

DIVERSITY, ECONOMICS AND THE AUSTRALIAN NEWSPAPER INDUSTRY

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Diversity of newspaper outlets and diversity of newspaper ownership are both generally conducive to economic efficiency within the newspaper industry. A review of the economics of newspaper publishing reveals two major factors concerning the structure and ownership of the press. The first is that scale economies of production are largely responsible for the tendency of newspaper markets in cities and towns to be dominated by a single title. The second is that the combined effect of economies of scale and newspaper firms' drive towards growth is likely to bring about a high concentration of newspaper ownership. It is argued that economic theory lends qualified support to policy proposals to prevent mergers between newspaper firms and to require divestiture of newspaper titles.

INTRODUCTION

In 1859 John Stuart Mill wrote that "only through diversity of opinion is there, in the existing state of human intellect, a chance of fair play to all sides of the truth".¹ Similar sentiments were expressed more recently by the famous American jurist, Justice Hugo Black, when he argued that "the widest possible dissemination of information from diverse and antagonistic sources is essential to the welfare of the public".² It is in the spirit of these statements that diversity has now become widely accepted as being an essential ingredient for a system of mass media in a truly democratic society.

By relating diversity specifically to the press as a major information source, and in an attempt to define the characteristics of diversity in the newspaper medium, two propositions are offered. First, other things being equal, a pluralist democratic society benefits from an increase in the number of newspaper titles available to its members. Secondly, again with all other things equal, as the level of ownership concentration within the newspaper industry is reduced, the structure of the press is improved in the sense that a greater number of independent owners of newspapers increases the potential of the press to

represent a wider range of opinions, values and attitudes. These two aspects of press diversity are here referred to as 'diversity of outlets' and 'diversity of ownership'.

ECONOMIES OF SCALE IN NEWSPAPER PUBLISHING

Economic forces operate, however, to restrict diversity of outlets and to reduce diversity of press ownership. The major factor affecting diversity of outlets is the existence of scale economies in the publishing of newspapers. These economies of scale are associated with both the overhead and production costs of newspaper corporations. The fixed overhead costs of a newspaper are mainly those incurred in relation to its premises and plant, and for the salaries and expenses of management. These increase with the size of the newspaper's circulation, but less than proportionately. Therefore, the greater the number of copies sold, the lower the overhead cost per unit of output. Increases in circulation thus provide a larger base over which the overhead expenses of the newspaper firm can be spread.

Of greater importance, however, are the economies of scale encountered in the production operations of newspaper firms. These economies of scale are associated with the concept of 'first copy' costs, which are the costs incurred in producing a newspaper up to the printing process. First copy costs include all expenses involved in preparing the editorial and advertising content, and the printing plates, for each edition of a paper. As is the case with overhead costs, total first copy costs can be expected to rise as the number of copies sold is increased, but to decline significantly on a per copy basis.

Rosse has found substantial economies of scale to exist at both the creation and reproduction stages of newspaper operations.³ Because first copy cost components fall with increases in the number of copies, and since variable costs (mainly for newsprint and press room labour) remain approximately constant, newspapers with larger circulations will incur lower per unit creation and reproduction costs than newspapers with smaller circulations. At the creation stage, the costs of producing both the editorial and advertising content of any edition of a paper are independent of the number of copies printed. In the reproduction process, the cost per copy declines as the number of copies is increased, and for a given number of copies the cost per page declines as the number of pages is increased. Rosse has found

evidence that economies extend to "all scales" of newspaper production.⁴

Because scale economies give the highest circulation title in a market a cost advantage over its rivals in the production of both newspaper products, copies and advertising, it is able to reduce its cover price and, especially, its advertising rate and so increase its market share for both products. And the cost advantage of the largest publication over its rivals is likely to widen progressively. As the major paper increases its share of the circulation and advertising markets its unit costs will decline further. Concomitantly, the decrease in the relative market share of its rivals will cause their unit costs to increase. Moreover, this process is exacerbated by the 'demand interdependence' of the two products of newspapers. A fall in the demand for, say, advertising in a newspaper will bring about a fall in its circulation. Following this decline in circulation there will be a further decline in sales of advertising, which will induce a further fall in circulation etc.⁵

