



Black and White and Troubled All Over

A reporter should sit far enough from the cash register that he can't hear it ring, or so young journalists are taught. They certainly are not supposed to risk losing public trust by touting a product because the manufacturer advertises in their newspaper. Indeed, a large component of the educational process for journalists is to inculcate a code of ethics that forbids such venal corruption. In practice, however, it can mean that reporters and editors take their positions without an appreciation for the role that profit-maximization plays in the larger economy. It can generate an attitude that holds all profit-seeking in disdain.

That attitude was at the fore as journalists in Indiana and elsewhere tried to make sense of the fall of Knight Ridder, the chain newspaper most respected by the journalists themselves. Many reflexively blamed Wall Street. Yet, there were instances of thoughtful reappraisal, starting with a general admission that Big Journalism had failed at the one thing that was critical — maintaining public trust.

Our correspondent, a popular former Indiana editor and a Knight-Wallace Fellow, sums up the situation thus: "Editors and reporters like to tell themselves that their jobs exist to serve readers but the readers are, increasingly, rejecting the service."

The solution may require journalists to sit closer to the cash register. A Wall Street asset manager had this advice for investors trying to make sense of the turmoil in the newspaper industry: "'Fair and Balanced' must become more than a slogan. Ultimately, stock prices will follow business results. Fairness, credibility and a commitment to the community are vital to a sustainable and growing franchise."

Telecom Reform Comes to Indiana

Indiana will not be waiting for federal intervention in the telecom-reform movement. It joins 14 other proactive states that have crafted new telecommunication legislation. Two of the surrounding states (Michigan and Ohio) were among those that passed telecom reform legislation last year. And Missouri, as Indiana, introduced new legislation this year called the Fair Competition in Video Act, to allow new video subscription service providers a state-wide franchise. Deregulation here will lower barriers to entry and investment for competitors. Indiana consumers will benefit because new and existing providers will have new incentives to experiment and succeed with delivery of wireless and broadband.

Who Are the Losers in Indiana's Closed Shop?

Open-shop (union) laws restrict rather than advance freedom," argues the head of the AFL-CIO in Indiana. "No one is required to join a union in order to work anywhere in Indiana." Our man, however, is not comforted. He suspects that his union neighbor is hiding behind a legalism. No one may be required to work for a closed-shop firm. They *are* required, however, to join a union if they wish to work for a unionized firm. The losers are all who would shop freely for a better job.

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INTRODUCTION

A newspaper cannot expect to be trusted for simply promising to mirror the views of its readership. A newspaper is trusted when it becomes predictive, when it helps readers see around the corner if not over the horizon.

by CRAIG LADWIG

This foundation addressed the need for journalism reform at its beginning. Its argument has been consistent: Ownership matters in the context of journalism — especially so.

“Corporate managers who cannot match the accountability of a hometown publisher will not hold reader trust,” we argued in a 1989 article in *the Wall Street Journal*.

The sale of Knight Ridder begs an update. The chain has disappointed investors in a variety of ways, including a steady decline in public trust.

An analysis can begin with a *New Yorker* magazine cartoon tacked up in the newsroom of my hometown paper, *the Fort Wayne News-Sentinel*. It shows a man standing on a busy street corner hawking papers. “My issues,” the man is shouting. “Read all about it.”

Mass media are not immune to the rules of economics after all.

Corporate managers, busy harvesting the fruits of monopoly, left newsrooms on a default setting, specifically the “My Issues” setting depicted in the cartoon.

That was bad policy not only for the community discussion but for the corporations themselves. They now are learning that their stock value and their advertising rates (high compared with direct mail and other mediums) are justified by public trust.

A Wall Street asset manager, Jack Liebau, has this advice for investors trying to make sense of Knight Ridder’s fall:

“In an age of media scandal, ‘Fair and Balanced’ must become more than a slo-

“There is a lot floating around, and I don’t know what is fact or fiction. At the end of the day, it is all going to work out.”

— *The News-Sentinel publisher choosing “not to add to any speculation” surrounding the sale of Knight Ridder*

gan. Ultimately, stock prices will follow business results. Fairness, credibility and a commitment to the community are vital to a sustainable and growing franchise.”

When did newspapers lose public trust?

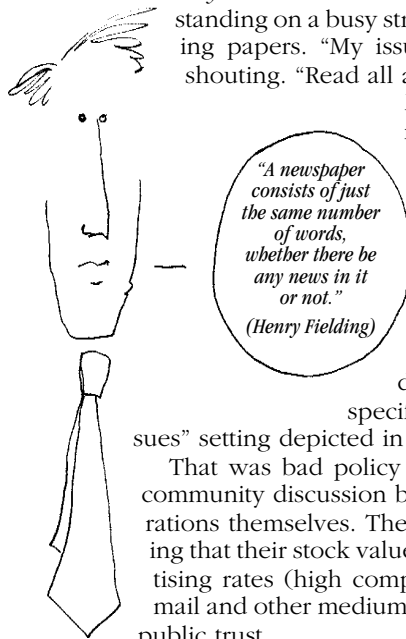
Newspapers began consolidating under publicly traded ownership in the 1960s. Unseen in that consolidation was a historic demotion of that fabled grouping of curmudgeons known as the “bull pen.” These were the senior editors of the copy desk, layers of them, who guarded readers from the hubris of reporters and the manipulation of anonymous sources.

By the 1980s, power had left the newsroom entirely, migrating to advertising, which brought in cash, and to production and circulation, which secured efficiencies. One by one, the old bulls walked off. These senior editors, made wise by lifetimes at the center of events, knew to the second when their contributions had become inconsequential.

We who would sit in their chairs were slower to understand. Callow but self-important (*the unfortunate Dan Rather was our model*), we misread that default setting as management’s reverence for the First Amendment and recognition of the bang-up job we were doing in its service.

But we produced little for which the Founding Fathers would have written so much as a line, let alone fought and died. We were a soft-headed bunch. Our talents were in giggle and rhyme, not in gathering hard facts that prepared a reader for the coming day.

So we spent our careers anchored to our desks behind our title plates waiting for news to come to us as if on a teleprompter. If we were moved to action at all, it was to harry those dealing with the world as it was rather than as we wrote it should be. We insisted on disparaging the real-world



T. Craig Ladwig, editor of this journal, was formerly a senior editor in the *Capital Cities* and *Knight Ridder* news organizations. A newsroom veteran of 40 years, he has written on the topic of journalism reform for the *Wall Street Journal*, *Editor & Publisher* and the *Indiana Policy Review Foundation*.

Newspaper Objectivity

The opinion of the press corps tends toward consensus because of an astonishing uniformity of viewpoint. Certain types of people want to become journalists, and they carry certain political and cultural opinions. This self-selection is hardened by peer group pressure. No conspiracy is necessary; journalists quite spontaneously think alike. The problem comes because this group-think is by now divorced from the thoughts and attitudes of readers. To take politics as a test, in 1992, a sample of top Washington reporters and editors voted 89 percent to seven percent for Bill Clinton over George H.W. Bush. So an editor trying to put out objective reports has to contend with a newsroom dominated by a single viewpoint. Bringing some discipline to this process is no easy task, especially since the editor probably also subscribes to the dominant view. Some editors are better than others in instilling discipline, and some news organizations are better than others in building and sustaining a culture that supports their efforts at objectivity. . . . But journalists can't have it both ways. Since they're increasingly dealing with subjective opinion, they should stop wearing 'objectivity' on their sleeves.

— Robert Bartley, *the Wall Street Journal*, July 28, 2003

choices that our readers were making every day. These were choices in housing (sprawling), transportation (gas-guzzling) and private schools (pampering). Nevermind that these were choices forced by the failures of schools and municipal governments — failures never seriously addressed on behalf of our readers.

Our status in the newsroom was not determined by scoops, investigative genius or a Rolodex. It was determined by allegiance to prescribed views on how the world should be saved.

Economically ignorant, however, we accepted the official version of salvation whenever it fit our halcyon visions. At our best, we never rose above boosterism. In sum, we brought to the news business the *folderol* of a late-night session in the dormitory.

Reporters will have to get tough again (see *Jack Webb as Sam Gatlin in the 1950s film “-30-”*). Tomorrow's journalists, be they in newsrooms or on blogs, must base their careers on something more than zeal for their own ideas. They must remaster the basics of the craft — sorting, sifting, verifying — with readership, not advocacy, in mind.

Resources

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Reporters will have to get tough again. Tomorrow's journalists will not be able to fashion a career out of mere zeal for their own ideas.

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BLACK AND WHITE AND TROUBLED ALL OVER:

*The newspaper industry's
terrible, horrible, no good, very bad year*

*If you were making a
list of what went
wrong, where would
you start? How about
with the loss of public
trust?*

by **NANCY NALL DERRINGER**

Even in the newspaper business, an industry toughened by decades of bad news, the events of 2005 still had the power to wound. Staff and budget cuts continued at a terrifying pace, continuing a trend of several years' running, even reaching such monoliths as *the New York Times*. The editor of *the St. Louis Post-Dispatch* resigned in despair, saying she couldn't come to terms with the paper's new owners over "financial considerations." Circulation figures, in decline for years, sharply accelerated their pace, exacerbated by a growing number of admissions that the numbers were cooked in the first place. Ad revenues stayed flat at best. And in one of the more ominous moves, the largest stockholder at Knight Ridder, the newspaper chain that owns *the Fort Wayne News-Sentinel* and a controlling interest in Fort Wayne Newspapers, pushed the company to put itself up for sale, to correct a stubbornly low stock

price. In March, it agreed to turn the keys over to the much smaller McClatchy newspaper chain, ending with a whimper what was once one of the strongest and proudest companies in American journalism.

Judith Miller went to jail to a chorus of yawns inside and outside the business, and the unmasking of Deep Throat all these years later seemed as much one last hurrah for the good old days — when we were played by cool movie stars, not the ones with the sweaty upper lips who get humiliated in the second act — as it was an excuse to relive history.

Just how bad are things in the newspaper business? Plenty bad. *Editor & Publisher*, the industry's journal, estimated 2005's job losses at 1,900, but that was in mid-November, before the Tribune Company hacked away dozens more at its newspapers in Chicago, Los Angeles and Orlando. If any Christmas parties survived the budget-cutting ax, you



Nancy Nall Derringer is a former columnist and copy editor for the News-Sentinel in Fort Wayne. In 2003, she was named a Knight-Wallace Fellow at the University of Michigan, a sabbatical fellowship competitively awarded to 12 domestic and six international journalists each year. Derringer, who freelances from her home in Michigan, wrote this for the foundation. Contact her at nderringer@inpolicy.org.

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Writers and editors have espoused so many different philosophies over the years that American journalism history might seem to be a crazy-quilt, but a broad look at the whole pattern shows three central ideas achieving dominance, sequentially:

It's an article of faith among conservatives that newspapers lost their readership over so-called liberal bias. I'm not so sure. When I became a columnist 20 years ago, I read a cheerful list of tips for aspiring columnists offered by William Safire, and I remember one above all others: "Cultivate a constituency of the infuriated," he said; always make sure there are some people who will read you just for the experience of hating your guts. I think he gets it right. I think the surliest reader — except maybe that 12 percent of doubting Thomases mentioned above — will forgive their newspaper anything if it consistently does its job, if it informs, explores, explains

This change affected not only story content but reporters' methods. Corruption-story journalists tended to have limited personal agendas because they emphasized personal transformation rather than social revolution. Oppression-story journalists, who came to dominate the most influential publications early in the 20th century (and do so now), believed their own work could be the breakthrough to a better world. As the great ends of oppression-story journalism — peace, justice, freedom — began to seem attainable, means began to be negotiable.

The daily newspaper, for the average reader, is no longer a Soviet department store — a one-stop shop for everything you need to know (if not what you want). Young people, the future of any business, are not doing what editors have long relied upon them to do — pick up the newspaper

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COVER

Not only is the playing field more crowded, the spectators are throwing things. It is, indeed, a whole new ball game, even compared with five years ago.

"The pattern of a newspaperman's life is like the plot of Black Beauty. Sometimes he finds a kind master who gives him a dry stall and an occasional bran mash in the form of a Christmas bonus, sometimes he falls into the hands of a mean owner who drives him in spite of spavins and expects him to live on potato peelings. The Sunday World was a dry-stall interlude in my wanderings."

— A.J. Liebling

habit, once they become tax-paying "stakeholders" in their communities. They're picky eaters at a table groaning with information choices, while their hometown newspapers hover like a despairing mother offering tofu-wheat germ casserole.

