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# State advertising as an instrument of transformation of the media market in Hungary

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## ABSTRACT

The study uses a comparative-historical perspective to examine the practice of state advertising in the Hungarian media by looking at the relevant practices of three governments. Using previous economic and political theoretical assumptions and data on Hungarian state advertising between 2006 and 2017, we argue that state advertising is a powerful tool of political favouritism as well as an instrument of market distortion, censorship and building an uncritical media empire aligned with the government. This practice can be viewed as part of a broader set of instruments deployed by illiberal states and hybrid political regimes to consolidate their hold on power.

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State advertising; market distortion; illiberal media market; Hungary

## 1. Introduction

For a long time, media researchers and economists paid only sporadic attention to the government's role and influence in the advertising market (Besley and Prat 2006; Di Tella and Franceschelli 2011; Gehlbach and Sonin 2014). Even as newsrooms and NGOs began to hone in on the state's advertising practices as part of their activities aimed at monitoring public administration activities in general, unlike the pressures emanating from commercial advertisers, this issue barely figured as a subject of academic investigation in books and studies looking at the relationship between media and politics; the problem generally merited only brief references and footnotes. Over the past years, this appears to have changed at least in Hungary and Poland (Bátorfy 2015; Szeidl and Szűcs 2017; Kowalski 2019) and at media conferences.

One of the reasons is the distinct and openly declared media policy pursued by authoritarian or hybrid regimes, which are resurgent in Europe as well (Bajomi-Lázár 2017b). This new trend includes not only the capture of the regulatory environment and of public media, but also the uncontrolled expropriation of the state's financial resources in the interest of transforming the media market. Another reason behind the surge in interest is that researchers have increasing quantities of reliable, accurate and systematically collected data about the advertising practices of the state sector mostly provided by

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market research companies like Kantar or Median. Although it comes somewhat late, the Council of Europe's report entitled *Recommendation of the Committee of Ministers to member States on media pluralism and transparency of media owners* (CoE 2018, 4.7) devotes a separate paragraph to the accountability of state advertising and the relevant transparency requirements, also including policy proposals from some earlier reports (e.g. Brouillette et al. 2017; Brogi et al. 2017, 37 and 83). The Hungarian experiences also helped catalyse the realisations that manifest themselves in the Recommendation, in so far as the distribution of state advertising along the lines of particular governmental interests had been ongoing already before the entry into office of the second Orbán government (2010–2014). In our study we look at how the Hungarian state's advertising practice changed by drawing on data about state advertising from three distinct terms of government.

As we elaborate below, according to the previous theories of political economy, the government is a rational advertiser that follows basic economic laws, and thus its advertising practices are primarily characterised by commercial considerations. Our writing highlights the process whereby the allocation of state resources has shifted from considerations revolving around the issue of market balance towards ensuring the channelling of funds to businesspersons aligned with the governing Fidesz-KDNP party alliance. This shift initially benefitted especially Fidesz's erstwhile most influential oligarch Lajos Simicska, and subsequently, after the break between Orbán and Simicska, it is aimed more generally at funding and ensuring the profitability of the new media empire that was built to serve the government loyally. Correspondingly, breaking the data down into distinct government periods paints a clear picture of successive milestones and the changing objectives in the way public funds were used to this end, this also reveals some parallels to the construction of the "illiberal state" as it was announced by Viktor Orbán in the summer of 2014.

## 2. Theoretical background and its implications

The theoretical background for our study are the works studying the intersection of media, politics and media economics we will cite later. The present study does not attempt to provide a new theoretical framework, but we will highlight where and how the Hungarian experience concerning the impact of state advertising on the media market differs from the following quoted theories about the interaction of these two areas.

The present volume also requires that we situate our analyses in the context of the Hungarian media system that provides the framework of this study. Based on previous theories developed by Siebert, Peterson, and Schramm (1956) and Hallin and Mancini (2004, 89–142) there is a new wave of theories has sought to define the Central Eastern European region's media system as a transitional-type/third way system that has emerged here at the boundary between West and East (Jakubowicz and Sükösd 2008; Dobek-Ostrowska et al. 2010; Mihelj and Downey 2012; Hallin and Mancini 2012; Dobek-Ostrowska and Głowacki 2015; Bajomi-Lázár 2017a). These retrospective analyses pointed to several differences within the region. Thus, for example, according to the classification proposed by Dobek-Ostrowska and Głowacki (2015), Hungary ranks among the countries that feature heavily politicised media systems, along with Croatia, Romania, Serbia and Bulgaria. The common feature of these systems are weak and unstable democracies; progressively deteriorating performance in press freedom rankings; mixed foreign and domestic ownership

in the commercial sector; the party political entrenchment of partisan political press and news media; the political affiliations of media owners with political parties, and their susceptibility to pressure by the latter; and foreign media owners who try to steer clear of public affairs/political contents. We agree with this classification with the caveat that the Hungarian media system also shows some similarities to the Russian, Belorussian and Turkish media landscape.

Other approach for situating the Hungarian media system is to use conventional press freedom rankings, such as the *Freedom of The Press* ranking compiled by Freedom House or the Reporters Without Borders' *World Press Freedom Index*. Both these rankings identified the year 2010 as the turning point in Hungary's press freedom situation. Up to that point, Hungary was a top performer in terms of press freedom. In 2018, by contrast, its score was not only below the average of the EU28, but it was also worse than that of the countries in the region and the European post-socialist states in general. Correspondingly, Freedom House assigns Hungary to the "partly free" category, Reporters Without Borders to the "problematic" countries (Freedom House 2018, Reporters Without Borders 2018).

In our study we will consistently refer to state advertising to describe the term referred to as government advertising in Anglo-Saxon countries and elsewhere. The reason is that in Hungary the government and public administration have never really become substantially distinct units, and we see no reason for treating them separately in the contemporary Hungarian context. Even the formally independent administrative institutions were always informally linked to the government. The degree of autonomy has varied under different governments since the political transformation in 1990 (Lengyel and Ilonszki 2012), reaching its low in recent years under Orbán's successive governments by dismantling the system of checks and balances (Halmai 2018). Thus, we not only look at the government's advertising activities but at the advertising procured by the entire state sector, including government ministries, enterprises owned in part or entirely by the state, municipal governments, state supervisory authorities, government agencies, background institutions, cultural institutions and even universities. We do not regard any of these to be independent from the Orbán government that has been in office since 2010.

We start from the empirically supported assumption that a diverse media market free of governmental influence is one of the cornerstones of democracy and, moreover, also an essential precondition for citizens to access facts and a variety of opinions that inform their decisions and choices. The other verified proposition that we accept as a starting assumption is that in the interest of increasing advertising revenues, owners and newsrooms are prone to bias, the selective presentation of information and the concealment of facts (Hamilton 2004; Reuter and Zitzewitz 2006; Starkman 2014). This problem is significantly exacerbated when the government is the largest player in the advertising market (cf.: Di Tella and Franceschelli 2011).

In their often-cited study, Besley and Prat (2006) trace media capture back to causes rooted in economic considerations. They argue that a diverse media market featuring a large number of media enterprises which are independent of the government provides sufficient protection against government influence. If the government were to favour specific media outlets in this context or procure positive propaganda from some media, then other, independent, media would experience a surge in their advertising revenue since media outlets funded by the government would become less active in the

competition for commercial advertising. Thus, the more media outlets the government would want to “buy” with advertising, the more it would have to spend on each additional unit thus acquired (Besley and Prat 2006, 721).

