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Public Policy and Funding the News

by Geoffrey Cowan and David Westphal

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The statements made and views expressed are solely the responsibility of the authors.

Introduction

by Geoffrey Cowan

At a time when the financial model for news is facing the greatest crisis in decades, the level of government funding for news organizations has been declining sharply. Unless a new approach is created, that decline is likely to accelerate. Yet most commentators, including members of the press, seem unaware of the level of government support that journalism has enjoyed throughout our nation's history, or of the ways in which it is now disappearing. This report begins the process of documenting the cutbacks and presenting a possible policy framework for the future.

The sharpest cuts have come in the level of postal subsidies for news, which have been reduced by more than 80 percent over the last four decades. Thanks to the visionary leadership of George Washington and James Madison, mailing costs were heavily subsidized by the government for the first 180 years of our nation's history – from the Postal Act of 1792 to the Postal Reorganization Act of 1970. In 1970, the Postal Service subsidized 75 percent of the cost of periodical mailings. Today, the subsidy has fallen to just 11 percent. In today's dollars, that's a decline from nearly $2 billion in 1970 to $288 million today. Magazines that would still be profitable under the arrangement established by our founders are now closing at a precipitous rate.

Public and legal notices have also been an important source of revenue for the publishing industry throughout American history. Thanks to legislation and regulations adopted at every level of government, they remain a huge source of revenue today. They provide hundreds of millions of dollars to periodicals ranging from local daily and weekly papers to national publications such as *The Wall Street Journal*. But inevitably they will be reduced and eliminated, superseded by advances in new technology. Cash-strapped government agencies are asking courts and legislative bodies to allow them to make the switch to the Internet. Legislation to allow a transition to the Internet has been introduced in at least 40 states, and in some the switch to the Web is under way. Arizona school districts, for example, are now free to publish their yearly budgets on their own Web sites, avoiding costly placement in local newspapers. President Obama's Department of Justice recently proposed a similar transition. While lobbyists and lawyers for some media companies are trying to block these changes, a day of reckoning is clearly on the horizon. The loss in revenue will be substantial.

Print publications of all kinds also benefit from a wide range of tax breaks that have been specifically designed to help news outlets. There are special tax provisions in the federal tax code and in most states. Collectively, they account for hundreds of millions in lost tax revenues. For example, the federal tax code has provisions for the special treatment of publishers' circulation expenditures as well as special rules for magazine returns. Those two sections of the code account for a loss of $150 million in taxes – or a subsidy of $150 million for the industry. Tax breaks at the state level, including favorable treatment of newsprint and ink, amount to at least $750 million. The actual amount is probably much higher because many states don't report separate data for publishers. How long those preferences will persist is anyone's guess.

In a variety of ways, the government has also helped to assure the financial stability of broadcasting, cable and the Internet. Broadcasters were given their licenses for free; part of the trade-off for a free license, however, was the explicit requirement that the station use some of its resources to provide news and information to the audiences it served. Cable news channels are the direct beneficiaries of FCC rules that allow cable operators to bundle services, requiring every cable subscriber to pay a fee to MSNBC, CNN and Fox News – whether they want them or not. Those subscriber fees are more important than advertisements in funding the bottom line of all three cable news outlets. Until recently, none of the over-the-air broadcasters (including public broadcasting stations) received a single dollar from cable subscriber revenue. If the FCC had followed the suggestion of former Chairman Kevin Martin, it would have adopted so-called a la carte cable rules that would have allowed each cable subscriber to decide whether to pay for Fox or for MSNBC or for CNN. That change would have had a dramatic impact on the business model for cable news. As news migrates to broadband, it seems inevitable that the business model for those news outlets – and the assured stream of subscriber revenue – will change.

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Internet entrepreneurs have benefited from the huge federal investment in creating the Internet, and are about to benefit from billions in the stimulus package that will be spent on broadband. By extending high-speed Internet to consumers who do not yet have it, the government will be helping consumers migrate online at the expense of conventional print and broadcast outlets. In addition, new-media entrepreneurs, including many bloggers and news providers, benefit from the Internet Tax Moratorium, a federal law that, according to some estimates, reduces taxes by $3 billion a year. At some point, it seems likely that Congress will decide to tax the Internet.