The existence of economies of scale thus has fundamental implications for the structure of the newspaper industry. Direct competition among a number of newspapers for the same readers and advertisers is generally characterised by unstable market conditions which usually result in the cessation of publication of the smaller papers, or their merger with the largest circulation paper in their respective markets. According to Hoyer *et al.* the trend towards newspaper markets each supporting only one publication is prevalent throughout the Western world. They report that their analysis of international press developments indicates that:

... in practice, concentration has involved the establishment of monopolies at the local level. Out of a large number of papers competing for a local public, only the largest company has managed to keep going. Others were either forced out of the market or merged with the dominating paper.⁶

As well as being largely responsible for single publications gaining control of newspaper markets, economies of scale also provide a strong barrier against the entry of potential competitors into newspaper markets. Upon commencement of publication a newspaper is likely to achieve only a small share of the market for both copies and advertising, and will thus be faced with high unit production costs relative to those of the major paper. Therefore, in addition to the considerable outlays involved in hiring management, editorial and production staff, and in setting up premises, plant and a distribution system, the establishment costs

for a new entrant into newspaper publishing will usually include substantial trading losses incurred before it is able, if indeed it is able, to attain dominance in the market. For these reasons most established monopoly papers are quite secure against challenges to their position.

ECONOMIES OF GROUP OWNERSHIP

It has been explained that when the circulation of a paper is increased the fixed overhead costs of the publishing firm are spread over a wider base. Now the overheads can be more widely spread, and the per unit costs lowered still further, by a firm producing additional newspaper titles from the one plant. A newspaper firm producing only one publication will generally experience considerable excess capacity in its operations. Because of the nature of newspaper publishing whereby the various functions of editing, printing, distribution etc. are required to be carried out in sequence, the assets and (to a lesser extent) the staff of a single publication firm will not be fully utilised for a significant period of time throughout the day. In particular, the presses will generally take no more than four hours to print each edition of a paper.

This excess capacity of a newspaper business can be reduced and greater productivity achieved if a firm more fully utilises its building, plant and its management and production staff in the publication of additional titles. Consequently, in a situation of direct competition between two newspapers, the title produced by a firm which publishes other papers in the same market area will, other things being equal, have a cost advantage over its rival. It is largely for this reason that a city's morning and evening dailies, as well as its Sunday papers, are often produced by the same publisher. Excess capacity can be further absorbed by the publication of magazines and periodicals, and by the carrying out of contract printing and the manufacture of packaging and stationery. Many large newspaper plants extend their range of subsidiary activities so that they operate up to 24 hours a day.

Another form of ownership concentration in the newspaper industry is that relating to publications in different markets. As well as the production economies of scale experienced in geographically isolated markets, there appear to be certain economic factors which encourage the concentration of ownership within any national newspaper industry. Firstly, a firm publishing newspapers in different markets will be able to make more intensive use of its managerial resources; for example, by the centralisation of certain

decision-making, accounting and legal functions. Secondly, the editorial costs for each commonly owned paper can be reduced by the syndication of articles written by members of the group's own staff, and by a combined subscription to national and international news agencies. Thirdly, some economies in the sale of national advertising may be achieved by the operation of a central advertising sales division to supplement those of the individual publications. And, fourthly, in common with other large corporations, newspaper chains will also be able to make use of their buying power to arrange discounts from suppliers for the purchase of many of their needs — vehicles, newsprint, inks, office supplies etc.

