

THE FUTURE OF NEWSPAPERS: THE IMPACT ON THE ECONOMY AND DEMOCRACY

HEARING BEFORE THE JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES ONE HUNDRED ELEVENTH CONGRESS FIRST SESSION

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THURSDAY, SEPTEMBER 24, 2009

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The committee met, pursuant to call, at 10:10 a.m., in Room 210, Cannon House Office Building, The Honorable Carolyn B. Maloney (Chair) presiding.

Representatives present: Maloney, Cummings, Brady, and Burgess.

Staff present: Nan Gibson, Gail Cohen, Chris Frenze, Robert O'Quinn, Colleen Healy, Andrew Wilson, and Aaron Rottenstein.

OPENING STATEMENT OF THE HONORABLE CAROLYN B. MALONEY, CHAIR, A U.S. REPRESENTATIVE FROM NEW YORK

Chair Maloney. The committee will come to order. Mr. Brady will be with us in a moment. And I want to, first of all, thank our witnesses for joining us today to discuss the future of newspapers and their impact on the economy and our democracy.

The newspaper industry has experienced serious financial problems resulting from dwindling advertising revenues, falling print subscriptions and a fundamental change in the way people get their news. Recently the plight of the newspaper industry has been punctuated by substantial job losses, downsizing at various bureaus, and the halting of either printed editions or businesswide operations. According to the Bureau of Labor Statistics, newspaper publishers cut nearly 50,000 jobs between June of 2008 and June of 2009, a record rate of job cuts representing 15 percent of its workforce. Regional outlets like the *Seattle Post-Intelligencer* and the *Detroit Free Press* have either scaled back or halted printed editions, while others like the *Rocky Mountain News* and the *Cincinnati Post* were closed entirely.

Though a decline in printed newspaper readership is partly to blame for recent developments, there are multiple factors contributing to newspapers' declining quality and profitability. Technological change has created structural challenges for newspapers, which were reliant on subscription and classified ad revenues to cover operating costs. On top of that, the current recession has eroded advertising revenues substantially. Between 2006 and 2008, ad revenues declined 23 percent, from \$49.5 billion to \$38 billion, and are expected to fall further during 2009.

The way information moves today can make even the tech-savviest New Yorker's head spin. Today's Kindle-clutching, iPhone-

toting subway rider who braves the rush-hour commute spends every waking hour in a world of nonstop news and information which none of us could have imagined just a few years ago. Digital media, bloggers, news aggregators and citizen journalists all on the Internet have forever altered the speed at which news and ideas are disseminated. And while there are many out there chronicling what ails our country's newspapers, community dailies and weeklies continue to shut down their presses, and not nearly enough is being done to find ways to preserve these institutions that are so absolutely critical to our democracy.

Last week I introduced H.R. 3602, which is carried in the Senate by Senator Cardin, a bill which will enable local newspapers to take advantage of nonprofit status as a way to preserve their place in communities nationwide.

Since the ratification of the Bill of Rights, the Federal Government has acknowledged that the press is an institution which is afforded special protections by name. In this spirit I think that the government can help foster solutions for this industry in ways which protect the independence of newspapers and enables their objective reporting to thrive in a new economic and media climate.

In so many ways the change brought about by the digital media amplifies what is written in newspapers. The Internet and mobile devices extend news and information in a way that opens dialogues to more and more aspects of our life. The Internet has allowed anyone, regardless of background or world view, to express themselves, connect with others, and access an entire world of electronic information. Journalists play a critical role in monitoring the activities of individuals and institutions that are supposed to be working in the public interest. As our witness Dr. Starr put it, "they provide a civic alarm system." The absence of a strong media may even allow corruption to flourish unchecked.

In addition, studies show that journalism fosters civic engagement by the population at large. A recent study showed that when the *Cincinnati Post* shut its doors, voter turnout in local elections dropped. Without our newspapers we lack a critical uniting feature which fosters broad participation in our democracy and community.

Minority-owned publications are among the hardest hit by recent trends, and more must be done in order to ensure that these institutions continue their important public service. The reporting done by minority-owned newspapers is a critical voice in communities across the Nation that must be preserved.

It is clear that we need to explore alternative business models to ensure an independent and vibrant press in the 21st century. I look forward to the testimony of our witnesses, and I thank you so much for being here today before the committee.

[The prepared statement of Representative Maloney appears in the Submissions for the Record on page 32.]

Chair Maloney. And I recognize Mr. Brady for 5 minutes.

**OPENING STATEMENT OF THE HONORABLE KEVIN BRADY, A
U.S. REPRESENTATIVE FROM TEXAS**

Representative Brady. First, thank you, Madam Chairman, for calling this hearing, and thank you to the witnesses for coming

today to talk about what is clearly a critical issue in the country. I will submit my notes for the record, but just some thoughts.

I think it has been widely known that a transformation in the news business was coming, but I, for one, have been surprised at the speed of it in recent years. Everyone has been impacted in some way by the mergers and closings and layoffs, but I guess I have been troubled most by the loss of so many good, knowledgeable, highly respected journalists and reporters, many of whom have the widest base of institutional knowledge, and they are gone, and it places even a greater burden on those left behind to cover an ever broader and more complex range of issues at the state and national and local level.

There are a lot of ideas floating around about what the next business model is that is sustainable for the future. I am anxious to hear about those ideas myself today.

One word of caution. I think the freedom of the press is too important to rely upon philanthropy or the government. While all ideas ought to be explored, I think those that touch the government should have the greatest scrutiny and be most thoroughly examined.

For example, nonprofit status. I serve on the Ways and Means Committee that deals with tax treatments of all types of businesses. Nonprofit status for news institutions raises important policy questions. Is the political speech from a pulpit, including endorsements, to be viewed differently from the political speech of a publication? Can the politicians that bestow nonprofit status also threaten to rescind it if they don't like the opinions or endorsements or the views in reports from those publications?

Special tax treatments like exemption from the payroll tax also raise questions about preferential treatment versus other types of free enterprise, as well as raising questions about the continued viability of some of our key programs like Social Security and Medicare that already face a bankrupt future. And as you open that door, the reason it hasn't been opened for exemptions is there is no good determination where to stop once you have opened that door.

The point is this, that Congress, I think, as we sincerely look for ways to help smooth that transformation, we just need to tread carefully, examine all these issues. It is every bit as complex as the witnesses today will tell us, plus more. And it deserves, I think, some real, again, thoughtful look at, and at the end of the day, I am really hopeful that the next sustainable business model can be sooner rather than later.

So, Madam Chairman, thank you very much. This is a great issue for us to be looking at.

Chair Maloney. Thank you so much.

Mr. Burgess.

**OPENING STATEMENT OF THE HONORABLE MICHAEL C.
BURGESS, M.D., A U.S. REPRESENTATIVE FROM TEXAS**

Representative Burgess. I was going to say, as usual, my microphone is not working.

I probably feel a little differently than my colleagues up here. In the interest of full disclosure, my middle child is a journalist. She

is now retired and teaching school, for which I am grateful. But it did give me a little bit of a peek inside the schooling and then the work that carries on at a large daily newspaper.

Dr. Starr, I have contributed to your well-being in the past by buying your book, albeit 15 years ago, but I still have it in my office. It is certainly a well-researched volume, and for someone who came from a medical family, whose father and grandfather were physicians, it was very interesting to read the history even going back now the last two centuries.

But I have to tell you, I used to be a student of medical irony; now I am just a student of irony at large. Here we are a year after the Bush bailout bill for which some of us still bear the scars—I voted against it, just for the record—and we are talking about a newspaper bailout. I would think that people in the newspaper business would have gotten the word that bailouts are not really a very popular concept in this country right now. In fact, there is a significant backlash.

Not only did we do the Bush bailout in October, September/October of last year, we did a stimulus bill in February and obligated \$787 billion of America's taxpayers' money toward economic stimulus. Now, problematic that we have only spent a small portion of that, problematic that we have not made investments in what I would consider capital expenditures in infrastructure, instead have gone for operational expenditures, but nevertheless there is a significant feeling out there in the country that this Congress, this year, has spent way too much money, has spent way too much money on things that are of questionable value, and so now the concept of bailing out the fourth estate is one that is met with considerable skepticism.

There is no question about the contribution of newspapers and journalism over the course of history, and even in my brief lifetime things like the Watergate, like Iran-Contra, probably would not have come to the surface of the public consciousness had it not been for dedicated journalists and dedicated newspapers and editors who were willing to listen to what the problems were. But that separation between the world of the journalist and the world of the legislative body, that is something, in my mind, that really should be inviolate.

Now, I recognize that opinions are what right now drive so much of the Internet and the blogs and the Twitters and what have you, but for us to interject the legislative body into what you do almost seems to—it almost seems to defy gravity. And it is just something that to me is so repugnant that I almost can't allow myself to think about it.

Couple that with the fact that the bailout, the whole concept of a bailout right now—and, again, you guys are journalists, you report on this stuff, you know what the feeling out there is right now. You saw it during the long, hot summer of what the feeling is of the American people on their opinion of Congress, their opinion of the spending that we have done, their opinion of how we have handled ourselves during this recession. We should be focused, like Bill Clinton said, we should be focused like a laser beam on jobs right now, and we are having a hearing on bailing out newspapers.

Well, the American people are going to look at this and say, what in the world are those guys thinking? There are things that we could be doing, whether it is within our tax code, whether it is within how we structure the spending in the stimulus, that would drive job creation right now and not just in the newspaper world, but would drive it in a way that would be beneficial for all sectors of society, and yet Congress has chosen to ignore that.

Now, I came to Congress in 2003. There was a recession ongoing then. Then-President Bush received a great deal of criticism because his recovery was a jobless recovery, and obviously he was doing something wrong. He didn't understand economics, or there would be jobs going on coincident with the recovery. Well, here we are again. We are in a jobless recovery, and Congress is doing nothing that would focus on the number one issue that people out there are concerned about.

We hear about people losing their health care every day. But they lose their health care every day because they lose their job, and they can't afford the COBRA payments because, oh, by the way, they just lost their job. Why are we not focusing on that, Madam chairwoman, I, for one, cannot—it just simply mystifies me why we would be spending our time on this hearing, as valuable as it is this morning—

Chair Maloney. The gentleman's time has expired.

Representative Burgess [continuing]. When in reality the American people want us to focus on job creation.

I will submit my statement for the record like my Ranking Member, and I yield back the balance of my time.

[The prepared statement of Representative Burgess appears in the Submissions for the Record on page 33.]

Chair Maloney. As this hearing is taking place, the Financial Services Committee is having a hearing on regulatory reform and job creation. This committee should not be partisan, but I feel I should respond to the gentleman. When President Obama came to office, he said if you are driving toward a cliff and are about to fall off, you change course. And he came forward with a series of actions that helped stabilize our financial system so that our economy can move forward. He put forward a stimulus package that saved jobs and created jobs, and he took steps to reform the subprime crisis that caused many other problems.

Lots of jobs have been lost, that is true. And there are many jobs that have been lost in the publishing and newspaper industry, well over 50,000 jobs, and hopefully now with the economy turning around, the economy of the newspaper and media will improve. But as all of us agree, the independence and contribution of the independent press, which we all support, is a fundamental part of our democracy.

Many Americans have become concerned that major publications and their independent research, which has been a check on government, a check on corruption and abuse of power, is facing many troubling challenges that we are concerned about. Hopefully with the improved economy, the economy of journalism and the media will improve, too. So maybe we are moving in the right direction.

But I think it is perfectly legitimate that Congress look at what has been a fundamental part of our democracy since the Bill of

Rights, an independent, strong media. The entire system has changed dramatically in ways that impact the economy. It is appropriate that we look at the economics of the print and media industry and what the changing implications are.

So with that I would like to introduce our panel. Tom Rosenstiel is the director of the Project for Excellence in Journalism for the Pew Research Center and serves as Vice Chairman of the Committee of Concerned Journalists, an initiative engaged in conducting a national conversation among journalists about standards and values. A journalist for more than 20 years, he is a former media critic for the *L.A. Times* and chief congressional correspondent for *Newsweek* magazine. He is the editor and principal author of "Project for Excellence" in Journalism's Annual Report on the State of the News Media, a comprehensive report on the health of American journalism.