Building in part on the market principle proposed by Besley and Prat, but modifying the same, Gehlbach and Sonin (2014) assess that the dynamics of governmental influence have essentially two root causes. One of these is the government’s *mobilising* character, the other the size of the advertising market. As for the first, Gehlbach and Sonin observe that the greater a government’s mobilising character, the more money it is willing to invest in sponsoring the dissemination of information that is biased in its favour. Public/state media are traditionally biased towards the government, which is why privately-owned media seek to compensate for and balance that bias. In such situations, therefore, governments make an attempt to seize private media holdings because buying influence in this form is less costly than attaining it through ongoing funding and advertising. As for the size of the advertising market, they cite the theory of Besley and Prat in arguing that the greater the size of an advertising market, the less biased it will be because the government is facing a comparatively steep price when it tries to buy influence. At the same time, they also add that in such situations the government tends to try to become a major player in the advertising market to make up for this disadvantage (Gehlbach and Sonin 2014, 163–164).

We think that the theoretical frameworks proposed by both sets of authors are theoretically tenable when two conditions prevail jointly. Let us refer to the first one as the precondition of the economies of scale in the media market. According to Doyle’s (2002) observation, the population size of a country and its economic performance will have a fundamental impact on the number of players in the given country’s media market, the structure of ownership in this market as well as the size of the advertising market. As a result, regardless of the political will and the prevailing regulatory conditions, the individual media segments of smaller and poorer countries tend to generally favour the dominance of two to three larger players. They result in a high level of ownership concentration because this is the number that the audience and the advertising market can support in terms of financial viability (Doyle 2002, 15–16). In fact, such a market structure featuring two or three dominant players prevailed in Hungary from the early 2000s in the respective segments of commercial television, radios, outdoor advertising, tabloids, political dailies and online news sites. We believe that it is far easier for the government to influence a market dominated by two major players because the costs of buying influence will be lower than in a scenario when a lot of players have to be funded at the same time. The other condition is limited control over the state’s resources.

In our study we also show that in a situation when the government fully expropriates the state’s resources and removes social control and rule of law-based oversight over its use of these resources, then the respective costs of capturing media directly or indirectly will not matter, nor will other transactional costs. The Hungarian example illustrates that a government can generate pseudo-diversity as the state uses its unlimited access to state resources to disburse funds among private owners who are loyal to the government in exchange for propaganda. In the meanwhile, these owners assume no market risks whatsoever, their ownership shares, profits and losses are funded by the state. This accords with Martin’s (2017) finding that a type of crony capitalism has emerged in Hungary in which the goal is not only to boost the market positions of pro-government investors without

subjecting them to any risks stemming from regular market activity, but the same mechanism is used to distort market competition and to turn market performance into a low priority consideration.

The data also show that the number of media market players can also be increased through government intervention as long as there is unlimited public money available to fund new outlets. Economically speaking it would be logical that once the governmental influence was realised through the state-sponsored acquisition of big media corporations and major media brands by government-friendly investors, the goal would be to also ensure that portfolio is co-funded by commercial advertising. Surprisingly, however, the state continues to buy unlimited amounts of state advertising even in media that are more valuable from a market perspective. In this sense the analysis of the Hungarian case provides an empirical complement to the cited theories and/or serves as their clarification, illustrating how media capture happens in reality.

### 3. The history and role of state advertising in funding partisan media in Hungary

Academic literature considers that the goal of state advertising is to procure positive reporting and to muffle, censor negative reporting. Thus, it essentially uses the same criteria used by commercial advertisers and deploys them for furthering goals pursued by the government. We argue that the Hungarian practices also serve other objectives apart from soft censorship. These can be best understood based on some historical facts and an investigation of the dynamics of governmental cycles.

These objectives are readily apparent in Fidesz's narrative about the history of Hungarian media since regime transition. The liberal Fidesz was among the favourites of the left-wing and liberal press outlets but starting with the conservative turn of Viktor Orbán and his Fidesz party, which began in 1993, the previously devoted – or at least empathetic – press began criticising them. Fidesz did not take well to these criticisms. Nevertheless, the media issue was not yet an important aspect of Fidesz's politics. Following his election victory in 1998, however, Orbán adopted the view that was previously espoused by the far-right, namely that the "left-liberal dominance" in the media, along with the underlying structural and business conditions that made it possible, must be broken, while at the same time the right-wing/conservative segment of society must create its own media. According to the prevailing right-wing narrative at the time, the underlying reasons behind the left-liberal media dominance were historical, structural and economic.

The moral basis for compensation it was that the left-liberal opinion and media market dominance that emerged after regime transition was not a result of market processes but the legacy of the single party regime's media system, which emerged after privatisation (Paál 2013, 125). Some assess that although this broad picture is true in many respects, it also contains just as many errors, distortions and conspiracy theories (cf.: Juhász 2004, 69–71). Nevertheless, it has emerged as the ideational foundation on which Fidesz's long-standing media policies were based, and the supporters of the governing party consistently invoke it to legitimise every measure taken by the government since 2010. Thus, for Fidesz state advertising appears as one of the instruments to balance the left-wing/liberal dominance in the media.

In addition to moral restitution, however, the right-wing public at the time assessed that after Fidesz's victory in 1998 the diversity of democratic public discourse could only be ensured if a right-wing public sphere would be created (cf.: Monori 2005, 278–284; Paál 2013, 124–125; Bajomi-Lázár 2013a, 2013b). And, they argued, if the – also left-liberal – advertising market and private investors would fail to do so, then the balance would have to be created from above, with state funding. In this sense, from Fidesz's perspective the discriminatory use of state resources is the very tool of ensuring diversity in the media.

István Elek, who was a senior media policy advisor of the first Orbán government, assessed that neither the state-owned nor privately held enterprises “behaved neutrally in the advertising market”, and as a result “the money they spent on advertising was a form of biased political engagement” (Elek 1999, 184). The companies, Elek argued, “supported left-wing and left-liberal newspapers beyond the level that could be justified from a business perspective”. To counter this, he proposed that

in order to influence this imbalance in an openly professed manner, and to remedy the lack of equal opportunities [in the media market], the least that the government can do is to ask the state-owned or partially state-owned enterprises to review their advertising practices, to renounce their discrimination of the right-wing press. (Elek 1999, 184–185)

Unfortunately, we have no data on advertising practices under the Socialist-Free Democratic Horn government (the social-liberal coalition), and thus we cannot verify Elek's claims about the left-liberal bias of advertisers.

