Tremors, Structural Damage and Some Casualties, but No Cataclysm: The News about News Provision

Robert G. Picard, Ph.D.

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During the past decade, the rhetoric about news provision in the United States has become increasingly steeped in the discourse of disaster. Journalists and commentators have spoken of wholesale destruction and devastation caused by crippling changes that have shattered the industry's business model and left a wounded democracy without means to survive. The language has become increasingly desperate and plaintive.

Calls for government economic assistance equivalent to disaster assistance from the Federal Emergency Management Agency and the National Guard have become common. News providers, journalists, and news industry associations have used their considerable communication skills and access to distribution platforms to make their case for intervention.

While it is clear that the news industry is being seriously shaken by the forces of change, that organizational structures of news providers are being damaged, and that some firms have disappeared or undergone painful restructuring, the situation is not as dire for news firms or journalism as would appear from the dominant discourse.

Much of the misunderstandings surrounding news provision results because those working for news providers typically take a short-term view and tend to compare today's situation to 3 to 5 years ago. This provides a skewed picture of the overall develops and tends to lead to misperceptions of root causes of the challenges being faced and the potential effects of policy choices.

I would like to provide a clearer and less alarmist perspective on situation, its causes, and its effects and about the challenges facing news media as they transform in the digital era. I will put the current situation of the industry into context by offering a factual analysis of the situation and I then turn my attention to a discussion of the various policy proposals that have been put forward in the mounting campaign for more public intervention to benefit commercial and non-commercial news enterprises.

My Background

By way of introduction, I have studied issues of media economics for three decades. I am currently editor of the *Journal of Media Business Studies* and was previously editor of *The Journal of Media Economics*. I have written two dozen books on relevant issues including *The Economics and Financing of Media Companies*, *Joint Operating Agreements: The Newspaper Preservation Act and Its Application*, Media *Economics: Concepts and Issues*, and *The Internet and the Mass Media.*

I am currently a visiting fellow at the Reuters Institute in the Department of Politics and International Relations at University of Oxford and was previously a fellow at the Shorenstein Center at the John F. Kennedy School of Government at Harvard University. I have been a professor at California State University and Louisiana State University and am currently Hamrin Professor of Media Economics and Director of the Media Management and Transformation Centre, a worldwide research and teaching institute headquartered at Jönköping International Business School, Sweden, that has branch centers in Asia and Latin America.

I was a member of the Annenberg Commission on the Press, conducted research for the Carnegie-Knight Task Force on Journalism, have testified before Congress and numerous governmental commissions and hearings on media economic issues worldwide, most recently the French presidential and Dutch governmental commissions on the future of the press. I have done significant work on media economic issues for the U.S. Department of Justice and the European Commission and been a consultant for the World Intellectual Property Organization for more than a decade.

I believe that my background and experience gives me significant insight into news media developments that will help the Federal Trade Commission with its inquiry.

The Contemporary Setting and Economics of News

Newspapers, news magazines, and broadcast news operations are facing an unprecedented period of economic hardship brought on by the economic downturn of the last 2 years, which has been compounded by the challenges created by long-term changes in media and communication system availability, media consumption patterns, and advertising placement choices, as well as by managerial choices to take levels of debt never before experienced in the industry.

Media production is characterized in economic terms by high first copy costs, with rapidly falling marginal and average costs. Consequently, during the nineteen and twentieth centuries, news media adopted a mass market, two-sided business model in which large audiences were attracted by offering content for free or at relatively low costs and firms then received income from advertisers who paid significant prices to reach the audiences with advertising messages. This model worked because existing technologies created economies of scale that limited competition and because advertiser choices encouraged the maintenance of a limited number of news providers.

Changing technologies and economic conditions in recent years have altered that news media environment. The rise of broadcast television news in the 1970s and 1980s, and the development new local, national, and international cable news providers in the past 3 decades, have combined with the digitalization of content and adoption of the Internet and mobile communication as general purpose technologies to reduce scarcity in content supply and overcome distribution bottlenecks that characterized news markets in the past.

