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Hearing before the Joint Economic Committee
“The Future of Newspapers: The Impact on the Economy and Democracy”
September 24, 2009

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.”

¹ For 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.