Numerous books and studies have analysed the media policies of the first Orbán government and its impact (Bajomi-Lázár 2001, 2005; Juhász 2004; Monori 2005; Paál 2013),<sup>1</sup> and the only aspect that is more stunning than the grandiosity of their ambitions at the time is how much posterity appears to have forgotten about this. These ambitions and plans were hardly any smaller in terms of their massive scale than those implemented in 2010: they were directed at the wholesale transformation of the media market at the time, along with the underlying economic structure and the entire public sphere. The first Orbán-government used public funds to reinforce the financial position of the daily newspaper *Magyar Nemzet*, used taxpayer money to launch the weekly *Heti Válasz*, and the Orbán-administration repositioned the public media to support the government by compelling personnel changes. Already at the time, they strove to habituate conservative public opinion to far-right views (the staff of the radical, extreme-right newspaper *Új Magyarország*, which often struck light anti-Semitic tone, was fused into conservative *Magyar Nemzet*), and state advertising – especially by the largest state-owned corporation, the lottery company *Szerencsejáték Zrt.* (Bajomi-Lázár 2005, 44–45; Paál 2013, 285) was diverted to their own newspapers. Characteristically, the ten top advertisers of *Magyar Nemzet* in the first half of 2002 were state-owned institutions, including – apart from the already mentioned *Szerencsejáték Zrt.* – the Prime Minister's Office, the Hungarian Development Bank, the Sovereign Debt Management Centre and the Youth and Sports Ministry (Gavra 2002).

It appears that only their electoral defeat in 2002 prevented Fidesz from the full implementation of their plan at the time. From this experience, Fidesz and Viktor Orbán concluded that they had not been radical enough, and they attributed their electoral defeat to the presumed persistence of the “left-liberal media dominance” and their anti-government coverage. They did so despite the fact that the entire public media was

under Fidesz control, the two major commercial television channels, the German-owned TV2 and RTL Klub, which had enormous ratings back then, were almost completely neutral politically (Bajomi-Lázár 2005, 41), while the exclusive focus of the German publishers in Hungary (Axel Springer, Bertelsmann, Gruner + Jahr, Ringier, Westdeutsche Zeitung) on maximising profits (Galambos 2008) is well documented.

Some assessments suggest that the following governments, the Socialist and Free Democrat coalition led first by Péter Medgyessy and then by Ferenc Gyurcsány (2002–2006), and the subsequent Gyurcsány and Gordon Bajnai cabinets (2006–2010), interfered far less with the operations of the media market than either the first Orbán government or the previous socialist/liberal coalition under Gyula Horn. Nevertheless, Fidesz, which was in opposition at the time, and its media back then saw this very differently. Already in 2002, the Medgyessy government cancelled the funding for Magyar Nemzet realised through the ad acquisitions of the Szerencsejáték Zrt, while funding for *Heti Válasz* – which had been launched with 1.5 billion in public funds, was lowered from 500 million forints annually to just 50 million (Kitta 2013, 250–251). This withholding and reduction of state funds was construed by Fidesz as serious governmental interference in the media market and a suppression of right-wing media. In their open letter entitled *Government attack against Magyar Nemzet*, they claimed that a letter sent by the government to state-owned enterprises banned state advertising in Magyar Nemzet, while recommending that these enterprises buy ads in other newspapers instead, such as *Népszabadság*, *Magyar Hírlap* or *Napi Gazdaság*. The open letter calls on the government to account for the market considerations underlying these recommendations (Kormányzati támadás ... 2002). From then on Magyar Nemzet began to vigorously monitor the government's advertising activities, publishing a series of articles claiming that the Gyurcsány government had provided covert state-funding for the publication of PR articles published in some left-wing and neutral newspapers (Kitta 2013, 251).

It appears, however, that the left-liberal governments that were in office during the two terms from 2002 to 2010 were less ambitious in influencing the media landscape than their predecessors, while they inherited and left in place a pro-Fidesz bias in numerous shows in the public media, especially on public radio (cf.: Monori 2005, 285–287), even as at the same time they successfully applied governmental pressure that led to the resignation of the openly pro-Fidesz presidents of the Hungarian Television and the ORTT.

Following its electoral defeat in 2002, Fidesz continued to build a loyal media empire. The openly professed goal was to create a “second national public sphere”, to offer an alternative to the left-liberal dominance in the media and among opinion leaders.<sup>2</sup> In addition to retaining their hold over some strategically important shows and positions at the public media, and beyond their existing media, that is the daily Magyar Nemzet, the weekly *Heti Válasz* and the outdoor advertising company Mahir Cityposter, they also launched Hungary's first news television, Hír TV, their own radio, Lánchíd Rádió. Indirectly, through several degrees of separation, the owner and controller of the companies was the billionaire Lajos Simicska, a key player in the privatisation of state-owned companies during the regime transition period. This media companies constituted the core of the Fidesz-aligned media, and from 2002 to 2010 other businessmen added their own media to this set of loyal outlets.

In addition, by 2010 – still in opposition – Fidesz-aligned business interests managed to buy the country's second largest outdoor advertising company, the previously Austrian



owned Europlakát (which later was renamed to Publiment). Before the 2010 election, a grand coalition of Fidesz and the governing Socialists jointly subverted the radio frequency tender for the two national commercial radio frequencies in Hungary, netting the Fidesz media empire the new station Class FM. These media made up the Fidesz portfolio before the 2010 election. It is commonly forgotten that in addition to these, Fidesz used its overwhelming victory in the municipal elections of 2006 to launch many propagandistic local/municipal newspapers using public funds (Kitta 2013, 250), in part recognising that county newspapers had become politically neutral.

Following the change in government in 2010, the creation of the new Orbán administration went almost instantaneously hand in hand with a change in the group of persons allowed to trade in government resources and those who lay claim to these resources, which was in line with what was expected based on previous changes in power. New agencies with close ties to the government started to appear at communication and media acquisition tenders. Once they won the public contracts they applied for, they acted as brokers and sought to place their ads with the owner of the biggest slice of Fidesz's media portfolio at the time, Lajos Simicska. Buildings on each other's work, several scholars began looking at this system from the perspective of corruption, with some describing it as a pre-eminent example of state capture (Bátorfy 2012, 2015; Mérték Media Monitor 2013, 26–31, 2015, 29–36), others related and expanded state capture with the practice of cronyism (Tóth and Fazekas 2015; Martin 2017; Szeidl and Szűcs 2017). A third group integrated these developments into their theories about the mafia state (Magyar 2016, 209–219), arguing that the Hungarian state is effectively ruled by a criminal organisation, namely the Fidesz “family” headed by Orbán, and public resources, including state advertising are channelled into the bank accounts of private individuals affiliated with the family. We were also involved in the investigative work to map these structures, and even though we still argue that the practice is realised through a series of corrupt acts, in contrast to our previous approach we find that the underlying objective behind these schemes is not merely – and not even mainly – the issue of how taxpayer money is “privatised”, but the process of building a network of indebted and loyal media outlets.