There are scores of other ways in which the government helps to support the gathering and dissemination of news. The best-known forms of support are the financing of public broadcasting in the United States and of Voice of America, Radio Free Europe/Radio Liberty and other outlets for audiences abroad. According to the Corporation for Public Broadcasting, about $1.14 billion of the $2.85 billion spent on public broadcasting (or about 40 percent of the total funding for public broadcasting) comes from federal and state government sources. Much of the funding for the major PBS news programs – “NewsHour” and “Frontline” – comes from the government, through the Corporation for Public Broadcasting. The Corporation for Public Broadcasting also provides special funds for programs on urgent and controversial topics, such as NPR’s coverage of the Iraq war.

Some who read this report will feel that the government does too much to support news and that it should start at once to end those forms of support that already exist. That group may include people who are concerned about federal and state deficits, those who think the news media are biased, and those who think that as a matter of principle and practice there should be a firm wall between the government and the news media, much as there is a wall between church and state.

While the authors of this report respect these points of view, we have a different perspective. We think the press is vital to democracy. Washington and Madison were right when they insisted that the government fund a robust postal system, partly to deliver news to the nation's far-flung population, and they were right to create postal subsidies to assure that the public was informed. The authors of the First Amendment were right when they created a document that banned any law "respecting" freedom of religion, but only banned laws that "abridge" freedom of the press. The founders believed in laws that would enhance the press, including those providing for postal subsidies, public notices and other devices that would help to ensure financial stability. The authors of the Federal Communications Act and the early members of the FCC were right to require that stations provide news and public affairs coverage in return for receiving a federal license to broadcast. Those who wrote the Public Broadcasting Act were correct when they found a way to fund public broadcasting, and the credibility of government-funded news on public radio and public television stands as a testament to their wisdom.

We live in an era of profound technological change that threatens many forms of news media. We do not favor government policies that keep dying media alive. But we do believe that during this transition period, government should explore new and enhanced ways to support the production of news and information, as it has throughout our nation's history.

When possible, we also think that:

1. The government should find ways to make sure that reporters, news organizations and other content creators are paid for work that might otherwise be used without permission or compensation (which is one reason why the founders provided for copyright laws in the Constitution).

Government should explore new and enhanced ways to support the production of news and information, as it has throughout our nation's history.

2. Most government funding should be indirect, rather than direct (as it is through the Corporation for Public Broadcasting and through participating public radio and television stations).

3. Where possible government funding should be distributed according to a formula rather than as a direct subsidy for particular news outlets (as is the case with tax breaks and postal subsidies).

4. The government can play an important role by investing in technology and other innovations, as it did when it supported research on transistors, on satellite technology and on the Internet.

Above all, we urge an honest debate that recognizes the vital role that the government has played throughout our history and that it continues to play today. It would be a public tragedy to wake up one day and discover that news outlets are in even deeper trouble because hundreds of millions of dollars of public support had disappeared while no one was watching.

Some public agencies that have provided direct or indirect support to news organizations

Research Findings

by David Westphal

News Media in Crisis

Most people did not see the tidal wave coming. In June 2006 McClatchy purchased Knight Ridder for $4.5 billion plus $2 billion in debt.[1] It promptly sold off some of Knight-Ridder's biggest papers (Philadelphia, San Jose, St. Paul and Akron) to investors who also didn't see it coming. The following year Sam Zell took his own ill-fated leap, acquiring Tribune Co. in a $13 billion deal financed almost entirely by borrowed money. It would take only 12 months for Zell to take Tribune into Chapter 11 bankruptcy court.[2] The hometown owners of the *Philadelphia Inquirer* would make the same choice not quite three months later.[3] At about the same time, a private equity firm, Avista Capital Partners, which purchased the *Minneapolis Star Tribune* from McClatchy, took that newspaper into Chapter 11. (It emerged from bankruptcy court eight months later.)[4]

