

**Opening Remarks of Chairman Jon Leibowitz
FTC News Media Workshop
December 1 - 2, 2009**

**“Creative Destruction” or Just “Destruction”
How Will Journalism Survive the Internet Age?**

1. Introduction.

I want to welcome all of you today to the FTC’s workshop titled “How Will Journalism Survive the Internet Age?”

Since the beginning of our Republic, journalism has been essential to making democracy work. By ensuring that citizens are well-informed about civic matters, news journalism helps create the informed electorate that is vital to a well-functioning democracy. Put simply, and I am speaking to the journalists in the audience, regardless of platform: You help us make sense of an evermore complicated world. You hold us accountable when we are not doing our jobs properly. You provide a way for the myriad of American voices to be heard. You are the day-to-day champions of our First Amendment values.

But now journalism—at least in the traditional sense—is in trouble. New forms of competition in advertising are disrupting the business model that has sustained most journalism in the U.S. for more than 150 years. In response, both incumbent news providers and new entrants are searching to find the business models that will enable them to thrive into the future. Many factors have driven this change, including some

self-inflicted wounds. But in the long run, competition made possible by the Internet is at the center of these changes.

This kind of disruptive competition is often called “creative destruction.”¹ It usually involves an innovative business model, sometimes combined with new technologies, that explodes past practices and gives long-term benefits to consumers. That is certainly true of the Internet as a whole, which has brought extraordinary and wide-ranging benefits to the American public.

For journalism, however, the concern is that “creative destruction” caused by Internet competition will destroy more than it creates. Whatever the new business models for journalism may be—and we have seen some glimmers of light in endeavors such as voiceofsandiego.org, “Talking Points Memo” and ProPublica—they are not yet fully apparent or fully sustainable. At the same time, we are witnessing a quantifiable—and, some would say, qualitative—demise of the Old World Order of news delivery.

That is why it still remains an open question whether the changes to news gathering amount to “creative destruction” or simply “destruction.”

Probably, it is some of both.

We are here to discuss these issues with many of America’s leading publishers, editors, writers, media analysts, scholars, advertising executives, and consumer advocates. Some of you are beginning new careers online, as citizen journalists, bloggers, or publishers of news. All of you face a new job requirement: to be an innovator in a shifting news landscape. We expect to learn a great deal from you, and

the Commission appreciates your willingness to share your experiences with us.

2. Why We Are Holding This Workshop.

a. The FTC's Policy Mission

The Federal Trade Commission is well-known for its law enforcement activities in the competition and consumer protection arenas. Also important, but less well known, is the policy function that Congress assigned to the FTC at our inception.

In 1914, President Woodrow Wilson addressed a joint session of Congress to advocate a federal trade commission that would be an “indispensable instrument of information and publicity, a clearing house for the facts by which both the public mind and the managers of great business undertakings should be guided, and as an instrumentality for doing justice to business where the processes of the courts or the natural forces of correction are inadequate.”² Justice Brandeis also endorsed this vision, stating in 1915 that the “greatest work” the FTC could undertake would be “to investigate the facts of trade, and to bring out those facts.”³ Lawmakers agreed. They gave our Agency authority under the FTC Act to investigate and make public new developments in the marketplace and, where appropriate, make legislative recommendations.

For decades, the FTC has embraced this policy role—from a study of radio broadcasting in the 1920s that influenced passage of the Federal Communications Act of 1934 to more recent reports on subjects as diverse as health care competition, patent reform, and behavioral marketing. With this workshop today, we continue to fulfill that congressional mission to bring out the facts in the marketplace.

“Creative Destruction” and the Business Model for Journalism

b.

We are living through a period of extraordinary change in which the bottom seems to be falling out of the news business as consumers shift their habits in acquiring news. This is not to say that all news organizations are experiencing these forces at the same time and in the same way. Newspapers overall were still profitable in 2008.⁴ Consumers still use TV as their primary news source.⁵ But major changes are underway.

The facts are striking. Newsrooms across the country have cut staff. The Pew Research Center’s 2009 Report on the State of the News Media projects that by the end of 2009, the newsrooms of American dailies may employ between 20 percent and 25 percent fewer people than in 2000—with higher losses at big-city metro dailies, including leading papers like the *Washington Post*, where my wife works.⁶

You can’t walk into a meeting at the *Los Angeles Times*, as I recently did, without feeling a sense of shock at the row after row of empty desks in what was once a bustling newsroom.

