

Title of the article: Yle budget cuts agreed after Left, Greens and Finns Party
approve new deal

Source of the article: Yle News

Link to the article: <https://yle.fi/a/74-20111279>

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Unit of the syllabus: Microeconomics

Key concept: Economic Well-Being.

Extract

The deal means that Yle faces a funding freeze and an increase in VAT payments, after a long drawn-out battle over setting the company's spending limits up to 2027.

Yle faces a years-long funding freeze after parliamentary parties agreed a deal on the company's budget, with the Finns Party, Greens and Left Alliance all approving the new agreement.

The deal will freeze the budget until 2027, and increase the VAT rates levied on the company from 10 percent to 14 percent from 2026. Yle's budget in 2027 will be around 47 million euros smaller than it would be if index-linked budget increases occurred annually.

The company will also be obliged to increase commissioning from external production companies, with external purchases slated to be around 15-20 percent higher than they were in the period 2021-2023.

In addition, Yle will be required to publish more information about its activities and spending.

The company is owned by the Finnish state and funded by a tax that in 2024 was a maximum of 163 euros per year for individual taxpayers, with reductions for those on lower incomes, or 3,000 euros for businesses.

Parties have been at loggerheads over Yle's budget since the election campaign, in which both the National Coalition and Finns Party argued for cuts worth more than a hundred million euros in Yle's funding.

Consensus decision

Yle's budget is traditionally decided by cross-party consensus, separate to the government programme. This is regarded as a safeguard against politicising the public service media company, but this time around negotiations were difficult and protracted.

National Coalition MP Matias Marttinen chaired the working group seeking a compromise, with his own party and the Finns Party suggesting that the government could take the decision themselves if cross-party consensus wasn't reached.

In July a proposal was accepted by all the parliamentary parties except the Greens and the Left Alliance, who were annoyed at the way the proposal had been negotiated between the Finns Party and National Coalition, rather than between all the parties in the working group.

The two parties secured small changes to the text of the deal, relating to working conditions of staff and reinforced a commitment to the production of high quality programming for children and young people, and its role as a pillar of general education and a guarantor of equality in educational equality.

The Movement Now party, a one-man group consisting of Apprentice presenter Harry Harkimo, announced early on that it would reject the agreement on Yle funding.

Commentary

The article celebrates the conclusion of discussions within the government regarding the funding of Yle, the Finnish Public Service Media Company. Consensus is reached after much deliberation, and consequently the budget of Yle will be reduced both directly by reducing the direct tax "yleisradiovero" and indirectly through the funding freeze and the VAT increase. This commentary aims to analyse the effects of the changes by simplifying the situation and treating it as a reduction of specific subsidy granted to the company. It will be shown that this change successfully advances **economic well-being**, around which the discussion will revolve.

One of the motivations for the government running Yle is to attempt to correct the allocative inefficiency caused by positive consumption externalities, which arise from generally accessible news making the Finnish population more aware. An equally important reason for it, however, is increasing equity in Finnish society: it is a fundamental principle of the company to keep its services free for all consumers.

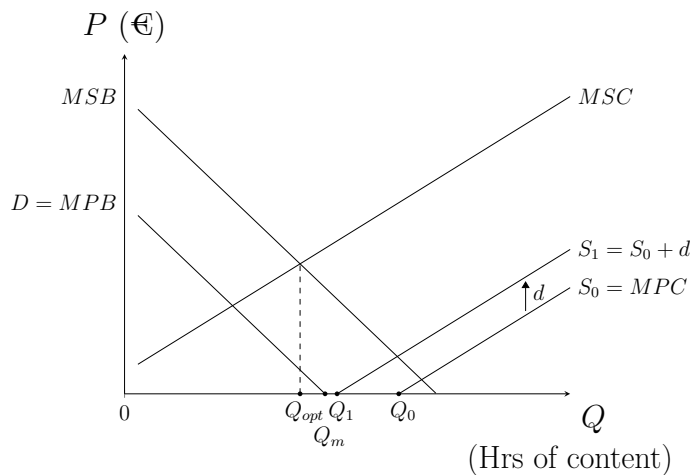


Figure 1: Effects of the Budget Cut to Yle's Supply

Figure 1 displays the effects of the new legislation with reference to the supply of content produced by Yle. The curves S_0 and S_1 represent the supply before and after the budget is cut by some amount d for each unit of output. Consequently, the amount of content that is produced by Yle is reduced from Q_0 to Q_1 , thanks to the stricter budget. The quantity is still greater than that rep-

resented by the point Q_m , which shows the amount of content that the population of Finland is willing and able to consume for free. This means that the change is only able to reduce the amount of surplus content from $Q_0 - Q_m$ to $Q_1 - Q_m$.