The effect of this proliferation of suppliers has been to introduce significant competition into what were oligopolistic and monopolistic news markets. This change has given audiences more choices among providers of news and information, resulting in smaller average audiences for news media and reducing advertiser demand for access to these audiences.[1] From a purely economic and market standpoint, this has been beneficial by stripping excess profit from the industry, profits that were typically 3 to 5 times above the average for all industries in the 1980s and 1990s.

The development of digital technologies have lowered the costs of production by reducing equipment, personnel, and supply costs and by diminishing the time need to create, process, and distribute content. New distribution platforms based on information technologies are altering the structures and costs for both digital and physical distribution as well.[2] These developments effectively lower total costs and take the marginal costs for content distribution via the Internet to nearly zero. Some new costs for developing and rolling out contemporary systems are created and new functions and intermediaries are created in Internet and mobile value chains, particularly to ensure right management and payment collection), but these costs have been increasingly passed on to consumers.

The time spent with packaged and streamed media content of all kinds is declining as audiences turn to entertainment and information from other digital sources. Consequently, the use of newspapers, news magazines, and television news is at a 50-year low.

The overall effects of these changes on markets for news media have been increased competition, reduced profits, diminished costs for production and distribution of content, and increased pressures to transfer costs to consumers.[3]

Established news media have to date unsuccessfully struggled to find a new and sustainable business models in the contemporary environment. In the meantime, they are reducing the scale and scope of their operations to diminish expenses and dismantling organizational structures and practices put in place during the decades of abundant revenue.

News personnel and social observers argue that contemporary environment is producing market failure in some news markets and is generally diminishing the quality of news and information available in society.[4]

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[1] See Lee Becker, and Klaus Schönbach, Audience *Response to Media Diversification*. Mahwah, N.J.: Lawrence Erlbaum, 1999; Philip Napoli, *Audience Economics: Media Institutions and the American Marketplace*. New York: Columbia University Press, 2003.

[2] Richard B. McKenzie. *Digital Economics: How Information Technology Has Transformed Business Thinking*. Westport: Praeger, 2003.

[3] Robert G. Picard, "Environmental and Market Changes Driving Strategic Planning in Media Firms," pp. 1-17 in Robert G. Picard, editor. *Strategic Responses to Media Market Changes*. Jönköping, Sweden: Jönköping International Business School, Jönköping University, 2004.

[4] Bill Kovach and Tom Rosenstiel, *The Elements of Journalism: What Newspeople Should Know and the Public Should Expect*. Three Rivers Press, 2001; Eugene Roberts with Thomas Kunkel and Charles Layton, eds. *Leaving Readers Behind: The Age of Corporate Newspapering*. Fayetteville: University of Arkansas Press, 2001; Leonard Downie Jr. and Robert G. Kaiser, *The News About the News: American Journalism in Peril*. New York: Alfred A. Knopf, 2002; Tom Fenton*, Bad News: The Decline of Reporting, the Business of News, and the Danger to Us All*. New York: Regan Books, 2005; Alex S. Jones, *Losing the News: The Future of News that Feeds Democracy*. Oxford University Press, 2009.

Economic and Business Overview of the Newspaper Industry

Developments in the newspaper industry are an impetus for much of the concern over news media and I would like to focus specifically on that industry for a few moments.

The American newspaper industry has a local structure in which papers primarily serve about 1,400 local communities around the country; only a few large papers gain some national distribution, but they provide significant national and international coverage that has wide use and social impact.

The newspaper industry is a mature industry with low growth potential and increasing competition for readers and advertisers. Nevertheless, it remains a $55 billion industry with average returns that exceed average returns for the banking, general retail, aircraft, automotive, hotels, and chemical industries. In 2008—during the midst of recession—the average ranged between 8 ½ to 13 percent depending upon circulation size.[5]

Newspapers are labor- and technology-intensive enterprises characterized by high production and distribution expenses. Newspapers have high capital costs, high fixed costs, and moderate variable costs that combine to produce high first-copy costs, but rapidly declining average total costs. The actual expenses of news activities account for less than 15 percent of total costs in the average newspaper.

