

Statement of

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Joint Economic Committee

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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 co-founder 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."<sup>1</sup>

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

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<sup>1</sup> Zandi, Mark. "Assessing the Economic Benefit of Accelerated Depreciation and Net Operating Loss Carryback." September 17, 2009.

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.