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To: "Dr. Baruch Fischhoff - Chair, National Academy of Sciences Study on Social & Behavioral Science and Improving Intelligence for National Security" <baruch@cmu.edu>

From: Lloyd Etheredge <lloyd.etheredge@policyscience.net>

**Subject: 66. Weakening Print Journalism: A special forecast and DNI analysis of Swensen and Schmidt.**

Dear Dr. Fischhoff and Colleagues:

I am forwarding a thoughtful discussion by David Swensen, Chief Investment Manager at Yale, and Michael Schmidt.

Would your National Academy of Sciences panel recommend that the Director of National Intelligence organize an urgent analysis and global forecast to determine if they are right? And, if so, the possible effects on governments and political systems?

The DNI's Global 2025 study did not engage this trend. However, worldwide, the unexpected prospect of national governments without a free, independent, and high-quality press - and news journalism that is increasingly competing for smaller audiences and revenue to survive - should alarm us. [Even re US television, the PBS Newshour is at about 3% market penetration while Fox News now has the majority in its market.]

Re two specific policy concerns within the purview of your Committee:

1.) I hope you will recommend that our own leading newspapers retain/regain strength and can expand foreign coverage as needed. They are probably the most important reliability check for our own government leaders (including Presidents, the DNI and CIA Directors themselves) of what they are hearing from intelligence agencies.

2.) Our CIA analysts also read and use the major elite papers in foreign countries that cover the world (e.g., the Financial Times), that cover their regions (e.g., Japanese papers, Singapore, Israel, etc.), as well as leading newspapers in all capital cities. If they are getting into trouble via the mechanisms discussed by Swensen and Schmidt, the US government and other actors should be thinking about timely solutions.

- It would be very helpful, to make this global analysis and monitor trends, to restart content analysis methods. There is a great deal of long-term work to be done, and it can be done by institutions of academic social science, here and abroad.

Lloyd E.

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January 28, 2009. The New York Times. Op-Ed Contributor

## **News You Can Endow**

By DAVID SWENSEN and MICHAEL SCHMIDT

“THE basis of our governments being the opinion of the people, the very first object should be to keep that right,” Thomas Jefferson wrote in January 1787. “And were it left to me to decide whether we should have a government without newspapers or newspapers without a government, I should not hesitate to prefer the latter.”

Today, we are dangerously close to having a government without newspapers. American newspapers shoulder the burden of considerable indebtedness with little cash on hand, as their profit margins have diminished or disappeared. Readers turn increasingly to the Internet for information — even though the Internet has the potential to be, in the words of the chief executive of Google, Eric

Schmidt, “a cesspool” of false information. If Jefferson was right that a well-informed citizenry is the foundation of our democracy, then newspapers must be saved.

Although the problems that the newspaper industry faces are well known, no one has offered a satisfactory solution. But there is an option that might not only save newspapers but also make them stronger: Turn them 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.

In the standard business model, newspapers rely on revenues from circulation and advertising to pay for news coverage and generate healthy profits. In the past decade, however, as Americans embraced the Internet, newspaper circulation has declined every year. Advertising revenues, which are tied to circulation levels, fell even faster. Classified ads, in particular, suffered as the Web offered cheaper, easier and more effective alternatives.

America’s pre-eminent papers exemplify the distress. Average profit margins at The Washington Post over the past five years have been about 25 percent less than what they had been in the previous 15 years. At The New York Times, the decline was more than 50 percent. The debt-laden Tribune Company, which operates The Chicago Tribune, The Los Angeles Times and six other daily papers, has filed for bankruptcy protection.

Newspapers nationwide, struggling to survive the economic turmoil, seek to refinance debt, issue equity and dispose of nonessential assets. These actions are short-term solutions to a systemic problem, Band-Aids for a gaping wound.

News organizations have cut costs, with grave consequences. Over the past three years, The New York Times, The Wall Street Journal, The Washington Post,

The Chicago Tribune, The Los Angeles Times and The San Francisco Chronicle have trimmed their staffs. The number of American correspondents reporting from abroad fell by 25 percent from 2002 to 2006, and only a handful of American newspapers now operate foreign bureaus.

In a move that would have been unthinkable just last year, The New York Times recently began selling display advertising on its front page. Some papers have even shrunk physically, eliminating sections and decreasing paper size.

As long as newspapers remain for-profit enterprises, they will find no refuge from their financial problems. The advertising revenues that newspaper Web sites generate are not enough to sustain robust news coverage. Though The New York Times Web site attracted 20 million unique users in October, Web-driven revenues support only an estimated 20 percent of the paper's current staff.

As newspapers go digital, their business model erodes. A 2008 research report from Sanford C. Bernstein & Company explained, "The notion that the enormous cost of real news-gathering might be supported by the ad load of display advertising down the side of the page, or by the revenue share from having a Google search box in the corner of the page, or even by a 15-second teaser from Geico prior to a news clip, is idiotic on its face."

By endowing our most valued sources of news we would free them from the strictures of an obsolete business model and offer them a permanent place in society, like that of America's colleges and universities. Endowments would transform newspapers into unshakable fixtures of American life, with greater stability and enhanced independence that would allow them to serve the public good more effectively.

As educational and literary organizations devoted to the "promotion of social welfare," endowed newspapers would benefit from Section 501(c)(3) of the I.R.S.

code, which provides exemption from taxes on income and allows tax deductions for people who make contributions to eligible organizations.

One constraint on an endowed institution is the prohibition in the same law against trying to “influence legislation” or “participate in any campaign activity for or against political candidates.” While endowed newspapers would need to refrain from endorsing candidates for public office, they would still be free to participate forcefully in the debate over issues of public importance. The loss of endorsements seems minor in the context of the opinion-heavy Web.

Aside from providing stability, an endowment would promote journalistic independence. The best-run news organizations insulate reporters from pressures to produce profits or to placate advertisers. But endowed news organizations would be in an ideal situation — with no pressure from stockholders or advertisers at all.

How large an endowment would a newspaper need? The news-gathering operations at The New York Times cost a little more than \$200 million a year. Assuming some additional outlay for overhead, it would require an endowment of approximately \$5 billion (assuming a 5 percent annual payout rate). Newspapers with smaller newsrooms would require smaller endowments.

Note that just as endowed educational institutions charge tuition, endowed newspapers would generate incremental revenues from hard-copy sales and online subscriptions. If revenues were to exceed the costs of distribution, the endowment requirement would decline.

Many newspapers will not weather the digital storm on their own. Only a handful of foundations and wealthy individuals have the money required to endow, and thereby preserve, our nation’s premier news-gathering organizations. Enlightened philanthropists must act now or watch a vital component of American democracy fade into irrelevance.

David Swensen, the author of “Pioneering Portfolio Management,” is the chief investment officer at Yale, where Michael Schmidt is a financial analyst.

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