

"Water, Energy and Books -- Competition, Will it Help or Hurt?" New York, May 16, 1977

Address by Morris K. Udall to the Association of American Publishers

I come before you today, a man chastened by experience. First, a bloody battle with the newspaper publishers, the subject of three weeks of editorials in such august journals as *Editor and Publisher* and *Publishers Auxiliary*. And I'm reminded of the old story about the fellow who pressed the local editor about his stand on a controversial issue, and he said, "Listen son, I haven't made up my mind, but when I do I'll be bitter." That's been the attitude of some reaction, but not all. And why was all this attention directed at the Chairman of the House Interior Committee? Well, it seems in a recent speech before the Press Club in Washington, I had the effrontery to suggest the trend toward concentrated power -- economic and editorial -- in the newspaper industry was something that troubled me.

An old Washington figure, Tom L. Johnson, said, "When you see a situation you cannot understand, look for the financial interest" So I come to Bermuda to address this group of influential Americans, not fully understanding the publishing industry, and therefore, this last week I looked at the financial interest. I have some things to say which will be greeted, no doubt, with less than total acclaim. But my good friends, I see similarities in your industry and the newspaper publishers. Indeed, in some cases you represent the two combined. And while I'm quoting Johnsons, let me go back to old Samuel Johnson in setting the stage for some comments on publishers and publisher reaction. He said, "The liberty of the press is a blessing when we are inclined to write against others, and a calamity when we find ourselves overborne by the multitude of our assailant."

My Washington Press Club speech revolved around a central theme: That a shift of global wind had dumped 10 feet of snow on Buffalo, giving us the toughest winter in history, and reminded us that the natural gas that runs our homes and factories is running out. That the same shift of winds reminded us that we are running out of water in the West, and that this is a key shortage which may be next. That another kind of cold wind was blowing out the local independent publisher, and that lack of competition was now a key factor more and more in our society.

So I will have something to say tonight about publishers and broadcasters and the book fraternity. But what I have to say on this subject and on energy and resources

blows from some of my basic assumptions and beliefs. In not every case will they be yours, but you will better understand what I have to say when I lay them out in the beginning. These basic assumptions and beliefs are three:

1. Competition is essential to American life. Sometimes it is unpleasant and harsh. It's the law of the jungle that eliminates one drug store in a town too small to support two. But those who preach the most about competition sometimes practice it the least and understand it only slightly. There was a Sinclair Lewis character in the 1930's that reminded me of a man in my hometown. Of such people it was said, "He would have been as horrified to have heard Christianity doubted as he would have been to see it practiced." Thus it is with the Chamber of Commerce, the NAM, and I'm afraid some publishers. All of them ought to be backing the Udall program for divestiture of oil companies. For unless we save competition, our system can collapse. For it is a system that succeeds on incentives, on the freedom to innovate, and rewards those who produce the most.
2. The second basic belief is the concern about bigness. I'm not against bigness per se, and I'm not going to shed too many nostalgic tears over the corner grocery or the hometown brewery. A complex society requires big institutions, bigger than yesteryear. I draw a distinction between accepting a measure of bigness necessary for our time and our society, and the mad rush to conglomerates and multinationals which threatens to destroy the central principles upon which our economy is built. Over the last thirty years, without deciding to do so, we have let our tax laws and the incentives that are available reward tycoons who give you IT&T. I don't think we get better rent-a-cars or hotels because IT&T gobbles up Avis and Sheraton. We probably get worse.

I lament the old dream of the man who owned a hardware or drug store, who maybe wanted to take his son into the business to expand into two or three. Well now he is gone, gobbled up by a local group and then a chain, and then the chain by a conglomerate, and a conglomerate by a multinational headquartered in Cleveland or someplace, and who couldn't care less about your neighborhood. Just twenty years ago, 400 companies owned two-thirds of the manufacturing assets in America. Today, it's down to 200 companies. At the rate we are going, it will be 100 within another decade. This alarms me and saddens me, and threatens things that I think are basic.

3. When I call for breaking up oil companies, I still believe in free enterprise. We need oil companies; they need to be quite large given the risks and the money involved. Oil companies need incentives and rewards, and they ought to be able to make a bundle of money finding the remaining oil and gas to be found. So, I speak tonight of economic concentration in the communications industry that

has three television networks holding the nation's national television news firmly in their grasp. Of a trend towards concentration in newspaper publishing that saw the daily independent newspaper in my hometown become one of seventy-three "properties" (a terrible word making my hometown newspaper sound like a racetrack, or a book sound like a can of beans). My hometown newspaper was absorbed by Gannett in a trend that now has twenty-five newspaper chains controlling more than half the daily circulation in the country, and even in publishing where some 58 mergers or acquisitions last year reduced the number of competitors and saw the Justice Department cast a critical eye at this trend.