Our argument is supported by the events following the public break between the oligarch Lajos Simicska and Viktor Orbán. Simicska was the biggest Fidesz-supporting media owner until spring 2015, but their clash at the time led to the departure of loyal Orbánists from Simicska's media outlets. After losing control over Simicska's entire portfolio, the government promptly ended all advertising in these media and immediately set out to build a completely new portfolio by establishing new companies using greenfield investments, as well as by buying out large multinational corporations, including the business interests of Pro7Sat1, Deutsche Telekom and Westdeutsche Zeitung (Bátorfy 2017). Whatever the genesis of any specific situation, their common feature is that immediately upon acquisition and launching they received enormous amounts of state advertising. In the last few years the pro-government portfolio boasted 22 media corporations owned by 14 private persons with close ties to the government. These companies in turned control over nearly 500 media titles. The country's largest media owner from 2016 was Lőrinc Mészáros, friend of the prime minister and until recently served as the mayor of their mutual home village. Mészáros was the second richest people in Hungary in 2018, and he controlled over 200 media outlets through his company, Mediaworks. Another key owner

was the government commissioner Andrew G. Vajna, who was the owner of TV2 broadcasting company, and the Rádió1 radio network. In January 2019 Vajna unexpectedly died, so future of Radio1 and TV2 is uncertain at the moment. Significant slices of the pro-government media portfolio are also controlled by Árpád Habony, the prime minister's advisor; Mária Schmidt, also a billionaire who acts as a sort of "history tsar" in the Fidesz government structure; the construction entrepreneur István Garancsi, a personal friend of Orbán; Ádám Matolcsy, the son of the president of the Hungarian National Bank, György Matolcsy, former minister of finances and the mastermind of the Fidesz's fundamental economic ideas. In November 2018 most of these pro-government owners offered for free their assets to the newly established company Central European Press and Media Foundation (CEPMF). With a decree signed by PM Viktor Orbán the transaction was qualified as "national strategic importance" and "public interest", therefore it was pulled out from the supervision process by the Competition Authority.<sup>3</sup> In the press communiqué by the Foundation the transaction was justified with the protection of the Hungarian language, culture and identity against foreign interests, globalisation and "left-liberal information monopoly". Today the pro-government portfolio (CEPMF, PSM and other private companies) includes one of the largest news site (Origo.hu), the second largest commercial television channel (TV2), the largest radio network (Radio 1), the second largest tabloid (Bors) and the only free daily and weekly newspapers (Lokál), all the county dailies and the public service media (Bátorfy 2018a). Unlike the system that prevailed until 2015, the current circle of owners and the media empire they control is fully subordinated to Viktor Orbán. The prime minister himself made the relevant decisions about these acquisitions and owners, and he did the same with respect to the funds used to this end, along with the National Communication Office, which is part of the Prime Minister's Office. The National Communications Office effectively controls the state's advertising expenditures and is itself informally controlled by Árpád Habony (Bátorfy 2017; Rényi 2017).

Finally, state advertising also has another impact that we still cannot illustrate with data: it is assumed that state advertising can also impact the advertising practices of commercial advertisers. Due to their major role in the market, numerous elements of the pro-government media portfolio have become unavoidable for commercial advertisers. According to a recent survey of advertisers and media agency experts, they have experienced progressively rising levels of pressure since 2010. This pressure was aimed at persuading them to advertise in pro-government media even when this decision was not the best from a business/advertising effectiveness perspective. Moreover, numerous corporations comply with this expectation to improve their bargaining position in their consultations with the government (Máriás 2018).

#### 4. The data on state advertising

The main questions that this study seeks to address are how the three governments' advertising practices changed over time during the Socialist-Liberal term (2006–2010) and two consecutive Orbán-administration (2010–2014, and 2014–2018); how these changing practices mesh with the aforementioned theories on government advertising; and how they are related to the media policies pursued by authoritarian or hybrid regimes. To answer these questions, we rely on detailed data about state advertising, which is

available ever since the beginning of the term of the Socialist-Liberal coalition that governed Hungary between 2006 and 2010. We purchased the data on state advertising from the multinational research corporation Kantar Media. Kantar Media's database contains list price advertising revenue on state advertising from April 2006–31 December 2017 and it includes all advertising spending by all ministries, state institutions, departments, municipal governments and state-owned enterprises. We received the data in monthly breakdowns for all publishers and media titles,<sup>4</sup> but because of the tumultuous history of Hungarian media, the constant shifts in media companies and the ideological pivots in newsrooms, we will focus on the most important products and brands in each sector that can be assigned to identifiable political categories.<sup>5</sup>

In addition to the Kantar Media database we also relied on audience measurement survey data that provide information about the extent to which individual media are popular with consumers. Thus, the circulation of print newspapers is audited by the Hungarian Audit Bureau of Circulations (MATESZ), the audience ratings of television channels are measured by Nielsen, while the visitor numbers of online newspapers are tracked by Gemius.

Unlike economic analyses, our own study does not use economic models, neither for proving the existence of restrictions on competitions nor for analysing their potential impact on contents. We think that the data itself provides clear proof of the second and third Orbán governments' political favouritism, and it also offers unequivocal evidence of the rapidly growing level and unfair distribution of state sources.

## 5. State advertising between 2006 and 2017

In our analysis we review the changes in state advertising in three media segments: national political dailies, two commercial television channels and the two largest online news sites. The analysis does not include the radio market, for a variety of reasons, the most important of which is that the state wields the most direct influence over this sector through the radio frequency tenders. The Hungarian radio market has undergone a remarkable transition over the past few years in Hungary, but state advertising was not the primary instrument for attaining this (Nagy 2013, 2016).

### 5.1. Newspaper market

Just as in other countries, the market for print newspapers in Hungary faces tough challenges. The spread of digital technology and changes in consumption patterns have led to a significant decline, primarily in the market for daily newspapers. This segment is obviously the loser of the news competition. Larger media publishing companies can balance this by publishing consumer magazines. But publishing houses that focus exclusively on political/public affairs newspapers, continuously struggle to remain financially viable. At the same time, as we previously noted, a growing number of publishers end up being owned by pro-government investors.

The role of state advertising has appreciated as a result of the drop in market revenues and the changes in the ownership structure. Based on data provided by the research company Kantar Media, in 2006 the average ratio of state advertising as a percentage of total advertising revenue in this market segment was only 6.6%, but by 2017 it had

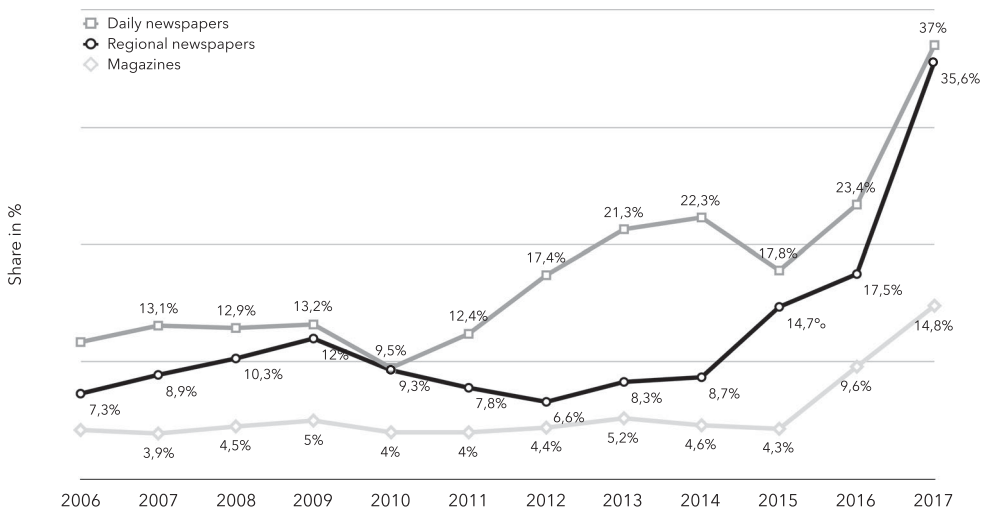
surged to 26%. State-provided revenue is especially high in the case of national and regional dailies (Figure 1).