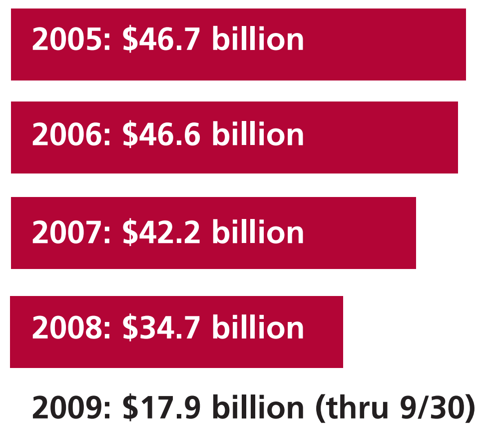
The speed with which these blockbuster deals came back to haunt their buyers suggests the nightmarish conditions that have swamped the newspaper industry in the last few years, and wreaked havoc as well at many magazines and broadcast outlets. More than 100 newspapers shut down in 2009.[5] Most were small, but some big newspapers shuttered as well, including the *Rocky Mountain News* and the *Seattle Post-Intelligencer*. The casualty list is almost certain to grow.

News businesses have always been susceptible to the ups and downs of the economic cycle, so the violent downturn of 2008 and 2009 was certain to knock them for a loop. But that was only part of what was sending their stock prices, revenues and earnings into a tailspin. All legacy media were buffeted by the rapid advance of Web-based and other digital technology that increasingly pulled consumers from traditional media. In the case of newspapers, the Web's impact was particularly brutal because it robbed them of most of their classified ads, which were by far their most profitable form of revenue. Jeffrey Klein, a former top executive at the *Los Angeles Times*, has said that in some years classified ads provided all of the *Times*' profit margin.

These are among the numbers that have rocked the news business and eliminated tens of thousands of jobs:

Bad times for ad revenues

Newspaper advertising revenue is in a free fall, down 27 percent between 2005 and 2008—and the results from the first nine months of 2009 are even worse.



Source: Newspaper Association of America

• Newspaper advertising revenue, down 9.4 percent in 2007, dropped a dramatic 17.7 percent in 2008. The picture grew even worse in 2009, with ad revenue down 28 percent through the first three quarters.[6]

• The decline of newspaper circulation also accelerated, with the number of subscribers falling below pre-World War II totals, when the country's population was half that of today.[7]

• Audiences for network evening news shows also continued to slide, even in a robust presidential election year. The broadcast networks averaged 23 million viewers in 2008. Less than two decades earlier, the networks had double that audience, even with an overall population that was 20 percent smaller.[8]

• The major weekly news magazines also experienced falling circulation, though not at the steep levels of many newspapers. *Newsweek* was down 25 percent, and *Time* was off 18 percent, between 2002 and 2009. *U.S. News & World Report* discontinued weekly publication and shifted its traditional news operations to the Web.[9]

Economic recessions have often resulted in newsroom staff reductions, but this one took a gigantic toll. Editors made round after round of newsroom cuts. Many who survived endured wage freezes, or cuts, or mandatory furloughs, or all of the above. Vacations were reduced. Pensions were eliminated; company matches on 401(k) plans were terminated. According to the Web site Paper Cuts, newspapers eliminated nearly 15,000 jobs in 2009.[10] Not atypical was the experience of the *Los Angeles Times*, whose newsroom in 2009 was less than half its size a decade earlier.

Most publications also drastically reduced news pages. Editors trimmed stock listings and TV books years ago, but now they were forced to reduce or eliminate many of their prized sections – books, arts, business, local news. Most also took a mighty whack at state, national and foreign bureaus. Newhouse, Copley, Media General and Cox all shut down their Washington bureaus.[11] Cox closed its foreign bureaus as well. Virtually every news organization that maintained a state capital presence pulled back. Statehouses like those in Denver and Des Moines, which once housed two to three dozen reporters each, have seen those numbers fall by roughly half. In some places the decline has been greater.

> *It is possible to imagine a future news ecology that will be much, much richer than the one we are leaving behind. Yet it is unclear whether that vision will really emerge, or if it does, how long it will take to happen.*

If this were the end of the story, some sort of emergency federal response might be in order. But it is not. New news sources are emerging at a rapid pace, from local community news sites to Facebook news groups to national investigative nonprofits. It is possible to imagine a future news ecology that will be much, much richer than the one we are leaving behind. Yet it is unclear whether that vision will really emerge, or if it does, how long it will take to happen. In the short run, as news resources in legacy media continue to shrink, there are questions about Americans' ability to get critical news about the government and the world, and, at this moment of uncertainty, what role the government should play.