But first, just a few thoughts on competition (or the lack of it) in the search for energy and new resources that must be a key to solving the serious problems I've outlined. I believe that competition must play a vital role in this energy issue, that we will fail if it does not.

We Americans are accustomed to expecting the big problems to be solved by big exotic, sexy solutions. In energy for a long time, it was nuclear power. We were told by Admiral Strauss in the 1950's, nuclear power would be so cheap by 1979 that we would not have to meter it. In the 1980's nuclear probably has some kind of a role. But I have a feeling that the eventual solution will come, not from one grand answer, but a dozen component parts -- solar, coal, conservation, wind and even firewood might be part of the picture -- 5% here, 2% there and 25% from conservation. We will see the inventiveness of Americans come to our aid if we do it right. But none of this will come to pass unless we restore true competition to the energy industry. I think of my friend Congressman Reuss, who has a windmill that provides electricity for his house and feeds back into the Wisconsin power grid what he is not using, taking dollars off his bill. I think of the little hydrogen car which takes the hydrogen out of water, compresses it into a tank, plug it into your Oldsmobile and it will drive you around the block. I helped such a car be demonstrated on Capitol Hill.

There is an even more compelling reason why competition must be restored, and that is this: no energy program will ever succeed without sacrifice and a real change in the way Americans live and travel and work. No matter how many times the President appears on our television screens and asks for sacrifice, until the oil companies show some sacrifice, the American people are going to continue to believe that they are being ripped off, that energy crisis is not real, that it is the creature of big oil that will, fatten their profits. The best way, indeed maybe the only way to break through that confidence barrier, is for a little sacrifice on Wall Street and Houston, through vertical and horizontal divestiture of these energy conglomerates. The reality of the matter is that Shell is not about to let its coal subsidiary undercut its oil sales in 1978, nor will it

in 1988. The Exxon refineries are not about to sharpen their marketing pencils when they own their own gas stations.

Why does the tide of concentration go only one way? I read every week of more concentration, more mergers, more acquisitions. We almost never read of spin-offs, but only of the mad rush to dinosaurs. It's a one way street. Most executives in this room tonight know of still another merger in the making. Are we really better off because of this? When will the day come when the Wall Street Journal might report in today's issue that the X Company, in the interest of efficiency and stockholder strength, is spinning off a division, turn it loose on its own, and not to be a captive, stifled by a giant global octopus.

Divestiture and a turn in the other direction might be good for us, and it might even be exciting for oil executives. Back in 1911, they broke up Standard Oil, the Rockefeller trust, into 33 companies, and panic was almost in the air. Two years later, it turned out to be good for everybody. If you owned a share of stock in 1911 worth \$600, two years later, you owned 33 shares in divested companies worth \$900. It was good for consumers, stockholders, and even good for oil executives. Some of them who were third Vice Presidents going nowhere in a giant company, were having a wonderful time running their own little independent companies, competing, innovating, and really experiencing the competition they had preached.

This year I propose one major step back toward old fashioned competition, a step that might bring us some of the new energy we need. Let me put it into focus. In this time of difficulty, the American people get one great break for a change. Most of the remaining energy reserves -- off-shore oil, oil shale, geothermal, western coal -- are owned by the public, they are on the public lands. I've introduced a bill that might bring some competition to the energy industry by limiting the leasing of those lands to those companies that are non-integrated, independent concerns. We wouldn't be forcing anyone to divest, but we would encourage new companies to enter the field and that's the point. Competition breeds innovation and efficiency. Absent competition, industry gets lazy and sometimes fails to pay sufficient attention to anything more than a profit/loss statement. So, my bill says that by 1980, if you want to lease the federal energy reserves, you better be an independent oil company or an independent coal company. We'll give the little guy a chance. If Exxon wants to get in on the act, let them try a spin-off, let them create a producing division that will be eligible for oil and gas, because it is not vertically integrated or owning assets in uranium and coal.

There are some social responsibilities that are part of doing business in our world, but they are being lost in some industries, notably in the newspaper industry, and perhaps in the book publishing industry.

First, a whack at the newspapers, if I can, and then I'll get back to you. Just a generation ago, nearly every American city had two or more daily newspapers. This was a healthy thing, a valuable source of news and opinion. The hometown publisher and editor was a key figure in making decisions. The local publisher carried a passion for the good of the community absent in the board rooms of the big chains. And now today we have 97.5% of the cities with daily newspapers having no local competition. The trend of acquisition of newspapers by chains has escalated to having chains buying other chains, like the giant fish swallowing the big fish who swallows the little fish. When will the publishing industry stop wringing its hands, defending this trend and telling us it is inevitable? When will they start to ask whether the British are really better off to have an American oil company running one of their dailies? Or whether it is really in anyone's interest to have Rupert Murdoch, honorable and brilliant though he may be, running newspapers in San Antonio and Manhattan and Greenwich Village.