And not to torture the food metaphor too much, but that competition is eating newspapers' lunch. The industry had its last significant shakeup in how it presents its content when *USA Today* led — or forced — newspapers into following its formula of shorter stories, brighter colors and graphics-strewn pages. And that was 25 years ago. It's safe to say many editors today are bewildered by an information revolution that has people reading news off their cell phones and personal digital assistants (PDAs). How do you edit for cell phones, anyway?

But it's the Internet that's most frightening to them, because that's where the readers are going, particularly younger ones. And it doesn't make editors feel any

better to know that those readers are getting newspaper content online, not when the way they get it has so upended their business model. Those Soviet department-store days seem almost impossibly quaint in a world where anyone with a dial-up connection can read bits and pieces of 20 different newspapers daily,

from all over the world — and block the pop-up ads along the way. The Internet accelerated a trend of fragmentation that began when television came into its own as a news source decades ago.

For most of those decades, print journalists told themselves they were giving the public something television couldn't — and they were. Television has only rarely shown itself to be a medium that can offer the sort of depth newspapers do, and in recent years much television news has become as vulgar and superficial as the basest tabloids. Editors know the days of competing just with local television or a chain of suburban weeklies are over.

They not only have to compete for a readership accustomed to picking and choosing, they're likely to launch their Web browsers in the morning only to confront a jeering host of critics with their own weblogs, holding up a precious page-one story for ridicule, or teasing apart an editorial or column line-by-line, often with hilarious, profane commentary.

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Dead Trees

For years, the newspaper business has been, any publisher will tell you, "mature." Although fundamentally healthy and profitable at a level double that of the Fortune 500 — ask any retailer if he'd be panicking over a 20-percent profit margin — newspapers stopped growing long ago and have concentrated in recent years on maintaining the readers they have. Ad lineage is flat or declining, as companies either stop advertising in newspapers or diversify their spending among all the industry's competitors. Classified advertising has been a particular disaster, as employers and job-seekers alike abandon their local papers for easy-to-use, searchable online services. And those who just want to get customers for a garage sale or a date for Saturday night are flocking to Craigslist, where free ads can be placed in moments via e-mail.

But one number is up, and it's been rising relentlessly for some time. It does not bring editors joy. Today it stands at 55.

That's the average age of a daily newspaper reader in the United States. Five years past AARP membership, a decade in front of retirement, but still plainly in bifocals country. Fifty-five.

"Everybody knows the same facts," says Jay Rosen, professor of journalism at New York University, and a vocal press critic. "Not only is circulation off, but people who actually like the paper are abandoning the subscription method and going to the Web."

"Every editor's goal, as far as I can see, is to put out a newspaper for people who don't like to read," echoes Jack Lessenberry, who teaches journalism at Wayne State University and writes the ombudsman's column at the Toledo *Blade*. "And the younger they are, the less they like to

read."Yes, everybody knows the same facts, and they hang like a pall over newsrooms. Which has led to the biggest loss of all — its *mojo*. Newspaper editors are, as a group, profoundly afflicted by a loss of confidence. All through journalism school, through many romantic late-night viewings of "All the President's Men," in barstool conversation with colleagues, journalists believed they weren't just in the business to make a living. They were making a difference. They believed — many still do, the fools — that they weren't so much taking a job as answering a call, a call to serve the public, to participate in the public life of their communities, to afflict the comfortable and comfort the afflicted. And now they face a public ranging from indifferent to hostile, largely unimpressed with their work, lining up to complain. In my gloomiest moments, I see newspaper editors as battered spouses. The more readers beat

them up, the more they cringe, trying to please at all costs. The thought that a constituency might be angered enough to picket the building or cancel subscriptions can too often send them to the fainting couch.

Look at the chorus of not-in-my-paper refusals to print the Danish cartoons that got half the Islamic world in an uproar earlier this year. (Of course, you could find those cartoons all over the Internet with about 10 seconds of Googling. Way to go, editors. Way to keep your readers away from your scariest competitor.)

Instead of leading with confidence, knowing they're producing a valuable product that you'd have to be a fool not to want, they run to research and focus groups: *What do you want? How about some chicken recipes? How about more maps? Are we snotty? Do you think you might like us if we weren't? Please, just don't bit us again.*

Journalists believed they were making a difference. They believed (many still do, the fools) that they weren't so much taking a job as answering a call.

Unasked Questions, Squandered Trust

The 50 or so senators, staff and onlookers in the state Senate chambers last week for a hearing of the Marion County Consolidation Study Commission got a profound, albeit negative, lesson in why vigorous, inquiring media are so important to the democratic process. The news that day was there was no news. The leads were not followed to the public records patiently assembled by the commission, records that would have shown how far the political debate had wandered from the verifiable.

The commission was charged with studying 'IndyWorks,' the proposal of Indianapolis Mayor Bart Peterson to consolidate local government. When the plan was unveiled, the mayor projected significant savings and efficiency. His numbers were accepted unquestioningly at the time. Indeed, some in media and business circulated the mayor's graphics showing supposed property-tax benefits of consolidation. The overall public impression was that the merits of consolidation were obvious to all but the uninformed. After all, who could be against a plan that saved money and lowered property taxes?

Fortunately, Sen. Mike Young, the commission chairman, insisted on asking a few questions. The commission's accounting found that the city projections were more than just rosy, they bordered on malfeasance. For the first 18 months of consolidation, the mayor would have been nearly \$31 million off — enough to make the project marginal for all but the most exuberant Indy booster. And those graphics showing property-tax reductions . . . well, they weren't built on any actual data (merely 'illustrative,' the mayor's office later explained).

Please know that more than half of the mayor's shortfall, which some believe would have required a surprise tax increase soon after consolidation, was not a matter of interpretation. Any citizen — or reporter — could access public records to determine who had the facts straight. Young, to no avail, had carefully noted where each record could be found.

— Craig Ladwig in the *Indianapolis Star*, Nov. 22, 2005

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Instead of being told to pay attention to their communities, participate fully in those communities' affairs, trust their instincts and edit accordingly, our newsroom leaders were encouraged to "test for tone through smart and systematic use of reader research."

Anyone who's done time in a newsroom knows what the crisis of confidence means. Periodically you're herded into a conference room to be introduced to the latest focus group-tested, revealed wisdom, Moses back from Mt. Sinai with a rewrite of the Ten Commandments of journalism. Here's a memo from my later years in the business, condensed to "four areas that will help support readership growth." If you can summon the voice of God, or at least Charlton Heston, do so as I reveal them to you now: the master narrative, tone, utility and writing for impact.

While it had its comical moments — the first line under the "master narrative" section was, "Ensure that you have one" — it was impossible to read without a sinking heart. Instead of being told to pay attention to their communities, participate fully in those communities' affairs, trust their instincts and edit accordingly, our newsroom leaders were encouraged to "test for tone through smart and systematic use of reader research."

Chain-owned newspapers are particularly avid practitioners of this sort of thing. The Gannett "tip box" is that chain's version of "utility," a little bit of information for readers who need "useful takeaways" to justify investing their time in something so frivolous as a newspaper story. It is notorious for its relentless dumbing-down of the simplest information. No doubt proposed with good intentions — in a story about domestic violence, it makes sense to run the phone number of the local battered-spouse shelter — it's frequently so moronic as to make you wonder just who's in charge down there.

An ex-Gannett friend of mine explains: "They include the quasi-useful (how to talk to your children about the images of 9/11 they're seeing on television) to the inane. Every year we write tip boxes for stories about the first cold snap (dress in layers); first heat wave (stay in the shade, drink fluids); and for a few years when we had a managing editor who commuted to work on an east-west freeway, tips for keeping the sun out of your eyes. These tips, I swear, included using the sun visor, wearing sunglasses and changing the time of day you travel the road."

Is it any wonder an outfit like this is losing readers?

Are you more surprised that they had any in the first place?

Death by a Thousand Cuts

So what happened? How did an institution that's been providing news, imperfectly but valiantly, for hundreds of years come to this pass so quickly? Lots of newspapers are pretty mediocre, but the best ones are still doing heroic work, and they're worried, too. There's no one answer. But, again, you could make a list.

The biggest change is cultural, the stinging of a thousand gnats, each of which draws a drop of blood that is slowly exsanguinating the patient. There are all those new choices for information delivery. Readers' lives are more complicated; they commute longer hours to jobs that keep them at the office longer. The idea of spending even 20 or 30 minutes of a weekday morning, much less evening, in leisurely reading of the daily newspaper is a laughable pipedream for too many would-be subscribers today.

"I went from reading the paper to reading the paper online to reading a few blogs that tell me what the interesting stories are, and even then, I just read the summaries," a friend tells me. He's the human illustration of the newspaper industry's central problem.

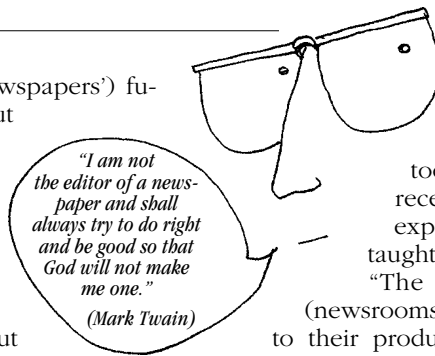
But every business has to handle competition, and newspapers are no different. In the cacophony of voices that is today's media choir, how are newspapers trying to distinguish their voices from others? I don't know that they are — for now, they're too focused on cost-cutting and retrenchment, the better to serve Wall Street. Only the sunniest optimist can see a future for newspapers that's brighter than its present.

Rosen is, if not an optimist, certainly capable of looking on the bright side. "The cost of printing and distributing the paper is greater than subscriber revenue," he said. "When people say no one will pay for content on the Internet, they're overlooking this fact, that it's not a disadvantage, but an advantage, because you've eliminated that expense." The problem, he said, is not that the future is grim, but unknown: "Web advertising is growing, but starting from such a small place that it's not equal to the ad revenue being lost on the print side. . . .

Everyone knows (newspapers') future is on the Web, but no one knows how you get there from here."

OK, fine. Everyone drives home at night not being able to see beyond their headlights' reach, but somehow they make it.

Much of the industry's problems, Rosen said, comes from its unwillingness to change. It's not necessarily an attitude problem, but a response to having done it the same way for so long. Some years back, Rosen was an outspoken advocate of another big industry trend, "civic journalism" (earlier called advocacy journalism), which posed the idea that papers shouldn't just report on



problems in their communities, but actively investigate solutions, too. The idea got a mixed reception, but Rosen said the experience of advocating it taught him something important: "The professionals who run

(newsrooms) have adapted their minds to their production routines, and only seemed to adapt to those routines. We didn't have the option of saying, wait, let's think about this. Lots of things you do because you have to, and that necessity starts to drive imagination. Many people showed a total inability to imagine how (things) might be different." In other words, we can't change because we do it this way. We do it this way because we've always done it this way. We can't do it another way

In the cacophony of voices that is today's media choir, how are newspapers trying to distinguish their voices from others? I don't know that they are — for now, they're too focused on cost-cutting and retrenchment, the better to serve Wall Street.

Political Bias in News Coverage

I got the transcript of the president's speech and read the entire document. Then I read *the Indianapolis Star's* report, with commentaries. Rarely have I read such brazenly biased coverage of a news story of national importance.

The first words, over the picture, are, "President urges stay-the-course strategy . . ." The third paragraph begins, "Democrats dismissed his words as a stay-the-course speech . . ." The first paragraph of the story refers to a strategy for victory, but puts those words in quotes with the nudge, nudge, wink, wink connotation that action carries.

A small inset headed "Analysis" reads as follows: "Bush uses speech to try to reassure a weary public." It is certain that anyone accepting that analysis will need reassurance. Attack would be a more descriptive word than analysis, it having been written by an agent of a bastion of Bush-bashers, *the Washington Post*.

A few of his many negative phrasings: "Bush offered specific examples of what he called progress." ". . . in a rare move for a president loath to admit mistakes . . ." "He (Bush) dropped the acrid rhetoric . . ."

You offer a "Fact Check" by an Associated Press (AP) reporter, who picks four points to attempt to refute, the last of which is entitled "Iraq's link to terrorism." His last sentence is, "Iraq was not, however, the terrorists' chosen battlefield until Saddam was defeated and extremists poured across unsecured borders."