These economies operating across newspaper markets, however, are probably not of major significance. For example, Baer *et al.* are of the opinion that "economies of scale have likely contributed to the growth of newspaper groups, although they do not appear as great as scale economies within a local market".⁷ It would seem that the factor most responsible for the group ownership of newspaper titles in different markets is simply the drive towards growth by publishing firms and their proprietors. It has been argued by economists that there is no 'optimum' size for a firm.⁸ Since the efficiency of firms need not be impaired as they grow and as they change in organisational form, there appears to be no absolute limit to the size of individual corporations. Furthermore, while firms can grow by either internal expansion (extending their own production and sales activities) or external expansion (acquiring or merging with other businesses), their rate of growth will usually be greater if they adopt the latter strategy. Penrose notes that this is of particular relevance where individual energetic and ambitious entrepreneurs ('empire builders') desire to establish extensive business organisations in their own lifetimes.⁹

There are additional reasons for expecting mergers and takeovers to play a greater role in determining the pattern of ownership in the press. As explained above, economic factors act against the success of new titles published in direct competition with established papers. For this reason the takeover of existing titles from small publishers is frequently the most convenient means for a newspaper chain to expand. Conversely, the proprietors of existing newspaper chains with experience in the industry and access to capital are the obvious contenders for taking over independent papers which become available for acquisition. The drive towards growth by publishing firms and their proprietors therefore is a major cause of ownership concentration within the newspaper industry. The acquisitive nature of newspaper 'empire builders' is

exemplified by the now famous remark of Roy (later Lord) Thompson, the Canadian publisher of an international chain of newspapers and magazines: "I buy newspapers to make money to buy more newspapers to make more money".¹⁰

Economic factors thus largely influence diversity of the press. Diversity of newspaper outlets is significantly affected by economies of scale in newspaper production which are primarily responsible for the tendency toward single-newspaper markets. Concomitantly, diversity of press ownership is subject (a) to economies of scale which encourage newspaper outlets centred on cities and towns to be produced from the same plant and by the same firm, and (b) to various economies of group ownership which do much to explain the publication of a number of titles in different markets throughout a country by a few large newspaper chains.

EFFECTS OF CONCENTRATED NEWSPAPER OWNERSHIP

The tendency for the reduction in diversity of press ownership gives rise to concern relating to its potential effect on the editorial content of newspapers. To the extent that commonly owned papers adopt similar editorial policies, the range of opinions, values and attitudes represented in the press is constrained. It should be emphasised that the issue here is not whether or not newspaper proprietors actually interfere with the editorial policies of their papers, but the existence of their potential power to do so. The disquiet caused by the trend away from independent to chain owned newspapers is well expressed in the words of the 1962 British Royal Commission on the Press:

The obvious danger of concentration of ownership lies in the possibility that variety of opinion may be stifled if one proprietor comes to control a number of newspapers which formerly presented various and independent views. The greater the number of newspapers which are governed by the same editorial policy the greater is the danger.¹¹

Research into the economic behaviour of the United States' newspaper industry suggests that newspaper ownership concentration also works against the interests of the consumers of newspaper products. Baer *et al.* point out that in an industry with economies of scale the lower level of costs resulting from ownership concentration could be passed on to consumers in the form of lower prices; on the other hand, consolidated firms may

take advantage of their increased market power by raising prices above the competitive level. From their review of the empirical work by economists on the pricing behaviour of consolidated newspaper firms, these authors form the opinion that the available evidence weighs more heavily on the side of the latter of these two alternatives.¹²

Owen was the first to study the price effects of concentrated newspaper ownership.¹³ He found that the prices charged for national advertising by American newspapers which enjoyed a monopoly situation in their markets were higher than those charged in cities where competition existed. Owen's results also showed that dailies owned by or affiliated with newspaper chains charged higher rates for national advertising than did independently controlled newspapers. Owen remarks that "no economist will be surprised to find that monopolists charge monopoly prices".¹⁴ Owen's findings on this issue have been supported by the work of Grotta and Landon.¹⁵ Grotta also revealed that cover prices were higher where a paper had a monopoly of its market, or was owned by a group. Grotta concluded, further, that readers of monopoly or chain newspapers received no compensatory benefits in the form of greater quantity or better 'quality' editorial content (as measured by cost) for paying higher cover prices. Grotta's work thus showed that "... the monopoly effects of consolidation overrode the economies of scale effects".¹⁶

THE AUSTRALIAN NEWSPAPER INDUSTRY

Consideration is now given to the structure and ownership of the Australian press. The newspaper industry in this country consists mainly of the firms responsible for the publication of the metropolitan daily and Sunday papers, which comprise in excess of 80 per cent of the nation's total paid newspaper circulation. The titles and details of ownership of the metropolitan dailies and Sunday/weekly newspapers published in Australia are listed in Table 1.