Investors considered newspaper companies to be excellent investments between the 1970s and 1990s because of the strong growth of advertising expenditures and because the newspaper companies' ability to acquire newspapers increased company turnover and company value.[6] Today, newspaper companies are no longer providing growth or profit levels to interest many investors.

Newspapers received 2½ times more income in real terms (adjusted for inflation) in 2000 than they received in 1950.[7] Over that 50 year period the advertising share of the newspaper industry declined as television, cable, and Internet advertising emerged, but its real income increased because of the growth of overall ad spending (see Figure 1). Newspaper advertising during the first decade of the 21st has been highly volatile because of the effects of two recessions and diminishing advertising expenditures, particularly in the classified advertising category.

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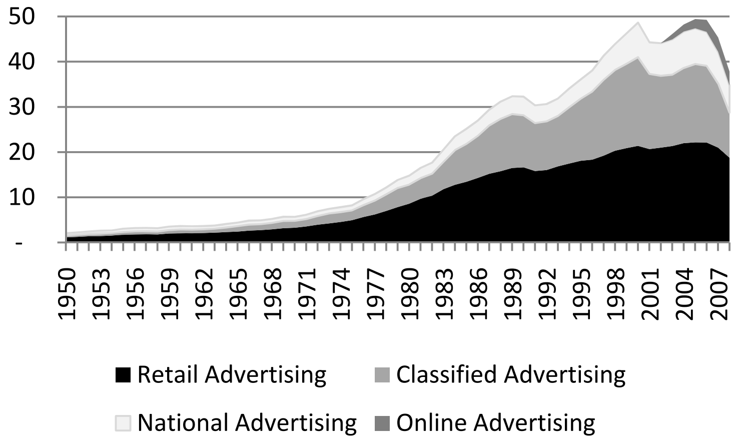
5 For discussion of the newspaper business, see Stephen Lacy and Todd F. Simon, *The Economics and Regulation of United States Newspapers,* Norwood, N.J.: Ablex Publishing, 1993; and Robert G. Picard and Jeffrey H. Brody, *The Newspaper Publishing Industry*, Boston: Allyn and Bacon, 1997.

6 For discussion of this development, see Loren Ghiglione, ed. *The Buying and Selling of America's Newspapers*. Indianapolis: R. J. Berg, 1984; James D. Squires, Read *All About It! The Corporate Takeover of America's Newspapers.* New York: Times Books, 1993; Erik Barnouw, ed. *Conglomerates and the Media*. New York: The New Press, 1997; and G. Cranberg, R. Bezanson and J. Soloski, *Taking Stock: Journalism and the Publicly Traded Newspaper Company,* Ames: Iowa State University Press, 2001.

7 Robert G. Picard, "US Newspaper Ad Revenue Shows Consistent Growth," *Newspaper Research Journal*, 23(4):21-33 (Fall 2002).

Figure 1: Newspaper Advertising, 1950-2008



Throughout the twentieth century, newspapers became increasingly dependent upon advertising revenue. It rose from 71 percent of total US newspaper revenue in 1950 to 82 percent in 2000. Contemporary developments in classified advertising are significant because classified rose from 18 percent of total newspaper ad income in 1950 to 40 percent in 2000, with particularly strong growth in the 1990s. The shift of significant amounts of classified advertising to the Internet has thus taken away the driver of newspaper advertising growth in the 1990s.

Newspaper advertising is highly cyclical and tends to be affected 4 to 5 times as much as broadcast advertising during economic downturns. The effects of recessions in 1991-1992, 2001-2003, and 2007-2009 can clearly be seen in Figure 1. Newspaper advertising drops more rapidly than the economy at the beginning of downturns and recovers more slowly as economic conditions improve. Larger newspaper companies are more affected than smaller companies and newspaper companies that are diversified into other media are less affected than newspaper-focused companies. Much of the turmoil in the industry today results from the effects of the current economic crises, and its proximity to the 2001-2003 downturns, rather than to longer term trends and the development of the Internet.