He got that right. The chosen battlefield was New York City, Washington, D.C., and a farm field in Pennsylvania where more than 3,000 Americans were massacred one bright sunny morning. If the gentleman bemoans the fact that we're fighting the terrorists in Iraq instead of here, maybe we can direct the next suicide planes to the buildings housing the AP and *the Washington Post*.

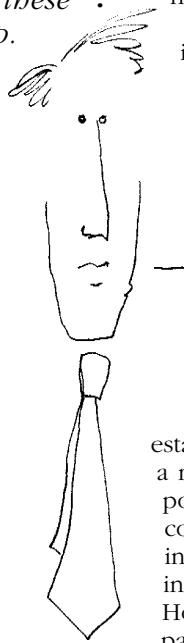
With this kind of coverage in the so-called mainstream media, it's a miracle that polls show Bush's approval rating anything over one or two percent. Shame on you.

— Fred McCarthy in a Dec. 2, 2005, letter to Dennis Ryerson, editor of the *Indianapolis Star*

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As family-owned dailies passed from their passionate founders to their less-interested offspring, as estate taxes made inheriting a newspaper a ruinously expensive proposition, corporations were there to snap these cash cows up.



"All I know is what I see in the papers."
(Will Rogers)

because the paper has to get out tomorrow. And the way the paper gets out tomorrow is . . . we do it this way.

"They're adrift, but it's a culture they created that got them to this point," Rosen said. "It's anti-innovation, cynical about itself. They don't develop their people. They have no grasp of intellectual capital." He'd like to be sunnier about the future, but really, "what is the possibility that a business unaccustomed to innovation can survive without innovation?" And innovation, obviously, is what newspapers need right now, and badly.

If the industry were light on its feet, it might be capable of that innovation. But it is anything but. Corporate ownership — big, publicly

traded corporate ownership — has been a fact of the newspaper business for some time. As family-owned dailies passed from their passionate founders to their

less-interested offspring, as estate taxes made inheriting a newspaper a ruinously expensive proposition, corporations were there to snap these cash cows up. *The Fort Wayne News-Sentinel*, in the 1980s, and *the Indianapolis Star*, in the '90s, were only the more recent Hoosier acquisitions for the major newspaper chains — in this case Knight

Ridder and Gannett, respectively. Both lost no time installing their own company men and women in positions of power. While many people who hold or held these jobs were well-meaning and well-intentioned, it's undeniable that they serve two masters — their readers and their corporate overseers — and equally undeniable whose interests come first.

In January, *the New York Times* reported on the closing of *the Louisville Courier-Journal* bureau in Hazard, Kentucky, in the state's coal country. The story noted the *C-J's* long presence in eastern Kentucky, and the relentless attention it paid to mining deaths and the working conditions in mines. But the time had come for the bureau to close, the executive editor, Bennie L. Ivory, told *the Times*: "We were not growing in the

state, and there's real potential to grow our suburban market." The suburbs are home to the readers advertisers most want to reach. Barry Bingham, Jr., the last publisher before his feuding family sold to Gannett, has another theory: "I hate to see it happen, but Gannett has profit-margin demands that the Bingham family never dreamed of. My grandfather said he saw the paper as a public trust, and we ran it that way. We made a marginal profit, maybe five or six percent, and other publishers would laugh at us and say 'you have to be an idiot not to get 20 percent margins from a monopoly paper.' It's sad, but this is happening all around the country."

Yes, it is. Large, publicly held newspaper companies like Gannett and Knight Ridder set profit goals far from their member newspapers. Davis Merritt, former editor of *the Wichita Eagle*, writes in his book "Knightfall" of pinching every penny from his 1996 budget to produce a profit margin above 20 percent, only to be told it had to reach 22.5 percent. He chose to slash "outstate" circulation, the costly routes that bring a big-city daily to small-city readers. Such cuts make short-term economic sense — they work when you're under the gun to make this year's profit goal — but are counterintuitive to everything journalists are taught about producing a newspaper. Cut circulation? Voluntarily? For people accused of all manner of low behavior "to sell newspapers," not selling them comes as a shock.

The Dreaded Rusty Cleaver

When a newspaper is purchased by a chain such as Maggad-Feist, the first order of business is to assure worried employees that their jobs are safe, and that no drastic changes are planned. The second order of business is to attack the paper's payroll with a rusty cleaver, and start shoving people out the door.

Carl Hiaasen wrote that, in his comic novel "Basket Case." But Hiaasen is also a columnist with a long career at *the Miami Herald*, owned by Knight Ridder, and everyone who can call him a colleague knows he's having a little revenge fantasy. Knight Ridder's woes have been well-documented as its humiliating sale process dragged through the business press — the cuts upon cuts that still didn't satisfy Wall Street.

Charles Foster Kane, Where Are You?

Because newspapers have enjoyed such healthy operating margins, buyers have traditionally been willing to pay a fairly high price to acquire them. Now, with growing threats to those fat margins, some analysts and investors think the price that prospective buyers should be willing to pay for Knight Ridder and other newspaper companies needs to come down. The problem, as James Rutherford sees it, is that some investors still want to see newspapers valued like high-growth Internet companies, driving up the price and all but insuring that any buyer would have to strip the operation clean to make the deal pay off. That, he says, is shortsighted. "Getting people's expectations adjusted is key," says Rutherford. "You can streamline the production and delivery, but if you don't have a good product no one will buy it. To do that on a daily basis takes good reporters and editors and some vision of what people want."

What newspapers really need, above all else, is ownership that values journalism and understands that the work of gathering, writing, and publishing the news is an inherently inefficient business that is in a period of profound transition. The private press baron of the past might have been a blowhard propagandist with the ethics of a wharf rat, but at least he loved the trade. Compared with the lineup of bloodless managers and mandarins currently squeezing the life out of journalism, Charles Foster Kane looks pretty good.

— Douglas McCollam, *the Columbia Journalism Review*,
February 2006

An embarrassing *coup de grace* came late in the year, when an internal memo from *the Akron Beacon Journal* was released to a local weekly. It asked reporters to please share notebooks and pens, as some departments had already run dry — the photo department was out of paper and batteries — and no more would be ordered until after January 1.

"It's been a tough year," the managing editor told *Cleveland Scene*. The Poynter Institute — a journalism training and research center — responded by sending a case of notebooks.

You can find a lot of observations like Hiaasen's when you start looking for them. Here's Peter Woodall, writing in *the Philadelphia City Paper* about his former employer, *the Biloxi Sun-Herald*:

The Sun-Herald was a decent newspaper until Knight Ridder started in with the scalpel. Our lone education reporter quit and we didn't hire a new one. They forced out our ace statehouse reporter and put in a clueless rookie to save money. The amount of space devoted to news shrank.

Here's Tom Ferrick, Jr., of *the Philadelphia Inquirer* quoted on *Newstinking.com*:

They say Knight Ridder doesn't have a plan. Actually they do. They are going to jettison the old, shoot the young and . . . torture the survivors, which, come to think of it, seems to be an industry-wide plan.

What happens when you cut staff? Simple: News doesn't get covered. Maybe the city council still has a reporter watching its activities, but a suburban town board might not.

The next time miners are trapped in a cave-in, *the Louisville Courier-Journal* reporter will be 200 miles away. Corners get cut, workarounds are designed. Staffs do more with less, and then they do even more with even less. This may look like efficiency from some angles. But things are lost, too.

Here's a small example from my last days in the business, when I was working as a copy editor in Fort Wayne; let's call this next section:

How I Booked the World's Most Boring Business Page

As the earliest-arriving copy editor, I handled the earliest-closing pages — usually sports and business. I also had to "book" the single daily business page, that

The Fort Wayne News-Sentinel, in the 1980s, and the Indianapolis Star, in the 1990s, were only the more recent Hoosier acquisitions for the major newspaper chains — in this case Knight Ridder and Gannett, respectively. Both lost no time installing their own company men and women in positions of power.

Indiana Policy Review
Spring 2006

COVER

I still remember my Holy Grail moment, when I was able to run a wire feature about a financial literacy class for children. Not only were the children pictured wearing bright green sweatshirts, but they were all African-American, who tended to be rarely seen on the biz wire. I got diversity points. I felt like high-fiving someone.

is, select the stories and “art” — graphics and photos.

Normally, this job would be done by the business editor, but the previous editor had quit months earlier and the position was frozen open. It was a pretty routine job, most days, something I could finish inside of half an hour. I checked the wire for breaking stories, noted the Associated Press calendar’s tracking of economic report releases, kept an eye out for any Indiana companies or connections to local or national news, and always, always looked out for art.

The page had a template. A syndicated column ran down the left side of the page, or rail, with a digest of brief items on the right. At the top was the “strip” story, usually the hardest-news story of the day, or the locally written one, and with only two reporters putting out a daily page and a weekly section, we rarely had more than one local story. At the bottom, also stripped

horizontally, was a secondary newsy story. And in the middle of it all was the centerpiece, the story with the picture, the “play” story, my personal albatross.

The problem was the template. The space was tight, but the centerpiece had to have art, no exceptions. I was constantly on the lookout for that elusive combination of newsworthiness, brevity and a good picture that made a decent centerpiece. I combed the graphics banks for suitable illustrations for stories that had no art, which were searchable by keyword and tended to be pretty generic. For a story on credit-card debt, for instance, I might use a cartoon of a stressed-looking man carrying an enormous dollar sign on his back, which could also work for a story on the deficit, or economic problems caused by a strong dollar.

Business news doesn’t always lend itself to great photography, and so the days when the press setup made it possible to print a

Economic Bias in News Coverage

Our results suggest that newspapers do not treat all news the same. Given the same news, Republican presidents receive about 20 to 30 percent less positive coverage from all newspapers and 20 to 40 percent less positive coverage from the top 10 papers than was provided on average for Democrats and these results are quite statistically significant. This partisan bias is associated with about a seven- to nine-percent increase in respondents viewing the economy as getting better.

However, newspapers don’t treat all economic statistics the same way nor do all newspapers have the same partisan gap, but the vast majority of newspapers cover any given economic news more favorably under Democrats. Only one newspaper treated one Republican administration significantly more positively than the Clinton administration: *The Los Angeles Times*’ headlines were most favorable to the Reagan administration, but it still favored Clinton over either Bush administration. When that is combined with how *the Houston Chronicle* treated both the Bush administrations, there is at least a possibility that Republican presidents receive at least some home-state backing.

There is modest support for the hypothesis that newspapers find it more difficult to negatively report on Republicans when Republicans control both the presidency and the Congress, but even when Republicans control both branches the implied effect is that they still receive less positive coverage than Democrats. Despite the common perception, newspapers actually provide more coverage when the news is good and at least the top 10 papers are not monolithic in their biases. More durable goods, GDP growth, retail sales and jobs and less unemployment all produce more positive news coverage.

— “Is Newspaper Coverage of Economic Events Politically Biased?”
A study spanning 14 years by John R. Loft, Jr. and Kevin A. Hassett,
the American Enterprise Institute, July 20, 2004

full-color picture were particularly stressful. I'd page through the electronic photo pool, looking for any splash of brightness to justify the ink. I still remember my Holy Grail moment, when I was able to run a wire feature about a financial literacy class for children. Not only were the children pictured wearing bright green sweatshirts, but they were all African-American, who tended to be rarely seen on the biz wire. I got diversity points. I felt like high-fiving someone.

But what I mostly did was cut. I hacked huge swaths out of stories that had run 35 column inches in their original form, in their original newspapers. It was not uncommon to cut a story by two-thirds.

"This is a good story. Why can't we throw out the bottom story and just run the centerpiece longer?" I asked my page designer one day.

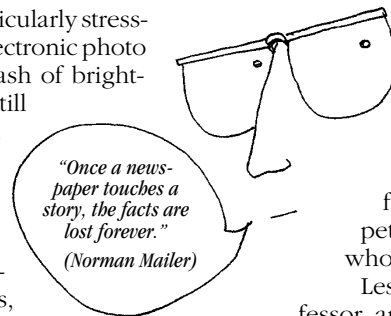
"Because we have a template we have to follow," he replied, equably.

"So throw out the template," I suggested. He said he couldn't. I asked why.

"Because this is how you put out a paper with three page designers," he said. "You keep it simple." Templates, with predictable holes to be filled day after day, were one way to do so. And filling the holes with wire-service material was how you put out a paper with two business reporters and a photo department that could barely keep up with breaking news.

This is also how you put out a paper that will rarely surprise its readers, or give them any reason not to let them accumulate, still rolled up in their plastic bags, by the front door. Business news is important, as important as sports. Letting the department atrophy for lack of resources redefines cutting off your nose to spite your face. What reader, I sometimes thought, looking at my attractively designed, utterly boring page, would find this compelling?

