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# Salvation or Folly? The Promises and Perils of Digital Paywalls

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# Salvation or Folly? The Promises and Perils of Digital Paywalls

## **Abstract**

This article chronicles the recent history of the debate in the United States over digital paywalls, a model often hailed as newspapers' savior. We show how this debate has evolved from emphasizing industry-wide adoption to focusing on individual experiments. While highlighting potential legal, economic, and democratic concerns with paywalls, we examine the empirical record of three prominent newspaper paywall models: the Arkansas Democrat-Gazette, the Dallas Morning News, and the New York Times. While each has enjoyed varying levels of success, our analysis suggests that paywalls are unable to offset steep losses in advertising revenue. We conclude by briefly discussing non-commercial alternatives.

## **Keywords**

future of journalism, media history, newspapers, paywalls

## **Disciplines**

Communication | Social and Behavioral Sciences

# SALVATION OR FOLLY? The promises and perils of digital paywalls

Victor Pickard and Alex T. Williams

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KEYWORDS future of journalism; media history; newspapers; paywalls

## Introduction

Like each of the past several years, 2013 has been dubbed “the year of the paywall” (Thompson 2010; Johnson 2011; Johnston 2012; Glaser and Cowgill 2013). Essentially, a paywall acts as a barrier between an internet user and a news organization’s online content. To access content behind the paywall, users must pay a fee either on a one-time basis, or as part of a subscription (Simon 2011). Since the journalism crisis erupted in 2009, newspapers increasingly have turned to this digital subscription model to compensate for dwindling advertising revenues, sparking a lively debate over paywalls’ potential for sustaining journalism. At least one commentator has referred to paywalls as a “Hail Mary pass” for the industry’s survival (Feola 2011), and many analysts see the digital subscription model as a final test for newspapers’ viability. As paywalls are increasingly implemented by all types of publications, from large national newspapers like the *New York Times* to smaller papers like Rhode Island’s *Newport Daily News*, this ongoing discussion is inextricably bound up with questions about journalism’s future. The stakes, therefore, are considerable; yet often overlooked are the paywall model’s normative implications.

The following analysis provides an overview of this evolving four-year debate within the United States by tracing key issues related to the legality and feasibility of

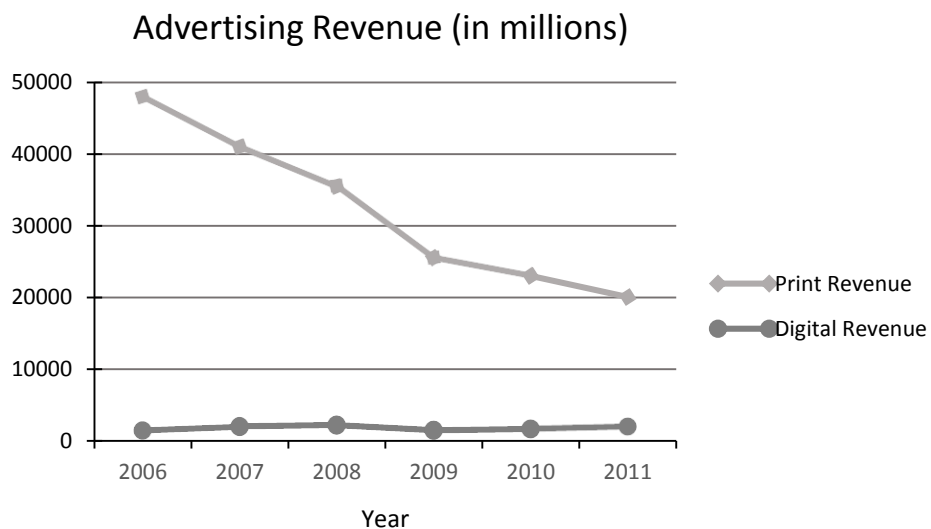
paywalls. While experiments in monetizing online content are still in their infancy, an early record of their efficacy has begun to emerge. Consequently, this study also examines the empirical record of the paywall model for three newspapers commonly cited as industry leaders. We conclude with a discussion of the democratic concerns with paywalls, and propose possible trajectories for further study as well as potential policy interventions toward sustaining journalism.

## The American Journalism Crisis

Before turning to an overview of paywalls, a brief description of the American print media ecosystem provides context for how the journalism crisis has impacted newspaper circulation, revenue, and resources. The US newspaper industry still publishes approximately 1350 daily papers, marking a slow but steady decline over the last 20 years. Based on the most recent year for which figures are available, the numbers have fallen from 1611 in 1990 to 1387 in 2009, a decline of 14 percent (Edmonds et al. 2012). The American print media system is dominated by several large national papers, including the *Wall Street Journal* (WSJ; 2,293,798), *USA Today* (1,713,833), the *New York Times* (NYT; 1,613,865) and, to a lesser extent, the *Washington Post* (462,228).<sup>1</sup> The *Washington Post* and *USA Today* have experienced recent declines, but the *NYT* and *WSJ* have seen increases, largely due to their aggressive expansion into digital subscriptions. Indeed, the evidence suggests that overall demand for print journalism has not waned despite declines in circulation; papers are actually expanding their total audience reach when print and online audiences are combined (Edmonds et al. 2012).