The market for national political dailies has been heavily politicised for historical reasons. The newspapers have traditionally nurtured strong ties to political parties. Still, before 2010 market forces were still dominant in this segment. Although it was readily apparent from the overall tendency of state advertising spending which newspapers have closer ties to the governing Socialist Party, the distribution of state spending did not completely upset market relations (Bátorfy, Gyóri, and Urbán 2018).

After the elections of 2010 there was a significant shift in these proportions, and the shift became particularly spectacular in 2015, when a conflict erupted between Viktor Orbán and the biggest oligarch, Lajos Simicska. At this point the governing party had to rebuild its media background, spending more money than ever before on the total restructuring of media market relations.

In the following, we will discuss the situation of three national dailies in detail. Népszabadság was the country's leading left-wing daily newspaper (it was shut down in October 2016), while Magyar Nemzet was the top right-wing conservative daily (it was shut down in April 2018). Magyar Idők was launched in September 2015, it is a newspaper that is loyal to the governing party in terms of its editorial line. The analysis does not include data about two smaller dailies, the right-wing Magyar Hírlap and the left-wing Népszava.

Until 2010, Népszabadság counted as a pro-government newspaper, and from then on it was critical towards the new government that entered into office. As the figure below shows, its share of advertising revenue from the state dropped significantly, below 10%. Magyar Nemzet in turn was critical of the government before 2010, but with the entry into office of the Fidesz cabinet it became pro-government and the state advertising share went above 50%. Only after the 2015 clash between Orbán and Simicska did it become critical of the government, the state advertisement share significantly dropped. This kind of back and forth is clearly apparent based on the trend depicted in the figure



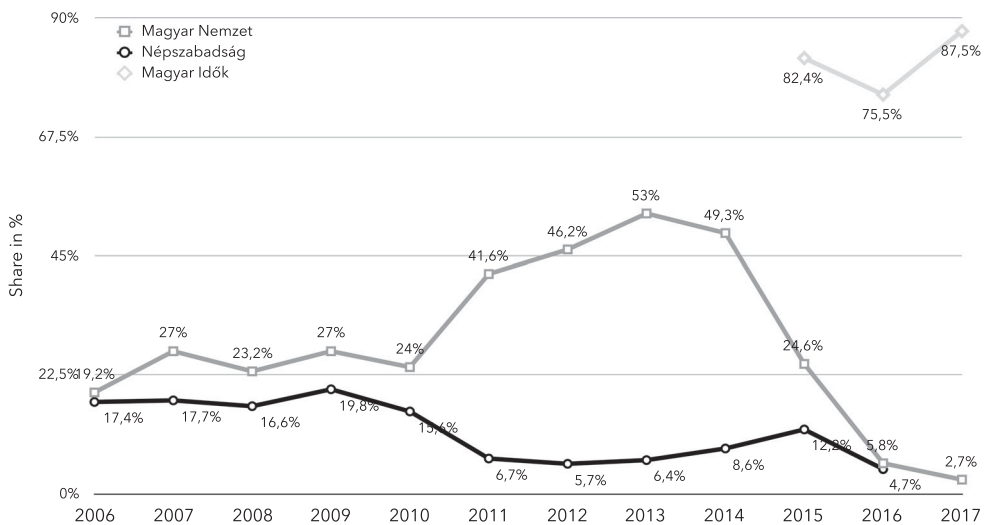
**Figure 1.** Share of state advertising revenues in the newspaper market (% of total advertising revenues). Source: Own figure based on data from Kantar Media

below. The newly launched pro-government newspaper Magyar Idők, by contrast, owes almost all of its advertising revenue to the state sector (Figure 2).

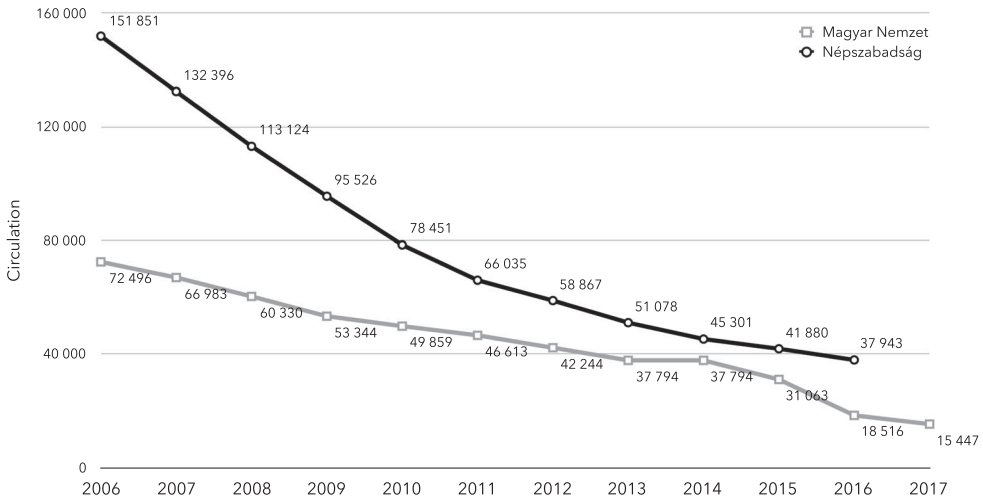
The reason behind the trend movements observed in the figure above is not a change in the market position of the players involved; there was no corresponding change in their circulation. The circulation of daily newspapers has been steadily declining, and the two newspapers we analysed were no exceptions to this overall trend.<sup>6</sup> Magyar Idők does not allow its circulation to be audited.<sup>7</sup> Nevertheless, we can provide an estimate of Magyar Idők's circulation since we know the amount of their revenue from circulation from their 2017 annual financial report (316,909,000 HUF) and we also know their annual subscription fee for 2018 (34,680 HUF). Based on the data above, Magyar Idők's circulation is less than 10,000, in other words far below that of Magyar Nemzet and Népszabadság at the time when these were closed. There is anecdotal evidence which suggests that since state institutions subscribe to many copies of Magyar Idők, the real market weight of the newspaper might even be lower than what the circulation numbers reveal (Figure 3).

In the last years of Népszabadság the state advertising incomes of the newspaper slightly increased. The reason behind the growth was the new owner of the newspaper, the Austrian businessman Heinrich Pecina, who in 2016 closed down Népszabadság and sold its parent company Mediaworks to Lőrinc Mészáros.

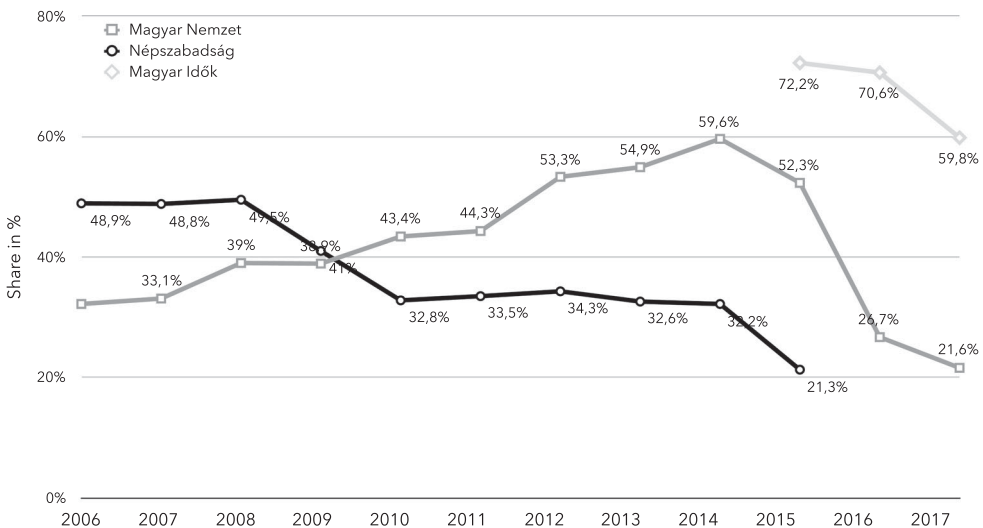
Figure 4 shows the ratio of revenue from advertising compared to all domestic revenue. According to an OECD (2010) study, 57% of the revenues of Hungarian newspapers in 2008 stemmed from advertising and 43% came from newspaper sales. In other words, the two types of revenues were roughly in balance. The result was roughly similar in Gálik's (2003) research conducted around the turn of the millennium, when the author found that the respective shares of revenues from advertising and circulation were roughly 50–50. It is important to note that these calculations were performed before the crisis, when the advertising market was considerably more robust than today.