(A postscript: The last I heard, both of the paper's business reporters had resigned to work at a weekly business journal. They weren't replaced, either. The editor hired to replace the business editor — on a half-time, "team leader" basis — quit within months.)



Buck Up

Every industry faces change, and newspapers are no different.

Stop whining, you want to tell them, and figure out a way to compete. Can they? It depends who you ask.

Lessenberry, journalism professor and ombudsman, is pessimistic. In Detroit, where he lives, two lively competing dailies became two less-lively dailies in a JOA (joint operating agreement), only to become, in a baffling sale-swap-partnership deal last summer, one daily owned by Gannett and another daily owned by MediaNews Group, still in a JOA, but with the latter as doomed as the guy in the war movie who shows his buddy a picture of his sweetheart. Lessenberry thinks we'll arrive at the future of newspapers via a detour to the 1830s, before the penny press, when newspapers were written by and for the elites and cost what the equivalent of a mass-market paperback book does today. In other words, we'll always have a *New York Times* and *Wall Street Journal*, but "what will die is the middle-brow newspaper."

Or maybe not. Ken Sands is more optimistic. Online publisher of *the Spokesman-Review* in Spokane, Washington, he's among the editors who are really thinking about the newsroom of the future, and how newspapers can craft Websites that are complementary of their print foundations, not vampire bats sucking the life out of the place. (Note that he works in Spokane, not New York City. Much of the leadership in this area is being done in out-of-the-way spots like eastern Washington and North Carolina, where *the Greensboro News-Record* is taking similarly thoughtful steps toward figuring out a new way of doing things.)

"We're a local, family-owned paper with a publisher (Stacey Cowles) who's forward-thinking, open-minded and willing to tolerate experiments," he said. The paper's experimentation has led it to try a number of new things, not just blogs, which newspapers are throwing online like coal to a speeding locomotive, but aggregating non-newspaper blogs from around the community — harnessing the community's indi-

One expert thinks we'll arrive at the future of newspapers via a detour to the 1830s, before the penny press, when newspapers were written by and for the elites and cost what the equivalent of a mass-market paperback book does today.

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One paper's experimentation has led not just to blogs, which newspapers are throwing online like coal to a speeding locomotive, but to aggregating non-newspaper blogs from around the community — harnessing the community's individual voices.

vidual voices — and thinking beyond blogging to the whole information-delivery model. The newsroom of the future, he believes, will be truly multi-platform, using the strengths of print and online for what they do best.

The hope is that providing two distinct and complementary halves will preserve the whole. "Print should focus on only the things it does best and better than the others," he said, such as carry longer, investigative or analytical stories and nice photography. Breaking news, wire-service news, interactive features for readers — those will go on the Web. Reporters will be expected to file for both print and the Web and understand the difference between the two. He can go on at some length about the newsroom of the future, which — bad news, reporters — he envisions with half its current staffing, although smartly deployed. You can almost believe that with enough smart, focused guys like him, we might come out smiling, if bruised, on the other side.

Then I think about someone else I've been paying attention to lately — a young Fort Wayne native, Nathan Gotsch. In late spring of 2005, he started a weblog he called *Fort Wayne Media Notes*. A few months later he changed the name to *Fort Wayne Observed* (now edited by Mitch Harper) and widened the focus accordingly.

Like most blogs, he started out slow and tentative, linking to published reports and adding a few comments. Soon, though, he was finding and breaking stories — not every day, but often enough that you wanted to check the site daily, just in case. He had a fresh and clear writing style, an eye for a story and obviously knew how to cultivate sources.

Plainly he understood the Internet. And he was unemployed, in the ebb tide after college graduation. In other words, he was the sort of bright young man a newspaper editor should be wooing with candy and flowers. It so happens that as a film school grad, Gotsch was more interested in making movies in Hollywood than journalism in Fort Wayne.

But there he was, low-hanging fruit, doing, for his own amusement,

what two Fort Wayne dailies and two more television stations were paying reporters to do. I asked him if any Fort Wayne editor ever made overtures toward him, taken him to lunch, felt him out about maybe coming to work in their newsrooms.

Nope, he said, although "I often wonder what they think when they see me scooping their own reporters."

I do, too.

Q

Additional Reading

David T.Z. Mindich. *Tuned Out: Why Americans Under 40 Don't Follow the News*. Mindich, Oxford University Press, 2004.

Davis Merritt. *Knightfall: Knight Ridder And How The Erosion Of Newspaper Journalism Is Putting Democracy at Risk*. AMACOM, 2005.

Dan Gillmor. *We the Media: Grassroots Journalism by the People, For the People*. Dan Gillmor, 2004.

Weblogs:

Jay Rosen's PressThink:

<http://journalism.nyu.edu/pubzone/weblogs/pressthink/>

The Spokesman-Review's Ask the Editors (Ken Sands, contributor):

<http://www.spokesmanreview.com/blogs/editors/>

The Lost Readers

Newspapers missed a chance to move first to use the Internet in innovative ways to connect local businesses with local audiences the way Yahoo, Google and Amazon have done with their national audiences and are starting to do local-to-local too. Publishers lament that young people just don't read newspapers, but young people do visit newspaper Web sites, and in growing numbers. Young people also get older: They buy property and put down roots and get nosy about their neighbors and communities — exactly the appetite that local papers are supremely well-adapted to serve. Sadly, the industry has locked itself into a mode of trying to cut its way to prosperity rather than invest its way to prosperity.

— Holman Jenkins, Jr.,
the Wall Street Journal, March 22, 2006

THE ECONOMICS OF NEWSPAPERS 101

Ownership models and profit maximization turn out to be as important as who, what, where and when

Wall Street reacted negatively to news of the sale. Knight Ridder closed down \$1.08 in trading yesterday, at \$63.92, and McClatchy closed down \$1.51, at \$51.55. Because of the decline in McClatchy shares, the value of the deal to Knight Ridder shareholders declined to \$66.38 from \$67.25.

— The New York Times, March 14, 2006

by **CECIL BOHANON**
and **JOHN HOROWITZ**

In 1970, English-language newspaper circulation in the United States was 62.1 million subscriptions. By 2004, this had fallen to 54.6 million subscriptions, a 12-percent decline, during a period when population has increased by 45 percent from 203.2 million to 293.7 million.

One of the reasons for the decline has been the emergence of substitutes for newspapers. In the last century, radio and television offered new ways of disseminating news much to the chagrin of many news-



paper owners and publishers. Two decades ago, growth of multi-channel cable television providers spawned the growth of additional television news networks. In the last decade, a whole new medium of news delivery has emerged via Internet blogs and websites. The Internet has opened new ways to target consumers that directly compete with traditional print journalism. Young people are especially likely to use those substitutes. This accelerates expectations about future declines in newspaper circulation.

With a few notable exceptions, the responsibility for news-gathering and dissemination has fallen squarely on privately owned for-profit businesses.¹ Some newspapers are privately owned and closely held, which means the ownership rights are held by a private family or an independent investor group. Other newspapers are privately owned and publicly traded, which

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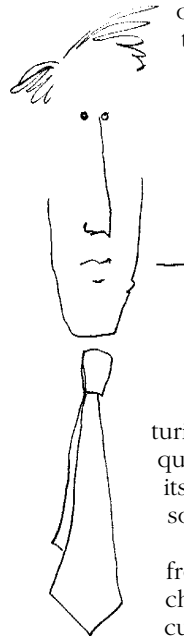


Cecil Bohanon, Ph.D. (right), and John Horowitz, Ph.D., adjunct scholars of the foundation, are professor and associate professor of economics at Ball State University. There they have jointly developed a course entitled "Economics and Statistics for the Media."

1. The Christian Science Monitor is one of these notable exception. It is owned and published by a church.

COVER

The newspaper model is somewhat different from that of an automobile producer. News is of interest to readers who will pay for the information provided. But more important, readers are of interest to advertisers who want to sell to a mass audience.



*"Buck did not read the newspapers, or he would have known that trouble was brewing."
(Jack London)*

means ownership shares are exchanged in the market on a daily basis and the price of those shares vary, often widely.

There is considerable evidence that for-profit enterprises act in a way consistent with maximizing profits. Profit maximization implies that managers are always looking for new ways to increase revenue and reduce costs. Profits increase when managers find ways of enhancing a product's value to consumers, thereby allowing them to charge a higher price for the product. Profits are also augmented when managers find ways of maintaining product quality while reducing the costs of the resources necessary to produce the product. This holds for the newspaper business as much as for a software company or an automobile producer.

However, the newspaper model of profit maximization is somewhat different from that of an automobile producer. News is of interest to readers who will pay for the information provided. But more important, readers are of interest to advertisers who want to sell to a mass audience and are willing to pay dearly for the privilege. This model has provided information to the public and profits for advertisers and publishers for at least two centuries in the United States, although the quality of the information (and the profits, for that matter) has been a continual source of conflict and controversy.

Most of the newspaper revenue comes from advertising and advertising rates charged by newspapers depend on circulation. As the old saying goes "circulation is the lifeblood of a newspaper." In economic terms, most of the costs of newspaper production are fixed costs. The marginal or incremental cost of additional subscribers is low compared with the marginal benefit of an additional subscriber, making circulation growth the Holy Grail of the business, and circulation decline its death knell. Given these facts, it is hardly surpris-

ing that the market value of publicly traded newspapers has gone down.² It is also not surprising that many newspapers are up for sale and that newspapers get shuffled around like board pieces in a Monopoly game. These changes are likely to be disconcerting to those who work in the newspaper industry.

In the trenches of this production process are the journalists who file articles and reports in the news organizations. Journalists, like doctors, lawyers and ministers, are trained to think of themselves as "professionals." There are many definitions and attributes of being a professional but one uniform theme is that the professional is supposed to have obligations to his clients or the general public that go beyond his immediate financial interest. A doctor is not supposed to withhold services from a patient because he suspects the patient may not pay, lawyers are encouraged to do *pro bono* work, and ministers are not expected to charge fees for spiritual advice.

Correspondingly, journalists are not supposed to tout a product because the manufacturer advertises in their paper. Indeed, among professionals a large component of the educational process is to inculcate a code of ethics that forbids such venal corruption. This is undoubtedly a desirable aspect of professional education, but in practice it often means that professionals fail to appreciate the useful role that profit-maximization has in the larger economy. It often generates an attitude among professionals that holds all profit-seeking in disdain.

To this end we would like to offer the following quick three-part primer about stock prices and ownership changes that relate to the quickly changing landscape of the newspaper business.

I. Stock Prices

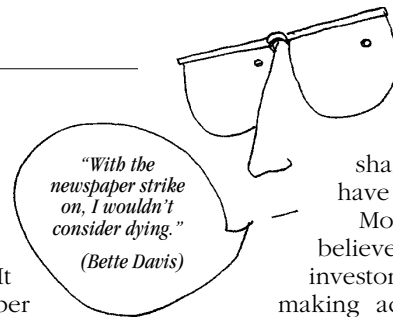
There are many theories about what makes the price of a publicly traded stock go up or down. Most of them are crackpot theories. The most enduring, reliable and reasonable theory of stock prices is that stock prices reflect investor expectations about a company's discounted future earnings streams. Investors hold stocks to earn

2. And the value of non-traded privately held newspapers has likely declined, too.

returns. Stock ownership gives an investor a share of the future earnings of the company. The most important thing to remember is that future earnings are inherently uncertain. It is also important to remember that today's stock price is based on investor expectations about future earnings. Why have the prices of major newspaper stocks suffered? Investors have reason to believe that the future earnings of newspapers are going down. What will lead to recovery in those share prices? Actions that tend to convince investors that those gloomy earnings forecasts are unwarranted.

II. Investment

At the margin, investors are not short-sighted. Most journalists harbor the following fear. Greedy investors in search of quick gains in share prices install Mr. Rawmeat as newspaper CEO. Mr. Rawmeat fires half the newsroom staff and slashes news-gathering budgets. This immediate reduction in costs does not translate into immediate reduction in circulation, so the quarterly profits of the newspaper are augmented. Gullible investors bid up share prices. But this reduces the long-run quality of the product so much that people don't want to buy the newspaper. Circulation plummets, advertisers dramatically reduce their advertising and the organization goes broke. This archetype of the slash-and-burn CEO has just enough credibility to be dangerous. There are a number of cases in the newspaper industry and other businesses where the plot line was fairly accurate. However, this slash-and-burn CEO created a tragedy for both workers and the owners of the firms. The investors who own shares of a bankrupted company certainly wish they had not been fooled by the reckless CEO. Indeed, had they known that the CEO's policies were going to bankrupt the company,



the increase in share prices would not have occurred.