The 2009 journalism crisis hurt all print media outlets, but disproportionately affected certain types of newspapers more than others, with subsequent recovery or continued decline roughly correlated to size. The 2013 Pew Media Report observes that “continuing the trend of recent years, the deepest problems are concentrated at large metro papers” (Edmonds et al. 2013). High-profile closings also dramatize the journalism crisis, particularly in the few cities where two major newspapers still co-existed, like the closure of the 150-year-old *Rocky Mountain News*, and the *Seattle Post-Intelligencer* going online only, cutting all but a handful of employees. While events like newspaper closures draw the most attention, the core problem continues to be the industry’s rapidly declining advertising revenues. While many early observers believed that losses in print advertising would be offset by gains in digital advertising, the evidence suggests otherwise. In 2012, for example, for every digital advertising dollar gained, 16 print advertising dollars were lost (“Key

Findings” 2013). Because newspapers have traditionally depended on advertising revenue to account for 80 percent of their total revenue, this loss is grounds for serious concern. As data from the Newspaper Association of America (NAA) demonstrates in Figure 1, between 2006 and 2011, the newspaper industry lost over \$25 billion in print revenue.



**Figure 1**

The decline in advertising revenue in the newspaper industry. Source: “Newspaper Revenue.” *Newspaper Associations of America*. 2012.

Increasingly, newspapers are responding to this crisis by moving into a digital format, reducing their delivery, and dramatically cutting staff. This was exemplified by the *New Orleans Times-Picayune’s* decision to cut news staff significantly and move to a thrice-weekly delivery. Weekly news magazines are making similar adjustments; at the end of 2012 *Newsweek* went online-only. These cost-cutting measures in response to revenue declines result in the loss of many news-related jobs. Pew’s Summary of the American Society of News Editors (ASNE) Employment Census, released in April 2012, counted a loss of 1000 full-time newsroom jobs in 2011, which amounted to a decline of 2.4 percent. After these losses, 40,600 news professionals remain at newspapers, according to ASNE, which, the Pew study notes, is approximately a 28 percent decline from its peak in 2000 (Edmonds et al. 2012). Using the same ASNE numbers, the Federal Communications Commission (FCC) concluded in a major report titled the *Information Needs of Communities* that “the drop between 2006 and 2010 is particularly striking: in just four years, newspaper

employment fell from 55,000 to roughly 41,600—about where it was before Watergate” (Waldman 2011, 40). The FCC concluded that financially strapped news organizations increasingly have

less time to investigate, to question, to take a story to the next level. Fewer newsrooms ... deploy reporters to work on labor-intensive stories. That means ... fewer investigative stories ... less daily beat reporting about municipal government, schools, the environment, local businesses, and other topics that impact Americans’ future, their safety, their livelihood, and their everyday life ... the dramatic newspaper-industry cutbacks appear to have caused genuine harm to American citizens and local communities. (57)

The public has reacted negatively to these cutbacks. Pew recently found that 31 percent of people surveyed reported deserting a particular news outlet for no longer providing the news and information they required (Enda and Mitchell 2013).

These trends are especially troubling because the entire US media ecosystem arguably depends on newspaper-produced journalism. When other media discuss hard news, they often draw from stories initially reported by newspapers. The Pew Center for the People and the Press’s 2010 report documented this trend by providing an exhaustive study of Baltimore’s media ecology for one week in 2009 (“How News Happens” 2010). Tracking both old and new media—including newspapers, radio, television, websites, Twitter dispatches, and blogs—the researchers found that despite the proliferation of media, much of the news people received contained no original reporting. The study revealed that “Fully eight out of ten stories studied simply repeated or repackaged previously published information”, and old media like the *Baltimore Sun* still generated more than 95 percent of original news stories. Moreover, the *Sun*’s production of original news stories was itself down more than 30 percent from 10 years ago and down 73 percent from 20 years ago. The Baltimore case is representative of the 30 percent declines in the reporting and editing capacity at American newspapers since 2000 (discussed in McChesney and Pickard).

Such long-term trends have been compounded by the internet where a proliferation of less costly digital advertising outlets and free classified websites like Craigslist have irreparably disrupted newspapers’ local advertising monopolies. As growing numbers of readers and advertisers migrate to the internet, the business model for advertising-supported journalism is in a state of gradual collapse. With many papers across the country at the edge of—or in various stages of—declaring bankruptcy, a string of cities will likely join New Orleans in lacking a daily newspaper

(Myers 2012). These developments have added urgency to finding new ways to monetize online content.