By regarding morning and evening papers in the same city as constituting separate newspaper markets, it can be seen from Table 1 that there are, in all, 12 markets for metropolitan daily newspapers in Australia. There are morning and evening markets in each of Sydney, Melbourne, Brisbane, Adelaide and Perth, and a morning market (only) in Canberra and Hobart. Two dailies are published in both the morning and evening markets in Sydney, and in the Melbourne and Brisbane morning markets; while each of the

Table 1. Ownership of Australian Metropolitan Daily and Weekly Newspapers^a

Group and City of Publication	Title	
	Daily Newspapers M = morning, E = evening	Sunday/Weekly Newspapers
<i>Herald & Weekly Times Group</i>		
Melbourne	Sun News Pictorial Herald	(M) Sunday Press ^b (E)
Brisbane	Courier Mail Telegraph	(M) Sunday Mail (E)
Adelaide	Advertiser	(M)
Perth	West Australian Daily News	(M) Weekend News (E)
Hobart	Mercury	(M) Saturday Evening Mercury
<i>News Corporation</i>		
National Sydney	Australian Daily Telegraph Daily Mirror	(M) (M) Sunday Telegraph (E)
Brisbane	Daily Sun	(M) Sunday Sun
Adelaide	News	(E) Sunday Mail ^c
Perth		Sunday Times
<i>John Fairfax</i>		
National	Australian Financial Review	National Times (M)
Canberra	Canberra Times	(M) Canberra Times
Sydney	Sydney Morning Herald	Sun Herald (M)
	Sun	(E)
Melbourne	Age ^d	(M)
<i>Victorian Metropolitan Press</i>		
Melbourne		Observer
<i>Truth Newspapers</i>		
Melbourne		Truth
<i>Newday Publications</i>		
Perth		Sunday Independent

Notes: a. As at 31st December 1982.

b. Fairfax group holds minority interest.

c. Herald & Weekly Times group holds minority interest.

d. The Fairfax group owns 57.5 per cent of the issued capital of David Syme & Co. Limited, the publisher of the Age. The management of the Age, however, is conducted according to the terms of a confidential partnership agreement between Fairfax and certain shareholders who are members of the Syme family. Herald & Weekly Times group also holds a minority interest in the Age.

other eight markets supports only one daily newspaper. Two national dailies provide a further choice in each metropolitan daily market. Table 1 also shows that Sunday/weekly papers are published in each of the capital cities. Three are published in Melbourne and in Perth, two in Sydney, two in Brisbane, and one in each of Canberra, Adelaide and Hobart. There is, in addition, one national weekly available in each of the metropolitan Sunday/weekly markets.

It was explained earlier that the economics of newspaper production was largely responsible for the tendency of firms to own a number of titles in the one geographic area. The pattern of ownership of the metropolitan press in Australia is generally consistent with this theory. From Table 1 it can be seen that both News Corporation and John Fairfax produce morning and evening daily newspapers in Sydney, while Herald and Weekly Times (HWT) publishes morning and evening dailies in each of Melbourne, Brisbane and Perth. Adelaide provides an exception to the rule of common ownership of morning and evening dailies. In that city the morning paper, the *Advertiser*, forms part of the HWT chain, while the evening paper, the *News*, is published by News Corporation.

In all of the seven capital cities of Australia, Sunday papers are produced by the firms which publish weekday papers in the same cities — Fairfax in Canberra and Sydney, News Corporation in Sydney, Brisbane and Adelaide, and HWT in Melbourne, Brisbane, Perth and Hobart. The publication of Sunday and weekly papers by Fairfax and News Corporation is of special interest. The Fairfax group employs the publishing facilities in Sydney used for its daily newspapers, to produce, not only the Sunday *Sun Herald*, but also its national weekly, the *National Times* (which is distributed from Sydney throughout Australia). And the same plant and distribution networks in Sydney, Melbourne, Brisbane and Perth, used Mondays to Saturdays by News Corporation for its national daily, the *Australian*, are used to put out a Sunday paper for the group in each of those four cities.