Advertising influences the content provided in newspapers because the size of the newshole grows and contracts with the amount of advertising sold and editorial sections (food, automotive, neighborhoods, etc.) and inserts are related to advertising availability.

Newspaper circulation has a relatively stable trend overall when viewed over time and adjusted for closure of secondary newspapers. However, because of the growth of population and relative stability in overall circulation, the penetration of newspapers has declined steadily relative to overall population for nearly 4 decades (Figure 2). This has increasingly made newspaper less attractive as a medium through which advertisers can reach audiences. Newspaper circulation revenue (in real terms) has not increased for two decades and circulation prices typically cover reader-related expenses, but produce no profit for the newspaper.

Figure 2: Newspaper Circulation per 1000 Population

A significant part of the decline in use of newspapers has been result of the development of additional sources of news. Television news began in 1948 and expanded to 30 minutes daily in 1963. Local television new became a significant for in the 1970s and cable news channels began in 1980 and their numbers have expanded. Significant Internet news became readily available in 2000. It is notable that the pace of decline in newspaper circulation among the population has been relatively steady and has not spiked downward with the development of each new competing news source (Figure 2). Instead, other news providers have apparently been more attractive to a greater portion of new audiences in the population than have been newspapers.

Few daily papers face direct competition from other daily papers. In metropolitan areas, competition among newspapers typically involves fluid competition among metro, suburban and satellite city dailies and non-dailies. There is little competition and low elasticity of demand for advertising among local media (newspapers, TV, and radio) because they serve different functions in the advertising mix selected by advertisers. However, there is heavy competition and some substitution among local media for audience use and time.

Despite highly visible newspaper mortality (11% of all daily newspapers have died since 1990 and 19% since 1980), the deaths of newspapers have generally been confined to secondary newspapers and evening editions of morning newspapers. No major city has been left without a daily newspaper. The newspaper deaths have occurred because the economics of production provide scale benefits and because advertisers prefer the largest paper in a market because of audience reach and cost effectiveness factors. Joint operating agreements have not saved newspapers over the long term, but provide a period of time during which joint cost structures were lowered and owners could recover some of their investments before ultimate closure of one paper.[8] In recent years secondary papers in

[8] Robert G. Picard, "Natural Death, Euthanasia, and Suicide: The Demise of Joint Operating Agreements," *Journal of Media Business Studies*, 4(2):41-54 (2007).

joint operating agreements have accounted for the most noticeable newspapers deaths. These have included the Rocky Mountain News in Denver, The Seattle Post-Intelligencer, Cincinnati Post, and Albuquerque Tribune. The closures of secondary newspapers have strengthened the economic positions of the surviving papers in the market.

Concentration of ownership in the US is relatively moderate by global standards. Although about three-quarters of the nation's newspapers are owned by newspaper groups, the nation's largest group controls less than 15 percent of national circulation. The profit incentives for creation of large groups appear to have abated and all the large companies are plagued by heavy debt and lack of revenue growth.

Newspapers began exploring opportunities for digital distribution since the 1970s, but the development of the Internet made that distribution relatively easy and inexpensive. Today, the majority of newspapers provide some Internet news distribution, with the most extensive distribution being done by large metropolitan newspapers. The sites receiving largest number of visitors include Wall Street Journal, New York Times, Washington Post, USA Today, Chicago Tribune, and Los Angeles Times.

Internet portals, such as Google, MSN, Yahoo, and AOL, make payments to news providers—including newspapers, broadcasters, and news agencies such as Associated Press and Reuters—to carry some of their material. In addition, their search engines regularly scan news media sites and direct users to news and information of interest. This later activity generates no direct revenue for news media.

For their proprietary news sites, newspaper managers typically have adopted the mass media, two-sided market business model—thus relying on advertisers to pay the costs. That model has been relatively ineffective (although newspapers generated $3 billion from online advertising in 2008), and companies are now pursuing a workable model involving consumer payment. The greatest challenge for newspapers and all news media in this environment is to recover costs and generate a reasonable profit for their efforts.