Paul Starr is the Stuart Professor of Communications and Public Affairs at Princeton University's Woodrow Wilson School. He received the 1984 Pulitzer Prize for nonfiction and the Bancroft Prize of American History for "The Social Transformation of American Medicine," and the 2005 Goldsmith Book Prize for "The Creation of the Media."

His most recent book is "Freedom's Power: The History and Promise of Liberalism." He is the cofounder and coeditor of the *American Prospect*, and his article, "Goodbye to the Age of Newspapers (Hello to a New Era of Corruption)," published in the *New Republic* last March has received wide attention for its analysis of the implications of the current crisis in the press.

John Sturm is the president and CEO of the Newspaper Association of America, the newspaper industry's largest trade organization. NAA has more than 2,000 member newspapers in the United States and Canada, the majority of which are daily newspapers that account for almost 90 percent of U.S. daily circulation. He joined NAA from CBS, Inc., where he was vice president of government affairs in the CBS Washington office. Prior to his 8 years with CBS, he was at the National Broadcasting Company; he worked with them as senior counsel in NBC's Washington office. He is a graduate of the University of Notre Dame and holds a law degree from Indiana University School of Law.

Denise Rolark Barnes is the host of Reporters Roundtable and publisher of *The Washington Informer*, the leading newspaper serving the African American community in Washington, D.C. She joined the staff of *The Washington Informer* after law school where she served as managing editor. After working with her father, Dr. Calvin W. Rolark, who established *The Washington Informer* in 1964, she took over as publisher of *The Washington Informer* in 1994 and continues his important legacy serving the residents of the District of Columbia. She is a member of the board of the National Newspaper Publishers Association Foundation. She received a bachelor of arts degree from Howard University and a law degree from Howard University School of Law.

Thank you both very much, and, Mr. Rosenstiel, you are recognized for 5 minutes to place your entire statement in the record and summarize your remarks.

STATEMENT OF TOM ROSENSTIEL, DIRECTOR, PEW RESEARCH CENTER'S PROJECT FOR EXCELLENCE IN JOURNALISM, WASHINGTON, DC

Mr. Rosenstiel. Thank you, Madam Chairwoman, for the opportunity to testify today. In the next couple of minutes, I would like to offer an overview of what is occurring in the newspaper industry and what it may mean for our civic life.

There are first a lot of misconceptions about where we get our news. Only 54 percent of Americans say they regularly read the print newspapers, but those surveys don't tell us much about where the news actually comes from. Far more of what we know about our communities today still originates in newspaper newsrooms. A good deal of what is carried on radio, television, cable, wire services begins in newspaper newsrooms. These media then disseminate it to a broader audience.

In every community in America I have studied in 26 years of being a press critic, the newspaper in town has more boots on the ground, more reporters and editors than any news organization in the community, usually more than all the other media combined. When we imagine the news ecosystem in the 21st century, the newspaper, with all its problems, is still the largest originating, gathering source.

The second misconception about newspapers is that their crisis is rooted in a loss of audience. It is not so. Weekday print circulation last year for newspapers fell by 4.6 percent, but the number of unique visitors to newspaper Web sites grew by 16 percent, to 65 million. When you combine the print and on-line audiences of newspapers, the industry is faring far better than other legacy media, and many newspapers are seeing their audiences grow for the first time in decades. What is more, the Internet offers the potential of a more compelling and more dynamic, more interactive journalism, a better journalism than print, coming from these same newsrooms.

The crisis facing newspapers is a revenue crisis. Advertising, the economic foundation of journalism for the last century, is literally collapsing, particularly classified. Print newspaper ad revenue fell by 25 percent in the last 2 years and in 2009 will certainly be worse. Meanwhile on-line display advertising for newspapers is also now declining. Last year the traffic to the top 50 news Web sites grew by 27 percent, but the price of an on-line ad fell by 48 percent.

The consequence is that the amount of our civic life that occurs in the sunlight of observation by journalists is shrinking. The number of city councils and zoning commissions, utility boards and statehouses, Governors' mansions and world capitals being covered on a regular basis even by a single journalist is diminishing. One out of every five people working in newspaper newsrooms in 2000 was gone at the beginning of this year, and the number is doubtless much higher now. My old newspaper, the *Los Angeles Times*, has half the reporters it did 5 years ago.

The problem is more acute at bigger papers than at smaller ones, but no one is immune, and I venture metropolitan suburban areas may be among the most vulnerable. Alternative news Web sites such as Voice of San Diego, MinnPost in Minneapolis are exciting

innovations and offer options for the future, but the number of people working at these places does not yet come close to the lost numbers, and none of these sites has so far found a sustaining business model.

More of American life now occurs in shadow, and we cannot know what we do not know. The newspaper industry is more than partly to blame. Like other legacy industries before them, newspapers let a generation of opportunities slip through their fingers, from eBay to Google to Realtor.com to Monster.com. The industry is running out of options, though I believe some remain, purely commercial ones. These include charging for content, getting tough with aggregators, creating on-line retail malls and much more. No one knows which one of these options will prevail. I am an analyst, not an advocate. The only thing close to a consensus among experts is that likely no one revenue source will be sufficient.

So should we care whether newspapers survive? Perhaps not. Typewriters have come and gone; we are still here. But I believe we do have a stake as citizens in having reporters who are independent, who work full time, who go out and gather news, not just talk about it, and who try to get the facts and the context right. And it is not just high-flying investigative reporters that I have in mind, but perhaps, even more so, the reporters who simply show up week after week, who sit in the front row, who bear witness, and who simply, by their presence, say to those in power, on behalf of the rest of us, you are being watched.

Thank you.

Chair Maloney. Thank you very much.

[The prepared statement of Tom Rosenstiel appears in the Submissions for the Record on page 33.]

Chair Maloney. Dr. Starr.

**STATEMENT OF PAUL STARR, PROFESSOR OF SOCIOLOGY
AND PUBLIC AFFAIRS, STUART CHAIR OF COMMUNICATIONS
AND PUBLIC AFFAIRS AT THE WOODROW WILSON SCHOOL,
PRINCETON UNIVERSITY, PRINCETON, NJ**

Dr. Starr. Madam Chairman, thank you for this opportunity.

Ever since the founding of this country, newspapers have been Americans' principal source of news. With the coming of the Internet and other new media, we are now in the midst of a great upheaval that is bringing us many advantages in access to information. But chiefly because of its indirect effects on newspaper advertising revenue, the Internet is also undermining the financial basis of the press. And the question that we now face is whether the Nation ought to provide support for journalism not as a special favor to the news media, but to advance the general interest in an informed public.

Although some people may consider support for the press to be inconsistent with our national tradition, the Founding Fathers would have disagreed. Besides guaranteeing freedom of the press in the First Amendment, they used cheap postal rates to subsidize newspapers in the creation of a national news network. The British singled out the press for high taxes. The United States Congress, beginning in 1792, singled out the press for extensive subsidies through the postal system. If we had not repudiated and reversed

British policies, we would not have had the extensive system of the free press that developed throughout the country from the earliest days of the Republic.

In the United States, the press has not been regarded and it should not be regarded as just another industry. Government has sought to advance it because a democratic political system just can't function without diverse, free and independent sources of news.

Now, for a long time we have been able to take newspapers just for granted because they came to occupy a strategic position between advertisers and their customers, and, out of the profits from that advertising, they were able to cross-subsidize the production of news which really could never have been justified on a strictly profitable basis. That system for cross-subsidizing news has collapsed.

Unlike many other countries, the United States has historically had a highly decentralized press spread through every State and city as well as a multitude of smaller jurisdictions. My concern is not so much that there will be a shortage of national news coverage. The national news media, I think, will be able to aggregate audiences of sufficient size to sustain competition.

The situation at the state and local level is altogether different. According to a recent survey, the number of statehouse reporters has declined by one-third in the past 5 years and shows every sign of declining further. Some cities are losing their last daily paper, and many more are likely to do so. Resources for traditional journalism at this level are disappearing far more rapidly than they are being created on line, and those who are most closely involved in the on-line news at the state and local level see no prospect that that is going to become self-sustaining.

So increasingly, the production of news will require subsidy, and the question is really—despite what we may think right now, the question is going to be where and under what condition those subsidies will come. But there is legitimate concern that any subsidy, whether from government or private philanthropy, will induce subservience and dependency in the press. But we should take encouragement from the facts that early in our history the Federal Government aided newspapers through postal policy without impinging on their freedom; that in recent decades government at both the Federal and State level has helped to sustain a system of public broadcasting that has become an important source of news and public affairs discussion; and that besides supporting public service broadcasting, democratic governments elsewhere in the world, notably in northern Europe, have successfully used subsidies to maintain competition and diversity in a free press.

Still, to avoid compromising press freedom, any public support for journalism in the United States must be approached with great caution, and it seems to me at least three principles ought to be kept in mind. First, any subsidies must be viewpoint-neutral. They cannot favor one viewpoint over another. Second, they should be platform-neutral. They should not favor print media over on-line media, for example. And third, they should be neutral, or at least reasonably balanced, as to organizational form. Taken as a whole, they should not favor for-profit over nonprofit organizations or vice

versa. To be sure, some policies by their nature may benefit one type of organization, but the sum total of policy should be indifferent as to whether the news is provided via a for-profit or non-profit enterprise.

Nonprofit support of journalism is already increasing, and many Americans would be more comfortable seeing support from journalism come from a great variety of private philanthropies than from government. To facilitate that development Congress should seek to remove any legal obstacles that may stand in the way of newspapers receiving tax-exempt support or becoming nonprofit, tax-exempt organizations themselves.

But here we face a new question. From the founding of the Republic, newspapers have played a central role in politics, endorsing political candidates, for example. It would be a real loss to freedom of the press if, in becoming nonprofit, newspapers had to restrict their political expression. I believe, therefore, Congress should consider creating a new category of nonprofit journalistic organizations that are free from traditional limitations of 501(c)(3) organizations. When Congress originally subsidized numbers through the postal system, it did not require that they be nonpartisan. In fact, most of those newspapers were partisan. Neither should we require newspapers to limit their political expression to gain the advantages of nonprofit status.

Financial support of journalism could take a number of other forms. Direct grants might allow for political manipulation of the flow of funds, unless there was some intervening professionally run organization strongly insulated from political control. The public broadcasting system offers a model, and rather than create an entirely new structure, Congress might simply broaden the mandate of the one that exists.

Indirect forms of subsidy through the tax system also ought to receive consideration. As I mentioned, many other countries do provide support. They exempt the press from the value-added tax. The equivalent in the United States would be an exemption from the payroll tax, or at least the employers' share, with, however, the idea of replacing those contributions to the Social Security Trust Fund with general revenue. To be platform-neutral, this tax exemption would have to apply not just to newspapers, but to journalist organizations more generally. Defining eligible organizations and individuals would be difficult, but the same problem arises in many other areas, such as State "shield" laws that provide journalists with an exemption from some demands to testify under subpoena.

The Founders were right to see a robust free press as a bulwark of liberty, and they were right in their time to provide assistance to ensure the press develop throughout the country. We have to figure out how to keep that tradition going in our own time as well.

Chair Maloney. Thank you very much.

[The prepared statement of Paul Starr appears in the Submissions for the Record on page 34.]

Chair Maloney. Mr. Sturm.

STATEMENT OF JOHN F. STURM, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NEWSPAPER ASSOCIATION OF AMERICA, ARLINGTON, VA

Mr. Sturm. Good morning. I am John Sturm, president and CEO of the Newspaper Association of America, as mentioned, the trade association representing most of the daily newspapers in the U.S.

I think my colleagues and I agree today on this one point: What is really at issue today is the preservation of local journalism. And for decades newspapers have been the primary source and financial support system for local news and investigative journalism.

Among all local media, newspapers have the greatest commitment to local news and information. As a result of the longest recession in our Nation's history and intense competition for advertising particularly from Internet-based services, newspapers have experienced declines in advertising revenue of now nearly 40 percent over the past 2 years, including a precipitous decline in classified advertising, which has had a severe impact on major market newspapers.