The Government and the News Media

Throughout American history, the federal government has worn many hats in its relationship with the press and the news industry: watchdog of power among news business owners; consumer advocate championing the news and information needs of underserved or neglected communities; affirmative action catalyst for extending employment and ownership opportunities to minorities and women; regulator of the public airwaves; and provider of both direct and indirect subsidies that have been important pieces of the news industry's economic health.

State and local governments have also been benefactors of the news business. Often they have provided subsidies such as income tax deductions and credits. Local municipalities have allowed newspaper vendor boxes on city sidewalks, often charging no fee. In other cases the benefits have been indirect. One example: Nearly all states have enacted shield-law protection for reporters against prosecutors' subpoenas, something the federal government has so far declined to replicate.

This rich menu of news media policies, statutes and regulations has fluctuated significantly over the course of the nation's history, following the swings of political sentiment and technology development. The ups and downs of local radio news are a case in point. For decades the Federal Communications Commission required broadcasters to carry news programs as part of their public-interest obligation, including programs about important local issues. But those requirements have long since been eliminated. Today local radio news is a rare occurrence. All-news stations are present in most large metropolitan areas, but in many small to midsize cities, talk-radio programs, most of them syndicated national shows, are the only remnant of the heyday of radio news.

The government has had impact of that magnitude across a wide swath of American media, from the granting of licenses for radio and television broadcasts worth billions of dollars, to investments in infrastructure and technology that have expanded, and helped create, mass audiences for the news. A new burst of infrastructure development is currently under way, with the federal government spending at least $7 billion to expand and upgrade high-speed Internet across the country. This massive bet on new media may well be a smart investment that will produce long-term benefits for the nation's news and information needs. But in the short run, at least, it will work to the disadvantage of print publishers and broadcasters, who need time to make the transition to digital platforms.

Evansville COURIER & PRESS

"Take money from the government? I don't like to let anyone else pick up the check."

—Mizell Stewart III, editor of the Evansville (Ind.) Courier & Press, *in a Jan. 11, 2009, editorial titled "Newspaper Bailout? No Thanks"*

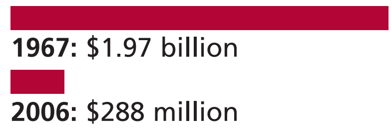
Often journalists themselves aren't aware of how much the legacy news businesses have benefited – and continue to benefit – from the support of government at all levels. "Take money from the government?" wrote Mizell Stewart III, editor of the *Evansville* (Ind.) *Courier & Press*. "I don't like to let anyone else pick up the check."[12] Similarly, Thomas Pounds, president and publisher of the *Toledo Free Press*, wrote of a government bailout for the news media: "Not 1 cent of government money should be spent."[13]

It's true that the United States government has never supported newsgathering to the extent some countries have. Government support for American public broadcasting, for example, amounts to cents on the dollar compared to many European and Asian countries. The same is true for government support of newspapers. In 2009, for example, French President Nicolas Sarkozy announced that free, one-year newspaper subscriptions would be given to those reaching their 18th birthdays – an initiative that is close to unthinkable in the United States. France also is weighing a proposal to tax Internet portals like Google to even the playing field between Internet aggregators and news content providers.

At the same time, it's not true that the U.S. government doesn't spend money supporting the American news business. It has always provided significant financial support. What's salient now is that those investments are in decline.

Postal subsidies plummet

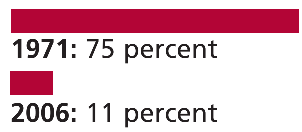
As Postal Service subsidies for mailed newspapers and magazines decline …



Sources: U.S. Postal Service, Congressional Research Service (Note: Figures expressed in 2009 dollars.)

… publishers now shoulder nearly all costs of mailing newspapers and magazines.

