench the incumbent politicians, preclude voters and consumers from making informed decisions, and ultimately undermine both democracy and the markets. Because private and independent media supply alternative views to the public, they enable individuals to choose among political candidates, goods, and securities—with less fear of abuse by unscrupulous politicians, producers, and promoters.⁸ Moreover, competition among media firms ensures that voters, consumers, and investors obtain, on average, unbiased and accurate information. The role of such private and competitive media is held to be so important for the checks-and-balances system of modern democracy that they have come to be called “the fourth estate”, along with the executive, legislative, and judicial branches of power.

⁶ Lenin, Vladimir, (1925), *On the Freedom of the Press*, 7 Lab. Mon. 35.

⁷ R. H. Coase, (1950), *British Broadcasting*.

⁸ See Sen, Amartya (1984), *Poverty and Famines*;

Besley, Timothy and Prat, Andrea (2002), *Handcuffs for the Grabbing Hand? Media Capture and Government Accountability*, CEPR Discussion Paper No. 3132, London.

The two theories have distinct implications for both the determinants and the consequences of who owns the media. The public interest theory predicts that more “benign” or “public-spirited” governments should have higher levels of media ownership and that the consequences of such ownership are greater freedom of the media, more economic and political freedom, and better social outcomes. The public choice theory predicts the opposite.

The issue is addressed by research conducted by the World Bank, which studied the patterns of media-ownership in 97 countries⁹. After examining a number of different variables and their interrelations with the patterns of media-ownership, the group of researchers established that media firms nearly universally have ownership structures with large controlling shareholders and that these shareholders are either private families or governments. This evidence is broadly consistent with the ideas that there is a large amenity potential (the control of benefits) associated with owning media—be it political influence or fame.

The study further showed that countries that are poorer, more autocratic, with lower levels of primary-school enrolment, and with higher levels of state intervention in the economy also have greater state ownership of the media. In addition, countries with greater state ownership of the media have a less-free press, fewer political rights for citizens, inferior governance, less-developed capital markets, and inferior health outcomes (the last result being particularly important in light of the argument that state ownership of the media serves the needs of the poor).The study did not give empirical evidence of any benefits of state ownership of media.

The results of the study are hardly surprising, as intellectuals since John Milton in the seventeenth century have advocated for a free press and independent media. Still, the results are important as they go beyond the conceptual argument and demonstrate not only the obvious connection between the independence of the media and political freedoms, but also examine the correlation between independent media and a number of variables like the health system, the level of education, and the state of the economy, and provide a strong argument in support of the public choice against the public interest theory of media ownership.

It is, however, important to note that media ownership is not as simple as a division between ‘state-owned and therefore state-run’ vs ‘privately owned and therefore independent’ media. It is crucial, for example, to consider factors like regulatory policies and mechanisms when talking about the independence of the media. Those regulations vary from content restrictions in broadcasting licenses to constitutional freedom of expression provisions. There are several types of regulations and mechanisms for their enforcement - in some cases, ownership is influenced directly by regulation. In Norway, for example, regulations restrict owners from holding more than one-third of the shares in media enterprises. Similar restrictions on ownership apply in Israel. Regulations of foreign ownership and cross-media ownership are also prevalent.

⁹ Djankov, Simon, Nenova, Tatiana, Mcliesh, Caralee and Shleifer (2003), *Who Owns Media?* Journal of Law and Economics, vol.XLVI, University of Chicago.

State ownership thus takes different forms. The BBC, which the research classified as being state-owned, as it is funded by government license fees and advertising, and the board of governors is appointed by Royal Prerogative and in practice the prime minister, is accountable to the government. The BBC charter, however, specifies a number of safeguards to ensure its independence from state interference.

By contrast, the largest television station in Myanmar is controlled directly by the Ministry of Information and Culture, and the second largest station is controlled directly by Myanmar's military. In both cases, the state retains the full power to manage content and appoint and remove staff. In Turkmenistan, the state maintains direct control over the press: President Niyazov was officially declared the founder and owner of all newspapers in the country.