Policy Measures Sought for News Media

As noted earlier, industry leaders and observers have been mounting a campaign for more public intervention. Suggestions include changes to copyright and antitrust laws, use of the public purse to support news media activities, changes in tax laws, and other legal changes to support not-for-profit news entities.

Congressional hearings have heard from newspaper publishers, leading journalists, and others decrying the current situation of newspapers and asking for federal intervention.[9]

In order to be effective, policy measures must correctly identify the sources of problems addressed, they must actually alter the undesired conditions, structures, or behavior in a way that produces desired

[9] U.S. Senate, Committee on Commerce, Science & Transportation, Hearing, "The Future of Newspapers: The Impact on the Economy and Democracy", May 6, 2009; House Joint Economic Committee, Hearing, "The Future of Newspapers: The Impact on the Economy and Democracy," September 24, 2009.

outcomes, and they must do so without making things worse or creating unintended consequences that are equally or more damaging than the problems that initially induced the policy.

With that approach in mind I would like to briefly comment on some of the policy proposals.

Proposals to Change Copyright Laws

A chorus of voices has suggested that copyright law needs to be amended to provide specific and additional protection to newspaper content as a means to end free riding consumption. Setting aside whether it is advisable to alter copyright law for the sake of a single industry, there are significant questions about whether the proposed remedies would produce beneficial and socially appropriated results.

Judge Richard Posner has argued that copyright should be broadened to "bar online access to copyrighted materials without the copyright holder's consent, or to bar linking to or paraphrasing copyrighted materials without the copyright holder's consent." This would protect incentives to invest in newsgathering, he said, lest "news services like Reuters and the Associated Press would become the only professional, non-governmental sources of news and opinion."[10]

Bruce Sanford and Bruce Brown advocated that search engine crawling and caching of pages should be prohibited under copyright.[11] Some have argued that news and information should receive a special copyright protection.

The arguments being made are fundamentally flawed, however, because they ignore the fact that most news is produced by local newspapers, who already cooperatively share it through organizations such the Associated Press, which cannot provide nationwide news without them. AP, however, serves not only newspapers, but radio and television stations, news magazines, and aggregators and new sites on the Internet.

The bulk of U.S. newspapers are relative small—the average is about 35,000 circulation—and they essentially have a news gathering and distribution monopoly in their home towns and are relatively unaffected by online competitors and content aggregators. Larger metropolitan papers are where the greatest challenges are currently being experienced. This is not to say that large metropolitan papers are unimportant or that they have no role in national and international news gathering, but we must be clear about the extent of the problem if policy and legislation are to be pursued. Essentially, the online problem is most significant for papers in the top 25 to 50 markets. But much of the challenges are not from online news, but involve the collective competition effects from local television news, local cable news, cable news channels, radio news and talk channels, as well as the Internet.

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[10] Richard Posner, June 23, 2009, blog "The future of newspapers" at http://www.becker-posner-blog.com/archives/2009/06/the_future_of_n.html

[11] Bruce W. Sanford and Bruce D. Brown, "Laws That Could Save Journalism," *Washington Post*, May 16, 2009, http://www.washingtonpost.com/wp-dyn/content/article/2009/05/15/AR2009051503000.html

A fundamental challenge facing newspapers from the Internet is free riding, that is, audiences using the material without payment. It needs to be recognized, however, that free riding have always been an issue for newspapers and that it is not a novel online problem. Newspapers have always had large numbers of readers who did not pay for the newspaper, but read it in workplaces, cafes, or homes. Newspapers ultimately addressed this challenge by finding ways to measure this “pass-on” readerships and convincing advertisers that readership was a more important measure of performance than circulation.

Free riding by other content suppliers in not new either. From their earliest days, newspapers themselves reprinted and paraphrased content from pages in other newspapers. Local radio newsrooms since their earliest days have been known to use papers as sources for headline news and as the information sources from which they wrote short rewrites of local news. As local television news developed the practice passed on to that medium.

Even large national broadcasters and other newspapers would report exclusive stories from newspapers using phrasing such as “The York Times News reports…..” or “according to a story in the Los Angeles Times…..”