Most experts in the area believe that at the margin investors are pretty good at making accurate assessments about the impact of managers' policies on future earnings streams. This is not to say that investors are infallible. The bottom line is that investors have every reason not to be fooled by Mr. Rawmeat's shenanigans. This does not ensure, however, that they never will be fooled.

III. Reorganization

When a newspaper is bought by new owners it is because new owners believe they can reorganize the newspaper to make it more profitable. Reorganization inevitably implies change that will make many people uncomfortable. Some people in any newspaper organization are bound to suffer from reorganization.

Moreover, because humans are fallible, not all reorganizations will work out the way owners hope they will. Many experiments will fail. Some will be successful but we won't know which ones for some time, or if we do know, that is where to put our money. In the meantime, raw fear on the part of journalists is warranted.

They should get ready for a rough ride.

More Bad News

I wasn't sure what being a public company entailed,' (Katharine) Graham wrote in her autobiography, 'but I knew there would be obligations and disciplines that were not imposed on private companies.'

In the past year, many newspaper companies, including *the Washington Post*, have been getting a refresher on just how onerous the 'obligations and disciplines' of being publicly owned can be. Despite profit margins that generally hover around 20 percent — extraordinary when compared with almost any other business sector — newspaper stocks are getting pummeled. As of early December, the stock of Gannett, the country's largest newspaper publisher, was down 28 percent for the year.

— Douglas McCollam,
Columbia Journalism Review, February 2006

When a newspaper is bought by new owners it is because new owners believe they can reorganize the newspaper to make it more profitable. Reorganization inevitably implies change that will make many people uncomfortable.

INDIANA TELECOM REFORM: IT WAS TIME FOR TOUGH LOVE

The Legislature had the right road map

*Indiana's laws
artificially sustained
high cable prices,
delayed local
competition for video
services, restrained
state-wide commerce,
hampered outside
investment in new
infrastructure and
sustained an out-of-
date pricing model.*

by **ROBERT YADON**

An early 8-2 vote by a committee of the Indiana Senate was strong indication that a movement to deregulate telecommunication policy here was gaining momentum. In the end, Indiana legislators understood that the sky wouldn't fall if they established a truly competitive, deregulated environment for modern communications technology.

Before an honest discussion of telecommunication reform could begin, however, proponents of deregulation had to debunk the myths that had been used to delay an updating of Indiana's telecommunications laws.

These laws, reformed under a bill signed into law by Gov. Mitch Daniels, had artificially sustained high cable prices, had delayed local competition for video services, restrained state-wide commerce, hampered outside investment in new infrastructure and sustained an out-of-date pricing model that created economic distortions. For ex-

ample, as early as 1984 the cable industry had complained to Congress that rate restrictions in the local franchise agreements prohibited the industry from making the necessary capital investments to defend itself from a satellite industry poised for rapid expansion and, in turn, direct competition. Capitol Hill buckled under the pressure of cable industry lobbyists and deregulated rates beginning in 1986. The threat from satellite never materialized in the near term. In fact, by 1993, "satellite" had only captured three percent of the subscription video market share compared with 95 percent for "cable" that same year.

History also shows us the cable industry was in no position to talk about potential rate increases. After deregulation, and with no direct competition, cable rates began to skyrocket at three times the Consumer Price Index (CPI). Due to rate increases of 60 percent since 1986, and a landslide of consumer complaints, Congress was forced



Robert E. Yadon, Ph.D., an adjunct scholar of the foundation, is a senior research fellow in the Digital Policy Institute at Ball State University, a professor of Information and Communication Sciences and the director of the Applied Research Institute.

to revisit and reinstitute cable rate regulation with the passage of the Cable Television Consumer Protection and Competition Act of 1992. Things were no better this year as Comcast announced it was raising rates again by an average of six percent in all markets, the highest rate increase among the nation's largest cable operators.

With the best of intentions, Congress took on the task of crafting the first major revision to the Communications Act of 1934. Written in 1993, the Telecommunications Act of 1996 was outdated by the time it was signed into law. While the intent was to remove residual restrictions of the 1984 consent decree, create a statutory environment that would stimulate deployment of a national infrastructure and foster the emergence of a new digital information economy, the reality is a slightly different story. As some in Washington would later characterize it, the 1996 Act regulated things in very strict buckets of service where service and platform are horizontally linked together.

Deregulated as a result of the Telecom Act of 1996 and free from common carrier restrictions by federal mandate, the cable industry had been allowed to grow to maturity in the provision of video entertainment services, unencumbered by any meaningful competition until the last five years.

Faced with increasing cable rates, consumers began to examine direct broadcast satellite (DBS) as one alternative to cable service. FCC figures show the market share for cable television in the delivery of video entertainment had dropped from 85 percent in 1998 to 72 percent in 2004, while satellite penetration rose from 12 percent to 25 percent respectively. Unfortunately, national satellite firms alone cannot provide "equivalent" competition at the local level. Today, the impact of satellite on the video marketplace has stabilized and both cable and satellite are in a race to raise rates.

If cable firms were forced to face meaningful competition, *i.e.*, direct, head-to-head competition with other cable firms or other broadband video providers, then the impact on cable rates would have been immediate. The General Accounting Office recently issued a report that demonstrated in municipalities where there is only a single cable firm with only two satellite providers the price of cable service is on average 17 percent higher.

With most viable markets in the United States already franchised, the cable industry needed to come up with a new, "non-video" strategy to recapture this lost market share.

Enter broadband cable modem service. While FCC data show in 1998 only 12 percent of cable industry revenue was non-video, in 2004 over one-quarter of industry revenue was non-video. This trend was enhanced by an imbalance in regulatory treatment between competing services at both the federal and state levels. In fact, the "non-video" revenue figure would actually be higher today due to cable's recent entry into the voice-over IP (VoIP) phone market. Cable leads the pack in the provision of high-speed lines. In Indiana, for example, the cable modem line-of-business grew from 7,412 lines in 1999, to nearly 365,000 lines by December 2004.

The dramatic shift in the competitive landscape is evident by the fact that in 1996, 90 percent of the telecom market was voice, while wireless and data each were only five percent. Today these numbers have shifted to where voice is only 40 percent of the total telecom market, while wireless and data have increased to 30 percent each. Clearly, there is an uneven playing field. For firms to be successful in this new broadband environment, they must be regulated equally and allowed to compete across the "triple-play" of voice, data and video services.

Virtually all new telecommunication technologies, like cell phones, wireless data (Wi-Fi), and cable modem service, or VoIP, whether regulated or not, have entered the market at the expense of the regulated, incumbent, wire-line firm customer base. In response, local exchange carriers have been upgrading their infrastructures with fiber-optics in order to offer broadband service. Digital subscriber line (ADSL) service in Indiana was essentially nonexistent in 1999, but grew to nearly 240,000 lines (239,454) by December 2004.

While there are no estimates on VoIP traffic in Indiana, nationally growth figures for this new competitive phone service are enhanced by an FCC decision to treat VoIP as an unregulated "information service" rather than a regulated "telephone service." According to a report released by Infonetics Research in February 2005, national VoIP usage jumped from 50,000 in 2003 to nearly

In 1996, 90 percent of the telecom market was voice, while wireless and data each were only five percent. Today these numbers have shifted to where voice is only 40 percent of the total telecom market, while wireless and data have increased to 30 percent each.

TELECOM REFORM

Indiana's new telecom law streamlines the process by providing new, competing video-service providers with the ability to enter Indiana markets under a state-wide franchise that sets the fee at the federally mandated cap of five percent.

500,000 in 2004, or 900 percent. Today, VoIP competitors include the cable systems themselves, plus new providers like Skype-eBay and Vonage.

This trend toward IP voice traffic and away from traditional wire-line phone business will continue at an aggressive pace over the next five to 10 years and, according to some industry analysts, will result in up to 30 percent of all voice traffic controlled by cable within the next decade.

A Telecommunication Crossroads

So Indiana was at a crossroads when it came to telecom reform. All of us, know it or not, were involved in a race with other states to demonstrate to investors that we recognized the economic need to deregulate our outdated system.

Among other things, investors now know how Indiana will handle the issue of uniform, state-wide franchising of video services.

Local governments had been granted cable franchises under state-granted "home-rule" powers. This permitted the wiring of a municipality with aerial or buried cable using public "rights of way," and the collection of a franchise fee, capped by the federal government at five percent. Federal statutes do not specify how the franchise fee is to be used. When cable stood alone in each market in the provision of subscription video service, and was also regulated at the local level, this concept made sense. Today, circumstances have changed and the idea of local franchising of cable television systems is a relic.

Why? By legislative mandate, the federal government has preempted virtually all local regulation of cable television service. In short, there is no longer a need for local franchising of video services other than to guarantee collection of a franchise fee and to preserve the right of each municipality to regulate "rights of way." For the sake of efficiency, Indiana's new telecom law streamlines that process by providing new, competing video-service providers with the ability to enter Indiana markets under a state-wide franchise that sets the fee at the federally mandated cap of five percent.

In fact, Sen. John Ensign (R-NV) and Sen. John McCain (R-AZ) have introduced a bill in Washington to: a) establish a

market-driven telecommunications marketplace; b) eliminate government managed competition of existing communication services; and c) provide parity between functionally equivalent services.

Indiana Now Is at the Forefront

Indiana, however, will not be waiting for federal intervention in the telecom-reform movement. It joins 14 other proactive states that have crafted new telecommunication legislation. Two of the surrounding states (Michigan and Ohio) were among those that passed telecom reform legislation last year. And Missouri, like Indiana, introduced new legislation this year called the Fair Competition in Video Act, to allow new video subscription service providers a state-wide franchise.

There are a few common themes among those states that have passed new reform legislation:

Texas — State-wide franchising of video services last year was an efficient way to handle all competing media. The impact was nearly immediate as Texas cable rates decreased by as much as 25 percent where direct competition was encouraged and subscribers finally had a choice.

Michigan — Regulations were restructured to focus on price and quality of service and not on the specific provider. They also encouraged the introduction of new services, entry of new providers, development of new technologies, and an increased investment in the telecommunication infrastructure.

Ohio — Highlights included an increased reliance on market forces to support a competitive telecommunications market, prohibition against state jurisdiction for advanced services on Internet protocol-enabled services as defined by federal law, required consideration of the impact of regulation on competing services, that regulation not advantage nor unduly disadvantage providers of competing equivalent services, and encourage innovation in the telecommunications industry.

If all this sounds familiar, Indiana Sen. Brandt Hershman addressed the majority of issues captured in legislation passed in other states. Where Indiana's law excels is in providing the necessary property tax abatements to encourage new infrastruc-

Indiana indeed was at a crossroads, but the legislative road was well-lit. Senator Hershman provided a road map. It was time to enable all in Indiana who desired to

Our Legislature was tough and rejected opposition rhetoric that was protectionism at best, and anti-competitive at the outside. It was about the information age, it was about new commerce, but most of all it was about the future of Indiana, and it was about time.

Indiana will not be waiting for federal intervention in the telecom reform movement. It joins 14 other proactive states that have crafted new telecommunication legislation.

by STEVE TITCH

Although critics said such reform protects incumbent telephone companies and does little for consumers, the opposite is true. It eliminates many of the regulations of a monopoly era that artificially sustained and protected older and obsolete services against competition from new technologies, including wireless and voice over the Internet protocol (VoIP).

The new law releases true “intermodal” competition — phone, cable, wireless and Internet providers will compete for the same consumer dollars in phone, Internet and entertainment. Each segment, however, will have the freedom to leverage its respective assets and strengths. This is distinct from past attempts to “manage” competition through bureaucratic rules that all but forced players to mimic one another while limiting service bundling, partnerships and the marketing flexibility that leads to value and differentiation.

Deregulation also prohibits Indiana municipalities, in absence of certain specific conditions, from owning and operating broadband systems. Taxpayer-funded municipal broadband continues to be a compelling concept, but it has largely failed in all but the smallest communities. Moreover, when municipal networks don't fail, they tend to stall, placing a town in broadband limbo.