In the search for a new digital—and profitable—business model, newspaper publishers' opinion has consolidated against a common enemy: free online content. Thus, the commonly-perceived solution to combating this scourge is online payment schemes—or “paywalls.” Three basic types of paywall models have emerged: hard paywalls that allow no free content, soft paywalls that allow some free content, and metered paywalls that allow a set number of free articles that a reader can access over a specific period of time (Yang 2012). The widely-held view that internet “free riders” caused the journalism crisis led newspaper companies to devise such online payment schemes. This notion first took hold several years ago when, for example, a 2009 report issued by the NAA to its members extolled paywalls' virtues and reflected the hope that, with the right technological settings, they would become a dominant model (Berger et al. 2009). Becoming a consensus notion among publishers, individual journalists, and news industry watchers, the paywall scheme shifts from an advertising model to one based on subscriptions, with an implicit assumption that newspapers will remain commercially viable. Although generating some debate within news media, paywalls have thus far escaped much scholarly scrutiny. The following section briefly reviews the emerging scholarship related to paywalls.

### **Previous Research on Paywalls**

While some research has examined the willingness of people to pay for their online news, the growing sub-field of journalism studies has only just begun to interrogate assumptions about paywalls' viability and their significance for journalism's future. Because paywalls are still a recent phenomenon, scholarly analysis remains scarce. However, some studies are beginning to emerge, much of which strikes an alarmist tone. Warning against the rise of online content and related declines in newspapers' advertising revenue, Collins (2011) argues that countries like the United Kingdom must consider public intervention to preserve journalism. Pickard (2011) noted that the paywalls model treated journalism as a commodity instead of a public service, and therefore diverted attention from larger systemic problems. Similarly, Myllylahti (2013) concludes her analysis of paywall-generated revenue in eight different countries by noting that “charging for news content has the potential to create a new digital divide between those who can afford to pay for news, and those who cannot. It also raises a question about the

role of publicly funded journalism.” In stark contrast, rather than supporting an increase in public journalism, Greenberg (2011) suggests that to maintain US journalism and strengthen consumer options for news content, Congress should pass a temporary exemption to the Sherman Antitrust Act that would allow newspapers to collude and construct industry-wide paywalls.

As more newspapers consider paywalls, some studies have analyzed the likelihood of American readers paying for online access to digital news content, which overall has been found to be low regardless of the payment model (Chyi 2012). A study of *NYT* readers’ reactions after the paper implemented a paywall in 2011 found that participants visited the website less often, frequently bypassed paywalls by using loopholes, and considered changing news providers altogether (Cook and Attari 2012). Taken together, this research suggests that implementing a paywall likely decreases online readership. Consequently, the danger of losing online viewership—and the accompanying digital advertising revenue—is a common dilemma when newspapers contemplate erecting a paywall. As an online advertising director at an unnamed newspaper explains, “If we are going to put [up] the paywall, we are going to shrink the audience. Therefore, we are going to impact our advertiser revenue” (Li 2012, 86).

Some research is highlighting the American paywall experiment’s significance for print journalism’s trajectory across the globe. For example, one researcher (Estok 2011) notes how the *NYT* paywall experiment is highly influential for Canadian newspapers. Detailing their declining advertising revenue, he notes that Canadian newspapers are considering three types of models to increase revenue: tablet-only newspapers, such as Rupert Murdoch’s *The Daily*, partnering with Apple to sell newspaper subscriptions through iTunes, and paywalls. While *The Daily* folded in less than two years and an Apple model never materialized, his prediction regarding the impact of *NYT*’s paywall was apt. Since the *NYT* enacted a paywall in 2011, dozens of news organizations in the United States and internationally have followed suit. Likewise, Pavlik (2013) concludes that paywalls are becoming an industry standard, and Pew’s 2013 State of the Media report found that 450 of the 1380 American daily newspapers has started or announced plans to implement a paywall (Edmonds et al.).

Given the high stakes resting on their success, the widespread adoption of paywalls deserves more attention. While the paywall approach seems on the surface straightforward and fair, closer scrutiny reveals a number of potential drawbacks. Over the past several years, concerns about these potential flaws have fallen roughly into three categories: legal concerns (copyright, antitrust); economic/practical



concerns (is it even feasible and can it sustain quality journalism?); and what could be called democratic/public interest concerns (would the move toward paywalls foster democratic debate?). Some of these concerns have receded with time and others have become more salient. Regardless, a general problem persists: if opinion consolidates around the industry consensus that paywalls are journalism's only salvation, the case for public policy options is considerably weakened. Bringing into focus the tensions and potential pitfalls of paywalls, the following analysis examines ongoing debates about, and efforts toward, erecting paywalls.

### Early Debates Around Paywalls

Alan Mutter, a journalist-turned-Silicon Valley CEO and blogger, famously called giving away online news content for free traditional media's "original sin" (Mutter 2009a). An increasing number of print media companies are seeking redemption by belatedly charging for their online content. These range from older ventures like the *WSJ's*, which established the first paywall in 1996, to newly launched paywalls like the *Washington Post's*. Early debates about paywalls often centered on protecting online content from news aggregators that were growing increasingly popular. Prominent news industry leaders, including Rupert Murdoch and the Associated Press (AP) chair, identified Google news aggregation as a major threat and consequently sought to shield their content (Johnson 2009; Smillie 2009).

