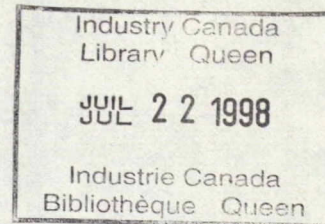


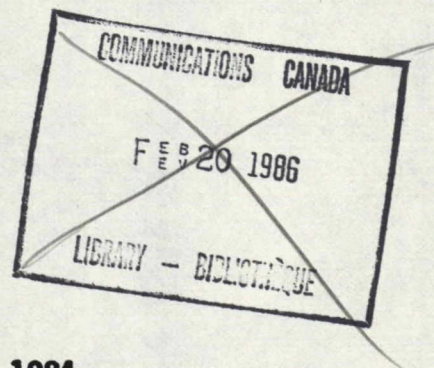
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EVALUATION ASSESSMENT

0 / POSTAL SUBSIDIES PROGRAM : *evaluation*  
*assessment : draft /*



MARCH 5, 1984

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## 1.0 EXECUTIVE SUMMARY

The federal government by way of the Postal Subsidies program buys rate reductions from Canada Post Corporation for the delivery of newspapers, periodicals, publishers' books, library books and educational films. Although the material qualifying for subsidized delivery and the means of paying the subsidy have changed over time some form of the program has been in place since before Confederation.

In subsidizing the distribution costs of these materials the government is pursuing three objectives:

- 1) To encourage a more informed, better educated public;
- 2) To encourage a financially healthier Canadian publishing industry; and
- 3) To improve Canadians' access to Canadian cultural products.

An evaluation, if undertaken, would try to determine how well the program is achieving these objectives, that is:

- 1) What is the program's contribution to an informed, educated population?
- 2) Does the program contribute to a financially healthy publishing industry?
- 3) Does the program improve access to Canadian cultural products?

These three questions would represent the main issues addressed by an evaluation.

Four evaluation options taking account of cost, policy priorities, methodological constraints and the differential impact of the program through the subsidization of different types of material (i.e. newspapers, periodicals, books and films).

Option 1 is to not undertake an evaluation. This would be consistent with a view that methodological difficulties would impose severe limitations on the usefulness of evaluation results.

Option 2 would confine the evaluation to an assessment of the program's impact on the financial health of newspaper and periodical publishers, to whose products over 90% of the subsidies are directed. This option is consistent with a view that the evaluation should devote all its effort to addressing the economic development aspects of the program.

Option 3 would address all three issues but would not deal with effects of the Library Book Rate and the Educational Film Rate on public awareness and access to Canadian cultural products because they consume a relatively small portion of the subsidies and a study of the Library Book Rate was completed in 1982.

Option 4 would address all three issues and consider the effects of subsidizing the distribution of all materials included under the program.

Option 3 at a cost of \$185,000 is recommended.



## 2.0 INTRODUCTION

Postal subsidies in Canada predate Confederation. As early as 1855 the colonies which were to join Confederation were distributing newspapers at no charge.

Since Confederation the range of materials moving through the postal system has increased until today the Department of Communications subsidizes the cost of mailing:

- Newspapers;
- Periodicals;
- Publishers' books;
- Library books; and
- Educational films.

The purposes of this report are four:

- 1) To describe the program;
- 2) To identify the issues that would be addressed should an evaluation be carried-out;
- 3) To assess the feasibility of undertaking an evaluation; and
- 4) To present evaluation options addressing varying configurations of issues and consuming varying levels of resources.

The structure of the report follows the above list by starting with a profile of the program, then considering the main issues of the evaluation and presenting a list of operational questions to serve as the basis of the evaluation design, then assessing the feasibility of an evaluation by considering possible evaluation indicators, various data sources and methodological constraints and finishes by presenting a range of evaluation options.

### **3.0 PROGRAM PROFILE**

#### **3.1 Mandate**

The authority for this program stems from a September 21, 1978 Memorandum of Agreement entered into, between the Postmaster General and the Secretary of State, whereby the responsibility for subsidizing losses incurred by allowing "publishers" rates, was transferred from the Postmaster General to the Secretary of State. The memorandum was entered into pursuant to Cabinet Decision 477-77 RD/478 RD.

On August 27, 1980, under the Public Service Rearrangement and Transfer of Duties Act, responsibility for the Program was transferred with the Arts and Culture Branch from the Secretary of State to the Minister of Communications.

Program funds are granted each year under the Appropriations Act.

#### **3.2 Objectives**

Finding a clear cut statement of the objectives of the Postal Subsidies Program is difficult. In 1979, Gilles Lamontagne, then Postmaster General, offered two basic reasons for a portion of the program in a speech to the Canadian Periodical Publishers Association. He said:

"The justification for the "publishers' rate" is that the relatively inexpensive distribution of certain publications contributes to a variety of social programs such as developing business initiatives and promoting cultural and educational development."

While the statement refers specifically to the publishers' rate, leaving out other categories of subsidies available under the program, such as the library book rate and the educational film rate, the statement does capture the two primary thrusts of the overall program, cultural development and economic development.

The cultural objective has deep roots, traceable to the British Postal Act of 1710. Under the powers of this act, the Imperial Post Office delegated to individual colonies, control of colonial postal services, including the right to set postal rates. The colonies which were later to become Canada used this authority to provide free distribution of newspapers. These subsidies continued after Confederation and the passage of the Postal Act in 1875 as newspapers and periodicals, although now paying postal fees, paid at rates lower than full commercial rates.

