

TESTIMONY OF JAMES M. MORONEY III
PUBLISHER AND CHIEF EXECUTIVE OFFICER

THE DALLAS MORNING NEWS

Before the

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION

SUBCOMMITTEE ON COMMUNICATIONS, TECHNOLOGY, AND THE INTERNET

May 6, 2009

EXECUTIVE SUMMARY

- Daily newspapers have by far the most newsgathering resources, and the strongest commitment to local news and investigative journalism, of any media. As such, they play an indispensable role in informing citizens about local issues and newsworthy events and, ultimately, in safeguarding democracy.
- Yet, as a relentless string of events over the past year has made clear, the newspaper industry is in crisis. Because of intense and growing competition for advertising, particularly from Internet-based services, newspapers have experienced a continuous and dramatic loss in the advertising revenues that traditionally have been their primary source of income.
- While the current economic recession has exacerbated these losses, the end of the recession will not necessarily mean that these advertising earnings will return. Thus, newspapers are in the midst of a secular shift that is posing a serious, long-term threat to the revenues that make their cost-intensive, public service-oriented journalism feasible.
- There are several steps that Congress should take both to help newspapers weather these perilous economic times and to give them the flexibility they will need to adjust their business models in response to more enduring changes in the industry:
 - **Temporary Tax Relief:** As a means of providing newspaper publishers with a critical and immediate infusion of capital, Congress should pass legislation that would extend the carryback period for net operating losses from two to five years.
 - **Greater Antitrust Flexibility:** Congress should act quickly on legislation that would provide newspapers with a limited antitrust exemption to experiment with innovative content distribution and cost saving arrangements, albeit under an expedited review process at the Department of Justice.
 - **Fair compensation for Content:** Congress also should ensure that newspaper publishers have the means to obtain reasonable compensation from Internet companies that reproduce or repackage their content for their own commercial gain—perhaps through the establishment of a “consent for content” principle that would apply to breaking news.

I. INTRODUCTION

Good afternoon, Chairman Kerry, Ranking Member Ensign, Committee Chairman Rockefeller, Committee Ranking Member Hutchison and other members of the Subcommittee. My name is Jim Moroney. I am the publisher and Chief Executive Officer of *The Dallas Morning News*, which serves a readership of more than 1.5 million and is the leading newspaper in Texas. My company, A. H. Belo Corporation, also owns newspapers in Providence, RI and Riverside, CA. I am a member of the Board of Directors and Executive Committee of the Newspaper Association of America (“NAA”), a nonprofit organization representing nearly 2,000 newspapers in the U.S. and Canada.

I would like to thank you for holding this hearing today on the critically important topic of the future of journalism in this country. Daily newspapers are the nation’s preeminent source of local news and investigative journalism. In order to continue serving in these all-important capacities, newspapers will need both the resources to weather these perilous economic times and the flexibility to adjust their business models in response to more enduring changes in the industry. While there is no silver-bullet solution to the complex problems our industry is confronting, there are several steps that Congress can take to assist newspapers—the foundation of local journalism.

II. DAILY NEWSPAPERS ARE AN INDISPENSABLE SOURCE OF PUBLIC INFORMATION.

In communities of all sizes throughout the country, daily newspapers provide the most comprehensive and highest caliber news and information available. As such, newspapers play an indispensable role in informing our citizens about local issues and newsworthy events and, ultimately, in safeguarding our democracy.

The reason newspapers are so essential to a well-informed citizenry is relatively simple. In most markets, they have far and away the most extensive newsgathering resources of any local media. At *The Dallas Morning News*, for example, we spend more than \$30 million in our newsgathering operation and have more reporters on the street than the local ABC, CBS, NBC and FOX affiliates combined. Daily newspapers also have an unparalleled dedication to in-depth reporting, analysis and investigative journalism. If daily newspapers were unable to continue their time-honored practice of pouring extensive time and resources into lengthy and costly investigations, we currently see no other comparable news provider with the resources and resolve to step into this watchdog role, especially at the local level.