In April 2009, the AP announced "an industry initiative to protect news content from misappropriation online." While not aimed solely at Google—which has syndication and hosting agreements with the AP—it is clear that the media companies that own the AP are seeking to reshape how news is accessed online. In 2009, the AP built a "news registry to protect content" (Strupp 2009). According to their press release, it will "enable content owners and publishers to more effectively manage and control digital use of their content" while supporting a "variety of payment models, including pay walls." The technology behind it was described as a "microformat" that encapsulates AP's content in "an informational 'wrapper' that includes a digital permissions framework," allowing publishers to specify how their content can be used online while tracking and monitoring its usage (Strupp 2009).

The AP's move was initially met with significant skepticism. One critic referred to it as an attempt to "DRM [Digital Rights Management] the news," noting that it "won't work," is a "waste of resources," and "removes value" from news content (Techdirt 2009). The *WSJ* technology reporter Kara Swisher (2009) described the effort as an attempt to "stop the Internet from being the Internet". Similarly,

Reuters' Chris Ahearn (2009) argued that "blaming the new leaders or aggregators for disrupting the business of the old leaders, or saber-rattling and threatening to sue are not business strategies ... go ask a music executive how well it works".

During this time, publishers considered other subscription models, including how news organizations could bundle content and sell subscriptions in bulk, much like cable TV. "I'm now a believer in the cable TV model," writes *Chicago Tribune's* Eric Zorn. "News organizations that generate significant original content should band together for their own survival and sell group subscription packages for unlimited access to their stories, photos, videos, archives and other offerings" (Zorn 2009). Similarly, Mark Cuban, owner of the NBA's Dallas Mavericks, has suggested that news organizations pair up with cable operators to offer subscribers exclusive access to online versions of their newspapers for a fee (Cuban 2009).

However, the most prominent and enduring proposals were related to paywalls and digital policing. In a *Los Angeles Times* forum, Alan Mutter argued that people will pay for high-quality digital news. For Mutter, the specific payment or business model does not matter if news organizations find their niche, produce the best news possible, and present it in an elegant way. "Media companies can (and should) go beyond their current advertising-dependent business models by charging for original reporting and the well-organized delivery of news aggregated from other sources that has been carefully edited, vetted and presented," argues Mutter (2009b).

Despite general excitement about their potential, significant concerns about specific facets of the paywalls model have also emerged. While some concerns have receded with time, chronicling the paywall debate brings into focus the evolving emphases like the shift away from industry-wide protection towards individual newspapers hoping to compensate for lost advertising revenue. The following analysis examines the recent history of legal, economic/pragmatic, and democratic concerns regarding paywalls.

### **Concerns with Paywalls**

Both early advocates and critics of the paywall model predicted that for it to be effective, newspapers would have to implement pricing schemes and standards on a scale that is industry-wide. For example, at a Senate Commerce Committee meeting in 2009, the *Dallas Morning News* publisher testified that individual paywalls will not work as readers will shift to free competitors and advocated that "Congress should act quickly on legislation providing a limited antitrust exemption

that will allow newspapers some breathing room to share ideas and jointly explore innovative business models” (“Transcript” 2009). By doing so, newspapers hoped to successfully siphon off the news aggregators and online bloggers that they blamed for decreasing the value of their content.

However, as copyright laws now stand, penalizing bloggers and others for replicating digital content is at best difficult, and at worst, illegal. Therefore, the debate surrounding paywalls has shifted from industry-wide collusion towards whether it is economically advantageous to struggling newspapers on an individual basis. As paywalls continue to be championed as the newspaper industry’s last hope, it raises the question whether this debate will only serve to divert attention from the systemic problems facing journalism—and longer-term structural alternatives.

### *Legal Considerations*

Although the prospect of erecting an industry-wide paywall has diminished since efforts peaked in the summer of 2009, it still warrants attention. Arguments in its favor continue to manifest, like those contained in a 2011 law review article titled “How Price-fixing and Collusion Can Save the Newspaper Industry—and Why Congress Should Promote It” (Greenberg 2011). Legal arguments against paywalls have typically fallen into two categories: copyright and antitrust concerns.

### *Copyright Concerns*

Copyright concerns include protections associated with Fair Use and the exemption of copyrighting facts. Copyright battles are familiar territory for the music and film industries, but until recently digital rights management was not a central concern *vis-à-vis* news content. Increasingly, however, copyright issues are rising to the fore as news companies seek to further monetize their content. Traditionally, news copy has been kept in a special category in terms of replication, with Fair Use provisions allowing an author to make limited use of someone else’s work without asking permission. To better police their online content, media owners are increasingly calling for changes to these laws.