The original purpose of these concessions was clear. At that time, when communications were in a relatively primitive state and Canada's population widely dispersed, the printed word was the public's main means of keeping informed. Lower postal rates to encourage the distribution of information were seen as an investment in nation-building.

Over time the cultural objective was refined. Elements of the evolving objective can be found in the eligibility criteria for second class mail which began to include provisions concerning the type of publication, its advertising content, the frequency of its publication and whether or not it was printed or published in Canada.

The subsidies were also extended to include other types of material. In 1939 a special rate was established for the mailing of books between libraries and borrowers or other libraries. In 1943, the educational film rate came into effect and was applied to films mailed between provincial departments of education and schools within the province. In 1968, the publishers' book rate was introduced and applied to books mailed by publishers, distributors and book clubs.

It can be argued that the growth and urbanization of Canada and advances in all types of communications have lessened the need to subsidize the distribution of information by post. There are few Canadians who, if cut-off from postal service, would be unable to obtain daily news. On the other hand some forms of communication are more suited to the printed word.

In addition to its cultural objectives, the program has economic objectives, that is, the program aims to foster the Canadian publishing industry. Adopting an economic development objective for the program, however, presents its own problems. The sector which appears to receive the greatest benefit, the periodical publishers, does not acknowledge that the program provides it a subsidy. For this to be true the current second class rate would have to represent the true cost of moving material from publisher to subscriber (and any losses incurred by the post office are due to its own inefficiency) or consumers' demand for periodicals would have to be inelastic\*, that is unresponsive to price changes.

These conditions are difficult to accept. First, despite the well-publicized difficulties of the Post Office, it is unlikely that 4.2¢ (typical periodical mailing cost) is adequate to cover the cost of delivering a magazine from publisher to subscriber. This is supported by the absence of alternate distribution systems. Second, if consumer demand is inelastic, publishers could increase profits tomorrow simply by raising prices, as any price increase would not result in a decrease in the number of subscriptions. More likely, raising prices would reduce the number of subscribers, thereby diminishing directly, subscription revenues and indirectly, advertising rates. If this is true, subsidies which reduce the distribution costs of periodicals benefit the publisher and provide support for an evaluation of the program on economic development as well as social grounds.

\* The elasticity of demand is the change in the quantity of a product demanded associated with a change in its price. A perfectly inelastic demand for magazines means that no matter how much the asking price changes, the same number of magazines will be demanded.

Adopting, for evaluation purposes, a program objective of encouraging a more profitable publishing industry begs the question: For what purpose? Presumably a healthy Canadian publishing industry contributes to Canadian cultural development by publishing more articles by or about Canada or Canadians or by providing a Canadian perspective on world events. Subsidizing the distribution of this material improves Canadians' access to Canadian cultural products. Although such an objective has never been formally announced for the program, the Minister's recent cancellation of the mailed-in-Canada and printed-in-Canada rates, and the very fact that the program is administered by the Cultural Affairs Sector which does have this as an objective suggests that improving access to Canadian cultural products is at least an implicit objective of the program.

To summarize the program objectives on which the program would be evaluated are:

- 1) To encourage a more informed, better educated public.
- 2) To encourage a financially healthier Canadian publishing industry.
- 3) To improve Canadians' access to Canadian cultural products.

### 3.3 Description

Under the program, the Department of Communications purchases rate reductions from Canada Post for delivering certain types of mail. These include publisher's books, library books, newspapers, periodicals and educational films.

Until 1978, these costs were the sole responsibility of the Post Office, but beginning in Fiscal Year 1979-80 the Secretary of State assumed responsibility for the subsidy. This transfer recognized that there were economic and cultural implications of the program which fell beyond the mandate of the Post Office.

At that time the value of the grant was derived from the Post Office's estimate of its "fully allocated cost" of delivering these types of mail. The value of the subsidy is shown in Table 1.

Table 1 - Postal Subsidies by Year (in millions)

<u>1979-80</u>	<u>1980-81</u>	<u>1981-82</u>	<u>1982-83</u>
\$ 137.0	\$ 147.0	\$ 189.5	\$ 220.0



Coincident with the creation of Canada Post, responsibility for the program was transferred to the Department of Communications. At that time DOC undertook a study which compared the difference in cost between mailing at the subsidized rates and commercial rates. Based on the current volumes of mail moving in each category, the actual loss in revenue attributable to the lower rates was calculated to be closer to \$50 million than \$220 million. As a result Cabinet directed DOC to renegotiate the agreement with the Post Office so that only the portion of subsidy representing the value to recipients (\$50 million - the difference between commercial and preferred rates) would be paid by DOC and that the remainder (\$170 million) called an "infrastructure payment" would be paid from other envelopes.

The program is one of an array of assistance programs aimed at the publishing industry.

For the periodical publishers assistance comes in many forms from many sources. At the federal level these include:

- **Canada Council Grants** - Support for literary, visual or performing arts or children's publications (\$1,113,493) (1981).
- **Natural Science and Engineering Research Council Scientific Publication Grants** - Support for scientific and engineering research publications (\$489,500) (1981).
- **Social Science and Humanities Research Council Grants** - Learned Journals Program (\$1,496,610) (1981).
- **Amendments to the Income Tax Act (1964-1976)** - Disallows a tax deduction for expenses incurred through advertising in foreign-owned magazines.
- **Schedule "C" Customs and Tariffs Act (1964)** - Bans foreign publications which contain more than 5% of their total advertising directed at Canadian readers.
- **FIRA** - Ensures foreign participation in publishing industry is consistent with Canadian industrial development objectives.
- **Federal Sales Tax Exemption** - All magazines domestic and foreign are exempt from the federal sales tax.