It was argued in a previous section of this paper that economic factors, especially the drive towards growth by publishing firms and their proprietors, are likely to cause newspapers in separate geographical market areas to be commonly owned. Certainly there is a high level of ownership concentration of metropolitan newspapers in Australia. Table 2 indicates that there was a continual process of increased concentration in newspaper ownership throughout the period from 1936 to 1982. The number of metropolitan and national newspapers fluctuated only slightly

Table 2. Evolution in the Ownership of Australian Metropolitan and National Daily Newspapers: Selected Years 1936-1982

Year	Major Groups — No. of Papers			Other Groups		Total	
	Herald & WT	News Corp.	John Fairfax	No. of Groups	No. of Papers	No. of Groups	No. of Papers
1936	3	2	1	11	13	14	19
1941	3	2	1	9	10	12	16
1946	3	2	1	9	10	12	16
1951	4	1	1	9	10	12	16
1956	5	1	2	7	8	10	16
1961	5	2	2	5	6	8	15
1966	6	3	4	3	4	6	17
1971	8	3	5	1	1	4	17
1976	8	4	5	0	0	3	17
1982	8	5	5	0	0	3	18

Source: Adapted from Murray Goot, *Newspaper circulation in Australia 1932-1977*, Media Centre Paper No. 11, Centre for the Study of Educational Communication and Media, La Trobe University, 1979, p. 3, Table 1.

during these years, the total of 18 in 1982 being one less than that in 1936. However, during the same period the number of independent owners of these papers was reduced from 14 to only three — HWT, News and Fairfax groups.

An international study by Nixon and Hahn, published in 1971 (but based on 1969 information), found Australia to have the second highest level (after Ireland) of concentration of daily press ownership among 15 developed countries of the Western world for which it compared data.¹⁷ Moreover, since 1969 the level of ownership concentration of daily newspapers in Australia has risen further with the purchase by News Limited in June 1972 of the Sydney *Daily Telegraph* (together with the *Sunday Telegraph*) from the Consolidated Press group.

The drive towards growth by Australian newspaper firms and proprietors has resulted in the takeover of existing papers more often than in the launching of new titles. Of the 18 metropolitan and national daily newspapers in Australia, only five were established by the group which now publishes them — HWT's Melbourne *Herald*, Fairfax's *Australian Financial Review*, and the *Australian*, Brisbane *Daily Sun* and Adelaide *News* published by News Corporation. The remaining 13 dailies have all been acquired by their current owners from previous proprietors.¹⁸

In brief, the ownership of Australian newspapers is dominated by three major publishing groups. They control, among themselves,

the publication of all metropolitan and national daily papers throughout the nation. Calculations by the author, based on newspaper circulations for the half year ended 30 September 1979, indicate that the same three groups were also responsible for 94 per cent of all Sunday and weekly papers published, and for 59 per cent of Australia's regional daily newspapers.

Although this paper focuses upon issues relating to the ownership and control of the press, it is, of course, acknowledged that newspapers compete with other media for the dissemination of news, information and entertainment as well as for advertising revenue. Because of the high degree of cross-media ownership in Australia, however, the consideration of competing media adds weight to concern regarding the question of diversity within the commercial sector of the media. Two of the 'big three' newspaper groups, HWT and Fairfax, are among the three largest holders of commercial radio licences in Australia, and the three major newspaper publishers control two of the three metropolitan commercial television networks and hold a majority equity interest in the country's principal commercial news service, Australian Associated Press. Taken together, these factors clearly constitute an enormous concentration of economic and social power within the Australian media system.

