

USC ANNENBERG SCHOOL FOR COMMUNICATION & JOURNALISM
Center on Communication Leadership & Policy

TESTIMONY TO FEDERAL TRADE COMMISSION

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Good afternoon, and thanks so much for inviting us to present our findings to the FTC. Though this testimony will be delivered by Professor Cowan, it was jointly authored by David Westphal.

At our USC Annenberg Center on Communication Leadership and Policy, we have been involved in several aspects of the topic of this hearing. We have been exploring the role of foundation funded journalism; we have been working with and reporting on the status of web based community news sites; and we have been developing and incubating some new news outlets. If the commission is interested, we would be pleased to share information about our work in those areas.

But my testimony today – based on the report that David Westphal and I wrote with the help of several doctoral students - deals with another aspect of our work.

As the Commission is well aware, a number of groups have suggested ways in which the government could increase its support for the news business. Whenever such proposals have been advanced, there have been loud protests from some quarters – including from many of those in the news business – that government support of the news would violate a sacrosanct line between the government and the news. Some suggest that there is or should be a press/state wall similar to the church/state wall.

We decided to conduct this study in an effort to reframe the debate.

While it might be good to have a wall between the press and the state, there never has been such a wall. Indeed, while the founding fathers prohibited government action that abridges or censors the press, they deliberately crafted the 1st amendment to allow for government actions that would support or enhance the press.

The government's support took many forms, including the subsidy of postal costs. George Washington, in fact, wanted the postal service to distribute publications free of charge to ensure an informed electorate. James Madison wanted huge subsidies but felt that the press should pay something. They worked out a compromise that is codified in the Postal Act of 1792.

We think the founders were right. But at the very least, we think that any debate on government support should be based on fact.

We looked into three areas of government support for the press – only three, there are several others. What we found was that the government has always supported the commercial press at the local, state and federal level, but that the amount of support has been declining sharply in recent years – and that without a new approach, the level of support seems certain to continue to decline in the years ahead.

Instead of discussing whether the government should start supporting commercial journalism, we think we should discuss whether the government should – as it is now doing – continue to reduce and even terminate the historic support that it has provided.

Our findings came as a surprise to my colleague David Westphal who has spent his life as a journalist, most recently as the chief of the McClatchy bureau in Washington. They also surprised the journalists who covered our report. As one media critic said after reading our report: “who knew?” We hope that they now know.

In his comments at our press conference last month, David suggested that there is a disconnect here, a kind of mythology, that’s getting in the way of an informed debate about the government’s role in the past, the present and in the future of news. We believe it’s critical to get some fundamentals straight.

We begin with a simple fact: There has never been a time in our history when the American government wasn’t supporting the commercial press.

Our report focuses on three kinds of support for publishers – postal subsidies, paid public notices, and federal and state tax breaks. But I should note at the outset that in ways big and small, state, local and federal governments have provided many more kinds of financial assistance for the news business.

It’s important to note we’re not saying that American governments ever has backed the commercial news industry the way some governments do – say France and its new free newspaper subscription for people reaching age 18, or Sweden and its direct cash payments to newspapers.

But neither is it true that American government assistance amounts to peanuts, or as many people believe, is nonexistent.

In addition to the \$1 billion plus that the government puts into public broadcasting every year, it’s forking over considerably more than that in its support of the commercial news business.

So let’s look at three ways that support for the commercial news industry plays out in three critical areas.

I should mention that postal subsidies and public notices have been around since before the revolutionary war.

Scholars have argued that it's precisely because of postal subsidies that newspapers were able to develop in the United States. Postmasters assigned very low rates to newspaper mailings in colonial days, and many allowed the free-exchange through the mails between newspapers.

This laid the framework for high postal subsidies for newspapers and magazines as championed by Washington and Madison and codified in the Postal Act of 1792 – one of the first acts of Congress. It's a structure that has remained in place for more than 250 years. Publishers' bottom lines – and readers who rely on the news that newspapers and magazines deliver - have been the beneficiaries.