Provincial support for periodical publishing does not match that provided by the federal government but includes:

- **Ontario Half-back Program** - Discount on subscriptions to Canadian periodicals (among other discounts).
- **Ontario Paperback and Restricted Distributions Act** - Restricts operations of distributors of paperbacks or periodicals if more than 5% owned by non-residents.

- **Provincial Grants to Literary Periodicals** - Quebec \$371,000; Ontario \$320,450; Alberta \$16,000; British Columbia \$10,000; Nova Scotia \$7,000; Manitoba \$6,000; Saskatchewan \$4,500; New Brunswick \$1,200.

For periodical publishers the Postal Subsidies Program is one of the most important if not the most important source of government assistance.

For book publishers the program is less important but still substantial when compared to other sources of federal assistance: Canadian Book Publishing Development Program; \$7.6 million (1982-83), Canada Council Book Publishing Grants; \$2.4 million and the Social Sciences and Humanities Research Council Scholarly Publishing Program; \$1.0 million.

A rough estimate of the distribution of the total subsidy among the various users is shown in Table 2.

Table 2 - Postal Subsidies by User Category (1)

<u>Category</u>	<u>% of Total Subsidy Paid</u>
Daily Newspapers	18.9
Weekly Rural Newspapers	13.1
Periodicals (2nd class subscription and non-subscription)	39.6
Periodicals (unaddressed)	10.0
Non-Canadian Periodicals (mailed in Canada)	5.8
Non-Canadian Periodicals (printed in Canada)	3.1
Publishers' Books	7.5
Library Books	1.5
Educational Films	<u>0.5</u>
	100.0

(1) Estimates derived from program records.

### **3.4 Relation to the Estimates Program**

The program appears as Vote 25 of Part II of the Estimates program.

### **3.5 Resources**

Resources allocated to the program for fiscal year 1984-85: Budgetary \$55.7 million.

The program consumes about one (1) person-year of DOC time.

### **3.6 Program Activities**

The program involves activities by two agencies, the Department of Communications and Canada Post Corporation. The DOC role is primarily one of policy. Its main activity is to develop or modify, in conjunction with Canada Post, rate structures and eligibility criteria for the various categories of mail that are subsidized under the program.

Once these structures are in place, the Department is responsible for monitoring the use of the program and undertaking investigations to determine its effects on the various recipients of the program.

The program involves no day-to-day administration on the part of DOC. Funds flow directly from the Consolidated Revenue Fund to Canada Post and all applications for subsidized postal rates are made directly to the Post Office. Program records are also maintained by Canada Post.

A model of the program follows on the next page. It includes only those activities which DOC carries-out itself or in which it participates.

# ACTIVITIES

# OUTPUTS

# IMPACTS

# EFFECTS

# UNINTENDED EFFECTS

Development of  
Rate Schedules  
and Subsidy  
Categories

Socio-Economic  
Analysis of  
Program Effects

Policy  
Development

Negotiation with  
Canada Post

Subsidy  
Payment  
to Canada  
Post

Improved Availability of  
Information in Remote Areas

Increased Circulation  
of Library Books

Increased Showing of  
Educational Films

More Advertising Revenues  
for Newspapers & Periodicals

Lower Dist. Costs for Books,  
Newspapers and Periodicals

Increased Sales of Books,  
Periodicals and Newspapers

Increased Export Sales of  
Canadian Publications

Better Informed  
or Educated  
Public

Improved Access  
to Canadian  
Cultural  
Products

More Profitable  
Publishing  
Industry

Increased  
Employment

Inhibition of  
Alternative  
Distribution  
Systems

Substitution  
of Subsidies  
for Advertising  
Revenue

Regressive  
Income  
Transfer

Assistance  
to Special  
Interest Groups

#### **4.0 EVALUATION ISSUES**

An evaluation if undertaken should address three main issues:

- 1) The contribution of the program to an informed, educated population;
- 2) The contribution of the program to a financially healthy publishing industry; and
- 3) The program's contribution to ensuring access to Canadian cultural products.

These three issues, of course, correspond directly to the three stated program objectives listed earlier.

In order to facilitate a consideration of an evaluation study design these broad issues are broken into 25 operational questions and grouped under the Comptroller General's four issue categories:

- 1) Program Rationale: Does the program make sense?
- 2) Impacts and Effects: What has happened as a result of the program?  
(intended and unintended impacts and effects are separated)
- 3) Objectives Achievement: Has the program achieved what was expected?
- 4) Alternatives: Are there better ways of achieving the results?

#### **4.1 Rationale**

In light of the advancements made in the speed and reach of communications, since the program's introduction in 1875, and thus the alternatives available to the population, the main question relating to the program's first stated objective is:

- 1) Should the federal government continue to subsidize the distribution of printed material and films as a means of encouraging an educated and informed population?

With regard to the second objective, that of fostering the publishing industry, the key question is:

- 2) Does the Canadian publishing industry require subsidized postal service to be profitable?



To complete consideration of the program's rationale, it is necessary to address the assumption that postal subsidies improve access to Canadian cultural products.

- 3) Do postal subsidies improve Canadians' access to Canadian cultural products?