Overall, the newspapers' share of the local advertising market has decreased to less than 15 percent when it was once 30 percent. Interestingly, as Mr. Rosenstiel mentioned, while revenues have been shrinking, newspaper audiences are actually growing. Print editions, combined with successful local Web sites, have a larger audience than ever, and their content has never been more popular.

Unfortunately, the dramatic decline in advertising revenue has forced publishers in virtually every market, large and small, to lay off highly valued veteran journalists and other employees and to take other cost-saving measures. Since 2007, thousands of jobs have been lost in the newspaper industry. So what can Congress do to help newspapers maintain the type of journalism that local communities deserve and expect? What can they do now?

First, I want to make clear that the newspaper industry is not seeking a direct financial bailout or any kind of other special subsidy. We don't believe that direct government financial assistance to newspapers is appropriate or wise for an industry whose core mission is news gathering, analysis and dissemination, often involving that very same government.

Second, we would suggest that you pass legislation that would allow all businesses to carry back net operating losses for 5 years instead of the 2 years under existing law, a bill that the learned Chair and the learned Ranking Member have cosponsored. Newspapers need cash now to preserve jobs next year. It is really that simple.

Third, allow businesses to spread out future contributions to defined benefit plans. If not extended, businesses will be required to use cash reserves to fund pension plans to meet statutory requirements instead of preserving jobs and generating businesses. We suggest Congress give the markets more time to recover and businesses more time to stabilize their finances.

Chairman Maloney, we appreciate the bill that you introduced last week, the Newspaper Revitalization Act, to allow newspapers to organize as nonprofit entities while continuing to generate some

advertising revenue. I think your heart is in the right place, and this is a step in the right direction that could help in a few communities, but, candidly, we don't see it as a comprehensive solution to the many problems in the industry at this time.

In the near term we recognize that newspapers on their own must adjust, as you said, their business models, to find a way to monetize on-line content in a way that contributes to local journalism. And our companies have been exploring new systems that would allow newspapers to detect and license on-line content which is being used by portals and aggregators for their own commercial gain.

The creators of valuable content cannot survive without compensation from those who currently use and profit from the creative works of others. It doesn't work for music, books or movies. In the long run it will not work for newspaper-generated content either.

The industry is working on a variety of solutions to address these issues, solutions that will make it quite convenient for present unauthorized users of newspaper-generated content to license and pay reasonable fees for such use in the future.

I hope today's discussion will lead to practical actions that will help support local public service journalism now and to sustain it in the future. Thank you for this opportunity to present the industry's views. I look forward to your questions a bit later.

Chair Maloney. Thank you very much.

[The prepared statement of John F. Sturm appears in the Submissions for the Record on page 36.]

Chair Maloney. And Ms. Barnes has indicated she has to leave at 11 o'clock, but will answer any questions in writing if we don't get a chance to get all our questions to her.

Thank you so much for being here. You are recognized for 5 minutes.

STATEMENT OF DENISE ROLARK BARNES, PUBLISHER, *THE WASHINGTON INFORMER*, WASHINGTON, DC

Ms. Barnes. Thank you, Madam Chair, members of the Joint Economic Committee for the opportunity to address you on the future of newspapers, the impact on the economy and democracy. I salute you for your interest in hearing from a diverse group of newspaper publishers regarding our struggles and how this very unique piece of legislation might impact the future of the newspaper industry.

As you heard in my introduction, my name is Denise Rolark Barnes, and I succeeded my father, Dr. Calvin W. Rolark, as publisher of *The Washington Informer* when he died in 1994. He and his colleagues in the Black press impressed upon me the role and responsibility of the Black press, which was founded by two freed men, Samuel E. Cornish and John B. Russwarm, publishers of the country's first black newspaper established in New York City in 1827. *Freedom's Journal* was published nearly 123 years after the Nation's first continuously published newspaper and nearly 40 years before the U.S. Congress abolished slavery in America in 1865.

The Wisconsin Historical Society describes *Freedom's Journal* as a newspaper that provided international, national and regional information on current news and contained editorials declaiming slavery, lynching and other injustices. *Freedom's Journal* circulated in 11 states, the District of Columbia, Haiti, Europe and Canada. Russwarm and Cornish wrote in their first editorial to their readers, "We wish to plead our own cause. Too long have others spoken for us." The paper published for only 2 years due to a lack of advertising support, but it laid the foundation for thousands of newspapers who shared a mission and purpose that was no different than their white counterparts', to provide clear and truthful information about the actions of those who we put in charge, and to provide a voice for those who are affected by their decisions.

Ten years ago I could confidently say that the National Newspaper Publishers Association, the trade association serving the Black press, had a membership of more than 200 newspapers across the country. Today attendance at conventions indicates a drastic decline in the number of papers that currently exist, possibly half.

The Washington Informer has also joined the ranks of publishers of other community and metropolitan ethnic newspapers that serve a targeted audience who are also exploring ways to keep their papers alive and viable during these difficult economic times.

The one thing we all share in common is our dependence on advertising. And as my dad used to say, advertising is the life blood of every newspaper, and circulation is a necessary evil. Minority or ethnic newspapers have always experienced a recession when it comes to advertising. We are rarely top of mind when it comes to ad placements made by advertising agencies, nor are we treated equitably when it comes to advertisers accepting and paying our rates. Our operations are small. Our reporters cover a broad range of issues, often for little or no pay, and the quality of our publication suffers due to our inability to hire editors, to fact check and clean up copy before it goes to print.

Yet the demand from our readers is growing. They remind us daily of how much we are needed to address their particular issues and concerns that are often ignored by the mainstream media, issues such as health disparities, housing and employment discrimination, racial profiling and immigration issues to name a few.

While I applaud you, Congresswoman Maloney, and Senator Cardin and members of this committee's intention to address the growing crisis that is affecting the entire newspaper industry, I view the legislation before us as just one step towards fixing a problem that is steadily growing worse. I would suggest, however, that since there are no daily African American newspapers, that you broaden the language in the bill to include weekly publications. Also the term "general circulation," which is often used to exclude minority and ethnic newspapers, should be broadened to ensure greater opportunities for equal access to advertising revenue under the legislation.

I appreciate the fact that you are considering a different kind of business model that is reportedly being used by some newspapers. It also suggests that you may be open to consider other options that may prove effective as well. What papers like ours need is leg-

isolation that will end discrimination on the part of advertising agencies as it relates to ad purchasing in minority-owned media, and that promotes diversity in advertising agencies' hiring and promotions practices. We need to run our businesses on a level playing field. Whether we are for-profit or nonprofit entities, the decision-makers need to be incentivized to do business with minority- and ethnic-owned media, or else, for us, there will be no end to the recession.

The country must maintain a free and independent press that serves all the people, and as you consider the options, this must be foremost in your mind.

I am open to taking your questions and sharing more of my experiences, thoughts and suggestions if needed. Once again, thank you for this opportunity to testify before you today.

[The prepared statement of Denise Rolark Barnes appears in the Submissions for the Record on page 38.]

Chair Maloney. Thank you so much.

And I appreciate all of your testimony, and I would like to ask a question beginning with Mr. Sturm, and then everybody else jump in if you so wish.

You mentioned the intellectual property of newspapers. Often the research done by reporters is very valuable, and often the paper is not compensated for it. And I would like the panelists to talk about a proposal that some have put forward to charge for each individual story, similar to how iTunes charges for each song now. And before the iTunes, the music industry was suffering from its file sharing by users, but the low prices and easy interference and simple payment system seems to have given more economic strength to the music industry.

Do you believe that a similar system would work for news in really supporting the intellectual property of the research and effort and time that went into creating stories that are now just freely given across the country?

Mr. Sturm. Madam Chair, thank you. Indeed what is happening now is a lot of stories that are going on line from newspapers, the Associated Press, et cetera, are being taken by news aggregators, used elsewhere, and ads are being sold around them. The revenues from those ads do not go to the creator of the content. They go to ad networks and the Web sites that use the content.

Fortunately and presently, there are a lot of ideas out there that have been brought forward of ways to compensate the creator of that content. Some would charge or would make some charge to the public. I think probably from a revenue standpoint, the more potential is with systems that would track, as I mentioned in my testimony, track the use of that content that are used by news aggregators and large portals who make millions and millions of dollars from that content. There is a convenient way that is being developed now to have that content licensed so it is used and it is available to the public in a ubiquitous way. But, nonetheless, the revenue goes back to the creators—that is indeed what I think would be of great benefit to the industry. And there are a lot of ideas out there, and that is something that we are working on very hard.

Chair Maloney. Also, Journalism Online, created by Steven Brill, is planning to serve as an e-commerce platform aggregator that news sources around the world can use to charge daily, monthly or annual subscription fees, similar to charges that cable or satellite TV companies charge. Do you think that Internet users have become so accustomed to free use, or do you believe that users will pay for on-line news? Again, I ask anyone to comment, or everyone.

Dr. Starr. I think measures like this can work for the elite press, particularly the financial press where the readers have the resources and they have the interest to pay. But I am much more doubtful that this will work for ordinary news at the state and local level, where the demand is much less strong.

What I think is really crucial to understand is that the people who have been reading newspapers have never really had to pay for the full cost of the content. Most of that cost has been paid by the advertisers. The readers have paid a very, very small fraction of it. Now, if you shift more of the burden on the readers, if, in effect, you raise the price to them, and the price will be raised even more after this period where it has been zero, there is unquestionably, I think, going to be a significant drop in the consumption of that news. And so what may be or look like a solution from the newspaper's point of view is really not a solution from the point of view of civic literacy.

Mr. Rosenstiel. A couple of points. First of all, to add to what Paul just said, newspapers make only 20 percent of their revenue from subscriptions and payments from the consumers. The model is very different, particularly in Europe, where as much as 70 percent of the revenue comes from subscriptions. We have a model in the United States that depends more heavily on advertising than other countries.

On the question of micropayments, paying per article, I think there is a civic problem there which is you are discouraging use. You are making it more expensive the more knowledgeable, the more news people consume, and I am not sure from a public policy standpoint or even from a civics standpoint that is really where we want to go.

The problem that news companies had in charging for content originally was that it was very difficult for one news organization to charge for its content if similar content was free from others. For this to work I think it is going to have to happen en masse. As long as I can get the AP story, why would I pay 15 bucks for the *New York Times* story? Is the marginal difference between the two accounts so much greater?

Well, history would suggest consumers said no. So it is going to have to be packaged probably to work. And that might address Paul's concern about, well, people might have a high demand for some kinds of content, but not others. The more you can sort of bundle this stuff and say, here is a fee that you pay on a monthly basis or an annual basis to the news, then you are in Newsland, and you can consume what you want, that, I think, may be a way of protecting the news that is important, but maybe less titillating or fascinating than some other news.

Chair Maloney. Mr. Sturm, and then we will go to Mr. Brady.

Mr. Sturm. There are, as I mentioned—Journalism Online is another one of the ideas that are out there.

Whether to put material behind a pay wall by an individual newspaper is a matter of great discussion in the industry right now, and there is no consensus. There are some who believe it is the right thing to do to charge in some fashion the consumer; others don't think it is the right thing to do. What we are concentrating on, what the industry does agree on, though, is those entities that use newspaper content for their own commercial gain should be paying a fair and reasonable fee for the use of that content. And that is what target one is right now.

Ms. Barnes. If I can just add to that is that when your content is particularly specialized, like minority publications offer, that value is what is being sought after. We get phone calls constantly from organizations that are setting up these specialized sites so that they can draw diverse communities to their sites, and so they want to use our content for their sites with no compensation to follow. So, adding that on.

Chair Maloney. Thank you.

We have been called for a vote. I am going to recognize Mr. Brady for his questioning, and then we will have to adjourn to run and vote and run back as quickly as possible.

Mr. Brady.

Representative Brady. Thank you, Madam Chairman.