*The author is a telecom policy analyst for the Reason Foundation and a senior fellow at the Heartland Institute.
(Adapted from testimony given this last session of the Indiana Legislature.)*

INDIANA WRITERS GROUP

EDUCATION

"We don't need prayer in school to set things right with our children," White told an audience of worshippers representing many churches across Indianapolis. "We need people of faith working in schools and neighborhoods to teach children from their toddler years on."

—Neal

Public Schools and Religion?

by Andrea Neal

March 15— On a recent Sunday night, when so many were gathered around television sets to watch the Oscars, some 500 Indianapolis residents gathered to hear Superintendent Eugene White lay out his vision for Indianapolis Public Schools (IPS). And to pray for him.

The connection between the two — public school and prayer — was apparent from the start. We don't need prayer in school to set things right with our children, White told an audience of worshippers representing many churches across the city. We need people of faith working in schools and neighborhoods to teach children from their toddler years on. We need families taking children to church on Sunday to learn values different from those taught by the media. We need churches employing volunteer and financial resources to supplement what can be done by a school district with a \$24 million budget gap. "The magic," White said to great applause, "is having prayers in the people who come to public schools."

White was featured preacher at the March 5 Celebration of Hope, a twice-a-year interracial and community-wide worship service. For White, it was an opportunity to seek community support for his vision to turn one of the lowest-performing school systems in Indiana into the best urban school district in the country — by 2010.

The standing ovation White received suggested he was preaching to the choir. But in the larger community, politicians, business leaders and taxpayers seem hopeful that White will achieve the transformation of IPS his predecessors failed to deliver.

In his March 8 State of the City address, Indianapolis Mayor Bart Peterson praised White's "extraordinary leadership" and urged all citizens to do their part in making White's vision reality. Can he do it?

"Absolutely," says Kelly Bentley, a school board member and mother of an IPS junior. Bentley voted against White last June when he was picked from four finalists to head the state's largest school corpora-

tion. Bentley doesn't agree with White on everything, such as his controversial proposal to restructure high school athletics. But she applauds his priorities and appreciates his leadership style. "He has incredibly high expectations," she said.

His tough talk, willingness to shake up school principals and staff and insistence that parents be held accountable for their children's behavior have gained White fans in a district that is 58 percent black, 11 percent Hispanic and 81 percent poor.

White has urged churches throughout Indianapolis to take an active role in education. "The public schools do not own the children," he said. "They belong to the parents, the community."

Yet too many children are educated by the movies and television shows they watch and the music lyrics they hear, White said, a point that seemed fitting on a night when Hollywood's big names had gathered to celebrate their creative genius.

White told of visiting an elementary school classroom that week to celebrate the birthday of Dr. Seuss whose books include one called, "What Was I Scared of?" Too many children are like a young boy in that classroom who told White that his ideas about what's scary come from violent video games like "Friday the 13th." "It's a terrible thing to let the media educate your children because the media has no soul," White said.

Although some may dismiss White's goals as unrealistic, none can fault his ambition. His district's ISTEP scores are second-lowest of Indiana's urban systems. In language arts, the IPS passage rate is 49.6 percent, compared with Gary, the lowest at 42.4; South Bend, 54.3; Fort Wayne, 60.2; and Evansville, 65.4.

The IPS scores have been inching up for several years, the result of a major reading initiative in the lower grades and the adoption of a more phonics-based instructional program. Though the literacy emphasis preceded White, Bentley praises him for recognizing its merits and for building upon it and other ongoing reforms, such as the move to smaller schools and magnet programs.

In a moving scene near the end of the Celebration of Hope, Pastor Maudine Wordlaw invited White to the altar where he



Andrea Neal, an adjunct scholar with the foundation and formerly editorial page editor of the Indianapolis Star, teaches history in Indianapolis.

was surrounded by children holding arms outstretched in prayer. Many were students in IPS, but others came from nearby township schools and private schools in Marion County.

It was a symbolic representation of what White will need to achieve his goal of making IPS the nation's best urban school district: support from IPS families, buy-in from the larger community, help from faith-based partners, prayers from the people and the courage to admit they make a difference.

A Simpsons-Watcher Assesses Our Constitutional Literacy

by Nicole Garnett, J.D.

March 6 — Here is something bound to keep late-night comics busy: A recent poll revealed that Americans apparently know more about the television cartoon series “The Simpsons” than about the First Amendment to the United States Constitution.

Only one in four respondents could name more than one of the rights protected by the First Amendment; only one in a thousand could name all of them. Yet, over half of the respondents could name two members of the Simpson family, and 22 percent could name all five. The poll also found that more Americans can name three “American Idol” judges than three First Amendment rights.

These results have produced much tongue-clucking in certain circles, as polls of a certain genre (that is, those designed to reveal that Americans are dumb) often do. A spokesman for the McCormick-Tribune Freedom Museum, which conducted the poll, observed, for example, that “part of our mission is to clear up these misconceptions . . . It means we have our job cut out for us.”

I confess that I am a Simpsons-watching law professor. I not only can name the members of the Simpson family (and of the supporting cast), but, if pressed, I could come close to reciting the First Amendment verbatim. (“Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof; or abridging the freedom of speech,



Nicole Stelle Garnett, an adjunct scholar with the foundation, is a professor of law at the Notre Dame School of Law.

or of the press; or the right of the people peaceably to assemble, and to petition the Government for a redress of grievances.”)

That said, I must admit that the poll doesn't trouble me too much. Most Americans have a healthy understanding of their basic liberties: The fact 38 percent of the respondents mistook the protection against self-incrimination for a First-Amendment right (it actually is protected by the Fifth Amendment) is a case in point: Most people know that the police cannot make you talk.

Similarly, I doubt that many Americans fail to realize that our Constitution protects the freedom of the press, guarantees the right to free worship, and permits us to complain to — and about — the government.

Nor are Americans shy about exercising those rights vigorously.

Consider the response to the Supreme Court's recent decision in *Kelo vs. New London*, which permitted a city to condemn private homes and transfer them to a private developer as part of an economic development project. The opinion set off a popular firestorm that has left state and federal legislators scrambling to craft new laws that would limit the power of eminent domain. By the end of current legislative sessions, it is likely that many states will have imposed legislatively the very restrictions that the Supreme Court refused to impose judicially in *Kelo*.

Of course, my non-Simpsons-watching colleagues might argue that the reaction to *Kelo* is yet more indication that Americans are unsophisticated — the decision was not inconsistent with prior legal precedents.

I take a different, more hopeful, lesson from the public reaction to *Kelo*. Americans understand the basics: We know that property rights are important and also that we have the right to petition our elected leaders to take steps necessary to protect those rights.

Of course, many people probably don't know that the constitutional protection of property rights is situated in the Fifth Amendment (along with the privilege against self-incrimination — go figure), but we know enough to guarantee a healthy democracy. And that is hardly a cause for concern.

PUBLIC OPINION

“I take a different, more hopeful, lesson from the public reaction to Kelo. Americans understand the basics: We know that property rights are important and also that we have the right to petition our elected leaders to take steps necessary to protect those rights.”

— Garnett

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INDIANA WRITERS GROUP

LAW AND ORDER

"Those foisting parolees and probationers on us pollute our social environment just as owners of poison-spewing factories pollute our air and water."

— Van Cott

Parole, Probation and Pollution in Muncie

by T. Norman Van Cott, Ph.D.

Feb. 22 — It is often a heartbreaking story. It is also a repeating story. Details change, but the essentials remain the same. What is it? It is people on parole and probation committing yet more crimes — thousands each year.

Those foisting these parolees and probationers on us pollute our social environment just as owners of poison-spewing factories pollute our air and water. Criminal-justice system employees get a pass on their pollution. Not so with factory owners.

My community, Muncie, recently experienced this social pollution. According to newspaper reports, a local man was sentenced to 28 years in prison for armed robbery in 1987. Notwithstanding 77 write-ups for conduct and disciplinary infractions while in prison, he was released Aug. 2, 2004, 11 years short of his sentence.

On Dec. 16, 2004, 136 days after his release, he killed a convenience-store clerk during — that's right — an armed robbery. For this crime, he received life in prison without parole.

My example is the tip of the iceberg. U.S. Department of Justice statistics indicate that parolee and probationer populations are "fluid." Of the approximately 750,000 parolees at the end of 2003, for example, 492,000 entered parolee status that year while 470,000 exited. Eleven percent of exits returned to incarceration because of at least one new offense. Twenty-eight percent of exits were returned to prison due to parole rules violations. (Nine percent absconded).

Therefore, the rock-bottom, bare-minimum estimate of parolee crimes in 2003 was about 51,700 (11 percent times 470,000). The corresponding figure for probationers was 109,000. Probationers' recidivism rate is lower, but probationer exits in 2003 were 4.6 times parolee exits.

Who is responsible for the unserved sentences that led to the 160,000 crimes in 2003? Parolees and probationers don't magically appear. To explain it by saying the "system" controls early releases, that

releases are mandated by rules and hence beyond human discretion, is silly.

That's the first defense of bureaucratic minions everywhere. However, such rules are not unchangeable like the laws of physics. Rather, these rules, and whatever discretion is built into them, are crafted by living and breathing people.

Who bears the costs of these early release crimes? In the Muncie case, it's hard to see beyond the convenience-store clerk and her family, isn't it? That burden is large and intense as is that experienced by thousands of other victims of parolee and probationer crime. At the risk of trivializing these costs, however, all of us incur costs because pollutants like the Muncie armed robber make our social environments less attractive.

What about those living and breathing people who sign off on these early releases? Do they bear any personal liability? That's the problem. They are usually government employees. That means *de facto* job tenure, longevity-based promotions and lock-step salary increases.

By way of contrast, imagine what would happen to owners of a factory that spewed pollution into a river. Indeed, suppose it's the White River that flows through Muncie. They would be financially liable for dead fish and other environmental damage. How do dead convenience store clerks measure up against dead fish? Apparently they don't.

Again, governments maintain records for parolees and probationers who return to prison, abscond or successfully complete their parole and probation. This means the ingredients for reform exist. Compensation of criminal justice system employees could be tied to successful early releases, while at the same time exacting financial penalties on employees who produce failed early releases.

One could even introduce gradations into the latter penalties based on the reason for failure — new crimes, breaking rules of parole-probation or absconding. Better yet, why not privatize the parole and probation industry? You can bet a privatized process would have incentives akin to this. Centuries of experience teach us that personal



Dr. T. Norman Van Cott, an adjunct scholar with the foundation, is a professor of economics at Ball State University.

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liability makes people more attentive to the consequences of their actions. Application of this principle to the parole and probation process doesn't guarantee that mistakes won't be made but it does mean that heart-breaking events such as that in Muncie would be less likely to occur.

Evolution: Science, Religion and Economics

by Eric Schansberg, Ph.D.

Dec. 14 — With the recent election results in Kansas and Delaware, the debate in Indiana continues to intensify over teaching Evolution and “Intelligent Design” in the public schools. There is much at stake — from scientific integrity to philosophical baggage. And the stakes are more intense than they ought to be because of the way in which our country delivers educational services.

Evolution refers to two different but related areas within science. On the one hand, evolution is a fully observable mechanism by which life evolves in modest increments over time. In this manifestation, evolution is an indisputable scientific theory, eminently supported on empirical grounds. On the other hand, evolution also is used to refer to a largely unobservable process by which today's observable range of life supposedly developed from the earliest days on the earth. In this case, evolution is a hypothesis, proposing that the development of life is an unguided process. As such, it uses pieces of scientific explanation to construct a compelling story — as a proposed interpretation of history.

“Intelligent Design” fully accepts evolution in the former sense. But it proposes the alternative hypothesis to the development of life — that the development of life was a guided process, caused by an intelligent designer of some sort. This, too, is intuitively compelling. When one sees something complicated and meaningful (e.g., Mount Rushmore), it is easy to infer that it was designed. As today's most famous evolutionist, Richard Dawkins, has said: what we see today has “the appearance of being designed.” So, the question is whether the apparent design is reality or

merely an illusion. This essay cannot be long enough to address the question in detail. Suffice it to say here that scientific endeavors routinely use evidence of “intelligent design” in many accepted contexts — from code-breaking to the search for life outside our universe (are the data in patterns or random?), to arson and murder investigations (was it an accident or intentional?), and to archaeology (is the rock a tool or merely a stone?).

Scientific considerations aside, this issue provokes such controversy because the dominant provider of education has such strong monopoly power — and most consumers have little ability to avoid its dictates. Let's see why this is the overarching problem — and how we could avoid it.