The principle of keeping the services of Yle free of charge for everyone can be treated as a price ceiling of 0€. In the status quo illustrated by line S_1 in **Figure 1**, the price ceiling has no effect and there will be no shortage of content. However, with a cut that is aggressive enough to shift the market quantity to Q_{opt} , a shortage will be created, since thanks to the price ceiling the quantity demanded by the market is fixed at Q_m .

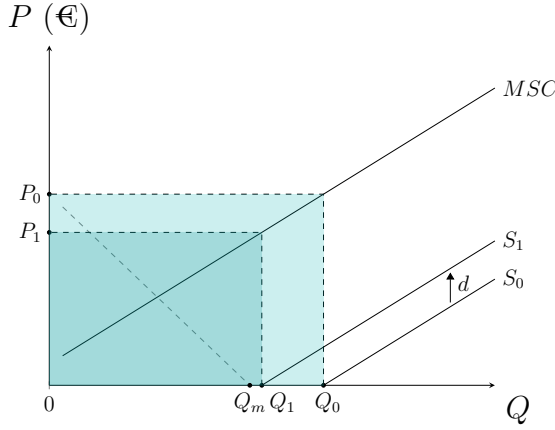


Figure 2: Consequent Change to Govt. Expenditure

Figure 2 highlights the reduction in government expenditure due to this change. The amount of money that the government saves thanks to this change can be calculated:

$$(Q_0 - Q_1) \cdot (P_0 - P_1) = (Q_0 - Q_1) \cdot d$$

According to the article, this value is approximately equal to 47 million euros.

The consumers are entirely unaffected by this change, and the government saves a significant amount of money. From the perspective of economic well-being, this change is purely positive: The change means Finnish citizens will have to pay less "yleisradiovero", thus increasing their level of prosperity. In addition, a change of this scale does not risk sacrificing more important factors of economic well-being; keeping a wide variety of news and entertainment means the population is able to have a satisfactory level of education both culturally and practically.

An argument from opposing parties notes that a shortage of content would raise ethical concerns, claiming that the population wishes not to let the quality nor quantity of Yle's content degenerate. As a result, only a rather small reduction in Yle's funding is made. Although the change succeeds to alleviate the issue of overallocation, it will be shown that a conclusive solution cannot be reached through only adjusting Yle's budget.

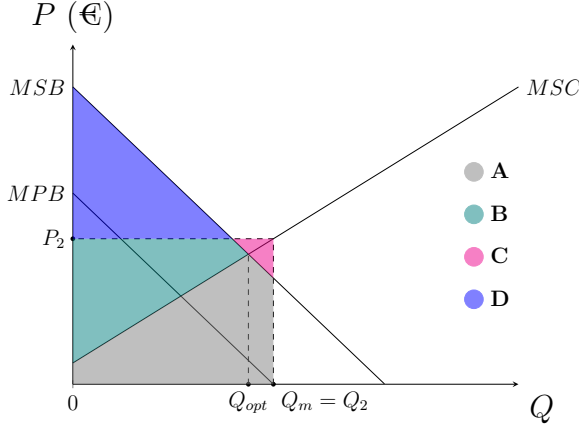


Figure 3: Remaining Welfare Loss

the line at Q_m , and the axes of the diagram. Therefore, the social surplus in this situation would equal the difference of the areas, i.e. $\mathbf{A} + \mathbf{B} + \mathbf{D} - (\mathbf{A} + \mathbf{B} + \mathbf{C}) = \mathbf{D} - \mathbf{C}$.

In an alternate scenario where the price ceiling of 0€ is completely abandoned, the subsidy for Yle can, in the best case, be adjusted to such a value that the amount of content produced and consumed are both Q_{opt} . In that case, we have Pareto optimality $MSB = MSC$, and the social surplus will be equal to the triangle $\mathbf{B} + \mathbf{D}$. Since that is the best case, it means that adjusting the budget optimally but keeping the price ceiling still results in welfare loss of $\mathbf{B} + \mathbf{D} - (\mathbf{D} - \mathbf{C}) = \mathbf{B} + \mathbf{C}$.

This is all based on our assumption that Yle will not rely on other news providers to cover the shortage which would arise with an optimal amount of budget. In reality, if discussions in parliament are restarted and this danger of shortage is disregarded, a

In **figure 3**, we imagine an adjustment to Yle's budget that perfectly resolves the surplus of content. In other words, the new quantity of content supplied Q_2 is precisely Q_m . Government spending would then equal the rectangle with area $\mathbf{A} + \mathbf{B} + \mathbf{C}$. Meanwhile, the consumer surplus is equal to $\mathbf{A} + \mathbf{B} + \mathbf{D}$, the trapezoid bounded by the MSB curve,

more aggressive cut to the budget can be made. That will likely bring the situation closer to Pareto optimality, which is extremely favorable in terms of economic well-being: The government will be allocating its resources more effectively, resulting in a change that is beneficial both immediately and in the long run.