Like others, I want to make it clear I am not here today to bail out the newspaper industry. I am here to learn what that sustainable business model could be. And I think from the media newspaper standpoint, too, there is caution, I think, from the sense that when you feel like you are drowning, every lifeline looks good, but you have to be careful whose boat you are being pulled into, and if it is the government's boat, there are really repercussions from your standpoint as well, and I think we all recognize that.

You sort of answered part of the question I have, which is why don't you charge what you are worth as an originator of news? Most businesses—I come from a Chamber of Commerce/small business background. Most businesses struggle when the demand for their product goes down. Demand for news and information is increasing, as you all rightly said. How do you capture the revenue to do that is the question.

So who out there has that sustainable business model? Who is getting closer to replacing classified revenue losses and even some of the ad—the major retailers and others who are advertising, which is also being impacted? Who is doing the best job or getting closest that you know of to that sustainable business model?

Mr. Rosenstiel. Well, where we are seeing some success is in niche and elite publications where people are paying for this material often out of their business expenses.

So on-line newsletters that are targeted at professional audiences and in some cases elite magazines like "The Economist" are having more success. But that is not addressing this. None of those address the question of general civic knowledge.

Dr. Starr. Can I just respond to this point? The Internet is unbundling the package of things that were put together in the local newspaper. And many people bought that local paper not be-

cause they were interested in the public affairs or political news, but because they were interested in lots of other things, the sports news, business news. But the newspaper was able to collect revenue from all those diverse sources.

On line, all that breaks apart. And, yes, there is going to be—there is profitable business in sports, in finance, in all these different areas, but there may not be a profitable business in public affairs news. The demand specifically for public affairs journalism is shockingly low. And so to expect that we are going to have the kind of journalism that keeps government accountable, that keeps a watch on potential problems at the local and State level in particular, where in my state, New Jersey, we have an endemic problem of corruption, we have an endemic shortage of good news in the State, this is the kind of thing where I think we have some public problem that needs to be publicly addressed.

Mr. Rosenstiel. Let me add one other thing. In simplest terms, the Internet is decoupling advertising from news. Advertisers don't need the news to reach their audiences anymore. And so the fundamental question is can the news industry find other sources of revenue that aren't basically display advertising and classified advertising?

Representative Brady [presiding]. Mr. Sturm, thank you.

Mr. Sturm. I would say, to your point about do people pay for the whole amount, the answer, as Tom mentioned, is that newspapers have traditionally only had 20 percent of their revenue come from circulation. That actually may be changing a bit for two reasons: One, advertising has dropped off, and frankly, a lot of newspapers have had to, as a result, raise the circulation prices. So that 80–20 ratio is changing. The point I wanted to make about the Internet versus print from a traditional standpoint, a print user, a reader, a subscriber has always been worth a considerable amount of money on an annual basis to a newspaper for viewing print ads. And all traditional media have had some limit on the number of ads or the amount of time they can sell, broadcast, magazines, radio—there has always been a limit.

With the Internet there is no such limit. And as a result, Internet pricing is very low. Advertising on the Internet is extremely cheap. Now, it has some disadvantages and advantages, but it is very, very inexpensive. So if you take that same newspaper reader and you move them online, reading the newspaper online, their worth as a source of revenue drops considerably. In fact, well beyond half. So it is just a difficult balancing situation right now because what newspapers are doing in effect is they are replacing some of their print readers with online readers. But, the money doesn't flow in on an equal basis.

Representative Brady. Thank you.

Ms. Barnes. I just wanted to add also that the way minority and ethnic newspapers have survived might be a model that might work for others. I mean, when we approach an advertiser, many times they have two pockets, they have got the advertising pocket and then they have got this diversity pocket. And we happen to always end up in the diversity pocket, which those dollars are not as great as the advertising dollars. But that is the pocket we end up in. And to meet their diversity needs, this is where they spend

money to advertise with us. But what we find is that a lot of these advertisers are trying to reach our communities in different ways. The advertising for them, placing an ad in our publications may not be as important as other ways in which to reach our communities. So we have gotten involved in things that are really non-journalistic in some ways that we have had to make journalism by sponsoring events and town hall meetings and different things that are advertiser sponsored, and there happens to be advertising that is attached to that. And that has proven to be successful, because we are still here. But we are still trying to figure out how to open that other door so that we have an equal opportunity there. But that is somewhat of a model that we have had to operate under for many years.

Representative Brady. Right. We could go on for a while. The chairman has gone to vote. Let's announce a recess. We will come back right after this vote. Thank you.

[Recess.]

Chair Maloney [presiding]. The meeting will come to order again. And first of all, I want to be very clear that this hearing is not about bailouts. We are not talking about bailouts. We are through with bailouts. But we should always talk about the best ways to have a tax and regulatory environment that will help businesses thrive and create jobs. Newspapers are an important business that plays an important role in our economy and in our system of checks and balances. But it keeps being characterized as a bailout. No one has mentioned a bailout except for my colleague. And I want to make clear that that is not the purpose of this hearing. Our last questioner was Mr. Brady, so I will go to Mr. Cummings from the great state of Maryland.

Representative Cummings. Thank you very much, Madam Chair. And I apologize for not having been here to hear the hearing earlier, and I have got to get to another markup. But I just was wondering, gentlemen, what can we do to see that media continues to serve the public interest as the newspaper industry transitions to a new business model? Mr. Starr? Dr. Starr?

Dr. Starr. Well, I am not entirely sure that the newspaper industry as a whole will arrive at that destination of a new business model. There certainly will be some. And I think particularly the more elite newspapers with a national audience. There will be those with niche audiences. They will be able to survive very well I think in this new environment. What I am much less confident about is that the ordinary political, public affairs coverage at the State and local level, that that will survive. Because it is not clear to me there is going to be a business model for that.

Representative Cummings. Yeah.

Mr. Rosenstiel. It is worth probably noting that in the 20th century, with the development of radio and then television, we had a rise in what social scientists called incidental news acquisition, incidental knowledge about civic life. In other words, if you watched a TV news show Walter Cronkite started with his first story and his second story and his third story, and you learned things because the broadcasters wanted you to that you might not be interested in. You would find out things that you would in a newspaper have skipped. And the technology that we have now of the Inter-

net, which is putting more power into the hands of the end user, the consumer, increases the consumer's ability to say I am not interested in that. And it is extremely difficult to imagine how we are going to change that. The age of force feeding the public by the media is going away.

Representative Cummings. Mr. Sturm.

Mr. Sturm. Mr. Cummings, I am the trade association hack here. And I have got members that need to make payroll sooner rather than later. We are living through a very difficult recession, as you know. And we are living through an enormous drop in advertising revenues that support local journalism. As a result, to answer your question on a very practical scale, we would like to see the Congress pass some legislation that would do things like let us write our losses back over a 5-year period instead of a 2-year period. That was something that was part of the stimulus bill, and at the last minute it was made only for small business. We, like other businesses, would like to have that ability because that would give us cash to save jobs today. We would like to be able to spread our pension funding obligations out over a longer period of time. That too would give us cash to save jobs now. That is what is really on our minds at the present time.

Representative Cummings. We watched the *Sun* paper in Baltimore, I mean, it has been amazing to watch year after year, or really month after month the loss of employees and to see how the paper had shrunk. And when I talked to my constituents, what they say is they read the *Sun* paper only to try to get the local news. And other than that, they will go to *The New York Times* or *The Washington Post* when they want to get national news because they find that they can get much more news. Now, you know, when I also look at the cable shows, and it is not just the Internet, it is the cable shows, I mean, they are constantly putting out news with commentary. And I think that perhaps—I mean, when you look at—I am not going to name any of the shows, but sometimes I think that commentary is what attracts people, too.

So I mean, you know, it is one thing to get some straight news. It is another thing to have a whole host of conservative, moderate, liberal folk talking about that news and interpreting it and giving people insight. Because the average person, if you look at Jay Leno or some of those shows, a lot of people don't know the difference between a city councilman and a Congressman. But to have that kind of news, those news shows, I think, is very helpful. I see my time is out. Thank you all very much.

Chair Maloney. Would anyone like to comment back to his question? Any comments?

Dr. Starr. Can I just add one further grim aspect to this whole picture? And that is that newspapers are living off their aging readership. They are not replenishing that readership with younger people at the rate that they would require. And so we are probably only seeing the beginning of this crisis. It is, in fact, likely to intensify. There is a very sharp difference today that did not exist 30 years ago in the rate at which people in their 20s versus older people follow the news in any media, whether it is online, print, broadcast, and so forth. And we really are facing a future in which there is likely to be a diminishing audience for news.

Mr. Rosenstiel. I would like to add something to that and counter it slightly. And that is that what I see in the research is that younger people have a different approach to news. They are on demand news consumers. They want to know what they want to know when they want to know it. And there has been a big problem with the delivery system of old media with those audiences, television and print. We have seen for 15 years or longer younger people not gravitating to those old platforms. They do get news on the Internet. And the chance that these older media institutions can survive by attracting new audiences is actually enhanced by the new technology, by the Internet, because they can deliver news to a new generation of people on a platform that that generation wants to receive it if they can find a way to monetize that. So although this is a dark aspect, there is some light on that horizon.

Mr. Sturm. Just one quick comment: newspapers have traditionally been, in print, a one time a day operation. Now, with the Web sites, newspapers can address and disseminate breaking news as well. So it puts us in a different ball game.

Chair Maloney. Thank you. Mr. Burgess is recognized for 5 minutes.

Representative Burgess. Thank you, Madam Chairwoman. And I apologize for having used the words newspaper and bailout together in a sentence. I suppose I could be forgiven because I read in the newspaper, Obama open to newspaper bailout bill. So you only know what you read in the papers. And they wouldn't print it if it wasn't true, doggone it. The chairwoman brought up an interesting point. She talked about the taxing and regulatory environment for print journalism. Valid concerns.

Last week we were back in town after a few weeks of being gone, and a number of constituents, small businesses were through my office. I had a lady who owned a saddle making shop in Fort Worth, a cardiologist, someone who did financial services, a man who rebuilt the compressors of automobile air conditioners and exported them to countries in Latin America. So it was sort of a varied group of entrepreneurs, small businesses in my district. And I asked them how they were doing. They obviously all are struggling, but maybe some things are starting to turn around for them.

And I said, well, are you planning on adding any jobs? Because I am really concerned about where the jobs are going to come from. And every one said, no, because we don't know what you, Members of Congress, are going to do to us with the financial services bill, with the health care bill, with the energy bill, the cap-and-trade bill. So a lot of anxiety out there in the small business community about the next steps that Congress is going to take and how that will affect their ability to maintain their businesses and their profitability.

And I suspect the newspaper business is not immune to that. And it likely is suffering from some of the same things. So perhaps if we were to look at this critically, we might say how do we set the regulatory and tax environment so all businesses might benefit, not just picking winners and losers in the equation. So let me ask you a question.

Dr. Starr, you have been a prolific writer on health care and health policy. We are looking at bills on the House side, the Senate

is looking at bills on the Senate side, and the President has committed to signing something if not this year, this congressional term, but there is some anxiety out there about what the impact of this will be. Now, if we sought to set up newspapers, insulate them from some of the slings and arrows of congressional regulation and taxation, should we go so far as to insulate the newspaper business from the 8 percent payroll tax that possibly could be enacted if the House bill is followed to the letter?

Dr. Starr. I don't think the case for health care reform ought to rest on its particular effects on one industry or another. But I could make a case, although it is not really appropriate for this hearing, that health care reform will be good for the economy as a whole, that for example, many people are reluctant to change jobs, face job lock because of the potential loss of coverage if they go out and start a new business, for example. And we would see an improvement in productivity if people weren't limited in that way.

Representative Burgess. We could debate the merits, and clearly not the scope of this hearing nor the time. But again, the point is out there that there is concern, not just in the newspaper industry, but in business across the board that what is Congress going to do to us. And our future is uncertain because of some of the things that we are observing in the United States Congress. Mr. Sturm, I apologize, I was out of the room when you gave your testimony. And certainly you dealt with the concept of the bailout. But just for my edification, perhaps you could just briefly run through that concept again of what the newspaper industry is asking for and what they are not asking for.