#### **4.2 Impacts and Effects**

- 4) Has the program improved the awareness of Canadians particularly in rural or remote areas?
- 5) Has the program increased the circulation of library books?
- 6) Has the program increased the showing of educational films in schools?
- 7) What effect does the program have on the distribution costs and final price of newspapers periodicals and books?
- 8) What effect has the program had on the total sales of books and periodicals in Canada?
- 9) What effect has the program had on the export sales of Canadian publications?
- 10) What effect has the program had on the sale of foreign periodicals in Canada?
- 11) What effect has the program had on the profitability of the Canadian publishing industry?
- 12) What effect has the program had on employment in the Canadian publishing industry?

#### **4.3 Objective Achievement**

- 13) What contribution has the program made to a more informed or better educated Canadian public?
- 14) What contribution has the program made to the financial health of the Canadian publishing industry?
- 15) Has the program improved access to Canadian cultural products?

**4.4 Unintended Effects**

- 16) Has the program inhibited the development of alternate distribution systems?
- 17) Have program subsidies been substituted for advertising revenues?
- 18) Did the mailed-in Canada and printed-in Canada rates encourage an influx of foreign publications?
- 19) Has the program provided a regressive income transfer?
- 20) Has the program provided unintended assistance to special interest groups?

**4.5 Alternatives**

- 21) Could higher distribution costs be passed on to the reader or back to the advertiser?
- 22) Would other distributional subsidies be more effective?
- 23) Would other types of communications subsidies provide a higher information dissemination or educational benefit?
- 24) Are there more effective means of providing assistance to the publishing industry?

## 5.0 INDICATORS

The following is a list of indicators which could be derived to answer the questions posed in the previous section. Issues, indicators, information requirements and information sources are linked in the set of tables following Section 6, Information Sources.

- Public awareness derived from subsidized materials compared to awareness derived from all sources.
- Library circulation by post as a proportion of total library circulation.
- Films delivered by subsidized mail and shown in schools compared to films delivered by other methods and shown in schools.
- Publication sales distributed by subsidized post as a proportion of total publication sales.
- Export of Canadian publications by subsidized post as proportion of total exports of Canadian publications.
- Foreign-owned publications distributed by subsidized post as a proportion of total publications distributed by subsidized post.
- Various financial indicators measuring liquidity, leverage, and profitability for publishing firms with and without subsidies.
- Advertising content of newspapers using the program compared to advertising content of newspapers not using the program.
- Costs of alternate distribution systems (including foreign postal services).
- Income distribution of readers of program subsidized publications compared to population income distribution.
- Price elasticity of demand for program subsidized publications.
- Employment in the publishing industry with and without grants.

## 6.0 INFORMATION SOURCES

The following are the existing sources of information and the types of information which are available from each:

### Statistics Canada, Printing, Publishing and Allied Industries (Catalogue #36-203)

- book, newspapers and periodicals sales;
- production data (employees, shipments, value added);
- ownership;
- advertising and circulation revenues; and
- financial characteristics of industry.

### Statistics Canada, Cultural Statistics, Newspapers and Periodicals (Catalogue #87-625) (Derived from CARD Data)

- circulation data; and
- titles by various categories.

### Canadian Advertising and Rates Data (CARD) (Monthly)

- advertising costs; and
- circulation by type of publication.

### Audit Bureau of Circulation (ABC) (Semi-annual)

- circulation data by type of publication and by location; and
- subscription prices and premiums (U.S. based but also covers Canadian publications).

### Canadian Circulation Audit Board (CCAB)

- similar data to ABC but for controlled circulation periodicals.

### Woods-Gordon Periodicals Industry Study 1984

- circulation data;
- prices;
- readership type;
- readership location;
- content (advertising, editorial, other);
- distribution;
- financial data (by periodical); and
- company.

### Print Measurement Bureau

- number of readers by publication;
- demographic characteristics of readers.

RES Publishers' Book Rate Study (1982)

- distribution by type;
- destination of shipment by publishers' book rate;
- shipping costs by type; and
- customers by type (for Book Rate deliveries).

Thorne, Stevenson and Kellogg, Use of Book Rate by Canadian Publishers (1982)

- markets served by book rate;
- destinations;
- frequency of book rate;
- shipment volumes via book rate; and
- publisher perceptions of book rate.

Royal Commission on Newspapers, The Newspaper as a Business, Vol. 4 (1981)

- newspaper circulation; and
- advertising revenues.

RES, Canada Post Library Book Rate

- use of library rate;
- amount spent on library book rate; and
- projected use of library book rate.

Book Publishing Development Program Evaluation Study 9, BPDP Impact on Book Distribution Systems

- means of distribution; and
- damage rates by means of distribution.

In addition to these published information sources, additional information could be obtained by contacting the various publisher associations. These include:

- The Canadian Business Press;
- Magazines Canada;
- The Canadian Periodical Publishers Association;
- The Canadian Magazine Council;
- The Canadian Community Newspaper Association; and
- The Association of Canadian Publishers.

Finally, Canada Post records could be examined to obtain volume and cost data for the subsidized postal rate program.