There's a very similar story for paid public notices – an idea incorporated from old Europe that over time was picked up by every level of government. Public notices are required for myriad activities: municipal zoning changes, school district budgets, bankruptcy notices, seized property actions, and the like. Governments impose these requirements on themselves, or subordinate governments and on the private sector.

The result for newspapers is the same in every case: money in the bank. This is a business that's been especially important for community newspapers. Their national trade association, the National Newspaper Association, estimated in 2000 that it represented 5-10 percent of all revenue.

But it's not just small newspapers that benefit. Virtually all newspapers participate, including the Wall Street Journal, despite the Journal's editorial opposition to government support for the news. We conducted a month-long study of the Journal and found that, in terms of column inches, government-funded and government-mandated public notices consumed the largest share of advertising space in the paper.

You can tell it's lucrative by the number of times newspapers get into court fights over who's entitled to a one public notice contract or another. The Journal, in fact, has been in court in Virginia during the past year trying to expand its right to carry public notices there.

If you look at the cumulative effect of these two categories, and add in tax breaks, here's what you see:

1. By the late 1960s, postal subsidies were worth nearly \$4 billion in today's dollars. [NB: this is revised based on the latest information from the Postal Rate Commission. Our

research was based on reports from 2006-7. Since then, the costs of distributing periodicals have more than doubled.]

2. Public notices at that time brought in, and still bring in, hundreds of millions in revenue. We're not aware anyone has really figured out how much money is at stake here— it doesn't count state and federal. But it would not be surprising to see a 10-figure number in this area as well.
3. And finally, state and federal tax breaks today are worth almost \$1 billion in revenue lost to the government. They include everything from federal tax breaks on unsold magazines and circulation expenses, to state sales tax exemptions on the purchase of newsprint and ink.

So if you had been able to add all this up in the late 1960s, and converted it to today's dollars, you'd be talking government assistance of one kind or another that probably was in the \$6 billion range. [Again, this figure has been adjusted to reflect the inflation in postal costs.] That's a small but significant chunk of the news industry's business. And that is the first key finding of this report. Government backing for the commercial press has always been with us. And it adds up to big bucks.

Here's the second finding: This support is in the midst of a long-term decline that is destined to continue unless policymakers take a new tack.

That story has already played out on postal subsidies.

- Prior to 1970, 75 percent of the cost of mailing newspapers and magazines was borne by the Postal Service.
- But beginning with the Postal Reorganization Act of 1970 and continuing to today, that level of subsidy has been in almost constant decline, and now stands at just 11 percent.
- In today's dollars, we estimated that it is a reduction of more than \$3 billion – from \$4 billion to about quite \$600 million. And today almost all of it goes for magazines. Since the Postal Service anticipates a \$7 billion deficit next year, future prospects here are not good.

Federal and State tax breaks may not be in quite as much danger, but they, too, are likely to fall. Some of the tax breaks are tied to old technology – such as sales tax breaks on the purchase of

newsprint and ink. And of course, governments are under great pressure to reduce costs in any case.

That is a dynamic at play as well in public notices, which are very likely to go the way of postal subsidies. We think that their revenue will be cut way back.

Indeed, legislation has been introduced in 40 states to move public notices to the Web.

So far, most of those initiatives have failed, and public notices largely remain in newspapers. For the moment, there may well be good reasons why they should be in the press, especially in rural communities where there is less web access. Although they are often in unreadably small print, it can certainly be argued that they will be seen by more people if they are published in a newspaper than if they're simply posted on a government Web site or a news organization's website.

But the shift has begun, and we think it's inevitable that it will grow, and it probably means the large majority, perhaps overwhelmingly majority, of this profitable business will go away. It is hard to argue that a local school board that is firing teachers and eliminating enrichment classes and after school programs should spend its money on public notices about a zoning change or a proposed school budget when the information can be posted on the web.