Additionally, it's evident to all that daily newspapers are the primary source of information for other media outlets. TV and radio stations depend on newspapers for much of their local news. Similarly, while online news sources certainly compete with daily newspapers and may add personal perspective, much of the commentary on the Internet originates from information initially reported by newspapers. Thus, without vigorous and financially healthy newspapers, a critical link would be missing from the news reporting value chain.

For all of these reasons, it is not surprising that a growing body of empirical evidence confirms that newspapers can have a substantial and measurable impact on public life. For example, a study released by Princeton University earlier this year examined communities that lost newspaper coverage due to the closing of *The Cincinnati Post* in 2007.¹ The study concluded that, in towns that previously had been covered by the *Post*, voter turnout dropped, fewer people ran for public office, and more incumbents were re-elected after the paper ceased publication. While the study was small in scope, it suggests that the absence of daily newspapers could have far-reaching negative effects on some of our core democratic principles.

III. DAILY NEWSPAPERS ARE FACING UNPRECEDENTED AND ACUTE FINANCIAL PRESSURES.

There can be little question that the newspaper industry is in the midst of a monumental retrenchment. In the past several months alone, one major market daily has folded, another is surviving only as a dramatically scaled down online service, and a handful of others have cut back their printing operations substantially. Since December, five major newspaper publishers have declared bankruptcy. Virtually all publishers in every market—large and small—have been forced to lay off journalists, and take other drastic cost-saving measures. Industry-wide, nearly 9,000 newspaper employees already have lost their jobs in the first four months of this year.²

¹ Sam Schulofer-Wohl and Miguel Garrido, Woodrow Wilson School of Public and International Affairs, *Do Newspapers Matter? Evidence from the Closure of The Cincinnati Post* (March 2009).

² See Paper Cuts, at <http://graphicdesignr.net/papercuts/>

We have not been immune to these trends at the *The Dallas Morning News*. We have been forced to lay off highly-valued newsroom employees during the past 12 months. In addition, we have experienced a number of cost-saving measures that have been implemented by our parent company, A. H. Belo Corporation, including company-wide salary and benefits reductions. Taking these actions has been very difficult for our company, but they were done with the ultimate goal of maintaining our long-term ability to be the leading provider of local news and information in the markets we serve.

While it is important to discuss the reasons behind the current crisis, it is equally important to note one factor that is not causing it: a decline in readership. In fact, newspapers today have more readers than ever, and their content never has been more popular—even among many young people. Although print circulation generally has been falling, the audiences of newspaper websites continue to grow at a rate that outpaces these losses. Just last week it was reported that print circulation dropped 7 percent industry-wide during the past year, but online readership of newspaper websites jumped 10.5 percent during the same period.³

Rather, the driving force behind the current downturn in the newspaper industry has been a dramatic and relentless drop in advertising revenues, which traditionally have accounted for approximately 80 percent of newspaper revenues. Over the past two years alone, advertising revenues have declined 23 percent, and recent reports predict an additional 30 percent drop in the first quarter of this year alone. This means that, if this downward trend

³ See Time Arango, “Fall in Newspaper Sales Accelerates to Pass 7%,” NY Times, at B3 (Apr. 28, 2009).

continues, newspapers could experience a 50 percent drop in advertising revenues over a three year period. Even online advertising—which often has been hailed as the industry’s most promising future growth engine—declined in 2008 and accounted for less than 10 percent of overall revenue.⁴

The economic recession surely has exacerbated these troubles. Advertisers across the country dramatically have cut spending to stem their own revenue losses, and this trend has had an inordinate impact on newspaper publishers. However, the end of the recession will not necessarily mean that these advertising revenues will return. Newspapers also have been subject to intense and growing competition for consumers and advertising dollars from Internet companies and other “new media” in addition to that from traditional sources such as television, radio, cable, yellow pages and direct mail. As a result, newspapers are in the midst of a secular shift that is posing a serious, long-term threat to the revenues that make their cost-intensive, public service-oriented journalism feasible.