One such proponent of tweaking copyright laws is the prolific and respected Judge Richard Posner. Posner (2009) wrote that it might be necessary to expand “copyright law to bar online access to copyrighted materials without the copyright holder’s consent, or to bar linking to or paraphrasing copyrighted materials without the copyright holder’s consent” to prevent “free riding on content financed by

online newspapers.” However, one critic noted that, although Posner did not propose that newspapers should be able to copyright facts, barring paraphrasing or linking to the article may effectively result in the same outcome (Rein 2009). That is, such copyright expansion is problematic because penalizing paraphrasing slides toward protecting facts (which cannot be copyrighted), and not just their expression (which can). Other legal analysts have proposed that copyright law be rewritten to protect news stories’ commercial value during a 24-hour period after initial release. They cite a precedent for this proposal in the Supreme Court’s 1918 ruling that the International News Service could not rewrite or copy AP stories when they had commercial value in another time zone (Fitzgerald 2009).

However, key legal decisions in the past pose serious challenges to this proposal since copyright-protected news would likely rely on claiming special ownership of facts. A US Appeals Court rejected this argument, saying that “facts do not owe their origin to an act of authorship, they are not original, and thus not copyrightable” (Feist v. Rural 1991). Moreover, critics like Duke Law professor James Boyle do not buy into what he terms “tales of piratical alarm,” because “illegal uses of AP’s content are a tiny proportion of its problem.” He sees the real problem as the AP not making “enough out of legal uses of its content under the business models it has in place.” Observing how such rhetoric obfuscates the journalism crisis’s structural roots, Boyle notes that introducing the new service shifts “discussion away from the fact that its business model is failing and towards proposed technical and... legal changes to safeguard that model” (Boyle 2009).

Content producers have been largely thwarted in these efforts, particularly after the Second Circuit Court of Appeals established in *Barclays Capital Inc. v. TheFlyonthe-Wall.com* that news aggregators are protected by copyright principles. The court’s decision significantly reduced the legal threat to aggregators by allowing them to freely use and disseminate previously published news stories (Calman and Balin 2011). Unable to wall off news aggregators from freely using their content, the newspaper industry shifted their focus to paywalls.

### *Antitrust Concerns*

Antitrust law deals with questions involving collusion between competitors. As early proponents believed that the paywall system’s viability rested on newspapers’ ability to set industry-wide prices and standards, antitrust concerns were central to early debates about paywalls (Greenberg 2011). Although rarely utilized compared to other eras, anti-trust is an important tool for preventing anti-

competitive business practices. The Sherman Antitrust Act is the statute that guides such governmental interventions, employed in the past against corporate giants like Standard Oil, AT&T, and Microsoft. Section 1 of the Act is meant to prevent conspiratorial conduct like collusion and other similar anti-competitive behavior and Section 2 is meant to prevent abuse of market power by monopolization.

In 2009, Nancy Pelosi advocated for changes to Section 2 by suggesting that news organizations be allowed to strategically combine operations, while the newspaper industry pushed for changes in Section 1 to allow industry-wide coordination around charging for and policing content (Burkeman 2009). Consequently, in May 2009, the NAA assembled representatives from many major news organizations for a discreet meeting in Chicago to discuss “models to monetize content” (Warren 2009). It was noted that “with antitrust counsel present, the group listened to executives from companies representing various new models for obtaining value from newspaper content online” (Seward 2009). However, as Ben Sheffner (2009) concluded in *Slate*, “Antitrust law is complicated, but one principle is very simple: Competitors cannot get together and agree on price or the terms on which they will offer their services to their customers.”

In 2011, Christine Varney, Assistant Attorney General in charge of the Department of Justice (DOJ) Antitrust Division, addressed the NAA to summarize the DOJ’s stance. In her address, Varney (2011) stated that

some have called for an extension of antitrust immunity for news organizations. These well-intentioned, but ultimately misguided, attempts to permit otherwise illegal behavior correctly have not been adopted ... Vigorous competition on the merits, protected by the antitrust laws, best serves the interests of consumers.

Thus, the DOJ signaled that it viewed competition between newspapers as vital to ensuring consumer protection, and it would not allow industry-wide coordination related to paywall adoption.

Although the quest to relax anti-trust restrictions was largely put to rest when the DOJ signaled against it, media magnates like Rupert Murdoch continue to invoke the journalism crisis to lobby regulators like the FCC to weaken cross-ownership restrictions. As these efforts largely fail, industry’s focus has shifted towards whether paywalls could generate sufficient revenue for individual newspapers.