For many newspaper publishers, and especially for those in rural communities, the decline of public notices is certain to be another crushing loss.

This will be a very interesting arena to watch now that the legislative season is underway across the country. For example, last month committees in both houses of the Iowa Legislature voted to allow local government to move public notices to their own Web sites.

All of this raises an important question: Does the government really want to reduce funding for the organizations that report and distribute the news?

The decline in government support is not the result of an ideological shift or a vendetta. While journalists have always had critics, the declines we describe are not been happening because anyone's got it out for the news industry. They have resulted from changes in technology and from fiscal prudence.

So we think that government leaders should at least consider the merits of new forms of government assistance at this critical moment for the news industry.

In our report, we do not make specific recommendations about new policy initiatives for the commercial media, though we list some of the many suggestions that have been put on the table:

ideas like a WPA-type program for employing writers and editors; tax-law changes that could allow newspapers to become nonprofits; and tax write-offs for citizens on their news subscriptions. There are more, and you can find a good sampling of them on the Website called “Public Policy and Funding the News” that accompanies our report. <http://fundingthenews.org/>

We do, however, offer a couple of additional areas to consider:

First. Expand public broadcasting

We were struck by two data points in our research:

One: Among news media, public broadcasting has by far the highest levels of support among American citizens. (This is especially interesting because it really calls into question the notion that you can’t have a subsidized press because Americans won’t trust it to report on the government. It turns out it can get significant government support and STILL have the trust of Americans.)

Second data point: Compared to international norms, public broadcasting in the U.S. is significantly less well funded. On a per-capita basis, Great Britain spends 60 times more than the United States does on public broadcasting.

So if our news environment needs significant strengthening, a pretty obvious remedy is at hand in public broadcasting.

We also offer a second and somewhat related suggestion: It may be time to change the laws that prohibit domestic dissemination of news broadcasts done by the Voice of America, Radio Free Europe/Radio Liberty and other international broadcasting services of the United States.

The Smith-Mundt Act, which was adopted in a very different era, prohibits American’s government-run international news organizations from distributing their reports to audiences in the United States. But the Internet is in the process of making this prohibition a meaningless relic. Taking the law off the books could help bring these terrific news services more richly into the American news environment.

Finally, our report offers a possible framework for how policymakers might look at the future funding options:

- First, do no harm. We are in the midst of a tremendous cycle of digital news creation. The government needs to be mindful that there is a danger of squelching it.

- Second, focus on innovation. Thanks to government supported research and development programs, satellites and the Internet have changed the landscape for news. Funding new technological advances may be what the government does best. For example, there may be innovations that could drastically cut the real cost of sorting and distributing publications through the mail, thus reducing postal expenses dramatically.
- Finally, if subsidies are an answer, they should, to the extent possible, be based on formulas as opposed to funding arrangements in which the government picks winners and losers.

Ultimately, we hope this report helps put to rest a myth about the relationship between the news business and government. It just isn't true that the commercial press has been walled off from government assistance in some sort of church/state – or press/state separation.

We do not suggest that government assistance is therefore the logical result. Our report details the powerful forces of innovation and creation under way in the digital revolution, and observes that it is indeed possible that the new information economy may make government action unnecessary. But a different outcome is also possible; one that at least in the short run could leave the citizenry without much of the information it needs to govern this democracy. Government assistance of some sort may therefore be prudent and necessary. And, as our report suggests, this would be perfectly in sync with American history.

To learn more about our research, please look at the materials posted on www.fundingthenews.org, which has a copy of our report as well as the much more detailed studies conducted by the researchers whose work was fundamental to this project. They are: Shawn Powers, Rahul Nilakantan, Ariel Fox and Matthew Weber. In addition to the topics we discussed today, there are papers discussing intellectual property issues, antitrust issues and broadband expansion that I think you'll find illuminating.