In a number of cases, we need to distinguish between state and political-party ownership. In Kenya, the ruling party, the Kenyan African National Union (KANU), is the ultimate owner of the daily newspaper the *Kenya Times*, the country's fourth largest daily. Yet the *Kenya Times* cannot be classified as state-owned, because if there were a change of government the ownership would remain with KANU. In contrast, control of the Kenyan Broadcasting Corporation (KBC) would remain with the state regardless of the political party in power, therefore KBC is classified as state-owned. Ruling-party ownership also occurs in a number of other countries, for example in Malaysia and Cote d'Ivoire.

Similarly, in several cases, family ownership is so closely associated with the state that it cannot be considered independent. In Kazakhstan, President Nazarbayev's daughter and son-in-law control seven of the country's 12 major media outlets between them. In Saudi Arabia, members of the royal family are the ultimate owners of two of the five most popular dailies. In cases where there is a direct family relationship between the ultimate owner and the head of state, and the governing system is a single-party state, the media was justly classified by the World Bank research as state-owned.

There are also other unofficial links to the state: in Russia, the close associations between the owner of one of the main television stations, Boris Berezovsky, and then-President Yeltsin have been well documented by Berezovsky himself.¹⁰

¹⁰ Boris Berezovsky wrote: "...we helped Yeltsin defeat the Communists at the polls, using privately owned television stations" *In Our Reverse Revolution*, Washington Post, October 26, 2000.

Local media

As mentioned above, the research specifically examining the issue of ownership of local media is very limited. However, it would be fair to assume that the same conclusions regarding media ownership would be applicable also for the media at the local level. There are, however, a number of specific factors that particularly affect the local media and create special conditions specific to the local media.

The economic recession of the past year highlighted the financial challenges that local media face. In general, in any given country the economic situation of the local media is usually more difficult compare to that of the national outlets. This is due to limitations imposed by smaller advertisement and subscription markets, as well as less access to investors, especially international media firms. While this was always the case, the current economic downturn has made this situation more severe and more visible.

Even in a relatively prosperous country like Great Britain, there are clear signs of an increasingly difficult situation for the local media. In March 2009, the chief executives of the country's largest regional newspaper groups joined together in a new body called the Local Media Alliance to negotiate with the government as one unified front, seeking financial help.¹¹ The move followed the closure of a number of local newspapers, and the main aim of the new body was to save further publications from closure. Roger Parry, the chairman of the Local Media Alliance was quoted as saying: "This is not a lobbying organisation but a way for the regional press to act quickly and efficiently to provide information and responses to the government in a fast-moving situation."¹² The Alliance includes the chief executives of Trinity Mirror, Johnston Press, Newsquest, Northcliffe Media, Guardian Media Group, Archant and DC Thomson- the seven firms that together control 72 percent of the UK's regional newspaper market. The Alliance has been created to petition the government for relaxation of media merger rules for local media. In this particular situation, it seems the response of the industry is to create more mergers, in which fewer and fewer large organisations will own country's local media.

Analysts meanwhile believe that this move, while addressing economic concerns that the managers of local media have, is not a solution. The straight and the role of local media lies in creating a distinct geographical product that appeals and is relevant to local community and that press run by big centralised companies will not be able to comply with that role.¹³

The same tendency continued later, when in July 2009 British broadcasting regulator Ofcom eased the rules on the cross-media ownership as a way to combat the "significant economic challenges" faced by local media¹⁴. In particular it proposed removing local

¹¹ See <http://www.guardian.co.uk/media/greenslade/2009/mar/04/local-newspapers-newspapers>

¹² <http://www.holdthefrontpage.co.uk/news/090304alliance.shtml>

¹³ See Spencer, Ben, *Local Media Alliance: mergers are not the answer*, 5 March 2009, <http://globalmedianotes.wordpress.com/2009/03/05/regional-mergers-local-media-allianc/>

¹⁴ Luft, Oliver, *Ofcom: Local media ownership rules could be eased* <http://www.pressgazette.co.uk/story.asp?storycode=44073>

radio service ownership rules to allow one company to own the stations in a single designated area. Ofcoms proposal was also to allow media businesses greater freedom to own local TV stations, newspapers and radio stations.