Altering copyright law to halt free riding, rather than finding innovative ways to accommodate it is probably not be the best policy option.

I will now consider some of the proposed remedies regarding news copyright individually.

First, it has been suggested that access to news should be barred without copyright holders consent. This has been suggested as a means of prohibiting search engine crawling and caching of newspaper content.

There are some problems with this approach. If this were enacted it would undermine a basic constitutional principle that newspapers and the press do not have unique rights, but only those based on the fundamental natural rights of all human beings and protected by the First Amendment. To meet that principle, prohibitions on search engine crawling and caching would need to apply to all online content.

One also needs to consider what searching and caching actually does. Searching makes content more discoverable and widely available, thus producing significant social benefits. Searching and caching doe not harm papers if the material is openly accessible at their news sites and those using search engine are directed to the original source. In fact this increases traffic that improves the sites attractiveness to advertisers.

Caching technically may allow users to read some of the material without going to the original site if search engines allow users to access the cache information. However, the extent to which they click through to the cache instead of the original source is not clear and this does not appear to be a large problem.

Second, it has been suggested that linkages to news content be outlawed. Links are designed to take readers to the source of the content so these drive traffic to the news site and provide benefits. Linkages themselves do not disaggregate content from the original news site and many news sites operated by newspapers, news magazines, and broadcasters make significant use of links to other sources of content.

In fact, newspapers and other online news sites encourage linkages by providing mechanisms for their readers to send friends and colleagues links to articles that might interest them through various e-mail, messaging and social networks.

Linkage itself does not create harm, but helps by driving traffic to sites, increasing the numbers of page views and unique visitors, and exposing larger readers to online advertising, which enhances advertising income. If papers do not want the materials readily available, they can chose not to put them on their sites or to put them behind pay walls—far less onerous actions that prohibiting linkages altogether.

Third, prohibitions against paraphrasing news have been suggested. A change in copyright law to prohibit paraphrasing copyright material would significantly alter one of the most fundamental principles of copyright law and have widespread effects on the spread of information and ideas. The principle is that ideas and information cannot be copyrighted because of their value to society, but that unique specific expression of ideas and information can be protected in order to provide greater incentive to produce. Copyright law employs this principle because it limits the grant of monopoly over ideas and information in order to balancing the needs for communication that promotes knowledge flow and social progress. And protections for unique specific expression are further limited by fair use provisions.

Antitrust Exemption Proposal

It has been suggested that newspapers should receive an antitrust exemption to allow them to collude in charging for online news.

Tom Rutten of the Los Angeles Times has argued that "Washington ought to extend to the newspaper industry the same sort of antitrust exemption that Major League Baseball has enjoyed since 1922…It would allow all U.S. newspaper companies -- and others in the English-speaking world, as well as popular broadcast-based sites such as CNN.com -- to sit down and negotiate an agreement on how to scale prices and, then, to begin imposing them simultaneously."[12]

His view has been supported in the Washington Post by Bruce Sanford and Bruce Brown, who argued that an antitrust exemption for "collective pricing policies for their Web sites" should be passed.[13] In

[12] Tim Rutten, Newspapers Need an Antitrust Exemption, February 4, 2009. Available at http://www.latimes.com/news/opinion/la-oe-rutten4-2009feb04,0,4486364.column

[13] Bruce W. Sanford and Bruce D. Brown, Laws That Could Save Journalism, Saturday, May 16, 2009, http://www.washington post .com/wp-dyn/content/article/2009/05/15/AR2009051503000.html

fact, executives of leading companies met privately in Chicago in May to discussion the implications of jointly deciding to require payment of online content.[14]

Setting aside the wisdom of granting such a special privilege, there is no evidence that providing the exemption would actually create demand and willingness to pay. Most online news readers do not purchase newspapers and one has to question whether it is reasonable to believe that they will suddenly become willing to pay online when they won't pay offline.