Imagine for a moment that the government decides that food (as education) is important, so everyone can eat for free at the government-run restaurant in their neighborhood. The subsequent government bureaucracy, the manager of the restaurant and a local “Food Board” would determine the menu. And passionate constituents would try to influence their choices.

Proponents of the Atkins Diet would clamor for “all meat”; vegetarians would argue for “all veggies”; and other people would want a range of options in concert with their various tastes and preferences. This is a recipe for turmoil. For example, if the Atkins people were politically persuasive, the vegetarians would be deeply offended and the others would not be wholly pleased either.

The solution is as easy as the problem is silly.

The government would allow different types of restaurants to arise and compete, based on consumer preferences. Or better yet, the government would get out of the business of operating restaurants and leave that to the private sector, intervening only as necessary to help the needy afford food through vouchers or other subsidies to the individual. The same is true with education. If one group wants their children taught sex education with cucumbers and condoms in the fifth grade, then that should be their prerogative. But that shouldn't be forced on other people. Another contentious example

MORALITY

Evolution can be both an indisputable scientific theory (when it records an observable mechanism) and merely a hypothesis (when it proposes that the development of life is an unguided process).

— Schansberg



Dr. Eric Schansberg, an adjunct scholar with the foundation, teaches economics at Indiana University (New Albany).

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INDIANA WRITERS GROUP

REGULATIONS AND TAXES

“Let’s mandate a required annual weigh-in for each Indiana resident and charge each person a ‘fat tax’ of \$20 for each pound of weight in excess of established standards.”

— Bohanon

is school prayer. Some parents want a prayer to Jesus Christ. Many parents want a prayer to the lukewarm deity of civil religion. Others want no prayer at all — or prayer to other gods. By providing options, school choice deals with such issues in a far more effective manner than a government entity with significant monopoly power.

Science, religion and politics. Real wars and now “culture wars” have been fought in their name. Let’s put down our weapons and give all American parents the freedom to educate their children as they see fit.

I Wish They Just Wanted the Money

by Cecil Bohanon, Ph.D.

Jan. 25 — What is the proper job of Indiana state government?

Reasonable people can and do disagree. Almost all believe the state ought to maintain prisons. Most of us think the state should have a role in financing roads and schools though perhaps not in operating them.

Traditionally, conservatives and libertarians have drawn the line here, whereas those who are more liberal or progressive have envisioned numerous additional functions for the state government. It is usually liberals who argue for tax hikes, while conservatives oppose them. Liberals want the money to finance their new-fangled programs, conservatives want to stop the liberals in their tracks by stifling revenue growth.

Interestingly, in this year’s State of the State Address, the supposedly conservative Republican governor proposed a role for taxation that few politicians have been willing to explicitly endorse: the use of taxes to discourage objectionable, but legal, behaviors. Toward the end of the address, Gov. Mitch Daniels told Indiana residents: “We weigh, drink and smoke too much and exercise too little.”

OK, I can see the governor using his bully pulpit to chide drunk, lethargic, nicotine-ridden and obese Hoosiers. (Although in all fairness he should also chide those who engage in sexual indiscretions, Sabbath-breaking, overworking, stay-

ing up too late or having negative attitudes — after all, these habits are health-wrecking too.) But simple chiding is not what the governor has in mind because he went on to “. . . ask this Assembly to raise Indiana’s cigarette tax by at least 25 cents a pack.”

The governor, however, wants to increase taxes not because he wants your money but because he wants to reform your lifestyle. Frankly, governor, I wish you just wanted the money.

The logic driving this neo-prohibition is impeccable. If government pays for your health care, then government gets a say in the personal choices that affect your health. Of course, government doesn’t pay for all of our health care, just 45 percent of it. Nevertheless, if cigarette smoking drives up the medical bills paid by the state government, then the state has an interest in discouraging the filthy habit. The full costs of smoking aren’t being borne by the smokers, but by the taxpayers.

But if this were true for cigarettes, what principled reason is there to stop there?

Overweight people also have higher medical costs, the overweight aren’t bearing the full costs of their poor eating habits . . . so why not tax fat? Of course, to tax French fries is an awkward way of attacking the problem. After all, the tax will discourage the underweight and healthy from ordering an extra portion at the local fast-food chain just as it will those of us who are a bit more portly.

So I want to propose another way to discourage being overweight: Go straight to the source. Let’s mandate a required annual weigh-in for each Indiana resident and charge each person a “fat tax” of \$20 for each pound of weight in excess of established standards.

Use a chunk of the revenue to finance dieting programs to encourage the plump to shed more weight. And this is just the beginning. Think of the other health-inducing tax-and-spend projects that can be thought up.

No thank you, governor, let’s not go there. Part of liberty is the God-given right to choose any fool thing you want, even if it might not be so good for you — that, coupled with the responsibility to bear the



Dr. Cecil E Bohanon, an adjunct scholar with the foundation, is a professor of economics at Ball State University.

consequences of those choices. The welfare state undermines liberty precisely because it severs the link between choice and consequence. But the way to restore liberty is not to fine-tune the art of state coercion by social engineering and regulation; it is to turn back the welfare state.

Let's not invite Big Nanny to Indiana. That's not the state's job.

Hurst Beans: Let's Move On, Gov

by Fred McCarthy

March 4 — Last December we wrote Gov. Mitch Daniels suggesting that harassment of the N. K. Hurst Co. by "his" Stadium Building Authority, including the filing of an eminent domain action, was not really in the best, long-term interests of the State of Indiana.

On Feb. 2, we received a reply from a gentleman shown on the letterhead as the governor's Chief of Staff (CoS). Since there apparently has been little progress made in the "negotiations" we decided to let you all know what the attitude of the governor's office appears to be.

First, the CoS attempts to deny the governor's responsibility by saying he only appoints two of the seven-member Authority. Reverting to legalese, he makes the statement that "Other members are selected by . . . the Speaker and President Tempore (*sic*) of the general Assembly . . ."

Referring to the makeup of the authority, the Indiana Code actually says:

5-1-17-7.(a)(1) Four (4) members appointed by the governor. The President Pro Tempore of the Senate and the Speaker of the House may each make one (1) recommendation to the governor concerning the appointment of a member under this subdivision.

The suggestion that the governor does not have control of the authority is, at best, misleading.

The CoS then goes on to say, "The essential duty of the Authority is to build the Stadium on time, by the Fall of 2008, and under budget, at a site in downtown Indianapolis using an architect and con-

struction manager all previously chosen by the City of Indianapolis."

In other words, they're trying to do their best under trying circumstances forced upon them by others. That's not quite the way we remember it. There was, in fact, substantial controversy when the governor "shoe-horned" the state into this equation by saying that the state's financial contribution demanded it be allowed to control the construction of the stadium.

The CoS goes on to say that there have been ". . . negotiations with the Hursts to see if there is a way for the operation to stay in place without adversely affecting the Project" (*yes, "Project" was capitalized*).

The governor of the State of Indiana oversees the expenditure of millions of dollars to attract businesses into the state. It is his duty to protect the private property rights of those businesses. The CoS has it backwards. The "Project" should be built only if it does not adversely effect the constitutional rights of others.

Forcing a small business to the wall simply to give away publicly funded assets is bad news. It's time to back off and mend your public-relations fences, governor.

The Bloody History of U.S. 24

by Mitch Harper

March 16 — Whatever else might be said about Gov. Mitch Daniels' Major Moves program, it is about the only way that the killer road U.S. Highway 24 (U.S. 24) east of New Haven to the state line is going to be made safer.

"Fort to Port" is a needed project. I should know. I organized the cross-state meeting in 1989 that started Fort to Port.

I addressed letters to every mayor, every Chamber of Commerce, every county commissioner, every state legislator and every highway department in Indiana and Ohio along U.S. 24.

The letters invited them to a meeting at the Woodburn Multi-Purpose Building, the converted school that was home to the fire department and the Woodburn branch library. John Holmes, my legislative assistant, was invaluable in preparing for that meeting.

PRIVATE PROPERTY

It is misleading to suggest that the governor did not have control over the authority that attempted to take the N.K. Hurst Co. property for a Colts parking lot.

— McCarthy



Fred McCarthy, formerly president of the Indiana Manufacturers Association, writes the blog, *IndyTaxDollars* at <http://www.indytaxdollars.typepad.com>.

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INDIANA WRITERS GROUP

INFRASTRUCTURE

"How ironic, that on this day of Gov. Mitch Daniels' signing of the Major Moves legislation that two semi-trucks collided on U.S. 24 east of Bruick Road in Allen County. The accident killed one and injured three others. The highway was blocked for hours."

— Harper

So was another fellow, Ken Knoblauch of Woodburn. I asked Ken to help make arrangements for the meeting hall. Ken called up a few weeks before the meeting and asked whether we shouldn't have a banner made for the meeting. He wanted to run an idea past me. He asked whether a banner with "Fort to Port" would be all right. I said it sounded fine. I may have organized the meeting but Ken named it. He deserves recognition before that gets lost in history.

The meeting hall was packed with an outpouring of people, largely from Ohio. Allen County was represented by Eli Samaan. Woodburn and New Haven were well-represented. Oddly, neither the Fort Wayne City administration nor the Fort Wayne Chamber of Commerce sent a representative.

The outgrowth of that packed meeting was the formation of Fort to Port as an organization. Things moved along quickly on the Ohio side. By the time the third meeting of Fort to Port was held at the Paulding County Fairgrounds the growing movement had gotten the attention of the Ohio governor's office. The head of the Ohio Department of Transportation helicoptered in to the Paulding County Fairgrounds to announce that Ohio was moving Fort to Port from a point way down on its priority list of highway improvements to a spot near the top.

Toward the end of that meeting, however, a fellow from the Indiana Department of Transportation rose to read a statement. The good feelings of the meeting were dampened when he read the statement from the Indiana administration. The message was that Indiana had substantial priorities in front of any improvement to U.S. 24, particularly the completion of the Hoosier Heartland improvements to U.S. 24 from western Huntington County to Logansport and the extension of I-69 to Evansville. It would have been nice if he had at least told those of us from Indiana prior to the start of the meeting what the message would be.

How ironic, that on this day of Gov. Mitch Daniels' signing of the Major Moves

legislation that two semi-trucks collided on U.S. 24 east of Bruick Road in Allen County. The accident killed one and injured three others. The highway was blocked for hours.

I have seen my share of the dead and the injured on that highway. I was an emergency medical technician. Our ambulance served that entire length of U.S. 24 from New Haven to the state line.

My brother and I saw a lot. My father, uncle and grandfather saw most of the rest of the carnage over decades before the 1970s.

It was why as a state representative I would ask the State Highway Department when it would be making the plans to four-lane U.S. 24. My first inquiries in the early 1980s were met with a reply from the state highway director that the state did not generally plan to improve highways with parallel four-lane highways serving the same traffic.

He meant the Toll Road and U.S. Highway 30 (Lincoln Highway). This didn't take into account that U.S. 24 was one of the only sections of federal highway between two cities of the top-100 population cities in the United States that was not served by a four-lane highway.

The deaths and the injuries from high-speed accidents continued. At least the speeds aren't as high as had once been the case. It is inconceivable now, but until the lowering of highway speeds to 55 mph during the energy crisis in the 1970s, the speed limit on U.S. 24 east of New Haven was 65 mph. Once the speed limit was capped off at 55 the fatalities decreased; however, it did not end the toll of lives lost and injuries sustained.

When Jack Isenbarger of Muncie took over the highway department, he responded with the directness for which he was known and respected. He responded to my letter of the late 1980s with a different answer than his predecessor had. Jack said he had asked his department to place on his desk all the traffic count historical data for U.S. 24. He wrote that there existed certain standards that were a yardstick for determining when traffic counts were high enough to justify a four-lane highway.



Mitchell V. Harper, a Fort Wayne attorney and formerly an Indiana legislator, edits the blogs, *Fort Wayne Observed* and *Indiana Parley* (<http://fortwayneobserved.com>; <http://indianaparley.com>).

Jack Isenbarger said that according to the Indiana Highway Department's own standards, the traffic counts justifying four-laning had been exceeded in the mid-1960s.

He said that improvements were way past the time they were needed. Jack was a good man in that job and I appreciated the change in leadership there. Soon thereafter, however, Jack Isenbarger was gone with the change in administration following the 1988 election.

So, here we are almost 17 years past that meeting in Woodburn which resulted in the formation of the Fort to Port organization. Happily, the members of the U.S. House of Representatives who have served the corridor — from both parties — have worked in a bi-partisan fashion for the federal highway portion of the improvements. This has allowed planning to take place.