The shuttering of a foreign bureau—or of an office covering a statehouse or city hall—may be less apparent but no less problematic. Local newspapers have failed in greater numbers than we have seen in a long time. The loss of a local newspaper can be devastating to a community.

To be certain, short-term factors have played a significant role in the cuts at newsrooms and bankruptcies of news organizations—including the current recession and debt overhang from highly leveraged media deals. But at the core of these

dramatic changes is a long-term factor: the Internet is dramatically reducing advertising revenue for news organizations. For many years newspapers earned about 80 percent of their revenue from advertising. Recently, however, ad revenue for newspapers has been dropping significantly, falling 23 percent between just 2006 and 2008 alone, according to the Pew study.⁷ Local TV⁸, mass audience news magazines⁹, and radio news¹⁰—all of which also rely significantly on ad revenue for funding—have seen troubling declines as well. The Pew Report concludes: “[t]he problem facing American journalism is not fundamentally an audience problem or a credibility problem. It is a revenue problem—the decoupling of advertising from news.”¹¹

Of course, the benefits to American consumers of the Internet are momentous. Gone are the days where consumers could only get news—and be exposed to advertising—from a few TV stations, a local newspaper or two, and a relatively small number of radio stations. There are many new ways for consumers to get information over the Internet and there are many new ways for advertisers to reach these consumers.

Even more important, American citizens now can find many more sources of news and other information on the Internet than they previously had available. We can share news stories, react to them, and even help gather the news in ways never before possible. We can dig deeper into the topics that interest us. We can browse through the news—or, for some of us, sports—several times a day instead of waiting for the local TV news broadcast at 6:30 pm or the headlines in tomorrow morning’s newspaper. We can advertise on Craigslist for free.

Because of the Internet, consumers have access to more of the content they want, when they want it.

c. The Need to Examine the Changing News Business

Does what is happening to journalism fit the usual model of “creative destruction”? For example, when Gutenberg invented the printing press, that was bad for those who illustrated bibles by hand. When the federal government under President Eisenhower built the Interstate highway system, that was bad for those who owned hotels on old federal highways. When the Internet allowed for the creation of on-line travel sites that let folks shop directly for discounted airline tickets and hotels, that was bad for those who worked at travel agencies.

Those whose hotels and travel agencies were shuttered went on to find other jobs – some, perhaps, in related fields, but some not. But the same type of outcome is not necessarily sufficient in the market for news. We still need journalists to be watchdogs and do investigative reporting, for example. But they cannot keep producing the news if they are not paid for their work.

Finding a new business model for journalism will not be easy. The hard truth is that U.S. citizens have never paid subscription fees that cover all the costs of researching, gathering, analyzing, articulating, editing, and producing the civic news required for the proper functioning of our democracy. Nor do citizens in other democracies, many of which subsidize the news through public funding.

Indeed, before advertising supported the news in America, the federal government provided crucial financial support for journalism, for example, through postal subsidies and requirements to publish legal notices.¹²

Benjamin Rush, a signer of the Declaration of Independence, advocated free delivery of all newspapers over any distance, because “[t]hey are not only the vehicles of knowledge and intelligence, but the centinels [sic] of the liberty of our country.”¹³ The House and the Senate each selected printers to receive payments for publishing congressional materials, and these congressional subsidies alone ran several hundred thousand dollars annually by the 1810s.¹⁴ Only when advertising came along did journalism move to a more fully commercial model.

Our history clearly reflects the fact that the news is a public good—certainly in the sense that it is necessary for government participation by an informed citizenry. News is also a public good in the sense in which economists think of that term; that is, one person’s consumption of an item of news does not prevent another person’s “consumption” of the same item. There are high fixed costs to produce the news, but relatively low costs involved in copying it. The Internet has made those copying costs lower by orders of magnitude.

As a consequence, in markets for public goods, such as the news, consumers may free ride instead of paying the full value for what they are consuming – which means that sellers will have trouble getting paid enough to keep them producing what consumers value. This is precisely the problem facing news organizations today.

d. The Need to Advance the Discussion.

The ongoing revolution in the markets for news, then, warrants serious study for at least two reasons. First, markets for public goods such as news may work imperfectly. Competition policy is well-suited to evaluate these market imperfections.

Consumer protection policy is well-suited to help us understand the privacy and data security implications of the behavioral marketing used by media companies to increase ad revenues online. Second, and far more important, this is not just any market. The changes we are seeing in journalism will affect how we govern ourselves, not just the profits and losses of various news organizations.