ISSUE	INDICATOR	INFORMATION REQUIREMENTS	SOURCE
<p><u>Rationale</u></p> <p>1. Should the federal government continue to subsidize the distribution of printed material and films as a means of encouraging an educated and informed Canadian public?</p> <p>2. Does the Canadian publishing industry require subsidized postal service to be profitable?</p> <p>3. Do subsidized postal rates improve Canadians' access to Canadian cultural products?</p>	<ul style="list-style-type: none"> <li>- evidence of population's inability to obtain or afford information without the subsidy</li> <li>- evidence that population would not pay full costs of obtaining information</li> <li>- contribution of postal subsidies to industry profitability</li> <li>- evidence that distribution system for printed material would be deficient without subsidies</li> </ul>	<ul style="list-style-type: none"> <li>- sources of information</li> <li>- costs of various types of information</li> <li>- income information</li> <li>- price elasticity of demand</li> <li>- profitability of publishing firms</li> <li>- importance of distribution costs to overall profitability</li> <li>- availability of printed material in different parts of the country</li> </ul>	<ul style="list-style-type: none"> <li>- Reader Survey</li> <li>- Educational Film Rate Study</li> <li>- Library Book Rate Study</li> <li>- Publishers' Book Rate Study (RES)</li> <li>- Reader Survey</li> <li>- Woods-Gordon Periodical Study</li> <li>- BPDP Evaluation</li> <li>- Postal Subsidies and Financial Health of Publishers</li> <li>- BPDP Evaluation</li> <li>- Woods-Gordon Periodical Study</li> <li>- Survey of Newspapers</li> <li>- Postal Subsidies and Financial Health of Publishers</li> </ul>

ISSUE	INDICATOR	INFORMATION REQUIREMENTS	SOURCE
<u>Impacts and Effects</u>  4. Has the program improved the awareness of Canadians particularly in rural or remote areas?  5. Has the program increased the circulation of library books?  6. Has the program increased the showings of educational films in schools?  7. What effect does the program have on the distribution costs and final price of newspapers periodicals and books?	- proportion of awareness gained from subsidized materials in remote areas compared to central or urban areas  - library circulation by post as a proportion of total circulation  - number of films shown in schools delivered by mail compared to number delivered by other means  - postal costs as a percentage of total production costs of subsidized materials compared to distribution costs/total costs for non-subsidized materials  - postal costs vs costs by competitive distributing system	- source of awareness by location  - circulation by post - circulation total  - total films shown - films shown delivered by mail  - postal costs (subsidized materials) - total production costs (subsidized materials) - distribution costs (non-subsidized materials) - total production costs (non-subsidized materials) - competitive distribution costs	- Reader Survey  - Library Book Rate Study (RES)  - Educational Film Rate Study  - Woods-Gordon Periodical Study - Postal Subsidies and Financial Health of Publishers Studies - BPDP Evaluation

ISSUE	INDICATOR	INFORMATION REQUIREMENTS	SOURCE
<u>Impacts and Effects (Cont'd)</u>			
8. What effect has the program had on the total sales of books and periodicals in Canada?	- book sales by post and periodical subscriptions compared to bookstore sales and newstand sales	- newstand sales - bookstore sales - subscription sales - book sales by post	- Woods-Gordon Periodical Study - BPDP Evaluation (Study 9)
9. What effect has the program had on export sales of Canadian publications?	- export sales by post as a proportion of total export sales	- export sales of books and periodicals by post - total export sales of books and periodicals	- Woods-Gordon Periodical Study - Statistics Canada - BPDP Evaluation
10. What effect has the program had on the sale of foreign periodicals in Canada?	- mailed in Canada and printed in Canada periodical circulation as a proportion of total Canadian circulation	- mailed in Canada circulation - printed in Canada circulation - total circulation	- ABC - CCAB - CARD
11. What effect has the program had on the profitability of the Canadian publishing industry?	- various financial indicators	- firm level financial information - price elasticity of demand for periodicals - alternate distribution costs - postal costs - total production costs	- Statistics Canada - Woods-Gordon Periodicals Study - Book Rate Study (RES) - Postal Records - Postal Subsidies and Financial Health of Publishers Studies

ISSUE	INDICATOR	INFORMATION REQUIREMENTS	SOURCE
<u>Impacts and Effects (Cont'd)</u>			
12. What effect has the program had on employment in the Canadian publishing industry?	<ul style="list-style-type: none"> <li>- employment with subsidies compared to estimate of employment without subsidies</li> </ul>	<ul style="list-style-type: none"> <li>- publishing industry employment</li> <li>- effects of removing the subsidy</li> </ul>	<ul style="list-style-type: none"> <li>- Statistics Canada</li> <li>- Woods-Gordon Periodicals Study</li> <li>- Postal Subsidies and financial Health of Publishers Studies</li> </ul>
<u>Objective Achievement</u>			
13. What contribution has the program made to a more informed or better educated Canadian public?	<ul style="list-style-type: none"> <li>- proportion of "awareness" or education derived from subsidized materials</li> </ul>	<ul style="list-style-type: none"> <li>- measures of public awareness or education</li> <li>- sources of awareness</li> </ul>	<ul style="list-style-type: none"> <li>- Reader Survey</li> <li>- Educational Film Study (RES)</li> <li>- Library Book Rate Study (RES)</li> </ul>
14. What contribution has the program made to the financial health of the Canadian publishing industry?	<ul style="list-style-type: none"> <li>- profitability with or without subsidies</li> </ul>	<ul style="list-style-type: none"> <li>- effect of subsidies on liquidity, leverage and profitability indicators</li> </ul>	<ul style="list-style-type: none"> <li>- Postal Subsidies and Financial Health of Publishers Studies</li> <li>- Woods-Gordon Periodical Study</li> <li>- Statistics Canada</li> <li>- BPDP Evaluation</li> <li>- Survey of Advertisers</li> <li>- Survey of Readers</li> </ul>
15. Has the program improved access to Canadian cultural products?	<ul style="list-style-type: none"> <li>- availability of printed material by post compared to availability by other means</li> </ul>	<ul style="list-style-type: none"> <li>- availability of printed material by other means (e.g. bookstores)</li> </ul>	<ul style="list-style-type: none"> <li>- Survey of Readers</li> </ul>