## *Economic/Pragmatic Considerations*

As early as 2009, mathematical projections suggested that paywalls would not compensate for newspaper industry's other losses (Langeveld 2009). Nonetheless, paywall-lite models began to circulate, especially Micropayments, which would allow online readers to pay a small fee on a per-article basis. Walter Isaacson, former *Time* magazine editor, was a vocal supporter of micropayments. In a *Time* cover story he argued that the industry should adopt tools like PayPal or an E-Z Pass digital wallet that permit "impulse purchases of a newspaper, magazine, article, blog or video for a penny, nickel, dime or whatever the creator chooses to charge" (Isaacson 2009). Other leading analysts like David Carr (2009) called for the development of an "iTunes" model for news articles that would rely on a user-friendly interface and industry leader cooperation to convince readers to pay for online content. However, many writers remained skeptical. Michael Kinsley (2009) noted in the *NYT*, "two bucks per reader per month is not going to save newspapers." Moreover, this model ignores that the fundamental challenge facing newspapers is the low cost of entry for online outlets like blogs. Thus, asking people to pay for reading newspaper articles would only push readers toward such alternatives (Shirky 2009). Likely due to such concerns, these micropayment options have faded from the debate.

A short-lived venture that involved many of these debates and generated significant media attention was Stephen Brill's *Journalism Online*. Launched in April 2009, the company attempted an industry-wide paywall scheme by protecting the online content of newspapers that subscribed to their company. At its height, the company claimed that over 500 newspapers signed up (Whitehead 2009), but the model was always controversial. Jack Shafer of *Slate* noted that "the idea can't work ... 'fair use' copyright laws make it impossible for publishers to maintain proprietary control over the basic content of news" (Shafer 2009). Similarly, Jeff Jarvis, a prominent blogger, argued that news is not a product that can be contained within the space of a transaction: "There's no fencing off information, especially today, when the conversation that spreads it moves at the speed of links" (Jarvis 2009). It appears most newspapers may have shared these concerns; by 2011, despite their early claims, *Journalism Online* had signed up only two dozen small- to medium-sized newspapers before Brill sold the company (Moses 2011).

In contrast to these more obscure models, in 2005 the *NYT* implemented its first paywall by walling off specific columns from non-digital subscribers. But between 2005 and 2007, only 2 percent of users were willing to pay directly for content, as TimesSelect attracted just 227,000 paying customers at the same time

their free content was drawing 13 million unique visitors a month (Langeveld 2009). The *NYT* ended this experiment in 2007, recognizing that the “online landscape has altered significantly” as “readers increasingly find news through search, as well as through social networks, blogs, and other online sources” (“A Letter to Readers About TimesSelect” 2007). Times-Select was ended in part to encourage access to their articles from other websites, and hopefully increase the audience size and advertising revenue. Indeed, in the first month after the *NYT* removed TimesSelect, the opinion section of *NYT*’s website doubled its traffic and gained new advertisers like American Express (Kuchinskas 2007). Similarly, the European Journalism Center examined failed models like the *NYT*, as well as *The Sacramento Bee* and *The Atlantic*, and found that paywalls prevent search engines from picking up news content and decrease Web traffic (Bailey 2008).

In addition to losing viewers from search engines, news organizations may lose even more eyeballs, given the subscription cost. Accustomed to free information online, many users will most likely opt for a free, lower-quality alternative when presented with a paywall (Chyi 2012). By 2011, however, newspaper executives were more willing to risk alienating readers and advertising dollars in the search for a new revenue source. Examining their record up to 2011, a Columbia report found that, with few exceptions, digital pay plans have not been able to offset declining advertising revenue offline and warns that those news sites that offer digital pay schemes should maintain limited expectations of success (Grueskin, Seave, and Graves 2011). Nonetheless, the number of newspapers turning to paywalls in an attempt to offset advertising revenue losses continues to grow.

### **The Empirical Record Thus Far**

Concerns about the viability and desirability of the paywalls models notwithstanding, assessments will hinge on their performance, particularly in terms of revenue. As Myllylahti (2013) has also noted, information about digital subscription numbers or revenue is difficult to attain. Consequently, we synthesize several major analyses of the most recent paywall data, including an NAA study, which in 2012 examined 156 newspapers that had enacted a paywall on their website. Of these 156 newspapers, 87 percent used a metered paywall that allow readers to access a certain number of articles in a given month before requiring a digital subscription to continue reading online articles (Owen 2012). Local

newspapers, which likely have less competitors providing similar news information, are much more likely to use paywalls, as 89 percent had a circulation under 150,000.

Since detailed figures for paywall-generated revenue for the entire newspaper industry are not available, we analyze data accessible for three of the earliest pioneers of paywalls: the *Arkansas Democrat-Gazette*, the *Dallas Morning News*, and the *NYT*. These three papers have been hailed as industry pioneers and models of success by Columbia's Journalism School (Grueskin et al. 2011) and Harvard's Nieman Journalism Lab (Doctor 2011a; Ellis 2011). We do not include the long-standing *WSJ* paywall because it is somewhat atypical by serving a niche audience interested in finance (Estok 2011; Greenberg 2011). Because individual newspapers have no incentive to publish figures regarding their declining advertising revenue—particularly given its relationship to newspapers' diminishing stock value and purchasing price—we synthesize available data while considering each newspaper's actions to analyze how successfully its paywall has offset advertising revenue declines.