Construction has been another matter. The possibility, at long last, of improvements to U.S. 24 which will save lives is long overdue. It has been a bloody wait.

Fathers Are Invisible in the Discussion of Child Care

by Dick McGowan, Ph.D.

Dec. 28 — A recent series of articles in the *Indianapolis Star* provided a sampling of opinion from women and shows why our society will not soon have better balance between home life and working life.

The articles were written only by women. (Could the newspaper find no men who left a career to assume a larger family role?) One writer immediately invoked "sexist male sloth," another talked of "our" (women's) options and the third used the word "women" but never the word "man."

None of the writers addressed the fact that public policy over the last 30 years has consistently induced women from the house and into the workforce while never bringing men into the household. Whatever its merits and flaws, affirmative action has had the cultural effect of bringing more women into the work-a-day world.

What equivalent programs support men in assuming child-care responsibilities?



Dr. Richard J. McGowan, an adjunct scholar with the foundation, is the father of three boys and former PTO (Parent-Teacher Organization) president of Nora Elementary School in Indianapolis. Dr. McGowan teaches philosophy and religion at Butler University.

Our culture has not only discouraged men from adopting non-stereotypical and alternative roles as primary caretakers of children, it has sent messages to men that they are unneeded in any role.

We can begin with the abortion decision. Again, regardless of the merits of arguments for and against abortion, the impact of current abortion policy excludes men. A Surgeon General of the United States stated that the abortion decision is "between the woman, her God and her doctor." While campaigning for the presidency, John Kerry stated that the decision was between "the mother, her God and her doctor" (isn't the point of abortion to not to be a mother?).

The potential father is treated as unimportant in the existence of the child. The history of child-custody decisions shows how fathers are looked upon by our society. And one of culture's main images of fathers is Homer Simpson, an inept parent.

Pick up any magazine with a variation of the word "parent" in its title; pictures of mothers outnumber pictures of fathers by about six to one. The articles are slanted to female parents, with such features as cosmetic advice. (Does *Field and Stream* offer beauty tips?) *The Star's* "Indiana Living" section in front of me has several photos of people as parents, all female.

Feminists, these days, are little help. When the modern women's movement started in the late 1960s, one demand was that fathers take more responsibility for children.

That demand for cooperative parenting has become instead a strident pitch for reproductive freedom to the exclusion of fathers.

The result is articles in praise of single mothering. In fact, one feminist argued that if a man cares for his children on a daily and routine basis, he is a mother no matter what his sex.

To some feminists, it seems, being a good father is an emasculating experience.

MODERN LIFE

"Our culture has not only discouraged men from adopting non-stereotypical and alternative roles as primary caretakers of children, it has sent messages to men that they are unneeded in any role."

— McGowan

Q

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WHO ARE THE LOSERS IN INDIANA'S CLOSED SHOP?

*“Ironically, unions
are not pro-worker —
unless one defines
workers narrowly as
only those in a union.
Unions are simply
pro-union.”*

— Schansberg

The Bright

by ERIC SCHANSBERG

Labor unions continue to be in the news sporadically. This summer's 50th anniversary of the AFL-CIO merger was ironically paired with a maverick union group's decision to break from the pack (the “Change to Win Coalition”). Then, just in time for Christmas, unionized transit workers in New York City hamstrung The Big Apple by going on strike.

Locally in recent weeks, Gov. Mitch Daniels cited Indiana's “Closed Shop” laws as a significant reason behind Colgate's decision to leave southern Indiana. And “right-to-work” bills have been introduced in both Kentucky and Indiana — “Open Shop” laws that would allow workers to join a firm that has union representation without being forced to join the union and pay dues.

Clearly, union representation drives up the cost of doing business. It's more difficult to determine whether this is a deciding factor in a firm choosing to leave a state — or not to enter a state. In any case, artificially high costs cannot be helpful for promoting a state's economic development.

Unions are a labor-market cartel whose members bind together as one bargaining unit to increase compensation. Like a cartel in a product market (e.g., OPEC), the cartel holds together by 1) promoting solidarity among members and 2) by limiting competition from outsiders.

All suppliers, whether suppliers of labor or lawn chairs, would like higher prices for what they sell. Unfortunately (for them), competitive labor and product markets work against that goal. Therefore, they try to restrict competition.

Closed Shop laws are an important element in promoting solidarity among union members. Obviously, their cartel is

strengthened when people who join a unionized firm must join the union and pay dues. But unions are especially active in restricting their competition. In product markets, unions are avid proponents of trade protectionism — that is, protecting American jobs from overseas competition and protecting American consumers from the bane of lower prices.

In labor markets, unions are fond of using the law to limit their competition as well — from mandatory licensing to laws mandating a “prevailing (union)” wage for public-works projects. The use of threats and violence also are helpful for decreasing non-union competition.

Unfortunately, the political market activity of unions benefits their members at the expense of consumers, businesses, taxpayers and competing workers. Unions are clearly not pro-consumer, pro-business or pro-taxpayer. In fact, their legislative efforts drive up prices, costs and government spending. Ironically, unions are not pro-worker, either — unless one defines workers narrowly as only those in a union.

In a word, unions are simply pro-union.

Finally, note that the relative success of the public-sector union in New York City is not surprising compared with the relative struggles of private-sector unions. In competitive markets in the private sector, firms cannot afford the higher costs of unions. Companies can neither afford to pay the compensation premiums that unions demand nor tolerate the inefficiencies that unions encourage.

In contrast, unions thrive in arenas with limited competition and the relatively high profits that follow — or in the public sector, with the deep pockets of taxpayers who aren't paying attention. With ever-increasing regional and global competition, pri-

vate-sector unions will continue to fade. In the public sector, however, unions will continue to prosper — as yet another interest group whose members benefit themselves at the expense of others.

D. Eric Schansberg, Ph.D., is a professor of economics at Indiana University (New Albany). This was written for the foundation's Jan. 11 weekly Indiana Writers Group column.

The Dim

by KEN ZELLER

Contrary to two views recently expressed in the *Fort Wayne Journal Gazette*, providing decent working conditions to workers is not bad business, bad policy or bad law. The 50-plus percent of Americans who indicate that they would vote for a union in their workplace today if the opportunity presented itself already intuitively know this. . . . Let's put to bed a few myths advanced by wealthy out-of-state business interests:

1. Open-shop laws restrict rather than advance freedom. No one is required to join a union in order to work anywhere in Indiana. Federal law already provides that a worker who does not wish to become a member can opt out of paying dues.

2. Workers are not pitted against consumers in an imaginary battle of wages versus prices. In fact, consumers are, generally, workers. Reducing wages doesn't bring down prices. It just puts more money in the pockets of highly compensated executives, who already out-earn workers by a margin of more than 400-to-one (up from 85-to-one just 15 years ago).

3. Prevailing wage laws were enacted prior to the growth in U.S. union membership. They were enacted, and continue to serve, as a "buy local" provision and help ensure local tax dollars support local taxpayer jobs. Incidentally, studies of construction costs in states that have repealed these protections show no real change in square foot costs, while worker wages drop.

4. Unions advocate politically for all workers and have historically done so. They advocate for minimum wage laws — although their members do not make minimum wage, for broadening access to affordable health care — although their members already enjoy such access, for work-

place safety and health protections — although their members have negotiated protections in their contracts, etc.

And unions, in contrast to corporations, are about a whole lot more than money. They are about dignity, voice and democracy for every person working for a living. They are about the right to go home as whole as you left it, the chance for a family life and equal opportunity for workers of all colors and creeds.

Ken Zeller is president of the Indiana AFL-CIO. This is excerpted from the Jan. 23 Fort Wayne Journal Gazette.

Schansberg Replies:

1. Insofar as one might find this comforting, Ken is correct that no one is required to work for a closed-shop firm. The requirement is only to join a union if you decide to work for a unionized firm. Of course, it may also be useful to note that, given our competitive labor markets, no one is forced to work for any given firm — in particular, a firm that pays wages significantly less than his market productivity.

2. Actually, when unions pursue trade protectionism to restrict their competition, it is union workers against consumers. One may find the trade-off palatable, but one should not deny that the (obvious) trade-off exists.

3. Prevailing wage laws originated in the 1930s during the primary ascendancy of the union movement in the U.S. (As a sidenote, the federal version of such laws have explicitly racist origins.) And it defies logic (and all the research I've seen) to imagine that artificially higher wages will not result in higher costs to taxpayers. Again, one may find the trade-off palatable, but one should not deny that the (obvious) trade-off exists.

4. Ken's story here is potentially credible. It is possible that unions serve as an advocate for those who do not pay union dues. But given the union movement's penchant for restricting their competition in so many other ways, it is more consistent and seems more plausible to believe that their desire to increase the minimum wage is primarily an attempt to increase the price of some of their labor market competition.

—des

"Open-shop laws restrict rather than advance freedom. No one is required to join a union in order to work anywhere in Indiana. Federal law already provides that a worker who does not wish to become a member can opt out of paying dues."

— Zeller

"Insofar as one might find this comforting, Ken is correct that no one is required to work for a closed-shop firm. The requirement is only to join a union if you decide to work for a unionized firm."

— Schansberg

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THE BARBER POLL

How's the Governor Doing?

In his drive to make at least certain trains run on time, there is little concern that centralizing government might be a tricky, even dangerous business.

Admittedly, ours is a tough crowd to please. But you can be excused for thinking that the state's first Republican governor in many, many moons would score higher on our quarterly Barber Poll.¹

First, the positive take: The greater number of the little platoon who answered both the pre- and post-session survey seem to believe that Gov. Mitch Daniels is a good leader with a strong economic program.

That's what the re-election team wants to hear, of course. There are questions, though, about where we are being led.

The governor scored an average of 5.255 on respect for private property. Nor were respondents overwhelmed by his ability to reduce regulations (5.725), lower taxes (4.706) or make government smaller (5.784). Moreover, these ratings fell during the six months between polls.

The Barber Poll does not presume to explain what might be bothering us about this governor, but something certainly is.

A foundation member who has defended the governor publicly finds himself on the other side of the administration's proposal to raise cigarette taxes:

The supposedly conservative Republican governor proposed a role for taxation that few politicians have been willing to explicitly endorse: the use of taxes to discourage objectionable, but legal, behaviors.

The governor has been an abject booster for city-county consolidation as practiced by the Indianapolis firefighters union and Bart Peterson, the city's Democrat mayor.

Daniels does not seem to differentiate between utopian and incremental consolidation. Nor is it apparent his administration has studied the many local governments that have experimented in this regard. In his drive to make at least certain trains run on time, there is little concern that centralizing government might be a tricky, even dangerous business.

Now comes all-day kindergarten, a public works project that could have been written in the offices of the Indiana State Teachers Association.

All of this, in combination with a truly frightening plan to raise a tax on the combined incomes of "rich" households (\$100,000-plus), disturbs the classically liberal among us.

Indeed, some think events will force the governor to seek counsel from those outside his circle. One such person might be Sen. Mike Murphy, chairman of the Marion County Consolidation Study Commission, the man who found a \$30-million-dollar shortfall in the Indyworks projections.²

Or not.

A March 17 editorial from *the Indianapolis Star* is on the desk as this is written. It communicates a threat to those who don't know the secret handshake. "Unfinished Business," the editorial is ominously titled:

Statehouse Republicans may not escape unharmed. Key business leaders who support consolidation are talking about withholding campaign contributions to the GOP this fall.

We can only remind you that the Barber Poll is anonymous — fortunately so, as it turns out.

1. The Barber Poll regularly samples the opinion of the persons who happen to be on the foundation's "A" list of e-mail addresses. It seeks to replicate the insight of the corner barber, who greeted customers with the vaguely economic but perhaps only conversational, "How's it going?"

2. See box on page 7.

Q — Drawing on your understanding of economic principles, please rate Gov. Mitch Daniels' performance in respect to the following issues (with 1 being the worst and 10 being the best):

	1	2	3	4	5	6	7	8	9	10	
Lower Taxes	13	4	8	8	16	3	13	4	3	0	4.51
Fewer Regulations	1	5	6	11	15	2	14	8	4	4	5.69
Respect for Private Property	7	3	7	9	10	5	8	11	6	5	5.61
Economic Growth	2	7	3	10	3	7	5	13	10	13	6.59
Smaller Government	9	2	10	8	6	9	13	5	6	4	5.33
Stronger Leadership	2	5	6	2	5	2	9	9	12	21	7.23