ISSUE	INDICATOR	INFORMATION REQUIREMENTS	SOURCE
<u>Unintended Effects</u>			
16. Has the program inhibited the development of alternate distribution systems?	<ul style="list-style-type: none"> <li>- postal rates compared to alternate distribution costs</li> <li>- existence of other systems in foreign countries</li> </ul>	<ul style="list-style-type: none"> <li>- postal rates</li> <li>- alternate distribution rates</li> <li>- foreign distribution systems</li> </ul>	<ul style="list-style-type: none"> <li>- Woods-Gordon Periodical Study</li> <li>- Canada Post Rate Schedules</li> <li>- Postal Subsidies and Financial Health of Publishers Studies</li> <li>- U.S. Postal Rate Increase Study</li> </ul>
17. Have program subsidies been substituted for advertising revenues?	<ul style="list-style-type: none"> <li>- advertising content of newspapers using subsidies compared to advertising content of newspapers not using subsidies</li> </ul>	<ul style="list-style-type: none"> <li>- advertising content of newspapers</li> <li>- list of newspapers using postal subsidies program</li> </ul>	<ul style="list-style-type: none"> <li>- Kent Commission</li> <li>- Canada Post</li> </ul>
18. Did the mailed-in Canada and printed-in-Canada rates encourage an influx of foreign publications?	<ul style="list-style-type: none"> <li>- circulation of "mailed in Canada" and "printed in Canada" publications with and without subsidies</li> </ul>	<ul style="list-style-type: none"> <li>- cost of publications with subsidy</li> <li>- estimate of cost of publications without subsidies</li> <li>- price elasticity of demand for publications</li> </ul>	<ul style="list-style-type: none"> <li>- Woods-Gordon Periodical Study</li> <li>- Canada Post Records</li> <li>- Reader Survey</li> </ul>
19. Has the program provided a regressive income transfer?	<ul style="list-style-type: none"> <li>- income distribution of readers of subsidized materials compared to income distribution of total population</li> </ul>	<ul style="list-style-type: none"> <li>- readers income distribution</li> <li>- population income distribution</li> </ul>	<ul style="list-style-type: none"> <li>- Statistics Canada</li> <li>- Reader Survey</li> </ul>



ISSUE	INDICATOR	INFORMATION REQUIREMENTS	SOURCE
<u>Unintended Effects (Cont'd)</u>  20. Has the program provided an inappropriate level of assistance to special interest groups?	- proportion of special interest or advocacy publications of total publications	- content or purpose of publications receiving subsidies  - circulation	- CARD - ABC - Woods-Gordon Periodical Study - Publication Content Study
<u>Alternatives</u>  21. Could higher postal costs be passed on to the reader or back to the advertiser?          22. Would other distributional subsidies be more effective?	- circulation with subsidy compared to projected circulation without subsidy          - costs-benefits of other types of subsidies	- price elasticity of demand for publications - response of advertisers to different circulation levels - value of subsidy          - cost of alternatives - benefits of alternatives	- U.S. Postal Rate Increase Study - Reader Survey - Survey of Advertisers - Woods-Gordon Periodical Study - Postal Subsidies and Financial Health of Publishers Studies          - Postal Subsidies and Financial Health of Publishers Studies

ISSUE	INDICATOR	INFORMATION REQUIREMENTS	SOURCE
<p><u>Alternatives (Cont'd)</u></p> <p>23. Would other types of communication subsidies provide a higher information dissemination or educational benefit?</p> <p>24. Are there more effective means of providing assistance to the publishing industry?</p>	<ul style="list-style-type: none"> <li>- oportunities for improving the public's preferred means of obtaining information</li> <li>- effects of various types of subsidy on industry profitability</li> </ul>	<ul style="list-style-type: none"> <li>- sources of information</li> <li>- perceived deficiencies</li> <li>- industry profitability</li> <li>- obstacles to industry profitability</li> </ul>	<ul style="list-style-type: none"> <li>- Reader Survey</li> <li>- Statistics Canada</li> <li>- Woods-Gordon Periodical Study</li> <li>- Kent Commission</li> <li>- BPDP Evaluation</li> <li>- Postal Subsidies in Other Countries Study</li> </ul>

## **7.0 METHODOLOGY**

The range of issues and the clients of the Postal Subsidies Program make it desirable to divide the evaluation into component studies corresponding to specific program issues or client groups. The following are brief descriptions of the background studies which would be required to address the three main issues identified in Section 4.

### **7.1 Contribution to an Informed, Educated Population**

The program works to make Canadians more aware or better educated by subsidizing the distribution of newspapers, books and periodicals they buy from publishers, books they borrow from libraries and films they view in schools. To assess the contribution of these subsidies to overall awareness, three studies are required.

- 1) Survey of Readers;
- 2) Library Book Rate Study; and
- 3) Educational Film Rate Study.

#### **7.1.1 Survey of Readers**

Households from across Canada would be interviewed by telephone to determine:

- expenditures on program subsidized materials;
- types of material received;
- characteristic of readers; and
- importance of subsidized material to overall awareness.

Because it is hypothesized that postal service is more important to maintaining "awareness" for rural or remote households than for urban households the sample would be stratified by location.