Subsidy level



Source: U.S. Government Printing Office

As the news industry wavers, government support declines

The late 1960s marked a high-water mark for the government's financial support for the news business. At the time, the postal service was subsidizing about three-fourths of the mailing costs of newspapers and news magazines, at a cost of about $400 million a year (nearly $2 billion in today's dollars). This benefit, in combination with other government supports such as tax breaks and paid public notices, amounted to a substantial financial boon for American news publishers. The Postal Reorganization Act of 1970 marked a turning point. The landmark legislation immediately reduced publishers' mailing subsidy by about half, and ever since, government's financial support for the commercial news business has been falling. Today, as many newspapers struggle for survival, the government appears certain to reduce its support still further by moving public notices to the Web.

These declines have not been a result of a concerted policy to reduce government subsidies and other financial support for the news business. Rather, they emerged from government funding problems and from the development of technology that paved the way for reduced support. Nevertheless, the impact is clear. At a time when news businesses are fighting to survive, the government has been reducing long-standing forms of support. Unless it changes course, that support is likely to continue declining.

Postal rates

Long before the United States was founded, the Postal Service was subsidizing the news business. It was in good measure the free-mailing privileges conferred by many postmasters that allowed a robust network of colonial newspapers to emerge. George Washington wanted all newspapers, in fact, to have 100 percent subsidized mailing costs. The Postal Act of 1792 rejected the idea of a total subsidy, but it codified highly subsidized and extremely low rates.

What brought a halt to publishers' receiving 75 percent discounts on their mailed news products was the financial crisis that engulfed the Postal Service in the late 1960s. Congress eventually decided to turn the post office into a quasi-private enterprise, to reduce the level of government support and to get out of the rate-making business. Thus was the Postal Regulatory Commission created in 1970, charged with ensuring that periodicals, along with all other classes of mail, cover the "direct and indirect postal costs attributable to that class or type." Over the next four decades that principle would eat deeper and deeper into the historical subsidies enjoyed by news publishers. In one recent round of rate increases, small news magazines were particularly hard-hit. Former publisher Victor Navasky said *The Nation*'s mailing costs shot up $500,000 in a single year – and came at a time when the magazine was already losing more than $300,000 a year.

Today, publishers' discounts for their printed news products are down to 11 percent – less than one-sixth of the level four decades earlier. Almost all of this benefit today goes to magazines. Meanwhile, newspapers' total-market-coverage advertising products are charged at rates that exceed postal service costs by $300 million. With the Postal Service facing a 2010 deficit estimated at $7 billion, prospects appear high that newspaper and news magazines will continue to experience increasingly higher rates.

Legal notices have been especially important to weekly and other community newspapers. Their trade association, the National Newspaper Association, estimated in 2000 that public notices accounted for 5 percent to 10 percent of all community newspaper revenue.

Public notices

Like postal subsidies, paid public notices trace their American origins to colonial days. And like postal subsidies, public notices mandated by the government have been a critical component of economic stability for newspapers. Yet they are almost certain to shrink drastically as a source of high-margin revenue for the commercial media. Governments at all levels are beginning to switch their public notices to the Web, a move that at best means sharply reduced billings for publishers, and at worst means they could lose the business altogether.

Public notices are government-required

announcements that give citizens information about important activities. In most cases government mandates these notices of itself or of subordinate governments; in other cases they establish publication requirements for private-sector concerns. Typical public-notice laws apply to public budgets, public hearings, government contracts open for bidding, unclaimed property, and court actions such as probating wills and notification of unknown creditors. Public agencies have required paid publication of this kind of information for decades as a way to ensure that citizens are informed of critical actions.

Historically, these fine-print notices have been a lucrative business for newspaper publishers, and have touched off heated bidding wars for government contracts. Legal notices have been especially important to weekly and other community newspapers. Their trade association, the National Newspaper Association, estimated in 2000 that public notices accounted for 5 percent to 10 percent of all community newspaper revenue.

While other forms of advertising have plummeted, public notices have been a bright spot for publishers. Although small newspapers are the chief beneficiaries of public notices, nearly all newspapers benefit to some extent. *The Wall Street Journal*, for example, has a contract with the government to print seized-property notices. In a four-week study, we discovered that the government was a top purchaser, by column inches, of ad space in the *Journal*. It's a business the newspaper would like to expand. In 2009 it was battling with Virginia-area papers to get its regional edition certified to print local legal notices.