POLICY OPTIONS TO PROMOTE DIVERSITY

It was argued in the introduction that diversity in the press can be considered in terms of both diversity of outlets and diversity of ownership. Apart from a prohibition on foreign ownership, there are no artificial restrictions imposed upon the publication of newspapers in Australia. That is, there are no other barriers to entry into the Australian newspaper industry. It seems, therefore, that the number of newspaper outlets in this country is relatively near to the competitive equilibrium level. Regarding ownership, however, the outstanding feature of the Australian newspaper industry is its high level of ownership concentration. With only three corporations responsible for the publication of all metropolitan dailies throughout the country, plus a majority of metropolitan Sunday papers and regional dailies, the level of concentration of press ownership in Australia is amongst the highest, if it is not the highest, in the Western world. The case for increasing the diversity of ownership in the Australian press would seem, therefore, to be stronger than that for increasing diversity of outlets.

There is, of course, no way of determining the 'optimal' level of diversity in the press for either outlets, or ownership. Value judgements necessarily play a large role in considering policy options in this area. Nevertheless, consideration is now given to the options available for promoting diversity in the press, both of outlets and of ownership. Policies to promote diversity of newspaper outlets consist both of measures designed to maintain the publication of existing newspapers, and those aimed at assisting the establishment of new titles. Of the measures to support existing publications, the most common is that of government subsidies. There is a range of press subsidy schemes operating in a number of Western European countries, the purpose of which is to maintain the economic viability, and therefore the continued existence, of newspaper titles. Subsidy schemes of this nature take the form either of direct money grants to newspapers, or of indirect subsidies by way of taxation allowances, postal concessions or government contributions towards the cost of newsprint. European press subsidies are normally based on circulation levels, each paper losing eligibility for subsidy as its sales figure exceeds a certain minimum number of copies. Government subsidy could be a means for supporting some Australian newspapers which may be facing financial difficulties. It is not possible however to ascertain the relevance of the subsidy proposal for Australia without detailed information on the financial viability of individual publications, information which is not currently available for Australian newspapers.

A second option for promoting diversity of newspaper outlets is for governments to provide funds to assist the establishment of new newspaper titles. One such scheme concerns the setting up of a statutory authority empowered to advance initial working capital for proposed new publications, and to acquire printing plant for leasing to aspiring publishers at concessional rates (to help reduce the high cost of entry into the newspaper industry). This scheme has been considered for the United Kingdom,¹⁹ and a similar scheme has also been examined for Canada.²⁰ To the writer's knowledge, however, no government in the Western world has yet undertaken to grant financial assistance towards the establishment of newspaper titles.

The main proposals for government financing of newspapers in Australia have been those of the Australian Labor Party. Between 1961 and 1976 its federal platform contained a policy of establishing a statutory authority to, itself, publish newspapers in Canberra and in the state capital cities. The authority, to be called the Australian Newspaper Commission, was to be financed initially

by the government but was to operate "... on a commercial basis in competition with existing newspapers with editors appointed by the Commission".²¹ However, Labor was in power in the federal parliament for only three years in that time, between December 1972 and December 1975, and during that period did no more than prepare a study of the proposal.²² Furthermore, that study failed to make any specific recommendations on the issue. In 1976, the year following its loss of office, the Labor Party significantly modified its policy in this area. The platform of the party now contains the less ambitious proposal that:

Labor will initiate further study into the feasibility of fostering the establishment of a newspaper, independent of both Government and existing private interests, conducted by those who produce it.²³

The major options available to promote diversity of ownership in the press consist of measures designed, firstly to maintain, and secondly to reduce, the existing level of ownership concentration. The most obvious means to prevent further concentration of newspaper ownership is by legislation to restrict mergers between newspaper firms. In the United Kingdom there is special legislation relating to newspaper mergers. Transfers of controlling interests in newspapers to other publishing firms require the specific consent of the Minister (Secretary of State for Trade) if such firms already control newspapers having a minimum level of circulation, or if, as a result of the proposed transfer, they would obtain such level of control.

The mergers provisions of the Australian trade practices legislation are, however, much weaker than those in the United Kingdom (where, of course, the level of concentration of press ownership is considerably lower than in Australia). In fact, since the amendments to the Australian *Trade Practices Act* in 1977, the mergers provisions have been virtually inoperative, not only in relation to newspapers but to all industries.