**Figure 2.** Share of state advertising revenues at major political dailies (% of total advertising revenues). Source: Own figure based on data from Kantar Media



**Figure 3.** Circulation data of Magyar Nemzet and Népszabadság (1st half data for each year). Source: Own figure based on data from MATESZ



**Figure 4.** Advertising revenues/net domestic revenues at major political dailies (%). Source: Own figure based on data from supplementary annex of corporate financial reports (<http://e-beszamolo.im.gov.hu/oldal/kezdolap>)

As the figure shows, when a newspaper becomes part of the media deemed as being critical of the government, its share of state advertising as a percentage of total advertising revenue became very low, 30% or less (this was the situation of Népszabadság after 2010, and then also of Magyar Nemzet after 2015). At the same time, the ratio of state advertising in the total advertising revenue of government-friendly media outlets climbed to levels exceeding 50%, far surpassing that value in some years (this was the situation with Magyar Nemzet between 2012 and 2015, and then especially at the pro-government Magyar Idők

starting in 2015). As previous figures showed, the role of state advertising was especially prominent in the advertising revenues of the political daily segment of the media market. It also follows from this figure that a newspaper's position on the political spectrum will also have an impact on the respective shares of various types of revenue as a percentage of total revenue.

The distortion of the market of national political newspapers through the use of state advertising is dangerous because it affects an already vulnerable sector that struggles with severe business model problems. In addition to the changing media consumption patterns and the challenges emanating from digital platforms, publishers are looking for business models that would enable them to survive. In this situation, the prevailing distortion of the market can have a fatal impact. It is no coincidence but rather a consequence of the above that the two leading political dailies, the conservative *Magyar Nemzet* and the left-wing *Népszabadság*, went out of business between 2016 and 2018.

## 5.2. Online market

The online market is the freest segment of the Hungarian media market. This segment includes the highest share of independent players who are not positioning themselves in relation to political players but are guided instead by business interests in rendering their decisions. Still, investors with ties to the government are also gaining ground in this segment, and this manifests itself most spectacularly in the respective positions of the two leading news portals, Index and Origo.

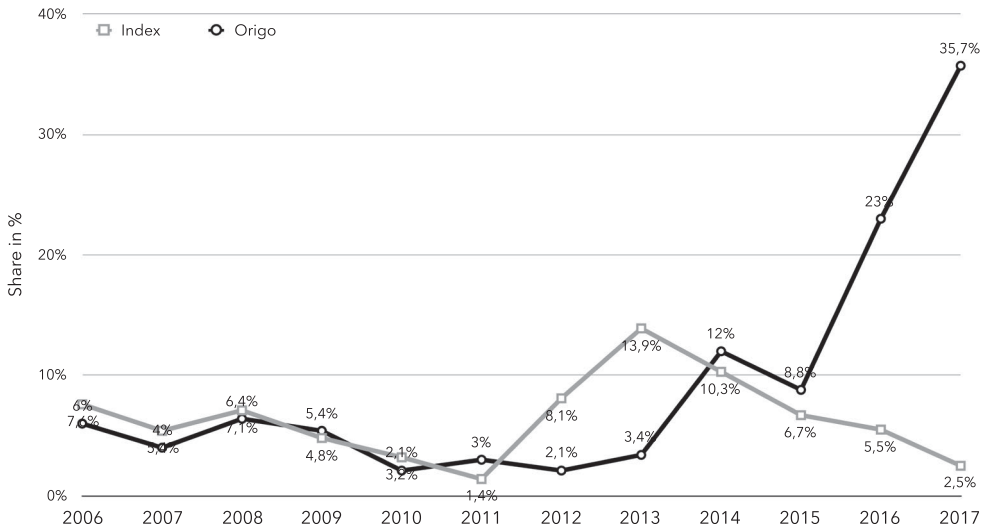
Index has always been owned by Hungarian investors. For a long while, Zoltán Spéder was the owner. Although Spéder was not one of the major media oligarchs, he was always considered a pro-Fidesz investor. In April 2017 he turned over his ownership rights to a foundation led by the news portal's attorney. Index is not affiliated with any of the political parties.

The owner of the other major news portal, Origo, used Hungarian Telekom, which is a subsidiary of Deutsche Telekom, which was thus the real owner. In 2016, however, the German corporate giant divested itself of the online content provider. The company operates under the name New Wave Media Ltd and is now in Hungarian hands. Its owner is Ádám Matolcsy, the son of the president of the Hungarian National Bank (MNB).

For a long time, state advertising played a marginal role in this segment, with revenue from this source typically falling below 10% of total advertising revenue. We found a slight surge in the case of Index, where Zoltán Spéder was the owner. The spectacular trend change began after the ownership changes, however, when the funding of pro-government Origo began to depend to ever increasing degrees on state advertising, while independent Index was essentially left bereft of state advertising (Figure 5).

According to data by the Gemius audience measurement company, the two news sites are head-to-head in terms of their respective numbers of visitors, and thus their performance in the market does not justify such a huge gap between their revenues from state advertising. In July 2018 the number of real users at Origo was 2.7 million, while Index had 2.4 million in the same period (Gemius 2018).

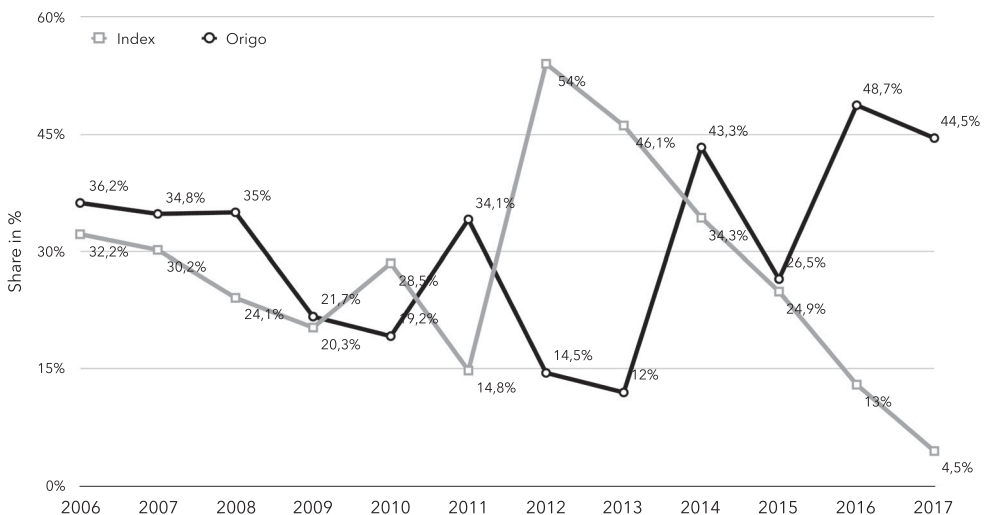
Figure 6 shows the respective shares of Index and Origo in the online advertising revenue from the state. As is apparent, the two portals were roughly similar in this respect for a long time, which was also a reflection of the fact that they were also similarly