But the era of big money in public notices will almost certainly fade away. Proposals have been introduced in 40 states to allow local and state agencies to shift publication to the Web, in some cases to the government's own Web sites. Responding to *The Wall Street Journal*'s efforts to get a share of the public-notice revenue in Virginia, a circuit court judge in Norfolk said it "may be an opportune time for the General Assembly to revisit the issue of notice by publication in light of the variety of electronic means of mass communication available." The media industry has beaten down many of these initiatives so far, but in a clear indication of future trends, the shift is beginning to happen. The Obama administration's Justice Department announced in 2009 that it would move federal asset forfeiture notices to the Web, saving $6.7 million over five years.

State and federal tax breaks

Also likely to decline are some of the tax breaks given to news publishers, particularly those tied to sales and use tax breaks for newsprint, ink and other print-related expenses that are becoming a smaller part of the publishing business. All told, federal and state tax laws forgive more than $900 million annually in taxes related to newspapers and magazines. Print publications received about $150 million in federal tax breaks in the 2008 fiscal year – favorable rules for expensing circulation expenditures (worth about $100 million) and special treatment of magazine returns (worth about $50 million).

Most of the money from tax breaks comes at the state level. An analysis of tax data published in 37 of the 50 states showed that newspapers and magazines received state tax breaks of nearly $800 million in 2008. The largest amount, $625 million, is for a tax exemption on the sales of newspapers and magazines, and in some states from the sale of advertising services. The other tax break, totaling $165 million annually, comes from exempting sales and use taxes on newsprint, ink, machinery and related manufacturing equipment. Eleven states did not report or tabulate industry-specific data, so the actual total of state tax breaks for newspapers and magazines could well exceed $1 billion annually. Some of these tax breaks are more valuable to the news business than others. For example, only a portion of the tax exemption on newspaper and magazine sales represents a monetary benefit. However, these tax preferences still provide a tangible subsidy, and all result in revenue losses for the government.

Federal and state tax laws forgive more than $900 million annually in taxes related to newspapers and magazines. Print publications received about $150 million in federal tax breaks in the 2008 fiscal year.

At least one state has recently taken action to increase its tax subsidies to newspapers. In 2009, with one of its largest newspapers (the *Seattle Post-Intelligencer*) about to cease publication, Washington state enacted a $1.3 million tax break for the state's newspapers. Gov. Christine Gregoire, signing the legislation, acknowledged that it amounted to a token subsidy for a statewide industry with hundreds of millions in revenue. "The industry has to right itself, and government can't and won't be a part of it righting itself," she told the Associated Press. "But I don't want government to be part of the reason that this industry can't make it." David Zeeck, publisher of the *News Tribune* of Tacoma, said the legislation would save his newspaper about $100,000 – enough to save the jobs of two reporters.

The cumulative effect of reduced government support is not the primary problem afflicting news businesses today. Newspapers alone have lost more than $20 billion in revenue in the last three years; at most the reduction in government assistance amounts to a few billion dollars. Yet this funding provides building blocks for economic survival, and the cutbacks land harder on some than others. Small businesses have been particular targets. Reductions in postal subsidies and, prospectively, public notices fall particularly hard on weekly newspapers and small magazines.

Further, they raise this question for policymakers: If two centuries of government assistance for the news business are disappearing, and disappearing at a particularly difficult time for publishers, are there steps government should now take to make certain democracy's information needs continue to be met?

Digital media to the rescue?

The Internet is both an existential threat to the survival of mainstream media, particularly the printed sheet, and a powerful reason to be hopeful about the future of news and information. The Web's promise of being the electronic connector for all humanity means it may evolve into a superlative vehicle for providing the information citizens need. Instead of a few publishers, there are millions. Instead of one-way communication there is two-way, and multiple-way. Instead of a single medium there are many – text, audio, still images, video, animation. Instead of regularly scheduled broadcasts and newspaper and mail delivery, there is never-ending information. In theory at least, no voice need be unheard in an absolutely wired world. As Clay Shirky so eloquently put it in the title of his book, *Here Comes Everybody*.