A more fundamental approach to the problem of concentrated press ownership is for governments to introduce legislation requiring the divestiture by proprietors of certain of their newspaper publications. Compulsory sale of titles to independent firms having no existing newspaper holdings would certainly increase diversity of ownership in the press. (The achievement of the maximum level of ownership diversity would require the sale by proprietors of all but one of their presently owned titles, each to a separate, independent new publisher.)

The question of newspaper divestiture has never been canvassed in the academic literature of this country, and no significant

Australian political party, at either the state or federal level, has divestiture as part of its policy. However, divestiture of newspaper interests has been advocated by Holland for the United Kingdom. He argues:

Though this is a major policy proposal, it is radical rather than in itself left-wing . . . Its rationale might well be perceived in liberal terms within an anti-monopoly framework.²⁴

ECONOMIC EFFICIENCY CONSIDERATIONS

The economics of newspaper production can provide some indication of the likely economic consequences of the various policy options outlined above. Consider, firstly, the relationship existing between economic efficiency and diversity of ownership in the newspaper medium. It was explained earlier that there are production economies of scale associated with group ownership of newspapers, both within single markets and, to a lesser extent, in different markets. Thus a high level of ownership concentration in the newspaper industry is conducive to a high degree of *production* efficiency. It was further explained, however, that both monopoly ownership in individual newspaper markets, and chain ownership across different markets, create the conditions for higher prices for newspaper copies and advertising than those prevailing where papers face competition in their markets, or are independently owned. Thus a high level of newspaper ownership concentration is likely to be characterised by a loss of what can be termed *allocative* efficiency. Consequently, any government policy promoting diversity of ownership in the newspaper medium will tend to reduce (private) production efficiency, but to increase (social) allocative efficiency.

In order to ascertain the economic efficiency implications of the subsidy proposal, it can be assumed that there are two newspapers in direct competition in a market, with only one of them receiving a subsidy.²⁵ It is further assumed that the subsidy is successful in maintaining the financial viability and, therefore, the continued existence of the recipient publications. The effect of the government subsidy would be to preclude the non-beneficiary paper from obtaining monopoly of the market. The subsidy would, therefore, prevent the attainment of greater production efficiency by the rival, non-subsidised firm, but would also prevent the loss of allocative efficiency which would come about from market monopoly. That is, the effect of the subsidy would be to maintain the existing situation regarding the production and allocative efficiency in the market. To assess the net result for society of the

subsidy, therefore, the perceived benefit resulting from maintaining the subsidised publication, together with the associated allocative efficiencies, would need to be compared with the cost to taxpayers of the subsidy.

To consider the likely economic consequences of the provision of financial assistance to new newspaper titles, it is assumed that the government gives support to a publication which is significantly differentiated from the existing paper(s) in the market. That is, the government-assisted paper is designed for a clearly defined minority segment of the reading audience. In this case, the new title should have little impact upon the circulation and advertising sales of the established paper(s), or upon the production and allocative efficiencies operating in the market. Therefore, to assess the net effect of implementing this policy option, the estimated benefit to society, in terms of increased diversity of outlets and ownership, would need to be compared with the cost of government assistance to the new publication. (If the new publication were placed in direct competition with the existing paper(s), the likely effect of government assistance would be to bring instability to the market. As explained in an earlier section, the typical long-term result of face-to-face competition between newspaper titles is that one of the papers will suffer progressively increasing losses and, eventually, will be forced to cease publication. There are thus obvious pitfalls to governments providing financial support to papers launched in direct competition with established publications.)

It is found that economic theory offers relatively strong support to the policy option for preventing mergers between newspaper firms. The economic effect of disallowing one newspaper from taking over another would be to prevent greater production efficiencies being attained by the combined enterprise, but it would also prevent the loss of allocative efficiency which would result from the merger. The social benefit of disallowing newspaper mergers, therefore, is the maintenance of both allocative efficiency and diversity of ownership, while the only economic cost to society is that associated with enacting and applying the mergers legislation.