At the same time, local media in the Eastern Europe and countries of ex-Soviet Union face other challenges in terms of media ownership and economic sustainability. For example as indicated in the IREX Annual Sustainability Index for 2008, in Bulgaria representatives from regional media claim that their problem is the lack of accurate and objective information about their audience, which leads to regional media being ignored by nationwide advertising agencies and media shops. Hence, their major advertisers are limited to local businesses, which often work based on political influence or common interest with media owners¹⁵.

Unfortunately, in the Eastern Europe post-communist countries, where there is a strong legacy of state-owned media, many media outlets, especially local ones, try to solve their economic problems by building alliances with state bodies. The same IREX study shows that in Ukraine for example, where media market is fragmented with several small and unprofessional players, local media outlets are often sponsored by the government and politicians who influence their editorial policy. “Those journalists and media outlets which a few years ago would resist any governmental pressure for the sake of truth and objectivity, today often exchange their principles for advertising budgets of clients,”¹⁶ states Sergiy Tomilenko, chief editor, *Nova Doba* Municipal Newspaper, Cherkassy.

The main issue here is what effect such financial involvement of state in local media has on editorial independence of media. According to Tomilenko, “Underdevelopment of commercially successful regional media leads to the fact that the media sector is extremely sensitive and ready to publish any paid-for information. A cynical and disrespectful attitude toward editorial independence is often a standard for influential politicians, businessmen, and officials.” Similarly, in Russia, despite the law prohibits authorities from subsidising media; there is a common practice of making contracts for “the provision of information services.” According to Lilia Molodetskaya, executive director of the Alliance of Independent Regional Publishers, the impact of that is that a media outlet that gets money from the authorities undertakes to provide them a certain amount of space or airtime. The media outlet then has little or no editorial control over how the authorities use this space or airtime.¹⁷

While in Eastern Europe, many managers of local media rely on state-subsidise for solution, in the UK for example, many view the existence and expansion of papers published by local councils as a direct threat for the existence of independent local media. In reaction to criticism on this, the councils of Tower Hamlets and Barking in London pointed out that they are merely fulfilling a government requirement to inform their citizens about what is happening in their boroughs. They also noted that the majority of their residents were unable to obtain that information because the sales of commercial

¹⁵ http://www.irex.org/programs/MSI_EUR/2008/bulgaria.asp#4

¹⁶ http://www.irex.org/programs/MSI_EUR/2008/ukraine.asp#4

¹⁷ http://www.irex.org/programs/MSI_EUR/2008/russia.asp#4

papers have gradually fallen to such low levels and, according to the council , those papers have also reduced public service journalistic coverage, mainly due to editorial cost-cutting.

While providing citizens with information is not only the right, but also the obligation of the government, including local authorities, the government bodies should seek alternative ways for provision of this information, without creating competition, or imitating the role of local editorial papers. While the argument of the council might sound democratic, it ignores the fact that council-run papers are undermining the very publications whose role is to hold local power to account. The central job of local journalists, acting on behalf of the people, is to ensure that local authorities in all their forms - councils, health trusts, educational institutions, policing boards - are acting fairly and honestly.

As Roy Greenslade mentions in his article on the topic, "Council-run papers are, in some respects, no more than "Pravda publications". Even if they do not specifically push council policy - and most do -they certainly do not criticise that policy. They may act as a (heavily censored) forum for critics, but they do not campaign against decisions. Nor, of course, do they investigate councillors or council officers."¹⁸

The main conclusion that can be drawn is that the issue of pluralistic independent media, able to play its public role in the society is directly linked to the issue of media ownership. At the same time, the issue of separation of ownership and distance of ownership from editorial governance is of critical importance. As we demonstrated here through several examples from Eastern and Western Europe, state-ownership of media or state subsidies to media often result in state or local-government control over editorial decisions. Meanwhile, political, family and other associations can be equally damaging if they control or affect editorial decisions.

¹⁸ Greenslade, Roy, *Council papers are bad for local journalism - and democracy* , 22 April 2009, <http://www.thisislondon.co.uk/standard-business/article-23679090-council-papers-are-bad-for-local-journalism---and-democracy.do>

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