Even if one excludes users who do not pay, the measure would be largely ineffectively because the majority of news in most papers comes from news agencies and syndicates and is widely available elsewhere—notably at portals such as Google, MSN, and Yahoo!, which pay the agencies and providers significant amounts of money and provide it free to their users in exchange for exposure to advertising.

The exemption would tend to be effective for protecting original material, but its effects would not stop at the computer and the control of pricing would undoubtedly be used to support increased prices in print as well. This raises significant concerns about consumer welfare because price collusion always harms consumers by creating excess profits and transferring them to those who collude.

Many industry spokesmen cite the previous newspaper exemption from antitrust law—the Newspaper Preservation Act of 1970—as a precedent. What they fail to mention is that it failed to save papers in the long run, harmed consumers by increasing circulation and advertising prices between 15-25 percent, and was misused used in a variety ways of corporate benefit that were not intended when the law was enacted.[15]

The question facing us is not whether newspapers might benefit from an antitrust exemption, but if there is anything about the online setting the actually warrants it in economic terms. They never were allowed to collude on prices and payment systems in print. Why is it warranted online?

What really concerns newspapers is that their market dominance in supply of news is being replaced by heavy competition among large number of suppliers of general news stories in many media and they are asking for the exemption as a means of protectionism. The transformation into the information society is undermining the large organizational structures, inflexible cost structures, and business strategies newspapers developed during the last half century of high profitability. Many of their previous advantages—large office and production buildings, specialty printing presses, and dedicated distribution systems—have become disadvantages. Rather than innovate and change, many want consumers and society to bear greater costs for maintaining their inefficiency and high profits.

[14] Mari Fitzgerald and Jennifer Saba (2009). Would Joint Action on Online Pricing Violate Antitrust Laws? Editor & Publisher, May 29, 2009. Available at http://www.editorandpublisher.com/eandp/news/article_display.jsp?vnu_content_id=1003977926

[15] John C. Busterna & Robert G. Picard (1993). *Joint Operating Agreements: The Newspaper Preservation Act and Its Application*. Norwood, N.J.: Ablex Publishing; Picard, Robert G. (2007). "Natural Death, Euthanasia, and Suicide: The Demise of Joint Operating Agreements," *Journal of Media Business Studies*, 4(2):41-54.

Tax and Regulatory Relief Proposals
A variety of tax-related proposals have been put forward and some states and municipalities have reduced sales and property taxes for newspapers.

At the federal level publishers, citing diminished operating performance and poor balance sheets, have asked that application of the net operating loss provisions for newspapers be extended from 2 years to 5 years and that laws be amended to allow them to underfund pension funds for a greater period of time.

These measures would have beneficial effects on the financial conditions of papers, but would provide mid- to long-term benefits to solve difficulties primarily caused by the short-term recession. The pension fund measure would also incur financial risks for taxpayers and employees.

House and Senate legislation (HR 3602 by Rep. Carolyn Maloney, D-NY, and S673 by Sen. Benjamin Cardin, D-Md) would alter section 501(C)(3) of the tax code to provide tax exempt status to newspapers. Although slightly different, the measures would apply to general interest dailies and weeklies pushing local, national, and international news and would require equal amounts of editorial and advertising content. This latter limit is lower than the USPS limit (75%) and would force most newspaper to drop about 1/3 of their advertising.

Although well intention, the bills would have limited impact on the newspaper industry because most papers are making profits and would be uninterested in the status and because the non-for-profit tax status would preclude some commentary and taking stances on legislation and candidates for office—part of the important contribution newspaper make to the democratic process.

As mentioned earlier, newspapers have received and are pursuing reductions or exemptions for sales and property taxes at the state and local level because of the financial hardships they are experiencing. In some cases the language for these tax benefits does not require continuation of financial hardship to benefit or include expiration dates for the measures.

Discussion

Ultimately, the news industry is asking for special treatment, protectionism, and for the public to bear the costs of their failing business strategies and reticence to change. The support they are seeking will provide advantage against large search engines and portals, but also will inhibit competition that is being appearing online through the establishment of small, local, and independent groups of journalists and citizens and small dailies and weeklies.