In 2001, the *Arkansas Democrat-Gazette* became one of the first newspapers to erect a paywall. The reasoning behind it, according to the paper's publisher Walter Hussman, was not to generate a revenue stream, but to instead prevent readers from abandoning the newspaper's print version ("Charging for Newspapers Online" 2009). That is, if the news content was available for free online, the newspaper feared that its readers would read the online stories and drop their print subscriptions—which would in turn limit print advertising revenue. Consequently, the paper placed its digital local content behind a paywall that is free to print subscribers. While this may ultimately diminish digital advertising revenue, Hussman argues that this tradeoff is justified as print revenue is much more profitable (Doctor 2011b).

Since then, the *Arkansas Democrat-Gazette* has been praised for retaining much of its print subscribers. While only 4400 readers, or 2 percent of its daily circulation base, pay for a digital subscription, the paywall may have helped the newspaper retain more readers than most other newspapers (Grueskin et al. 2011). For example, between 2000 and 2010, while most US newspapers experienced sharp circulation declines, the *Democrat-Gazette* was able to increase its circulation by 3.2 percent (Chyi 2012). However, as the state's dominant newspaper, the *Democrat-Gazette* faces less competition than most other major newspapers. And despite its relative success, in June 2012 Hussman published a letter to readers notifying them of a price increase from 50 cents to \$1 for the newspaper's printed copy. "With continued advertising declines," the letter explained, it was impossible



to maintain a statewide, seven-day-a-week paper other than “fundamentally changing our revenue base.” The letter predicted that “In the future, we will have to rely more heavily on revenue from readers and subscribers” because, despite maintaining their circulation, profits had dwindled to “unsustainable levels” (“A Letter to Our Readers” 2012). Thus, despite the newspaper’s successful paywall and circulation numbers, it is not immune to the advertising crisis damaging all newspapers.

In January 2011, the *Dallas Morning News* announced its plan to begin charging for mobile and online access to some of its “proprietary news and information,” in contrast to syndicated wire stories, breaking news stories, obituaries, and classifieds that remained free (Case 2011), thereby becoming one of the first large-metro newspapers to implement a paywall (Chyi 2012). Before the paywall was officially implemented in March 2011, Jim Moroney—the newspaper publisher and CEO who testified at a 2009 Senate hearing that newspapers needed a limited antitrust exemption—emphasized that “this is a big risk—I’m not confident we’re going to succeed ... but we’ve got to try something” (Ellis 2011). In 2012, the *Morning News* reported that approximately 50,000 people purchased digital-only subscriptions in the paywall’s first year. However, the number of visits to the paper’s website dropped from 39 million in the 12 months before the paywall to 30 million for the 12 months afterwards (Tone 2012).

While the direct revenue gained from online subscriptions has not been publically disclosed, examining the public data for the A. H. Belo Corporation, which owns the *Morning News* and three other small local newspapers, is insightful. For 2012, the corporation reported a net profit of \$526,000, its first annual profit in five years (Jean 2013). However, when considering that the company lost \$10.9 million the previous year, the modest success seems less impressive. Moreover, the profit was gained largely through cost-cutting—as total revenue decreased 6 percent between 2011 and 2012 (Sass 2013). Therefore, even without examining paywall-generated revenue, we can presume that the *Morning News* has not recovered its previous losses or increased overall revenue.<sup>2</sup>

Few, if any, paywall experiments have received the attention focused on the *NYT*’s recent attempt (Peters 2011). The *NYT* has implemented what is referred to as a “metered paywall” that allows readers to access a certain number of free digital articles before facing barriers. Non-subscribers initially had access to 20 free articles per month but this was reduced to 10 in 2012 (Beaujon 2012). Since then, the *NYT* has had a volatile year, which included massive stock drops and the buying out of

staff in 2012 (Moos [2012](#)). This is despite the paywall's relative success, which unexpectedly created over 600,000 digital subscribers. Examining this discrepancy, *Business Insider* found that the average print subscriber generated about \$1100 per year for the *NYT*, whereas the average digital subscriber only raised about \$175 per year, illustrating the challenge of generating enough revenue from digital subscribers to offset the decline in advertising revenue (Blodget [2012](#)).

But recent figures released in 2013 suggest cautious optimism, as circulation revenue surpassed advertising revenue for the first time in the newspaper's history. Additionally, total circulation (print and digital) increased from 1,150,589 to 1,613,865, according to the most recent report by the Audit Bureau of Circulations ([2012](#)). However, the relative success of the *NYT* model must be understood in the context of it being the leading newspaper in the United States with global brand recognition. Indeed, as the company's new chief executive officer Mark Thompson explained with regards to the optimistic figures, the *NYT* is "one of a handful of global news brands which cannot just survive but can thrive in this digital era" (Saba [2013](#)).