**Figure 5.** Share of state advertising revenues in the online market (% of total advertising revenues). Source: Own figure based on data from Kantar Media

position in terms of their role in the market. Between 2012 and 2013 Index was the main beneficiary, while subsequently Origo was acquired by investors with close ties to the government and it correspondingly emerged as the clearly dominant player in terms of revenue. Index, in the meanwhile, received a lower share of the state advertising allocated to this segment of the market than ever before.

The example of the online market is also striking because it remains the segment where the state previously had no influence whatsoever. However, the acquisition of a leading news site in this market segment, followed by the one-sided spending of state advertising funds has substantially distorted this segment as well.



**Figure 6.** Share of Index and Origo from all online state advertising revenues. Source: Own figure based on data from Kantar Media



### 5.3. Television market

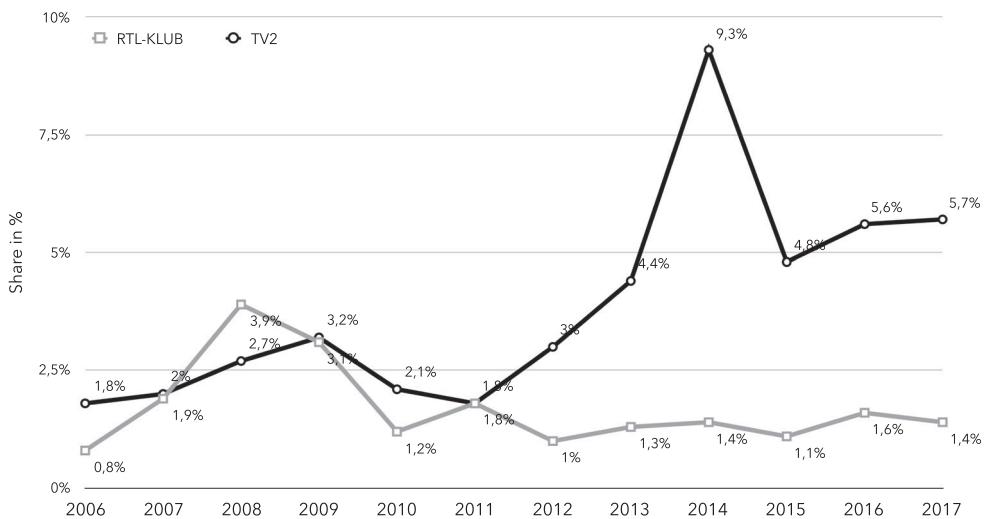
In the case of the television market, the major commercial channels are most relevant. The market leader RTL Klub is operated by the Magyar RTL Televízió Inc, which is owned by the international RTL Group. The second largest commercial television channel is TV2, which is operated by the TV2 Média Csoport Ltd owned by the government commissioner Andy Vajna.

The figure shows that previously the revenues from state advertising were marginal for the two commercial channels, but they became more significant for TV2 in recent years when the television was taken over by Hungarian owners (Figure 7).

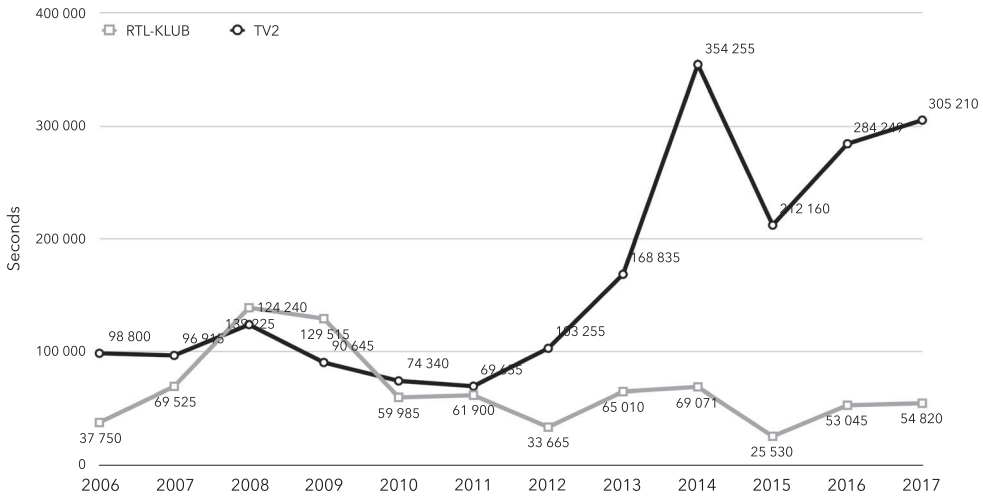
The share of state advertising as a percentage of total ad revenues is still below 10%, and it is relatively low compared to other pro-government companies in the media industry. We relied on another metric from the Kantar Database. The figure below shows the aggregate amount of state advertisements on the two commercial channels in seconds. From 2013 on, TV2 clearly emerged as the beneficiary of state advertisements, RTL Klub is lagging behind (Figure 8).

This difference clearly does not stem from the variation between the audience shares or the market position of these channels. In recent years, RTL and TV2 have been in locked in an intensive competitive rivalry, but RTL Klub usually attains a higher audience share (the only exception was 2014). This also means that campaigns would reach more people on RTL Klub (Figure 9).

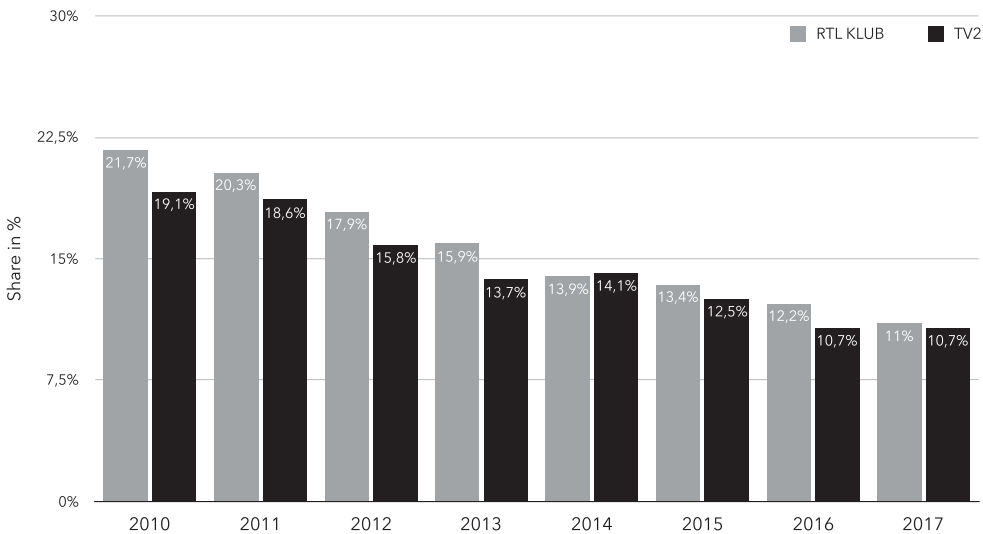
The higher value of RTL advertisement time is reflected in the annual revenue data. It is not surprising that market leader RTL was able to amass higher revenue – after all, commercial advertisers are willing to pay more for a larger audience. In 2017 the revenues of TV2 slightly exceeded those of RTL, which could be explained by the high level of revenue that TV2 received from state advertising. This situation clearly shows how state advertising could affect competition and revenues already in the short run (Figure 10).