Mr. Sturm. Let me start with what we are not asking for. As I said earlier, we don't believe direct government financial assistance to newspapers is appropriate or wise for an industry whose core mission is news gathering, analysis, and dissemination often involving that very same government. That was part of my original statement. And I went on to advocate the NOL bill provisions, carry-back provisions that I mentioned earlier that are cosponsored by two of the three folks here on the panel, as well as a better opportunity, a lot longer opportunity to fund pension plans as practical cash-generating steps that would indeed help retain jobs in the newspaper industry.

Representative Burgess. Thank you, Chairwoman. I yield back.

Chair Maloney. Thank you. Thank you very much. The newspaper industry is precluded by antitrust law from developing sector-wide solutions, and antitrust exemptions may allow newspapers to develop collective pricing policies for online subscriptions without fear of government or private industry antitrust suits. In your view, is this an exemption needed or warranted? Let's start with you, Mr. Sturm.

Mr. Sturm. Dealing with the antitrust laws as currently interpreted is a difficult situation for the industry right now, principally because the Department of Justice has always held the relevant market for newspapers to be other newspapers. And that is a huge constraint. It is out of date. And indeed, if other newspapers were the only competitors we faced, we wouldn't be having this hearing today because we would be in fine shape. So I would suggest to you

that the antitrust laws do need to be interpreted differently in order for industry-wide solutions to emerge that would be pro-competitive and could really help the newspaper industry.

Chair Maloney. Any other comments?

Dr. Starr. Yeah. I don't disagree with Mr. Sturm about that point about reinterpreting the scope of the market. But I think the experience that we have had with antitrust exemptions for the newspaper industry should be a cautionary lesson. The Newspaper Preservation Act of 1970 gave the industry an antitrust exemption so more competition could be preserved. But it really has been pretty much a failure in doing that. And I would really be very concerned about giving the industry as a whole the authority to set prices for news, which would possibly lead to prices that would interfere with the distribution of news throughout the society. And again, what may look like a solution for the industry could actually be a problem for the country.

Chair Maloney. Thank you. Mr. Rosenstiel, you mentioned that young people are not reading newspapers or news as much as others. And I recall in my eighth grade government class in a public school, *U.S. News and World Report* gave free magazines to every government student. And we were required to read it and report on it every week. To this day I cannot get through a week without reading the news magazines. My week is not complete until I have read them and thought about them, a habit that I got into in the eighth grade. Now in France, every 18-year-old is offered a free one-year subscription to one of the country's major newspapers. And do you think that this would be an incentive? Would this work to get our young people reading? What ideas do you have to engage younger people in a habit of reading news magazines, newspapers, blogs, essential news to analyze what is happening in their country and the world?

Mr. Rosenstiel. There is a growing movement in what people are beginning to call news literacy, which is somewhat different than media literacy in that it is focused specifically on the consumption of news. The University of Stony Brook, SUNY Stony Brook has developed a curriculum for this that they are expanding to all the students at Stony Brook. There are pilot projects to do it in high schools. And for years, the newspaper industry was sort of trying to do this on its own. There was a program called Newspapers in the Classroom. But as newspaper business became more difficult, the tendency was for newspapers to pull back on these. It was the first thing to go since it didn't generate any revenue, and the readers were, you know, not coming along for another 30 years or 20 years after the program. So the newspaper industry has pulled away from that and the educational industry has pulled away from that. Journalism programs in high schools are now, somewhat malnourished. I think that that is the area where it would go. I would like to touch on one thing that Paul and John just said, and that is that when it comes to antitrust exemptions, that they are both correct in what they have said.

It is also worth noting that the players here that the news industry is going to increasingly deal with, aggregators, Internet access providers, and who they are going to consider either becoming partners with or battling with, that those are highly oligarchical indus-

tries. When we are talking about news aggregators, we are talking about two or three companies that control almost all of the market. And that is an issue on the horizon. You have got a very dispersed news industry, or relatively dispersed compared to an industry of 4 or 5 companies.

Chair Maloney. Any other comments?

Mr. Sturm. For the record, whatever we might seek at the Department of Justice in terms of the antitrust laws will not include trying to set prices or rates or anything like that. We understand the antitrust laws. And that is not on the program.

Chair Maloney. Thank you for your clarification. And my time is expired. Mr. Brady.

Representative Brady. I enjoyed the discussion today. I think you are going to solve the distribution problem. I think you already are. Whether we are getting it from our BlackBerry, getting it from our Kindle, it is getting easier and easier, or our Internet, to access the information, and it is on a timely basis. I am not an expert, but it is the pricing issue that needs to be solved. And I still think—I know I have heard today sort of a thought that for the public, good pricing may not be the option that you desire, and that it will only be the elite that will pay for it. I disagree with that.

Consumers are smart. They are even getting more knowledgeable every day on news sources, information, credibility. You know, there is a check and balances out in the Internet that is amazing today, almost immediate, real time. And I think that consumers in the end will always pay for value, at every level pay for it.

So I was going to ask you is there, among the general news publications, any industry leaders or innovators that you look to as pushing the envelope in those areas that you are going to be watching as we move forward? Yes, sir.

Mr. Sturm. Since you mentioned the devices at the beginning of your question, let me say that there are a lot of devices out there now. There will be more in the future. There is a lot of development going on both in the U.S. and in Europe. For example, several companies are working on a flexible tablet which would be very thin that would reload on a fairly quick basis. It would lay out both newspapers and magazines, and indeed books, in a manner that you are more familiar with that is more comfortable. It was described to me one time, I think accurately, that the devices you are talking about now tend to be a lean forward device. This would be more of a lean back device like you are used to with a newspaper or magazine or book.

And so these things are coming. They will be in color. So there will be ways to distribute the news that will be more comfortable for everybody and provide better business opportunities for those who create the news.

Representative Brady. Is there anyone out there pushing the envelope?

Mr. Rosenstiel. Well, I would say, and I think this year is going to mark a change, but the real innovation in news in the last couple years has been on the content production side in news rooms exploring how to produce news that is more compelling online. In a newspaper you only have a limited number of options of how you can cover an event. You have a main narrative, a headline, graphic.

Online, and I have a slide and a presentation I do, my slide currently has something like 51 different ways that you could create content that would be appealing to a user to describe an event. The potential exists for a better journalism online. And that I think is where, if you look at *The New York Times* Web site, you see interesting use of the technology. That is where the energy has been. The efforts to try and innovate on the business side have been swamped to a significant degree, at least in the last year-and-a-half, by the recession.

Companies are, as John said, just trying to cope with how to deal with the next quarter and the next year. And that has certainly made it more difficult to try and innovate and experiment. You know, the pilot projects that you were going to try and give them a couple years to see how they worked, when your revenues are dropping 30 percent in a quarter it is very tough to do that.

Representative Brady. Sure. By the way, just a parenthetical point, you don't really pay reporters worth a damn. I am amazed, and every profession has its numskulls, but you have got some amazingly bright people who, around here, back home, are so knowledgeable on the issues, institutional knowledge is amazing. I mean, they match any Members of Congress plus some, any local leader plus some. And when you finally figure out what their salary range is, it is hard to figure out how they are still in the profession. I don't know how that fits in the overall model. But boy, you got to pay people to keep good people. And in this day and age, with other options they can go to, I am sure that is a worry of the panelists, but it is sort of appalling what those salary levels are.

Dr. Starr. And Representative Brady, they are going down. Because what has been happening with the change in the financial condition of newspapers is not only that newspapers have been cutting newsrooms, but they have been firing or buying out their oldest employees, their veteran reporters, and often replacing them with junior reporters, with interns in order to cut their labor costs. And there is a real question as to whether or not there is going to be a career in journalism of the kind that many people have had that will enable them to support a family.

Representative Brady. Great. I just wanted to add that. Thank you.

Chair Maloney. Mr. Burgess.

Representative Burgess. Can anyone give me an idea, if we were to proceed with either the House or Senate bill on the creation of the nonprofits for the news industry, what sort of savings would the newspapers be looking at, or a contrasting way of looking at that, what would be the cost in revenue to the IRS? Does anyone have an idea about that?

Mr. Rosenstiel. I don't think we were here to comment on the specific bills.

Dr. Starr. We are not the CBO.

Mr. Sturm. Most assuredly.

Representative Burgess. Part of me wonders, although it is not a hearing on the legislation, the legislation is still a backdrop for this hearing, and would that in fact even be enough? Or like we faced with the automobile industry in December, when we were asked to pump some more money in that direction, is there enough

money available in the taxing and regulatory environment to save the industry?

Mr. Rosenstiel. I can tell you—I don't know if this is helpful or not—but the newspaper industry last year took in, if you take in subscription and advertising revenue, about \$45 billion in revenue, and made on average about 11 percent profit. So it costs, with current expenses, about \$39 billion to operate the industry. If you go entirely online, you would lose 90 percent of your revenue, but you would also reduce your costs by roughly, we can debate it, but maybe 40, 45 percent by not having to print and deliver. Those are big numbers. And the industry is trying to figure out how can you have an industry that has improved over the last 50 years.

I mean, we all complain about the press, with good reason. I am a press critic. I make my living doing that. But the reality is that in the last 50 years we began to have more journalism because we had more commercial advertising. And that is rapidly collapsing. But even now the size of news rooms, even diminished, are probably a little bigger than they were in the 1960s still, and when we saw journalism improving significantly at a rapid pace.

Representative Burgess. Mr. Sturm, let me ask you from your trade association, clearly not everyone is in the same shape, and there are some news organizations that are doing better than others. And to the extent that you can tell us, are there any unique features to those that are doing better than others? Is there a best practice concept emerging from those that are remaining profitable in this harsher environment?

Mr. Sturm. Well, I think even in this most difficult environment it is fair to say that individual properties have maintained at least some profitability. And that is particularly true with regard to medium-sized and small market daily newspapers and community newspapers have weathered the storm a lot better or easier, if that is a good word, I am not sure, as opposed to the major market dailies. And principally, it is because the major market papers did very, very well with classified advertising for a very, very long time.

And it was low cost, and the revenue from classified advertising tended to drop pretty much to the bottom line, or an awful lot of it to the bottom line. And then along came the Internet, and particularly Craig Newmark, and suddenly you could get classified ads for nothing. And that really did attack the revenue base of classified advertising. So where, once upon a time, for example, not so long ago, newspapers sold classified advertising in print, and then for an extra little bit you could get the classified ad on your Web site, that is now turned around.

Newspapers are selling on their Web sites classified ads and then, for an add-on, you get the print ad with it. So that is a demonstration of how the world has been flipped upside down by the Internet.

Representative Burgess. You have mentioned, though, the smaller markets, the medium-sized market, but in a big market New York City you have two side by sides, the *New York Times* and the *Wall Street Journal*. Is one doing better than the other from a financial perspective?

Mr. Sturm. Well, the two papers you cite are both really national papers. They have a broad audience across the country.

Representative Burgess. I prefer to think of them as New York papers.

Mr. Sturm. Interestingly enough, if you looked at their subscriptions and where the people buy those papers, you would be surprised what a large percentage of the *New York Times* audience is outside the City of New York.

Representative Burgess. Sure.

Mr. Sturm. Of course *The New York Times* covers New York local news; but the local papers in New York are probably the *Daily News* and the *Post*.

Representative Burgess. Can you make a statement about the financial status of those two national New York papers, *Wall Street Journal* and *New York Times*? Are they comparable?

Mr. Sturm. I think they are both public companies and they report their earnings, et cetera, as do other public companies. I don't have that data in front of me.

Mr. Rosenstiel. They are notably different business models. Roughly—these numbers may be a little out of date, but roughly half the readers of *The New York Times* are around that metropolitan region of New York and half are dispersed around the country. So some of their revenue is national advertising and some is local. *The Wall Street Journal* is a national newspaper and has financial, a lot of financial advertising that wouldn't appear in any other newspaper, but that is relevant to investors all over the country. So it is very hard to compare them in terms of businesses. And then if you take any local newspaper, its business model is drastically different than that of *The New York Times* because their circulation and advertising base is almost always entirely local.

The Internet is a challenge to that because if you are a local newspaper and you have got readers suddenly in Europe, your advertisers think, well, what do I care that you have got readers in Europe?