#### **7.1.2 Library Book Rate Study**

In order to assess the impacts of the Library Book Rate on public awareness the following types of information are required:

- circulation by library book rate compared to regular circulation;
- circulation by book rate compared to other forms of delivery;

- types of materials circulated by book rate;
- destination of material circulated by book rate;
- characteristics of book rate borrowers;
- use of book rate for inter library loans;
- value of book rate to libraries; and
- libraries perceptions of value of book rate.

The Library Book Rate study conducted by RES Policy Reserach Incorporated in 1982 would provide much of the information required. Its use would obviate the need for another study at this time. One drawback of this approach would be the difficulty of making urban rural comparisons for the book rate.

### **7.1.3 Educational Film Rate Study**

A survey of provincial departments of education would be undertaken to determine:

- the importance of films relative to other educational materials (including other visual materials);
- the number of films delivered by mail compared to the number of films delivered by other means;
- the use of the Educational Film Rate in rural areas compared to use in urban area; and
- educators' perceptions of the value of the Educational Film Rate.

### **7.2 Contribution to a Financially Healthy Publishing Industry**

The hypothesized relationship between the Postal Subsidies program and the financial health of the publishing industry is the following. Postal subsidies which reduce the distribution costs of newspapers, periodicals and books allow publishers to sell their product at a lower price than they would if paying full distribution costs. Other things being equal, the lower the publication's price the more of it will be sold and thus the larger the sales revenues. In addition to creating higher revenues, higher sales (more subscriptions) are important to newspaper and periodical publishers because they increase the value of the publication as an advertising medium thereby allowing higher returns from advertising.

To test the hypothesis three types of information are required:

- 1) basic financial and operating information for publishers;
- 2) an indication of consumer sensitivity to publication price changes;  
and
- 3) an indication advertiser reactions to changes in periodical circulation.

Accordingly, three studies are proposed:

- 1) Postal Subsidies and the Financial Health of the Publishing Industry;
- 2) U.S. Postal Rate Increase Study\*; and
- 3) Survey of Advertisers.

\* The Reader Survey will also ask consumers to indicate their reactions to publication price changes.

#### **7.2.1 Postal Subsidies and the Financial Health of the Publishing Industry**

This study would estimate the value of postal subsidies to the publishing industry by analysing the effect of decreasing or eliminating subsidies. The study would draw upon the results of U.S. Postal Rate Increase Study and the Survey of Readers Study for information on consumer reactions to price increases and on the Survey of Advertisers for advertisers reactions to lower rates of circulation.

In order to perform this analysis basic financial and operating data related to the three types of publishers are required. An important methodological question concerns how these data bases are to be constructed. Certainly more robust and comprehensive analysis would result from the gathering of up-to-date information specifically to address the identified issues. This, however, would require surveying publishers who have recently been asked similar questions for other studies (Kent Commission, Woods-Gordon Periodical Publishing Industry Study and the Book Publishing Development Program Evaluation).

To avoid placing an undue survey burden on publishers it is recommended that existing information and combinations of existing information and case studies be used to address the issues for the three types of publishers.



For book publishers, no additional information collection is proposed. The BPDP evaluation has yielded authoritative evidence concerning the distribution problems of book publishers. Postal subsidies were not identified as an important factor. This and the fact that the publishers book rate only accounts for 7.5% of total program subsidies suggests that the program's effect on the book publishing industry is insignificant and that no further study is required.

This is certainly not the case for newspapers and periodicals. Newspapers account for 32% of subsidies paid out and it is likely that the subsidies are very important to some newspapers (most probably, rural based weekies). Although the Kent Commission did not deal specifically with the effects of postal subsidies it did collect a great deal of information concerning the overall financial condition and operation of newspapers. This information supplemented by that gained from several case studies would constitute the data base for analyzing the impact of postal subsidies on newspapers.

For periodicals it is proposed that the Woods-Gordon Periodicals Survey data base (which did deal directly with the effects of postal subsidies) and the information from several case studies serve as the basis of analysis.

For convenience it is proposed that this study be broken into two parts one dealing with newspapers the other dealing with periodicals.

### **7.2.2 U.S. Postal Rate Increase Study**

In 1971 U.S. Postal Rates were freed to move closer to the real cost of delivering the mail. Over the past few years this has meant a significant increase in cost of mailing periodicals. This study would assess the impact of these rate increases on the circulation of a sample of U.S. periodicals. Rate change information would be obtained from the U.S. postal service while circulation data would be obtained from the Audit Bureau of Circulation. Despite the differences between the U.S. and Canadian periodical publishing industries, it is anticipated that the results of the study will be applicable in Canada.

Because the study on the Financial Health of the Publishing Industry is dependent on this study the U.S. study would occur early in the evaluation.

### **7.2.3 Survey of Advertisers**

The purpose of this study is to assess the response of advertisers to lower circulation rates for periodicals. This is required to provide a base for predicting the effects of postal rate increases on advertising revenues should those higher postal rates cause decreases in circulation. This study should also precede the Financial Health of Publishers Study.

### **7.3 Contribution to Improving the Access to Canadian Cultural Products**

Two indicators are suggested for assessing the program's contribution to improving the access to Canadian cultural products. First, the Readers' survey would record households' purchases of reading material, how they obtained the publications and alternate means of obtaining the publications. If it happened that Canadian publications tended to be available only by mail it could be argue that a postal subsidy does improve access to Canadian publications. This admittedly is a relatively soft indicator as readers may have purchased the publication by mail even without the subsidy; better indicators do not exist.