There could be cases, however, where, for some independent newspapers suffering financial losses, a merger with another newspaper group may be the only alternative to ceasing publication altogether. In this situation, a merger, even at the cost of greater ownership concentration, would probably be preferable to the loss of a title. It is of interest in this context to note the observation of one writer regarding the United States mergers legislation as it affects newspapers:

Chain ownership is virtually unassailable by American antitrust law . . . [M]any potential sellers of newspapers to other newspapers can claim the "failing company defence" by which an acquisition is justified by proving that the former enterprise was on the brink of collapse and could not have been saved by the entry into the market of a third company.²⁶

The position regarding the likely economic consequences of the divestiture proposal is similar to that regarding mergers. Compulsory sale of titles by existing newspaper groups to independent firms would cause the loss of production efficiencies resulting from chain ownership (with other publications in the same and/or different markets), but could be expected to bring about greater allocative efficiency in the form of lower prices for copies and for advertising. Divestiture would result, therefore, in an increase in both diversity of ownership and in allocative efficiency, while the economic costs to society would be confined to those related to implementation of the divestiture policy.

It must be recognised however that the financial viability of certain chain-owned newspapers may be dependent upon the economies of group ownership, especially among commonly-owned publications in the same city. These papers will not be able to support the increased cost of production resulting from divestiture and consequent independent ownership. In these cases, as in the 'failing companies' situation encountered above, group ownership would probably be preferable to cessation of publication. (There is thus a conflict, in both of these examples, between the goals of diversity of outlets and diversity of ownership.)

CONCLUSION

This analysis has shown that, under certain conditions, economic theory lends support to policy proposals to prevent mergers between newspaper firms and to require divestiture of newspaper titles. Detailed information, however, especially on production costs, would need to be known to assess the extent of the potential economic effects of such policies. Regarding the policy options requiring government funding by way of subsidies to existing papers and assistance to new publications, the perceived social benefits in terms of diversity of outlets and of ownership would need to be evaluated in relation to the economic cost to society of implementing these schemes.

The ideological arguments for promoting diversity in the press

are thus generally supported by economic considerations. A strong case exists on grounds relating to both media diversity and economic efficiency for effecting change in the structure and ownership of the Australian newspaper industry.

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15. Gerald L. Grotta, 'Consolidation of newspapers: what happens to the consumer?', *Journalism Quarterly*, 48, 1971, pp. 245-50; John H. Landon, 'The relation of market concentration to advertising rates', *The Antitrust Bulletin*, 16, 1971, pp. 53-100.
16. Grotta, *ibid.*, p. 250.
17. Raymond B. Nixon and Tae-Youl Hahn, 'Concentration of press ownership: a comparison of 32 countries', *Journalism Quarterly*, 48, 1971, pp. 5-16.
18. The only daily to be acquired from its original owner prior to 1900 is the *Sydney Morning Herald*, which was bought by the Fairfax family in 1841, just 10 years after it was established. The *Sydney Morning Herald* is now the oldest surviving daily newspaper in Australia.
19. Royal Commission on the Press, *Final Report*, Cmnd. 6810, HMSO, London, 1977, Chapter 13.
20. Special Senate Committee on Mass Media, *Report*, Information Canada, Ottawa, Vol. 1, pp. 75-9.
21. From the official report on the proceedings of the 1961 conference of the Australian Labor Party, and cited by Department of the Media, 'A Consideration of the Implications of Section 13 of the Australian Labor Party's Media Platform', *Information Paper*, AGPS, Canberra, 1975, p. 3.

22. *ibid.*
23. From Henry Mayer and Sara Pantzer, *Media Policies of Australian Political Parties*, Media Monograph No. 6, Department of Government, University of Sydney, p. 5.
24. Stuart Holland, 'Countervailing press power' in James Curran (ed.), *The British Press: a Manifesto*, Action Society Press Group, London, 1978, p. 113.
25. With alternative market arrangements there would be variations in the magnitude of the relative efficiency gains and losses, but not in their direction.
26. Anthony Smith, *Goodbye Gutenberg: The Newspaper Revolution of the 1980s*, Oxford University Press, New York, p. 54.