Representative Burgess. But within that environment, clearly there are institutions that are doing okay and there are institutions that are not. And is there any sort of general observation that you have within the industry that leads you to believe that—

Mr. Rosenstiel. In general, the big city metro papers that are not national and are not hyper-local are the most vulnerable because they are caught in between *The New York Times* and *The Wall Street Journal* on one end and a community newspaper on the other.

Representative Burgess [continuing]. You have models of those that would be successful in this environment?

Chair Maloney. Mr. Sturm, you wanted to comment?

Mr. Sturm. No. Actually, I was sort of going to make the same point that Tom just did.

Chair Maloney. The gentleman's time has expired. Mr. Rosenstiel, earlier you said that commercial advertising is collapsing in newspapers and television stations and so forth. And it is now tax-deductible as a business expense if a business is buying advertising they can deduct it. There have been a number of proposals before Congress to change that status, to have the adver-

tising taxed. And I would like to ask what kind of impact would that have on the industry if business advertising was no longer tax-deductible? There are several bills before Congress now to change that status.

Mr. Rosenstiel. We haven't studied to see what the financial impact of that would be. But obviously, anything that creates a further disincentive for advertisers to spend money on newspaper advertising would probably depress those revenues further. There are a lot of reasons that advertising is vanishing from newspapers, because there are many different sectors of advertising in newspapers. John talked about what happened with classified. Changes in retailing had a huge impact on newspapers. The department store and competitive grocery stores were major advertising sectors. They have been largely replaced by big box stores like Wal-Mart and others that don't advertise in newspapers because they discount all their prices every day, and people know that.

So if you look at the advertising that was in a newspaper 20 years ago, who those advertisers were, and you look at the same newspaper today and who is advertising there, you would be shocked at the difference of who is not there anymore and who has replaced them.

Chair Maloney. Mr. Sturm, you had your hand up?

Mr. Sturm. Yes. The answer, I think, to your question about denying the deductibility of advertising across all media: it would be devastating. It would be essentially the end of much of media. It would be a horrible thing. The only bills I have seen in the past, and I don't think there is anything live right now, have been to deny the deductibility of a certain category of advertising—prescription drug advertising was the one that has popped up.

Chair Maloney. That is the beginning.

Mr. Sturm. Right. But I think the Congress might want to go very carefully and view those ideas with some concern not only as to the effects on the media, but the fact that it would be favoring one kind of business deduction over another kind of business deduction. And I would suggest that that is probably not fair.

Dr. Starr. Chairman Maloney, in my written testimony, I emphasized the unwritten precedent that developed right at the founding of the Republic as a result of the resistance to the British Stamp Act in 1765, the precedent that there would be no special taxes imposed on the press. And if you look through American history, that has actually been our practice. Very different from other countries. We have not singled out the press for particular taxes. And a tax on advertising would in effect be a tax on the media. And therefore, I think it really would run against what has been this unwritten precedent.

Chair Maloney. Thank you. And I agree with all of your testimony in that respect. I was talking to a reporter earlier this week who works for a paper in a major city that is facing tremendous economic challenges. And he was telling me how expensive reporting is. They started on a story involving the e-mails of government officials at city hall, and that it was extremely expensive to get those e-mails, extremely time-consuming, but resulted in a story that was important in some people's minds towards government reform and public policy that is important to the locality.

And he was emphasizing how important independent, creative, original research is and how very, very expensive it is, and that a great deal of it comes from the media. Most of it comes from the media. All of it comes from the media. Most of it certainly in newspapers and televisions and magazines. And many people are concerned about keeping that independent, strong, vigorous activity going. It is part of our democracy. It is very important. And one proposal that has come to me to help news organizations is the establishment of a blind trust that would accept donations from foundations and other individuals, and the pooled funds collected by the trust would be shared among news organizations, profit or non-profit, that meet certain criteria. And the government could also provide some funding or matching funding as they do for public television. In your view, would this work? What would be the pros and cons? And we will start with Mr. Sturm.

Mr. Sturm. I think I, with all due respect, would like to take a close look at something like that and analyze it carefully. But I would make one comment in terms of scale. And this probably applies as well to the idea of funding and nonprofits. If you take a news room, and a gentleman on our board of directors from the *Dallas Morning News* testified before Senator Kerry's committee in the Senate in June along these lines, I recall his testimony: The *Dallas Morning News* spends about \$30 million a year on their newsroom. And if you look at scale that is a lot of money.

And that is an every year kind of thing. And it is probably not going to go down, it is probably going to go up. So if you are talking about foundation support and all of that, a typical foundation gives what, 5 percent of their corpus per year? They are required to. So if you looked at it from just a scale standpoint, that would require \$600 million of foundation corpus to support—and all of that would be directed to one news room—to support on an annual basis a news room the size the *Dallas Morning News* has.

So again, I think there might be some great ideas out there. We would like to take a look at them. But there is a scale issue here.

Mr. Rosenstiel. I would add, because we have looked at this, even those estimates are low. Because you mentioned the news budget, but you didn't mention the H.R. department and all the other things that are required to support the news budget. So the numbers actually are even higher than most of the estimates.

Dr. Starr. But I don't think anybody is suggesting, or perhaps shouldn't suggest that this would completely replace all other sources of revenue. I think what we are talking about is adding to revenue that hopefully will not totally disappear. And that might be the difference, enabling a news organization to undertake the kind of investigative projects that you mentioned. And I think there certainly is a role for nonprofit foundations, and I would say possibly also for some kind of government subsidy. We do already have a mechanism with public radio and public television. And maybe we should think about expanding the mandate for those organizations.

Chair Maloney. And broadcast television is provided free access to the public airwaves. In exchange for licenses to use the public spectrum, broadcasters are expected to provide programming in the "public interest." However, the requirements to meet the public in-

terest standard are quite lax, and some people have suggested charging broadcasters for use of the public spectrum, and the fund could be used to support local journalism and independent news gathering. Do you think a fee system could support the industry? What is your response to that idea? Anyone?

Mr. Rosenstiel. Well, the television industry is full of sort of vestigial rules and regulations also. To an 18-year-old news consumer of the future, the distinction between broadcast and cable doesn't really exist. They all come through the cable system, but they have drastically different business models. The broadcasters are getting no fee from the cable operator. There is no subscription for NBC and CBS. So all of their money has to be made from advertising. But every cable news channel generates roughly 50 percent of their revenue from subscription fees that are embedded in the cable fee. But they are now direct competitors in many ways, in many practical ways through a single delivery system. So, I mean, I think that business in many ways is looking at a landscape that strikes them as illogical in its design even more than the newspaper industry may be.

Dr. Starr. In 1927, when Congress passed the first Radio Act, or 1934 when it passed the Communications Act, I think that idea would really have been an excellent idea. But we are near the end of the era of broadcasting. Already very few people who watch television are actually getting the signal over the air. They are getting the signal by cable or by satellite. And so the question has really arisen among a lot of the networks whether they need their local stations. Maybe they would be better off being a cable channel. I think the notion of charging for the spectrum, you know, may just be too late.

Chair Maloney. Thank you.

Mr. Sturm. My only comment is, having represented traditional media for 30-some years, both broadcast television and now newspapers, is I would respectfully suggest that the government, broadly speaking, be very careful about continuing regulation of traditional media, yet actually in some ways insulating new media from any kind of similar treatment. For example, the Congress has chosen to insulate the Internet from taxation. I don't disagree with that. But I do think that traditional media is still burdened with regulation that others don't encounter. And that makes life for the traditional media that much harder.

Chair Maloney. Well, I want to thank the panelists for your time. You have certainly given us a great deal to think about. I would say that members on both sides of the aisle support an independent, strong, vigorous news-gathering organization that has been equally critical of Democratic presidencies and Administrations and Republican Administrations, and caused equal pain on both sides of the aisle, and raised very important issues that need to be considered and thought about. You play a vital part in our democracy, and we thank you. And this meeting is adjourned. Thank you very much.

[Whereupon, at 12:17 p.m., the committee was adjourned.]

SUBMISSIONS FOR THE RECORD

PREPARED STATEMENT OF CAROLYN MALONEY, CHAIR, JOINT ECONOMIC COMMITTEE

I want to thank our witnesses for joining us today to discuss the future of newspapers and their impact on the economy and our democracy.

The newspaper industry has experienced serious financial problems resulting from dwindling advertising revenues, falling print subscriptions, and a fundamental change in the way people get their news.

Recently, the plight of the newspaper industry has been punctuated by substantial job losses, downsizing at various bureaus and the halting of either printed editions or business-wide operations.

According to the Bureau of Labor Statistics, newspaper publishers cut nearly 50,000 jobs between June 2008 and June 2009, a record rate of job cuts representing 15 percent of its workforce.

Regional outlets like the *Seattle Post-Intelligencer* and the *Detroit Free Press* have either scaled back or halted printed editions, while others like the *Rocky Mountain News* and the *Cincinnati Post* were closed entirely.

Though a decline in printed newspaper readership is partly to blame for recent developments, there are multiple factors contributing to newspapers' declining quality and profitability.

Technological change has created structural challenges for newspapers which were reliant on subscription and classified ad revenues to cover operating costs.

On top of that, the current recession has eroded advertising revenues substantially. Between 2006 and 2008, ad revenues declined 23 percent from \$49.5 billion to \$38 billion and are expected to fall further during 2009. The way information moves today can make even the tech-savviest New Yorker's head spin.

Today's Kindle-clutching, iPhone toting subway rider who braves the rush hour commute spends every waking hour in a world of nonstop news and information which none of us could have ever imagined just a few years ago.

Digital media, bloggers, news aggregators, and citizen journalists all on the Internet have forever altered the speed at which news and ideas are disseminated.

And while there are many out there chronicling what ails our country's newspapers, community newspapers continue to shut down their presses, and not nearly enough is being done to find ways to preserve these institutions that are so critical to our democracy.

Last week, I introduced H.R. 3602, a bill which will enable local newspapers to take advantage of non-profit status as a way to preserve their place in communities nationwide. Since the ratification of the Bill of Rights, the federal government has acknowledged that the press is an institution which is afforded special protections by name.

In this spirit, I think that the government can help foster solutions for this industry in ways which protect the independence of newspapers and enables their objective reporting to thrive in a new economic and media climate.

In so many ways, the change brought about by the digital media amplifies what is written in newspapers. The Internet and mobile devices extend news and information in a way that opens dialogues to more and more aspects of our life.

The Internet has allowed anyone, regardless of background or world view to express themselves, connect with others, and access an entire world of electronic information.

Journalists play a critical role in monitoring the activities of individuals and institutions that are supposed to be working in the public interest. As our witness Dr. Starr put it, they provide a "civic alarm system." The absence of a vigilant media may even allow corruption to flourish unchecked.

In addition, studies show that journalism fosters civic engagement by the population at large.

A recent study showed that when the *Cincinnati Post* shut its doors, voter turnout in local elections dropped precipitously. Without our newspapers, we lack a critical unifying feature which fosters broad participation in our democracy and community functions.

Minority-owned publications are among the hardest hit by recent trends and more must be done in order to ensure that these institutions continue their important public service. The reporting done by minority-owned newspapers is a critical voice in communities across the nation that must be preserved.

It's clear that we need to explore alternative business models to ensure an independent and vibrant press in the 21st century.

I look forward to the testimony of our witnesses in helping this committee to do so.

PREPARED STATEMENT OF REPRESENTATIVE MICHAEL C. BURGESS, M.D.

I was surprised to hear President Obama on Monday say he is not opposed to bailing out newspapers. We have two stimulus bills—both of which I have voted against—the first having cost the American taxpayer over \$2.5 trillion dollars and the second having cost the American taxpayer \$787 billion dollars of which less than 10% has been spent and none has been accounted for.

Now, President Obama wants to bail out newspapers and/or turn them into non-profit entities so they are free of politics and partisanship. He stated that news today is all opinions and no serious fact-checking, and he would consider Senator Cardin's bill to give tax deals to newspapers if they become non-profits like broadcasting.