Second, studies on the contribution to the financial health of publishers may show that some Canadians publishers would be unable to sell their publications without the subsidies offered by the program. If this is so, the program would have improved Canadians' access to Canadian publications as without the program certain publications would not exist.

### **7.4 Other Studies**

In addition to the studies aimed specifically at the three main issues, two additional studies are proposed. The first is a study of publishers' postal subsidies in other countries. Some information on foreign subsidy programs already exists in the program files. This study would consolidate the existing material and examine one comparable country (Autralia has been suggested as good candidate for a case study due to its similarities to Canada).

The second study is a detailed design of the evaluation. Given the dependence on existing data which this preliminary design envisages, it would be prudent to spend some resources to test the quality of the existing data and ensure the necessary links can be made.

## **8.0 EVALUATION OPTIONS**

Four evaluation options are presented for consideration.

Option 1: No Evaluation

Option 2: Impact on Financial Health of Publishers

Option 3: Impact on Financial Health of Publishers, Public Awareness (except through Library Book Rate and Educational Film Rate) and Access to Canadian Cultural Products.

Option 4: Impact on Financial Health of Publishers, Public Awareness and Access to Canadian Cultural Products.

With the exception of Option 1 which takes account of some feasibility considerations the options have been structured so as to allow a choice based on the perceived importance of various issues and components of the program.

### **8.1 Option 1: No Evaluation**

The program promises to be difficult to evaluate for two reasons. First, there is a lack of consensus on the objectives of the program. As mentioned earlier the periodical publishers do not accept the industrial development objectives of the program.

Second, it will be difficult to establish the incremental effect of the program. The quasi-experimental design which has become the norm for government program evaluations may be impossible to apply due to difficulties in defining control groups for studies of the impact of second class mailing privileges (over 90% of subsidies). User/non-users comparisons are generally not possible because virtually all eligible publishers make use of the program and if they do not, are sufficiently different in some respect so as to preclude a valid comparison. Time series are made inappropriate by the duration of second class mailing privileges (since 1875).

On the other hand, the program is expensive (\$55 million a year) and while the proposed analysis may not yield a definitive statement concerning the incremental effect of this expenditure it will provide, at a minimum, useful input to a decision concerning the future of the program.

In addition the evaluation would complement other studies of government support for the publishing industry which have recently been completed.

## 8.2 Option 2: Impact on Financial Health of Publishers

This option would address only one of the three main issues, the program's impact on its two main users: newspapers and periodicals (over 90% of subsidies). It would not deal with the issue of the program's contribution to public awareness or directly with the question of access to cultural products, although access would be considered in the context of financial viability.

Strictly an industrial development option, it would attempt to determine the effects of different levels of postal rates on the profitability of publishing Canadian newspapers and periodicals and some of the economic benefits of associated with a healthy publishing industry. This option would comment on the publishers' book rate but only on the basis of existing information (gathered for the Book Publishing Development Program Evaluation).

This option would include the following background studies and cost (\$160,000).

1) Survey of Readers	\$ 55,000
2) Postal Subsidies and Financial Health of Newspapers	25,000
3) Postal Subsidies and Financial Health of Periodical Publishers	25,000
4) U.S. Postal Rate Increase Study	30,000
5) Survey of Advertisers	15,000
6) Detailed Design Study	10,000
TOTAL	<u>\$ 160,000</u>

## 8.3 Option 3: Impact on Financial Health of Publishers, Public Awareness (except through Library Book Rate and Educational Film Rate) and Access to Canadian Cultural Products

This option is broader in scope than Option 2, addressing the three main evaluation issues identified at the outset of Section 4. It would fall short of Option 4, which considers all issues and all components of the program, by not dealing with the effects of the Educational Film Rate and the Library Book Rate on public awareness and access to Canadian cultural products. The reasons for not including these components are their relatively small proportion of total subsidies (2%) and to economize (\$15,000 saving in contract funds and considerable staff time).

Similar to Option 2, this option would comment on the publishers' book rate using existing information.

This option would add a background study on postal subsidies in other countries, to broaden the discussion of alternatives. It would also expand the survey of readers (over that proposed for Option 2) to deal with the issue of public awareness.

This option would include the following background studies and cost (\$185,000).

1) Survey of Readers	\$ 60,000
2) Postal Subsidies and Financial Health of Newspapers	25,000
3) Postal Subsidies and Financial Health of Periodical Publishers	25,000
4) U.S. Postal Rate Increase Study	30,000
5) Survey of Advertisers	15,000
6) Detailed Design Study	10,000
7) Postal Subsidies in Other Countries	20,000
TOTAL	<u>\$ 185,000</u>

#### **8.4 Option 4: Impact on Financial Health of Publishers, Public Awareness and Access to Canadian Cultural Products**

This option would expand on Option 3 by considering the effects of the Educational Film Rate and the Library Book Rate. An additional study would be required only for the Educational Film Rate as the RES Library Book Rate study would provide sufficient information on the Library Book Rate. In all other respects it is identical to Option 3.

This option would include the following background studies and cost (\$200,000).

1) Survey of Readers	\$ 60,000
2) Postal Subsidies and Financial Health of Newspapers	25,000
3) Postal Subsidies and Financial Health of Periodical Publishers	25,000
4) U.S. Postal Rate Increase Study	30,000
5) Survey of Advertisers	15,000
6) Detailed Design Study	10,000
7) Postal Subsidies in Other Countries	20,000
8) Educational Film Rate Study	15,000
TOTAL	<u>\$ 200,000</u>

**9.0 RECOMMENDATION**

Option 3 costing \$185,000 is recommended.