**Figure 7.** Share of state advertising revenues at RTL and TV2 (% of total advertising revenues). Source: Own figure based on data from Kantar Media



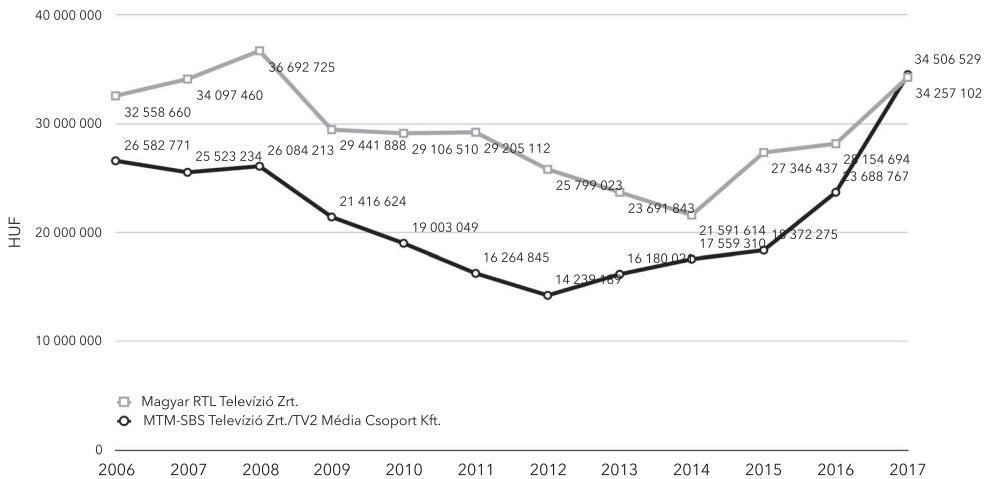
**Figure 8.** State advertisements on RTL Klub and TV2 (seconds). Source: Own figure based on data from Kantar Media



**Figure 9.** Audience share of RTL Klub and TV2 from 2010 (4+). Source: Own figure based on data from Nielsen, published in the annual Parliamentary Report of the Media Council

## 6. Conclusion

The cases reviewed above illustrate how strikingly state advertisers favour individual companies and how they thereby distort competition in Hungary. While before 2010, when the Socialist government was in power, state advertising spending was relatively balanced, and there wasn't any media outlet that operated solely based on state advertising, after 2010 – but especially over the past few years – this has changed. Examining three distinct media segments, it is readily apparent that under the Fidesz government state advertising was immediately diverted to companies acquired by investors with close ties to the



**Figure 10.** Revenues of RTL Klub and TV2. Source: Own figure based on data from corporate financial reports (<http://e-beszamolo.im.gov.hu/oldal/kezdolap>)

government. What is even more striking is that independent competitors are clearly being avoided by state advertisers, thereby rendering fair competition impossible. Even without being aware of the communication strategy of individual state institutions and the groups they target, it emerges from that data that efficiency is not the main governing principle in the case of state institutions – other, to wit political, criteria prevail instead.

Revenues shifted to enterprises associated with the governing parties, especially after 2010. The beneficiaries are owned by pro-Fidesz businesspersons. State sources finance politically favoured media outlets and it helped several right-wing media enterprises to flourish, or at least survive the economically difficult years. These media companies are unquestionably loyal to the government: the editorial practice has to serve the interest of the ruling parties, if they want to preserve their most important revenue source. The politically motivated distribution of state advertising since 2010 has led to a distortion in the media market not only because it upset what may be called an equilibrium but also because it has led to a substantial rise in the amount of funds channelled into the media by the state. The joint impact of these two developments – the rising amount of spending on state advertising and its one-sided distribution – distorts competition.

In certain cases, as in the press market, the pro-government actors received significant amount of state advertising despite their low circulation and readership. In other cases, as in the online news market and the television market the influence of state intervention, wasn't so remarkable, but state advertising was also proper for market distortion. When on a sub-market there are just two strong competitive actors, and one receives heavy state aid financing its profits or losses, while the other has to earn just from the market, in long term it can lead to the agony of the latter even if its market performance is better.

Moreover, all this happens in a period when the entire media market is struggling with problems concerning its business model: the distortion that has emerged in the Hungarian market has the result that pro-government players in the media market are relatively sheltered against the challenges of market competition, while the independent players in turn become extremely vulnerable with respect to their competitive position in the market.

Further research should be conducted on how the state's advertising practices affect commercial players, as well as the impact of state advertising on the contents produced by independent and critical media outlets that accept such advertising.

The government justifies its moves in the name of pluralism. For the sake of pluralism it gives public financial support for the pro-government media challenging the so called "left-liberal dominance". The particularistic and arbitrary use of public money can lead to closing down many independent news outlets because on the normal commercial market they can't compete with the state's limitless resources. Thus the use of public money for supporting pro-government media decreases plurality; lot of Hungarians get news from pro-government sources. The whole public sphere is distorted and it leads to a democratic backsliding. It definitely helps Orban staying power, so Hungary is in a vicious circle.

## Notes

1. The studies and books cited here, especially the Hungarian Media History edited by Péter Bajomi-Lázár and the History of Media Wars in Hungary edited by Vince Paál, are also relevant because while the former approaches the issue from a basically liberal perspective, Paál's presentation of the issue allots more space to the right-wing/Fidesz narrative (Bajomi-Lázár 2005; Paál 2013).
2. The so-called Civil Circle called the Alliance for the Nation, which had been founded by Viktor Orbán, published a statement on 26 May 2002 in which they called on Fidesz supporters to subscribe to Magyar Nemzet, Demokrata and Heti Válasz.
3. The presentation of the remarkable changes in the ownership structure in the Hungarian media exceeds the limitations of the paper. For further explanation and visualisations see Bátorfy 2018a, 2018b.
4. Kantar Media's collection is also incomplete. Among pro-government media outlets, it has not included or does not include data about revenues from state advertising received by Lánchíd Rádió, Magyar Demokrata, Pesti Srácok, HírTV and EchoTV. Among left-liberal media outlets, there is no data available for 444.hu and ATV.
5. For those who wish to see the entire database, we recommend Bátorfy, Győri, and Urbán 2018.
6. Circulation data is obtained from Magyar Terjesztés-ellenőrző Szövetség (MATESZ – Hungarian Circulation Audit Bureau)
7. Such a decision by a newspaper typically occurs when the circulation is very low and it does not want to divulge this information to the public.

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## Disclosure statement

No potential conflict of interest was reported by the authors.

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