But despite all the important contributions of our journalists—without whom we would not have heard about Iran-Contra during President Carter's Administration—journalism as a business should not be given a bailout by the American taxpayer.

Sure the industry is suffering. Craig's List, undoubtedly hurt the classified ad revenue, and the downturn in business has led to less advertising buys as a whole. But marquee names like *The Wall Street Journal* are not only surviving, but thriving.

Furthermore, there is nothing wrong with newspapers being political and partisan. Sure, we fight about the fairness in coverage and the rampant liberal bent of the opinion section, but to have the federal government interject and turn these organizations into 501(c)(3) entities like churches fails to realize the inherent value in conversation and discourse.

Newspapers report the facts, but nothing in the language of either Senator Cardin's bill or our honorable chairwoman's bill H.R. 3602 would allow the opinion section to continue, and without the ability for newspapers to be political, there isn't exactly a reason for us to rely on them just for the box-score after college football Saturday. This would only further decimate the industry—not make them better.

Thank you.

PREPARED STATEMENT OF TOM ROSENSTIEL, DIRECTOR, PEW RESEARCH CENTER'S
PROJECT FOR EXCELLENCE IN JOURNALISM

Thank you, Madam Chairwoman, for the opportunity to testify today.

In the next few minutes, I'd like to offer an overview of what's occurring in the newspaper industry and what it may mean to our civic life.

There are a lot of misconceptions about where we get our news. Only about 54% of Americans say they regularly read print newspapers. But those surveys do not tell us much about where news comes from.

Far more than that of what we know about our communities today still originates in newspaper newsrooms. A good deal of what is carried on radio, television, cable and wire services comes from newspaper newsrooms. These media then disseminate it to broader audiences. In every community in America I have studied in 26 years as a press critic, the newspaper in town has more boots on the ground—more reporters and editors—than anyone else—usually than all others combined.

When we imagine the news ecosystem in the 21st century, the newspaper is still the largest originating, gathering source.

The second misconception about newspapers is that their crisis is loss of audience. Not so. Weekday print circulation last year fell by 4.6%, but the number of unique visitors to newspaper websites grew by 15.8% to 65 million. When you combine print and online audiences of newspapers, the industry overall is faring better than other legacy media—and many newspapers are seeing audience grow. One study, by Scarborough suggests audience gains of 8.4% from online. What's more, the Internet offers the potential of a more compelling, more dynamic, more interactive journalism—a better journalism than print—coming from these newsrooms.

The crisis facing newspapers is a revenue problem. Advertising, the economic foundation of journalism for the last century, is collapsing, particularly classified. Print newspaper ad revenue fell by roughly 25% in the last two years, and 2009 will likely be worse. Meanwhile, online display advertising for newspapers is now declining, too.

Last year, the traffic to the top 50 news websites grew by 27%. But the price of an online ad fell by 48%.

The consequence is that the amount of our civic life that occurs in the sunlight of observation by journalists is shrinking. The number of city councils and zoning commissions, utility boards and state houses, governor's mansions and world capitols being covered on a regular basis, even by a lone journalist, is diminishing. One out of every five people working in newspaper newsrooms in 2000 was gone at the

beginning of 2009, and the number is doubtless higher now. My old newspaper, the Los Angeles Times, has half the reporters it did a decade ago. The problem is more acute at bigger papers than at smaller ones, but no one is immune—and I venture metropolitan suburban areas may be most vulnerable.

Alternative news sites such as Voice of San Diego and MinnPost are exciting innovations, but the number of people working there does not yet come close to the lost numbers—and none of these sites has so far found a sustaining business model.

More of American life now occurs in shadow. And we cannot know what we do not know.

Newspapers are more than partly to blame. Like other legacy industries before them, newspapers let a generation of opportunities slip through their fingers—from E-Bay to Google, to Realtor.com to Monster.com. The industry is running out of options, though I believe some remain. Those include charging for content, getting tough with aggregators, creating online retail malls, and more. No one knows which will prevail. I am an analyst, not an advocate. The only thing close to a consensus is that most likely no one revenue source will be sufficient.

So should we care whether newspapers survive? Perhaps not. Typewriters have come and gone. But I believe we do have a stake as citizens in having reporters who are independent, who work full time, and who go out and gather news, not just talk about it, and who try to get the facts and the context right. And its not just the high-lying investigative reporters I have in mind, but perhaps even more so the reporters who simply show up week after week, sit in the front row, and bears witness, and who, simply by their presence, say to those in power on behalf of all the rest of us, you are being watched.

PREPARED STATEMENT OF PAUL STARR, WOODROW WILSON SCHOOL, PRINCETON UNIVERSITY¹

Madam Chairman, I appreciate the opportunity to discuss the crisis affecting the nation's newspapers and the implications for democracy and a broadly shared prosperity.

Ever since the founding of this country, newspapers have been Americans' principal source of news. After broadcasting developed—and even as new media have emerged in recent years—newspapers have continued to do most of the original reporting in states and cities around the country. They have put most of the journalistic “boots on the ground” to find out the facts that citizens require to hold both government and business accountable.

The Internet, to be sure, has many advantages as a medium of free and open public discussion. Among other things, it provides access to a wide variety of opinion, original data and documents, and distant sources of news that would otherwise be inaccessible. But chiefly because of its indirect effects on newspaper advertising revenue, the Internet is also undermining the financial basis of the press. The question that we now face is whether there ought to be changes in law and policy to provide support for journalism not as a special favor to the news media, but to advance the general interest in an informed public.

Although some people may consider support for the press to be inconsistent with our national tradition, the Founding Fathers would have disagreed. Besides guaranteeing freedom of the press in the First Amendment, they used postal policy to subsidize newspapers and promote the circulation of news. As a result of legislation adopted in 1792, newspapers received two distinct subsidies in the early republic: cheap, below-cost rates for sending copies to subscribers and a franking privilege that allowed newspaper editors to exchange copies with one another through the mails at no postal charge. These subsidies encouraged the establishment of newspapers throughout the nation on a decentralized basis, and they created a national news network linking those newspapers together—all without censoring or controlling the content of the news itself.

American policies stood in dramatic contrast to European practice at that time. European governments not only censored newspapers but also taxed them with the express aim of making them more expensive and thereby preventing the rise of a popular press that could make political trouble. The principal levy on newspapers in Britain was the stamp tax—its opponents called it a “tax on knowledge”—and you will recall that it was Britain's attempt in 1765 to impose the stamp tax on the American colonies that the colonists denounced as “taxation without representation.”

¹For purposes of identification. This testimony represents only my own views, not those of Princeton University or any other organization.

The resistance to the Stamp Act helped to crystallize the sense among our forefathers in the era of the American Revolution that the press was a vital bulwark of liberty, and it left an important legacy—an unwritten presumption in American tax policy against any special taxes on the press. And with only minor exceptions, both the federal and state governments have historically avoided imposing taxes specifically on the news media—indeed, many states have exempted newspapers from general sales taxes.

So the press has not been regarded, and should not be regarded, as just another industry. Government has sought to advance it because a democratic political system cannot function without diverse, free, and independent sources of news.

For a long time, however, we have been able to take newspapers and other news media more or less for granted because they were able to prosper commercially. During the nineteenth century, as advertising expanded, newspapers became increasingly self-sufficient and profitable. News is a “public good” in both the strict economic and ordinary-language meaning of that term, and public goods tend to be systematically underproduced in the market. But newspapers were able to thrive because of the strategic position they came to occupy between advertisers and their markets. For certain kinds of advertising, such as classifieds, newspapers were virtually irreplaceable, and as the industry consolidated during the 20th century, the surviving papers enjoyed an extraordinary degree of pricing power. Out of their profits from advertising, they were able to cross-subsidize the production of some kinds of news that probably could never have been justified as profitable in themselves.

That system for cross-subsidizing news is now collapsing because newspapers have lost the strategic position they once enjoyed. In the online world, the lion’s share of revenue from advertising goes to paid search, and newspapers cannot reproduce the advantages they have long enjoyed in print because Craigslist, eBay, and other sites provide efficient platforms for advertising without bearing the cost of news production. Moreover, it is difficult for any single news organization to capture the full returns from investing in a costly journalistic project. Even if newspapers begin to charge for content, they will not be able to prevent other news organizations or web sites from reporting the same information almost immediately after it is published. Neither would we want them to be able to exercise that kind of control.

Increasingly, the production of news will require subsidy, and the question is really from where and under what conditions that subsidy will come. The problems that this challenge raises are difficult because of the legitimate concern that any subsidy, whether from government or private philanthropy, may induce subservience and dependency in the press. But we should take encouragement from three experiences.

First, as I’ve mentioned, early in our history, the federal government aided newspapers through postal policy without impinging on their freedom.

Second, in recent decades, government at both the federal and state level has supported public broadcasting, which has become an important source of news and public-affairs discussion. On radio, in particular, as commercial stations have abandoned news, the public stations have performed an especially valuable service by continuing to offer reported journalism of a high quality.

And, third, besides supporting public-service broadcasting, democratic governments elsewhere, notably in northern Europe, have successfully used subsidies to maintain competition and diversity in the press without limiting its freedom. Indeed, the Scandinavian countries have preserved more newspaper competition through subsidies than we did by giving newspapers an antitrust exemption in the Newspaper Preservation Act of 1970—legislation whose failure ought to be a cautionary example against extending any new antitrust exemptions to the news media. Today those countries in northern Europe that have invested public funds in news have higher levels of newspaper readership and civic literacy than we do in the United States. Some other European countries today also provide tax advantages to the press—excluding newspapers, for example, from the value-added tax.

Still, to avoid any loss of press freedom, any public support for journalism in the United States must be approached with great caution, and it seems to me at least three principles ought to be kept in mind.

First, any subsidies must be viewpoint-neutral; they cannot favor one viewpoint over another.

Second, they should be platform-neutral—they should not favor print media over online media, for example.

And, third, they should be neutral or at least reasonably balanced as to organizational form. Taken as a whole, they should not favor for-profit over nonprofit organizations, or vice versa. To be sure, some policies by their nature may benefit one type

of organization, but the sum total of policy should be indifferent as to whether news is provided via a for-profit or nonprofit enterprise.

Nonprofit support of journalism is already increasing, and many Americans would be more comfortable seeing support for journalism come from a great variety of private philanthropic sources than from the government. To facilitate that development, Congress should seek to remove any legal obstacles that may stand in the way of newspapers receiving tax-exempt support or becoming nonprofit, tax-exempt organizations themselves. But here we face a new question. From the founding of the republic, newspapers have played a central role in politics—endorsing political candidates, for example. It would be a real loss to freedom of the press if, in becoming nonprofit, newspapers had to restrict their political expression. I believe, therefore, Congress should consider creating a new category of nonprofit journalistic organizations that are freed from traditional limitations on 501(c)3 organizations. When Congress originally subsidized newspapers through the postal system, it did not require that they be nonpartisan; indeed, most of them were partisan. Neither should we require newspapers to limit their political expression in order to gain the advantages of nonprofit status.

Financial support for journalism could take a number of different forms. Direct grants might allow for political manipulation of the flow of funds, unless there was some intervening, professionally run organization strongly insulated from political control. The public broadcasting system offers a model, and rather than create an entirely new structure, Congress might simply broaden the mandate of the one that exists. All the old distinctions among media—print, broadcast, and so on—are breaking down in the online world, and Congress should begin to consider the implication of that change for all manner of policies that were adopted when clear lines separated different types of media.

Indirect forms of subsidy through the tax system also ought to receive consideration. As I mentioned, many other countries exempt the press from the value-added tax; the equivalent in the United States would be an exemption from the payroll tax, or at least the employers' share (with the idea of replacing those contributions to the Social Security trust funds with general revenue). To be platform-neutral, this tax exemption would have to apply not just to newspapers, but to journalistic organizations more generally. Defining eligible organizations and individuals would be difficult, but the same problem arises in many other areas, such as state "shield" laws that provide journalists with an exemption from some demands to testify under subpoena.