Although paywalls are increasingly becoming an industry standard, the three American newspapers often hailed as pioneers and success stories show a mixed record. While each has successfully added a new revenue source in the form of digital subscription fees, each has also struggled to adapt financially to the new digital environment. We are unable to clearly define their ratio of advertising loss to paywall revenue gain due to a lack of accessible data, but it is clear that despite being recognized as leaders in paywall adoption, these newspapers have not been immune to the pressures and losses that continue to afflict the entire industry. We do not want to minimize the value of paywall-generated profits, but despite being hailed as a potential savior, we must note how little the reported revenue is compared to the advertising losses likely incurred by these newspapers. Indeed, as Pew noted in its State of the Media report, while digital subscriptions are seen as an increasingly vital component of any new business model for journalism—in most cases, they fall far short of actually replacing the revenue lost in advertising ("Overview" [2013](#)). As the leading media economist Robert Picard summarized, digital advertising "is still not [generating] enough money to make things work." Although the idea of a paywall is understandably attractive, Picard notes "there's a fallacy in that decision." Readers mostly paid for distribution costs, not the news. "So to suddenly think that they're going to start paying a lot of money to have it in digital ... [and] suddenly make the organisations wealthy again just doesn't make sense" (quoted in Hall [2013](#)).

## Democratic Considerations and Structural Alternatives

In terms of democratic considerations, paywalls present a number of often over-looked normative concerns about journalism's future. Arguably, paywalls defy the internet principle of openness; they disenfranchise people unable to afford the digital subscription cost; they further inscribe commercial values into newsgathering processes; and, by extension, they may further constrict the scope of voices and viewpoints in the press and in our national discussions. Ironically, many paywall proponents couch their rhetoric in democratic concerns. Arguing that antitrust exemptions were necessary, for example, Rutten (2009) invokes a common misconception of the First Amendment to support his argument, stating that "If the 1st Amendment is to mean anything, Congress has to suspend antitrust rules for the newspaper industry so publishers can determine as a group how much to charge for online content." But on the contrary, the First Amendment was never intended to enable a handful of corporations to dominate the American press system. As Supreme Court Justice Hugo Black noted in the historic 1945 AP case, the First Amendment "rests on the assumption that the widest possible dissemination of information from diverse and antagonistic sources is essential to the welfare of the public" (AP v. United States 1945). It is difficult to see how the widespread implementation of paywalls could advance these democratic benchmarks.

To be sure, paywalls may work to varying degrees for some niche news outlets, and experimentation will continue. Such efforts may work as a partial solution for finding new revenue streams to pay for news. But the evidence thus far does not bode well for the paywall model as an American newspaper industry savior. For decades, daily newspapers subsidized the cost of newsgathering through advertising monopolies. These monopolies no longer prevail thanks to free classified websites like Craigslist and the proliferation of cheap digital advertising. New forms of online payments will not bring that era back; even the most successful paywalls will likely be unable to monetize online readers enough to offset steep declines in advertising revenue. In other words, there is no easy technical fix; hoping for a new Hail Mary pass—such as mobile advertising—to save the newspaper industry only further postpones discussion about structural alternatives. Drawing the wrong lessons from the journalism crisis—like assuming that the commercial business models merely need to be tweaked—leads to embracing the wrong alternatives. Clinging to unsuccessful commercial options in the face of market failure is not likely to address the structural roots of the current crisis. If the paywall model fails to save professional journalism, and if other commercial models are proven unviable, the

implementation of noncommercial alternatives becomes imperative. While journalists must obviously be paid for their work, methods exist for compensation that do not rely on policing online content or encouraging an already-concentrated, overly-commercialized media system to become even more so. Given this reality, the challenge before us is to imagine support systems for quality journalism that are not entirely dependent on market-based approaches.

To ensure that the public retains access to quality journalism will arguably require a transformation from a purely commercial, for-profit press, to a public service-oriented media system. Public policies that may facilitate this transition include expanding the public media system and passing tax laws to enable low-profit and nonprofit alternatives for struggling news organizations (Pickard 2011). Similar positions have gained traction in recent years, evidenced by a number of reports from advocates, think tanks, former journalists, and academics who call for public policy interventions to help sustain journalism (see e.g. Pickard et al. 2009; Knight Commission 2009; Downie and Schudson 2009; Bollinger 2010). But old market ideologies persist, reflected by the lack of meaningful policy recommendations in the FCC's report on the future of journalism (Waldman 2011).

Ultimately, newspapers face an existential crisis. Their print advertising revenue continues to plummet, and paywalls are insufficiently compensating for the steep losses incurred over the past seven years. Although newspaper profits might be doomed, democracy still requires journalism. Ideally, this crisis may help fuel a period of bold experimentation with new journalistic models. If news is treated as only a commodity, then it is rational to maximize profits by any means possible, like asking the government to allow for greater media concentration and policing online content. But if journalism is seen as primarily a public service, then democratic society should try to minimize market pressures, return media production to local communities, and sustain public service media into perpetuity, just as we preserve permanent spaces in society for museums, libraries, and schools.

## NOTES

1. These 2012 circulation numbers are from the Audit Bureau of Circulations and include digital subscriptions.
2. In late September 2013, the *Dallas Morning News* announced that it would immediately discontinue its paywall.

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