3. Current Workshop.

We organize workshops like this not only to educate ourselves, but also to help educate other policymakers in Washington and to move the public debate in a positive direction. That is what we hope to do here. After a brief review of where we came from and where we are now, today's workshop participants will address emerging business models for news organizations—and, given its importance to news revenues, the future of online advertising. Tomorrow we will focus on non-profit and foundation-funding, how to reduce the costs of journalism, and how the “new news” organizations, including bloggers, fit into the puzzle.

Throughout, you will be hearing from prominent participants in business and government. Rupert Murdoch will be speaking in a few minutes, and later this morning you will hear from Arianna Huffington. Len Downie, who co-authored a report commissioned by the Columbia School of Journalism, will also speak, as will Josh Marshall, who publishes the successful online news site “Talking Points Memo.” Tomorrow morning, Henry Waxman, Chairman of the House Energy and Commerce Committee, will give remarks. Later in the day he will be followed by former FCC Chairman Reed Hundt, who will speak about the Knight Commission Report on the Information Needs of Communities in a Democracy.

You are likely to hear some disagreements among speakers at our workshop about the best way to move forward. Some will disagree that there may be a problem at all.

But there is no disagreement among any of them, I believe, about the critical importance of journalism to American democracy.

There will also be more to come. We realized that the most we could hope to do in these two days would be to get the facts and ideas about how to address these problems out on the table. We will have additional workshops in the spring to delve into various policy proposals—whether involving special tax or antitrust treatment for news gathering organizations, changes in copyright law or cross-ownership restrictions, or government subsidies (as exist for public radio and public broadcasting)—to assess the degree to which any policy response appears appropriate. We are also going to work closely with the FCC, which under Julius Genachowski has begun a major effort to look closely at the full range of issues relating to news media and an open Internet. By working together, we can do a better job of enhancing our understanding of the changing marketplace—and of whether or not government has a role to play.

My own view is that we need to understand these changes to journalism much better than we do today before we consider any changes to current law. Moreover, we are not going to undo the profound changes brought by the Internet—nor do we want to. But aside from that, we should be willing to take action, if necessary, to preserve the news that is vital to democracy.

4. Conclusion

Once again, thank you for coming. We hope that by holding this workshop—which, by the way, we are webcasting and twittering (just to prove we’re not Luddites)—we can help shine a light in the right places. Now I will let Susan DeSanti, the FTC’s Director of Policy Planning, share some housekeeping items for how today will work and then introduce our first two speakers.

Endnotes

¹ Joseph A. Schumpeter, *Capitalism, Socialism, and Democracy*, George Allen & Unwin, Ltd., London (1994) (orig. publ. 1942), p. 83. This is what Schumpeter wrote: “The opening up of new markets and the organizational development from the craft shop and factory to such concerns as US Steel illustrate the process of industrial mutation – if I may use that biological term – that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact of Capitalism. It is what capitalism consists in and what every capitalist concern has got to live in.”

² H.R. Doc. No. 625, 63d Cong., 2d Sess. 3 (1914).

³ Hon. Louis D. Brandeis, Testimony before the Federal Trade Commission, April 30, 1915 (Washington, DC), p. 9-11.

⁴ Pew Research Center’s Project for Excellence in Journalism, *An Annual Report on American Journalism: The State of the News Media 2009* (hereinafter “Pew Report”), 2009, at 8.

⁵ See Mike Bloxham, *Mapping the Modern Media Ecosystem*, FTC Media Workshop, December, 2009.

⁶ Pew Report at 9.

⁷ *Id.*

⁸ Pew Report at 20 (“Local television ad revenue fell 7% from the year before, and was expected to fall another 7% to 11% in 2009, according to the Television Bureau of Advertising.”).

⁹ Pew Report at 23 (“Ad pages were down 16% for news magazines in 2008 compared with the previous year, according to estimates from the Publishers Information Bureau.”).

¹⁰ Pew Report at 26 (“Radio news, already operating at a fraction of the size it did decades ago, seems headed into another period of contraction brought on by drops in local ad spending.”).

¹¹ Pew Report at 4.

¹² Thomas C. Leonard, *News for All: America’s Coming-of-Age with the Press*, Oxford University Press (1995), pp. 65-7.

¹³ Benjamin Rush, *Address to the People of the United States* (1787), available at <http://teachingamericanhistory.org/library/index.asp?document=1779>.

¹⁴ Culver H. Smith, *The Press, Politics, and Patronage* (Athens: University of Georgia, 1977) at 250-54.