Finally, we ought to bear in mind the implications of this development for American federalism. Unlike many other countries that have strong national news media but relatively weak media at the regional and local level, the United States has historically had a highly decentralized press, spread through every state and major city, as well as a multitude of smaller jurisdictions. My concern is not so much that there will be a shortage of national news coverage. The national news media will, I believe, be able to aggregate audiences of sufficient size to sustain competition and diversity. The situation at the state and local level is altogether different. According to a recent survey, the number of statehouse reporters has declined by one-third in the past five years—and shows every sign of declining further. Some cities are losing their last daily paper, and many more are likely to do so. Resources for traditional journalism at this level are disappearing far more quickly than they are being created online, and some of those most closely involved with online news at the state and local level see no prospect of being able to generate sufficient revenue, either from advertising or charges to readers, to make state and local online news self-sustaining.

The premise of federalism is that by devolving significant areas of public decision-making to government at the state and local level, we bring them closer to the people. But if there is no independent journalism at those levels, the people will be in the dark about much of what those governments are doing. This is not a liberal or a conservative issue. The Founders were right to see a robust, free press as a bulwark of liberty. And they were right in their time to provide concrete assistance to ensure the press developed throughout the country. We must figure out how to keep that tradition going in our time as well.

PREPARED STATEMENT OF JOHN STURM, PRESIDENT AND CEO, NEWSPAPER
ASSOCIATION OF AMERICA

Good morning. I am John Sturm, President and CEO of the Newspaper Association of America, a trade organization representing nearly 2,000 newspapers with more than 90 percent daily circulation in the United States.

I appreciate this opportunity to talk about the future of newspapers and how the industry can continue to provide high-quality public service journalism, which is critical to a functioning democracy. What we are really talking about here today is the preservation of local journalism. Newspapers have traditionally been the primary source and the fundamental support system for local journalism—providing the financial underpinning for local news and investigative journalism.

Chair Maloney, you recently noted that “newspapers are an essential component to our free democratic society.” We couldn’t agree more, and the reason newspapers are essential to a well-informed citizenry is relatively simple: Newspapers are the primary source of credible, professional journalism that has a positive impact on our communities and our nation. Indeed, in most markets, the local newspaper has more reporters on the street than all other local media combined. Newspapers have a continuing commitment to local news and information.

The challenges facing the newspaper industry are well documented. As a result of the longest recession in our nation’s history and intense competition for advertising, particularly from Internet-based services, newspapers have experienced a dramatic loss in advertising revenue—which is the lifeblood of our editorial content. Newspaper advertising revenue has decreased nearly 40 percent over the last two years, including a precipitous decline in classified advertising, which has had a severe impact on major-market newspapers. Overall, the newspaper share of the local advertising market has decreased to less than 15 percent from over 30 percent.

Interestingly, while advertising revenue is down sharply, newspaper readership is actually growing. Newspapers’ print editions, combined with their Web sites, have a larger audience than ever, and their content never has been more popular—even among young people. Although print circulation has fallen, the audiences for newspaper Web sites continue to grow at a rate that outpaces the losses in print. Nielsen Online recently reported that newspaper Web sites had over 70 million visitors in June alone—which accounts for nearly one-third of all Internet users.

Unfortunately, the dramatic decline in advertising revenue has taken a severe toll on the industry. Seven major newspaper companies have declared bankruptcy. Publishers in virtually every market—large and small—have been forced to lay off highly valued, veteran journalists and other employees and to take other drastic cost-saving measures. Since 2007, nearly 30,000 jobs have been lost in the newspaper industry.

If daily newspapers were unable to continue their in-depth reporting, analysis and investigative journalism, we see no other comparable news provider with the resources and commitment to provide truly professional journalism at the local level—certainly in the medium term. While online news sources and citizen journalists certainly add perspective to the news, very few provide original, in-depth reporting and analysis, and even fewer ascribe to the same professional journalism standards.

What can Congress do to help maintain the type of journalism that local communities deserve and expect?

Let me attempt to be as clear as possible on this point:

The newspaper industry is not seeking a financial “bailout” or any other kind of special subsidy. We don’t believe direct government financial assistance is appropriate for an industry whose core mission is news gathering, analysis and dissemination. From a business perspective, we are happy to be treated no differently than other local businesses.

However, there are certain steps that Congress can take, in the short term, that will assist all businesses—including ours—that are attempting to stabilize their financial situations.

In his Fiscal Year 2010 Budget, President Obama proposed allowing businesses to carry back net operating losses for 5 years instead of 2 years under existing law. This would allow businesses to apply current losses to prior year taxable income, providing a much needed infusion of cash at a critical time. While Congress included this provision in the economic stimulus package, it was significantly scaled back in conference and applied only to very small businesses. Most businesses, like many newspapers, do not qualify for this assistance.

Legislation has been introduced in the House and Senate which would correct this problem and expand the net operating loss provision for the benefit of all businesses—large and small. Chair Maloney and Rep. Brady, we sincerely thank you for cosponsoring this legislation, H.R. 2452, and we look forward to working with you and with other members of the Committee to see it enacted into law this year. The NOL proposal will provide businesses with an incentive to go from cutting to stabilizing and, eventually, to expanding operations—steps that are absolutely essential to a sustaining recovery.

According to a recent paper by the ubiquitous Mark Zandi, chief economist and cofounder of Moody’s Economy.com, “extending and expanding the NOL carryback

to benefit larger firms would provide a meaningful boost to the economy.” And, for financially strapped companies, expanding the NOL provision “may provide some more time to reduce their costs, raise sales and stabilize their financial situations.”¹

Another step that Congress can take to provide short-term economic relief is to allow businesses to spread out future contributions to defined benefit plans. The decline in the stock market has caused valuations for defined benefit pension plan assets to fall below the funding requirements established under the Pension Protection Act (PPA) of 2006. As a consequence, newspapers and other businesses may not be able to meet the funding requirements of the PPA, which mandates minimum funding thresholds of 94 percent in 2009 and 96 percent in 2010. Relief provided earlier this year by the Treasury Department was a nice “patch,” but it simply moves the pension funding problem out to 2010 and 2011. Businesses will be required to use cash reserves to fund pension plans to meet statutory requirements; cash that could be used now to preserve jobs and generate much needed business activity in this sluggish economy. We urge Congress to pass legislation that would spread out these obligations to give markets more time to recover and businesses more time to stabilize their finances.

Chair Maloney, we appreciate the bill that you introduced last week—the Newspaper Revitalization Act—to allow newspapers to organize as non-profit entities while continuing to generate advertising revenue. While we believe this proposal has merit and could work in certain situations, it would require local citizens and civic leaders in a community to commit a significant volume of resources to fund newspapers’ journalistic functions. This is a step in the right direction and could help in a few communities, but, candidly, we don’t see it as a comprehensive solution to the problems in the industry at this time.

In the near term, we recognize that newspapers—on their own—must adjust their business models to find a way to monetize online content in a way that contributes to local journalism. Newspaper companies have been aggressively examining new business models while also exploring new systems that would allow newspapers and other news content creators to track, detect and license online content which is being used by portals and aggregators for their own commercial gain.

Simply put, some Internet operators routinely free-ride on the investments that newspapers are making in local journalism by copying or summarizing newspaper content in order to drive audiences to their Web sites—and gain revenue through the selling of their advertising around our content. The concern is not the personal use of newspaper-generated content, but the use of newspaper-generated content for someone else’s commercial benefit. The original reporting that is done by newspapers each and every day cannot be sustained over the long run if newspapers are not able to obtain fair and reasonable compensation for the content that they produce. The creators of valuable content cannot survive without direct compensation from those who use their creative works. It doesn’t work for music, books or movies; in the long run, it will not work for newspaper-generated content either.

As noted, the industry is working on a variety of solutions to address these issues, solutions that will make it quite convenient for the many unauthorized users of newspaper-generated content to license and pay reasonable fees for such use. We expect that these solutions will be in the marketplace within the next 6 months.

Thank you for this opportunity to represent the newspaper industry’s views. It is my hope that the discussions we have here today will lead to practical actions that will help support local, public service journalism now—and to sustain it in the future.

PREPARED STATEMENT OF DENISE ROLARK BARNES, PUBLISHER, *THE WASHINGTON INFORMER*

Thank you Madam chair and members of the Joint Economic Committee for the opportunity on “The Future of Newspapers: The Impact on the Economy and Democracy.” I salute you for your interest in hearing from a diverse group of newspaper publishers regarding our struggles and how this very unique piece of legislation might impact the future of the newspaper industry.

As you heard in my introduction, my name is Denise Rolark Barnes, and I succeeded my father, Dr. Calvin W. Rolark, as publisher of *The Washington Informer* when he died in 1994. He and his colleagues in the Black Press impressed upon me the role and responsibility of the Black Press which was founded by two freedmen,

¹Zandi, Mark. “Assessing the Economic Benefit of Accelerated Depreciation and Net Operating Loss Carryback.” September 17, 2009.

Samuel E. Cornish and John B. Russworm, publishers of the country's first black newspaper established in New York City in 1827.

Freedom's Journal was published nearly 123 years after the nation's first continuously published newspaper was established in Boston, Massachusetts in 1707, and nearly 40 years before the U.S. Congress abolished slavery in America in 1865.

The Wisconsin Historical Society describes *Freedom's Journal* as a newspaper that provided "international, national, and regional information on current events and contained editorials declaiming slavery, lynching, and other injustices. Freedom's Journal circulated in 11 states, the District of Columbia, Haiti, Europe, and Canada."

Russworm and Cornish wrote in their very first editorial to their readers, "We wish to plead our own cause. Too long have others spoken for us." The paper published for only two years due to a lack of advertising support, but it laid the foundation for thousands of newspapers who shared a mission and purpose that was no different than their white counterparts—to provide clear and truthful information about the actions of those who we put in charge and to provide a voice for those who are effected by their actions.

Ten years ago, I could confidently say that the National Newspaper Publishers Association, the trade association serving the Black press, had a membership of more than 200 African American newspapers. Today, attendance at conventions indicates a drastic decline in the number of papers that currently exist, possibly half.

The *Washington Informer* has also joined ranks with publishers of other community and metropolitan ethnic newspapers that serve a targeted audience who are also exploring ways to keep their papers alive and viable during these difficult economic times.

The one thing we all share in common our dependence on advertising. As my dad use to say, "Advertising is the lifeblood of every newspaper and circulation is the necessary evil."

Minority or ethnic newspapers have always experienced a recession when it comes to advertising. We are rarely top of mind when it comes to ad placements made by advertising agencies, nor are we treated equitably when it comes advertisers accepting and paying our rates.

Our operations are small, our reporters cover a broad range of issues, often for little or no pay, and the quality of our publications suffers due to our inability to hire editors to fact-check and clean-up copy before it goes to print. Yet, the demand from our readers is growing. They remind us daily of how much we are needed to address their particular issues and concerns that are often ignored by the mainstream media, issues such as health disparities, housing and employment discrimination, racial profiling and immigration issues, to name a few.

While I applaud Congresswoman Maloney, Senator Cardin and members of this committee's intentions to address the growing crisis that is affecting the entire newspaper industry, I view the legislation before us as just one step towards fixing a problem that is steadily getting worse. I would suggest, however, that since there are no daily African American newspapers, that you broaden the language in the bill to include weekly publications. Also, the term "general circulation" which is often used to exclude minority and ethnic newspapers, should be broadened to ensure greater opportunities for equal access to advertising revenue under the legislation.

I appreciate the fact that you are considering a different kind of business model that is reportedly being pursued by some newspapers. It also suggests you may be open to consider other options that may prove effective, as well. What papers like ours need is legislation that will end discrimination on the part of advertising agencies as it relates to ad purchasing in minority-owned media, and that promotes diversity in advertising agency's hiring and promotion practices.

We need to run our businesses on a level playing field. Whether we are a for-profit or non-profit entity, the decision-makers need to be incentivized to do business with minority and ethnic-owned media, or else, for us, there will be no end to this recession.

This country must maintain a free and independent press that serves all of the people and as you consider the options, this must be foremost in your minds.

I am open to taking your questions and sharing more of my experiences, thoughts and suggestions if needed.

Once again, thank you for this opportunity to testify before you today.