If there were an easy fix to this fundamental problem, it already would be in the works. Unfortunately, the industry has a lot of work ahead of it to create and implement new strategies that will ensure that newspapers remain viable and able to continue serving as our nation’s foremost providers of news and information long into the future.

⁴ See PEJ, 2009 State of the News Media (note 2, *supra*).

IV. **NEWSPAPERS WILL NEED ASSISTANCE FROM LAWMAKERS AS THEY SEEK TO EMERGE FROM THE CURRENT CRISIS AND REEVALUATE THEIR BUSINESS MODELS.**

The Dallas Morning News and our fellow NAA members believe that there are several steps that Congress and regulators can take that will both provide short-term relief to the industry and ensure that, over the long term, newspaper publishers will have the flexibility they need to explore and implement new business models. These actions consist of: (1) temporary tax relief that would extend the carry-back period for net operating losses; (2) affording newspapers greater antitrust flexibility; and (3) ensuring that publishers are fairly compensated for their content. We do not seek a direct subsidy of any kind.

Temporary Tax Relief: First, as a means of providing newspaper publishers with an immediate lifeline, we support legislation (S. 823) introduced by Senators Baucus and Snowe, which would extend the carryback period for net operating losses (NOLs) from two years to five years. In essence, this proposal would enable publishers and other businesses to offset losses incurred in tax years 2008 and 2009 against earnings over the past five years. This bill would provide newspapers with a critical infusion of cash that would enable them to better navigate through the current economic crisis. It also would help newspapers preserve the jobs of journalists and other highly-valued newspaper employees, continue providing topnotch in-depth and investigative reporting, and invest in initiatives to ensure long-term viability.

Greater Antitrust Flexibility: Second, the newspaper industry should be accorded more flexible antitrust treatment. The antitrust laws are essential to fostering competition and

protecting consumer choice, but when it comes to daily newspapers the enforcement of these laws does not reflect current marketplace realities. The application of the antitrust laws to newspaper publishers is premised on the now outdated view that daily newspapers compete exclusively with one another. As the advertising revenues that are the lifeblood of the industry increasingly are being siphoned off by the Internet and a host of other competitors, it has become painfully apparent that this premise no longer holds true.

Congress should provide critical assistance to newspapers by acting quickly on legislation that would provide newspapers with a limited antitrust exemption to experiment with innovative content distribution and cost savings arrangements. This limited antitrust relief, with proper but expedited review at the Department of Justice, would enable newspapers to reduce costs and achieve other efficiencies that, in turn, would help them maintain the high-quality journalism that is so important to our democracy. Such legislation also would provide newspapers with some essential breathing room to share ideas and jointly explore innovative business models that will help newspapers transition for the future.

Fair Compensation for Newspaper Content: Third, aggregators, search engines, and other online news forums routinely receive a free ride on the investments that newspapers are making in local journalism. Newspaper publishers should be able to obtain reasonable compensation from Internet companies that reproduce newspaper content for a commercial purpose. Many of these operators copy or summarize a link to newspaper content in order to drive search or audience to Web sites, then sell advertising wrapped around this newspaper content. The concern here is not the personal use of newspaper-generated content, which the majority of newspaper publishers willingly offer for free to individual

Internet users, but the use of newspaper generated content for someone else's commercial gain. Perhaps it is time for Congress to establish a principle of "consent for content" for breaking news—similar to the "hot news" doctrine recognized by a few states. Such a principle bears an interesting similarity to the system of retransmission consent adopted by this Committee and the Congress in the 1992 Cable Act. There, cable systems and others that carry, and profit from the carriage of, local broadcast signals need permission—that is, "retransmission consent"—to carry the signals. This system serves as a critical means for broadcasters to get a fair return on their content, and its underlying rationale could seemingly be extended to serve as a financial bulwark for local journalism.

V. CONCLUSION

Once again, I appreciate the opportunity to appear before you today. Hopefully, these discussions will lead to practical actions that will help maintain the type of journalism that local communities deserve and expect.