If state intervention is used to support news provision, it must be careful to serve broader interests than those of existing news firms. Policy makers need to be especially careful in constructing policy when the stated desire is to protect industries from innovation and change. The goal of policy should not be to protect firms, but rather the socially beneficial functions they perform. This is especially true in communications where the form is less important than the functions.

Having studied public protection and support for existing newspaper firms for 3 decades in more than 3 dozen counties, I can advise that such intervention is most effective when its objectives are fashioned to help firms adjust to a news environment by reorganizing and redeveloping themselves, rather than merely protecting profit or employment in the existing outdated structures, products, and services. Protectionism, subsidies, and advantages that do not serve transformational purposes are effective only in the short- to mid-term and then fail.[16]

Policies enacted to solve problems in the news industry today need to focus on the long-term and on developing mechanisms and systems that actually provide the means for creating sustainable news organizations, rather than merely reinforcing decaying structures.

It should also be noted that many in the news industry are wary of government support for philosophical and practical reasons and that a recent national poll found that 80% of the public is opposed to public intervention on behalf of the newspaper industry.[17]

Wariness about the proposals suggested is warranted. If one considers the discussions within the news industry, it is clear that the focus of concern is on the needs of companies and their employees, that it focuses on money that is needed, and that it is seeking governmental measures that can be helpful. What is noticeably absent, however, is a focus on customers and citizens or about how to improve news provision to make it more valuable for them. This is unfortunate because no industry can be successful unless it focuses on the products it provides and the customers it serves

Much of what we hear today are merely cries to be protected from the trauma of change and desires to keep doing things as they always have been done. Many of the cries remind me of the naval aphorism quoted in Herman Wouk's *The Caine Mutiny*: "When in danger, when in doubt, run in circles, scream and shout."

The news industry is clearly experiencing a painful transitional period that is shaking its foundations, but the industry is far from collapse and ruin. Even in the midst of the damaging recession, its financial situation is akin to where it was in the 1970s—a newspaper era in which its operations and the practice of journalism were hardly ruinous for the industry or society. Conditions in the industry will improve after the recession ends, but one cannot realistically expect that it will return to the extraordinary prosperity it experienced in the 1990s.

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[16] Robert G. Picard, "Press Support and Company Performance," pp. 95-107 in Ulla Carlsson, ed. *Pennan, Penningen & Politiken: Medier och medieföretag förr och nu*. Göteborg, Sweden: NORDICOM, Göteborgs universitet, 2003; Robert G. Picard and Mikko Grönlund, "Development and Effects of Finnish Press Subsidies," *Journalism Studies*, 4(1):105-119 (February 2003); Robert G. Picard, "Subsidies for Newspapers: Can the Nordic Model Remain Viable," pp. 236-246 in Hans Bohrmann, Elisabeth Klaus, and Marcel Machill, eds. *Media Industry, Journalism Culture and Communication Policies in Europe*. Köln: Herbert von Halem Verlag, 2007; Robert G. Picard, "Subsidies for the Media," pp. 4891-4895 in *The International Encyclopedia of Communication* (ed. Wolfgang Donsbach), Volume 11. Oxford; Wiley-Blackwell, 2008.

[17] Mark Fitzgerald, "Little Public Support for Newspaper Industry Bailout, Poll Finds," *Editor and Publisher*, September 23, 2009. http://www.editorandpublisher.com/eandp/news/article_display.jsp?vnu_content_id=1004015442

The position of existing print news organizations will continue to evolve. Over the Twenty-First Century newspapers and news magazines will continue to decline and their functions will be progressively shifted to other communications forms whether government intervenes or not.

If we are truly intent on saving the news function in society, of ensuring crucial information is available, of making accountability journalism possible, we have to move beyond merely focusing on the immediate problems of specific firms in the news industry. We need to take a long-term view of how we can address the fundamental causes of difficulties in funding news and information and to seek new ways to provide the information services society needs.

If we fail to take the broader view, we will merely be flying in disaster supplies and using troops to keep looters away, but we will not build the news and information structures necessary for society to continue functioning in future decades.

Thank you.