While the World Wide Web is not yet 20 years old, it has quickly shown what cyberspace can do to the quality of news and information Americans receive. Today, a user almost anywhere in the world can have instant access to tens of thousands of information sources. With few exceptions, all of the journalism of big global news organizations is available, from *The New York Times* to the BBC to *China Daily*. But that only scratches the surface. Most small to medium-size news organizations are present on the Web as well. And even that is dwarfed, in size, by millions of bloggers who have joined the ranks of publishers. While some are adding little to the store of global knowledge, many others are contributing important morsels that add up to giant storehouses. Two cases in point: It was bloggers contributing information to Talking Points Memo that helped it report on the firing of nine U.S. attorneys in the Bush administration.[14] And it was bloggers who discovered that CBS' "60 Minutes" had relied on bogus information in questioning the National Guard service of former President George W. Bush.[15]

The digital revolution has added or enriched new forms of journalism: fact-checking sites that let citizens go to trusted sources to sort out competing claims; micro-local reporting on communities and neighborhoods that had been too small to be served by traditional media; vast source material, including Wikipedia and original transcripts; historical data from governments and other institutions.

All of these riches are flooding into a networked world that is only starting to demonstrate what can happen when individuals and groups are in touch with everyone else. The 2009 public rallies and protests in Iran illustrate the power of individual witnesses to tell stories if only they were attached to the grid with a Twitter or Facebook account. The gripping video showing the death of Neda, who was a mere observer of the Iranian protest, went from a passerby's cellphone to tens of millions of viewers in a flash.

Even some of the reporting arenas that have seemed most threatened because of cutbacks in mainstream news organizations have shown strength in the digital space. Foremost is the field of investigative reporting, an expensive but vital endeavor that newspapers and broadcast outlets have abandoned in large numbers in recent years. To the surprise of many, investigative work has been taken up by a growing number of nonprofits at national, state and local levels. Also of some surprise, foundations have provided increasing funding for nonprofit Web sites that are filling some of the gaps left by a shrinking mainstream media. These developments have led Dan Gillmor, a visionary in the digital news world, to declare that there's no longer any doubt about the success of new media. "I'm completely sure we're going to make this transition just fine," Gillmor told a journalism educators conference in Boston.

Should the future be as bright as Gillmor believes, there may not be a need for government to play a role in slowing down or blocking the meltdown of newspapers, news magazines and other players in the news business. Someday we may look back and wonder why anyone worried about losing a news industry that proved to be significantly inferior to the one that replaced it. For now, though, it's too early to know whether the digital world's potential will be fulfilled, and whether as-yet unobserved problems could derail this movement. If everybody is coming, as Shirky says, we don't yet know when they'll arrive or what will happen when they do. Shirky, among others, believes we're entering a period when accountability reporting has been severely reduced, and government corruption could run rampant. At a minimum, our society needs a good contingency plan.

Government's challenge

Policymakers at every level of government face a challenge that has taxed anyone who has sought to understand the revolutionary changes affecting the news business. The emergence of digital news and broadband connectedness has turned longstanding principles and assumptions on their head. What does it do to antitrust regulation when news dissemination is distributed among millions of online producers? What happens to the body of regulations formulated by the Federal Communications Commission when a cellphone video can have wider viewership than the evening newscast? What does the Federal Trade Commission do when confronted with an overwhelming volume of publicly available messages that run the gamut from fact to fabrication? Who is a journalist? Who is not?

A body of laws and regulations governing the news industry has grown up at the Justice Department, the Federal Communications Commission and the Federal Trade Commission over many decades; much of it is outdated. What applied to an industry with a relatively small number of players is no longer good policy for a news ecology with millions of publishers. There are, for example, questions about the validity of cross-ownership rules designed to ensure multiple news voices in communities. Technology is making some old statutes simply unworkable.

For years, many governmental regulators were in a status-quo mode with respect to the news business because this "mature" industry was undergoing little fundamental change. Printing pressess and TV broadcasts were the unrivaled purveyors of the news. Now, though, federal, state and local governments are being forced to revisit their policies toward the news industry because the industry is being transformed.

What happens to the body of regulations formulated by the Federal Communications Commission when a cellphone video can have wider viewership than the evening newscast?

