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# Whither Newspapers? Wither Newspapers?

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## Whither newspapers? Wither newspapers?

By: admin April 13, 2009

It is almost impossible these days to open a newspaper without seeing a story suggesting it may soon be almost impossible to open a newspaper.

All over the country, newspapers are laying off staff (about 15,500 last year, perhaps half of them journalists); eliminating sections (like the Washington Post's daily business section and weekly book review section); reducing home delivery (like the Detroit News and Detroit Free Press, to Thursday, Friday, and Sunday); seeking Chapter 11 protection (like the Minneapolis Star-Tribune, the Philadelphia Inquirer and Daily News and Baltimore Sun parent Tribune Co. ); dropping from daily to weekly publication (like the Christian Science Monitor); publishing only on the Web (like the Seattle Post Intelligencer); or closing altogether (like Denver's Rocky Mountain News).

And when the newspapers are not lamenting their economic misfortune, they are reporting what Editor and Publisher has called a "cacophony of advice" from just about anyone on how they should transform themselves. Some examples from the newspaper trade press: seek an antitrust exemption and share content and advertising, as well as production facilities and circulation operations; forget about print and develop a new business model for online delivery; lobby for federal bailout money.

Now Senators Benjamin Cardin and Barbara Mikulski have introduced federal legislation proposing another solution — allowing newspapers to become nonprofit educational organizations.

The Newspaper Revitalization Act, S.673, introduced March 24, allows newspaper corporations to be treated as tax-exempt 501(c)(3) organizations if they regularly publish a general circulation newspaper containing local, national and international news stories, where the newspaper is "necessary or valuable in achieving an educational purpose" and the preparation of its articles "follows methods generally accepted as educational in character."

### **Dire straits**

The bill would exempt from taxation all revenue from subscriptions and from the sale of commercial advertising space "to the extent that the space allotted to all such advertisements does not exceed the space allotted to fulfilling the educational purpose" of the newspaper. Presumably, that means the newspaper could have a 50:50 advertising-to-editorial ratio and maintain its tax-exempt status. Charitable contributions to such newspapers would also be tax deductible.

"We are losing our newspaper industry," Cardin said. "The economy has caused an immediate problem, but the business model for newspapers, based on circulation and advertising revenue, is broken, and that is a real tragedy for communities across the nation and for our democracy.... This may not be the optimal choice for some major newspapers or corporate media chains, but it should be an option for many newspapers that are struggling to stay afloat."

We agree with Senator Cardin (who has written on this topic in this paper and the Washington Post) that the newspaper business is in dire straits. And his solution has much to commend it.

David Swensen and Michael Schmidt, who manage Yale University's highly successful endowment fund, wrote an op-ed piece for the New York Times in which they argue that newspapers ought to be transformed into nonprofit, endowed institutions like colleges and universities.

"Endowments would enhance newspapers' autonomy while shielding them from the economic forces that are now tearing them down," they wrote.

Senator Cardin further points out that the proposal would not involve any direct infusion of taxpayer funds and, given the decline in newspaper profits, would not result in any substantial loss of federal revenue.

### **Content restrictions**

Still, we cannot help but feel a little uneasy about the increase in newspapers' entanglement with government that nonprofit status would entail. Of course, newspapers have always received some special treatment from government, from antitrust waivers for joint business operations to favorable postal rates. Moreover, the latter carry some restrictions on advertising-to-editorial ratios. But nonprofit status crosses a line that has never been crossed before: restricting editorial content.

While Senator Cardin assures all that newspapers “would be permitted to freely report on all issues, including political campaigns... editorialize and take positions on issues affecting their communities,” he acknowledges that they would not be permitted to make political endorsements — eviscerating one of the functions that has characterized newspapers since the beginning of the Republic.

That’s today; tomorrow, the Congress, the courts, or the Internal Revenue Service might interpret or change the 503(c) rules to further restrict newspapers’ content.

Senator Cardin also has pointed out that his measure is “targeted at local newspapers serving communities, not large newspaper conglomerates.”

We’re not entirely sure what that means. Nearly all general circulation newspapers serve communities, including the New York Times, and many of the smallest, most localized papers are owned by large newspaper conglomerates.

But whatever it means, we are concerned that for-profit newspapers will have a measure of editorial freedom denied the new nonprofit papers.

Finally, there are alternatives to nonprofit status that ought to be explored by Congress. One of them, the Low-Profit Limited Liability Company or L3C, seems to be gaining some traction in the newspaper industry, although some legislative models also seem to bar political endorsements.

Under the L3C model, newspapers would remain for-profit businesses, but would be allowed to take investments from charities and foundations on the ground that they have a “social benefit.”

The L3C corporate structure would also allow investments in struggling newspapers by advertisers, suppliers, and other businesses. The structure has been approved in three states and is pending in as many as 10 others.

### **Weigh the trade-offs**

We applaud Senators Cardin and Mikulski’s concern for newspapers, and we applaud their thinking “outside the box” to try to remedy the situation. We encourage the Senate Finance Committee to hold hearings on The Newspaper Revitalization Act, as well as alternatives like L3C, so the public can weigh all of the trade-offs associated with any government intervention in the marketplace of ideas.

Editorial Advisory Board members James Astrachan and Robert D. Kalinoski did not participate in this opinion.