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CAN NEWSPAPERS BE SAVED?

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Some commentators recently have proposed that newspaper publishers should be allowed to jointly agree to begin charging for their online content, which now is almost universally offered for free.

Reporting and commenting on current events is certainly a costly endeavor. Every newspaper would like to charge for its online content to cover costs and avoid going out of business.

The fundamental problem is that one newspaper alone cannot start charging for its online content--readers quickly would shift to other newspapers offering that content for free. Indeed, even powerhouse The New York Times gave up its attempt to charge for online content.

A successful move away from free online content could occur if newspapers jointly agreed to start charging for that content at the same time. Unfortunately for newspaper publishers, such agreements to limit competition are illegal under our antitrust laws. Thus, commentators argue, newspapers should be granted an antitrust exemption--the argument goes that while price-fixing agreements harm consumers, it is better to have consumers pay more for reading the news than to have no news to read once all newspapers have gone out of business.

There are two main reasons against granting an antitrust exemption to newspapers. First, it simply

would not work. Even if all newspapers agreed to charge for online content, consumers would be able to easily shift to other online sources for news and commentary--e.g., cnn.com, bbc.co.uk, The Huffington Post, the Drudge Report or Greg Mankiw's and Brad DeLong's economics blogs, just to name a few.

Second, it is bad policy and bad economics to stop enforcing antitrust laws whenever an industry is not doing well. If we allow newspapers to fix prices, then shouldn't we also allow colleges, airlines, car manufacturers, or any other industry going through difficult times to fix prices? A more sensible solution for industries experiencing turmoil would be to identify the origin of their trouble(s) and to figure out ways to survive--and thrive--in a competitive environment.

The reality is that there has been a fundamental shift in the way that news is distributed. Forty years ago, the newspaper in which you read about the moon landing was probably edited and printed no more than a few dozen miles from your home. The high cost of transporting newsprint in a timely manner naturally limited the scope of newspaper markets. As a result, every city could have its own newspaper, which could operate without worrying about competition from another city. An Angelino walking into the 1960s equivalent of Starbucks would have been shocked to see copies of The New York Times next to the cash

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register!

Now fast-forward four decades. Technology has made it possible to be able to read newspapers published thousands of miles away, radically expanding the size of the market any one newspaper can reach.

Economists have developed models that explain what happens when markets expand. On one side, a larger market makes it possible to produce more units at a lower cost, especially in industries with fixed production costs, such as newspaper publishing--the cost of sending a reporter to Antarctica to write an article on global warming is the same, whether the article is read by 1,000 or 100,000 people.

On the other side, the larger markets will overlap each other, so there may not be enough room for all the producers. For example, the newspaper industry could evolve from 100 small markets each served by 2 newspapers (or 200 newspapers in total) to a single large market with just 20 newspapers. In this example, 180 newspapers would disappear, which certainly is bad news for the people who used to work

for them. But, at the same time, readers would have access to 10 times as many newspapers as they used to have.

The winners in this situation are readers, who gain access to more newspapers reporting more news from around the world at a lower cost per reader.

Newspapers of the future still will have to generate enough revenue to cover their costs. Public radio offers a model that newspapers could explore and adopt. Even though everyone can listen to them for free, many listeners find the news and stories broadcast by NPR, PRI, and local stations compelling enough to merit their financial contribution. Similarly, online readers could be given the opportunity to contribute 1, 2, or 5 cents when reading a story. With a potential readership of millions of people around the world, great pieces of reporting and opinion could generate significant streams of revenue for newspapers.

In the end, great content and innovative ways to help pay for the news--not antitrust exemptions - will save the newspapers of the 21st century.

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