More fundamental: Is a new form of government intervention prudent, and necessary, to ensure that Americans have access to the kind of information they need in a democracy? There's a second, potentially trickier question: If there is such a need, is government capable, amid such overwhelming change in the news business, of making choices that will make things better?

There are few obvious guiding stars, but two seem clear. First, government has an extremely important interest in what is now transpiring in the news revolution. American government doesn't work if citizens don't have a robust supply of reliable news and information. What's playing out in the news business, then, is really in the realm of a vital national interest. Our society can't afford to let policymakers be mere spectators while these remarkable changes flash by. Second, policymakers should not shy away from considering new investments in news and information. Government has supported the news industry for more than 200 years, but is now reducing much of its aid even as the news business is fighting for survival. It's entirely appropriate and prudent, then, for government to consider new forms of assistance.

Many ideas have been thrown into the hopper: establishment of a WPA program for out-of-work journalists; revision of tax laws to allow newspapers to become nonprofits; tax credits for taxpayers who subscribe to newspapers;

an antitrust-law timeout to allow publishers to form a common strategy; new federal investment in digital research.

Congress and the administration should also think anew about its public broadcasting and international broadcasting policies. Here are two ideas worthy of consideration:

• Increase government funding of public broadcasting. News coverage on public radio and TV has the highest trust ratings of any American media. At the same time, U.S. tax support for public broadcasting is minuscule compared to many European and Asian countries. In short, policymakers have in public broadcasting an almost sure-fire bet for strengthening the quality and scope of news and information.

• Relax restrictions on domestic consumption of news reports by Voice of America, Radio Free Europe/Radio Free Liberty and other government-funded international broadcasters. These broadcasters have talented journalists in bureaus around the world, and the United States spends half again as much on international broadcasts aimed at foreign audiences as it spends on public broadcasting. Yet these entities are barred by law from distributing their news reports to an American audience.

Case in point: A Minnesota radio station wanted to run broadcasts by the VOA's Somali service so that its audience – mainly Somalis who were getting news from other entities broadcasting in the Somalian language – would hear reports by a reliable source of news. Adhering to a law adopted 60 years ago, the VOA was forced to say no. In an era when all Americans, including expatriate populations, have access to both outstanding news sources and propaganda from around the world, it makes little sense to deny them excellent reports funded by the United States. Technology is making this prohibition mostly obsolete. It's no longer possible to quarantine newscasts by VOA, RFE/RL, Alhurra and others, which are gaining a big domestic audience on the Web. A recognition of that reality would make this nearly $700 million annual investment in news coverage more useful to the American public.

Framework for government action

As policymakers debate how to respond to the fast decline of the news business, we offer the following principles as guidance:

• First and foremost, do no harm. A cycle of powerful innovation is under way. To the extent possible, government should avoid retarding the emergence of new models of newsgathering.

• Second, the government should help promote innovation, as it did when the Department of Defense funded the research that created the Internet or when NASA funded the creation of satellites that made cable TV and direct radio and TV possible.

• Third, for commercial media, government-supported mechanisms that are content-neutral – such as copyright protections, postal subsidies and taxes – are preferable to those that call upon the government to fund specific news outlets, publications or programs.

However policymakers proceed, they should do so based on facts rather than myths. The government has always supported the commercial news business. It does so today. Unless the government takes affirmative action, though, the level of support is almost certain to decline at this important time in the history of journalism.

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A complete copy of this report is available online at **www.fundingthenews.org**.

The website also features supplemental research into eight specific areas: postal rate subsidies, tax policy, broadband expansion, international broadcasting, public broadcasting, public notice requirements, copyright laws and antitrust regulations.

In addition, the website includes links to current proposals for government intervention and links to public hearings and other action on these issues.

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Rahul Nilakantan investigated tax policy at both federal and state levels and also researched the history of postal subsidies granted to publishers.

Shawn Powers researched three areas of American domestic policy: public broadcasting, international broadcasting and U.S. broadband policy.

Matthew Weber developed a history of antitrust policy with respect to the news industry, and wrote about public-notice mandates.

Readers will find their work informed and illuminating. All eight of their working papers can be found at the project Web site, **www.fundingthenews.org**.

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