This trend toward bigness and absentee ownership signifies a real loss to American society: in this case, a publisher without roots in the community. If the trend in concentration goes on, so too will the likelihood that we'll lose forever the independent spirit in the community who had the power, and sometimes the disposition to blow the whistle on the politicians and the promoters.

The agitation that followed my press club speech ranged from oratory by the President of Knight-Ridder to a visit to my office by the Chairman of the Board of the Gannett chain, and a complimentary letter from an old adversary, William Loeb of Manchester, New Hampshire. Many of them said I was trying to relive the good old days, but that the tax codes and higher priced paper and computers all dictated a change to bigness. And they reminded me, correctly, that not all chain papers are bad and that there are independents like Loeb who aren't always good or responsible. Well, let's change the tax code then. We did it to save the family farm, surely the local newspaper is a valuable enough institution to give attention to the ills that beset the industry. My bill calling for an industry-by-industry review by a special blue ribbon Commission may give us the means to assist and not hurt these troubled industries. Let me give a brief explanation of my bill.

The Commission would take three years looking over those industries to see how they are performing, considering such criteria as efficiency, innovation, social impact, price and profit. For those that are performing well, it may make little difference whether there are two competitors or 200, though in case of doubt we should favor the latter. For those **not** performing well, the Commission's analysis would show what particular factors contribute to the problem and would prescribe a set of remedies tailored to the specific conditions.

These remedies will probably include the tax code, with its unintentional bias toward centralization and conglomeration. Perhaps we will need tougher antitrust laws in some cases, legislated divestiture in others, while in others the conventional suit under present laws would be enough. Exemptions from antitrust law may also need reexamination, to see if they are meeting the intended purpose. In some manufacturing fields, we may need tax incentives or temporary direct subsidies to new entrants, while in other simple changes in federal procurement policies may help open up the market. We ought to consider every kind of action that might help.

And now to book publishing. A statistic came to my attention recently and it fits into my concern about concentration of power in any industry. It is a fact that there were 58 mergers or acquisitions in the printing and publishing field in 1976, a sizable increase over the previous year. Off-setting this trend of concentration somewhat is a growing number of new publishing companies in the industry, but with increasing frequency we see the giants getting bigger and more influential within industry.

Policies and trends in your industry soon may not reflect the spirit of innovation, creativity and courage that has always been a cherished part of publishing in giving the unknown author a chance. What will be the impact of conglomerate ownership such as CBS owning Holt, Rinehart and Winston, and now Fawcett, or RCA's ownership of Random House, or RCA owning G.P. Putnam's, and Gulf and Western owning Simon and Schuster. Or the newspaper corporations such as the New York Times and Dow Jones and Times-Mirror who publish books? Like IT&T with Avis, maybe there might be some gain. But do we really get better books, more chance for unknown authors, or merely more profits for the conglomerate entrepreneurs?

Many in this room will disagree. Some will agree privately. But my purpose is to begin a dialogue, to establish that there may be a problem to force the spokesmen of this industry to examine it and its social implications.

For if any industry has a social responsibility, it is the publishers of books. For we face the loss of communication and an acute absence of ideas in almost every other medium, the principal culprit being concentration and lust for the dollar. Yours is a healthy industry. Your receipts were up 7% in 1976 and an anticipated 8% in this year up to \$4.1 billion. But earning reports are the siren song of concentration. An industry has the capability of monitoring its own trends and warning against what may be attractive to the accountants, but may be bitter to society. Must we always surrender to a profit? The people of this nation sense the corporate growth to bigness, and similar to their healthy disbelief in the protestations of the oil companies that their profits are not large enough, they may soon tire of the trade publishers spoon-feeding best sellers and leaving the fresh and the bold to fend for themselves.

The history of our country and economic system has been the need every 40 or 50 years to rejuvenate and revive and make fundamental change when the system breaks down. Theodore Roosevelt did it when the trusts dominated America, and Franklin Roosevelt came along in the 1930's to set the stage for the great economic expansion of our own time. FDR used to tell the story on himself of the tycoon who arrived at this Wall Street office every morning in the '30s, bought a paper from the boy for a nickel, looked at the front page and cursed and threw it into the trash. After a week, the boy said to the publisher, "Sir, why do you waste your money, pay me a nickel, curse, and throw the paper in the trash?" The tycoon said, "Son, it's none of your business, but to be honest I am looking for an obituary." The boy said, "But sir, the obituaries are not found on the front page, but on the back of the paper." The tycoon responded, "Listen kid, believe me, the obituary I'm looking for will be on the front page."

Maybe the obituary for our economic system or a free independent publishing industry may not be on the front page, if that day ever comes. These great central values may just slip away, merger by merger, acquisition by acquisition, stock split by stock split.

Albert Schweitzer said that the city of truth cannot be built on the swampy ground of skepticism and so it is with people's minds. Don't abandon ideas, don't abandon competition. All we have to lose is everything this country is about.