

Public Service Reporting in the Era of Commercialized Media

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Abstract

This paper will argue journalists have a moral duty to generate awareness by uncovering and addressing unsavory practices and behavior in society. The agency problem will be applied to media to show, when principal agent relationships form between media and the public, moral hazard arises. The current structure of media does not support public service reporting. By using the lens of economic theory and data about current media, this paper will predict how media content may lose its moral force if the current structure is not adjusted. This paper suggests a structural solution. Moral hazard between the media and the public can be reduced by forming two branches of journalism—one dedicated to local, breaking news and the other to investigative news. With this two-branch structure, media will be able to survive in the current commercialized climate while still fulfilling their moral duty to the public.

Introduction

There's an old myth about a Dutch boy and a leaking dam.

According to the tale by Mary Dodge, a young boy named Hans was walking home when he passed the dike surrounding the town. He heard a faint sound of trickling water and noticed a small hole in the side of the massive walls. A stream of water dribbled through the hole. Hans understood that left unfixed, the leak could widen and the dam could break. He ran to the towering walls and plugged the leak with his finger.

He shouted for help, but no one heard his screams. Night fell, and the boy stayed by the dam, holding the ocean behind his fingertip. It grew colder and darker, and Hans's finger became numb. Despite his desire to leave, Hans stood by the dam all night. The next morning, a clergyman walked down the path and saw a child. The clergyman ran to Hans and asked what he was doing. Hans explained that he was keeping the water from running out. With that, the clergyman ran to town and gathered men who could patch the hole. Then, as the story goes, Hans and the town lived happily ever after (Dodge, 1865).

Like Hans, journalists see what others don't. Like Hans, journalists have a choice to make every time they uncover a new piece of information: do they rush to the source, or do they walk by? This fable represents journalism's conundrum in the present era of commercialized media.

I will argue journalists have a moral responsibility to uncover and address unsavory practices and behavior in society. It's true, media do not have the power to fix many of the faults, but media do have the power to inform people who are able to create solutions. This paper argues it is a journalist's duty to generate awareness.

However, because of current structures, media values profit over public service. Strong influences from the market make media organizations susceptible to a dilemma commonly associated with economics and politics: the principal-agent problem. This paper will apply economic theory to the field of journalism to establish a claim. The more media are commercialized, the greater the chance for moral hazard between media and the public.

After establishing that the current state of media is problematic, this paper will argue an ideal state of media is that which acts as a platform for democracy. Finally, a structural solution will be proposed to help shift journalism away from the moral hazard. Two case studies will demonstrate the feasibility of the solution, and Sweden's system of journalism will be examined to demonstrate the financial practicality.

When economic theory—specifically the principal-agent problem—is applied to journalism, it is clear to see the commercialization of media can cause a shift in journalists' goals: from a moral-driven goal of public service to a market-driven goal of profit-maximization. Because journalism has a moral obligation to expose societal ills and injustices, the press must inoculate itself in ways that fortify it to resist the undue influence of market forces. This paper suggests collapsing the current structure and reorganizing journalism into two branches. One branch will be dedicated to local and breaking news, while the other branch will be dedicated to investigative and public service news in order to reduce the chance of moral hazard between journalists and the public.

Reporters may not tramp around newsrooms in wooden clogs and editors may not wear lederhosen to board meetings. Nonetheless, journalists hold the power to benefit the public by drawing attention to the ills that threaten society. Journalism strives to balance its dual purpose: to serve the public through fairness and accuracy and to maximize shareholder profits.

However, the sheer instinct for survival disrupts this equilibrium of profit and public service. Journalists are the modern-day Dutch boy, but, because of the current profit-based structures in place, they are unable to employ the power within their own fingertips.

Brief Summary of Economic Theory

While economic systems and policies have developed drastically since the 1700's, as eighteenth-century philosopher Adam Smith (1904) observed in *An Inquiry into the Nature and Causes of the Wealth of Nations*, some concepts are timeless. Smith was deemed the father of economics, and the book, published in 1776, is considered the first work of modern economics and is still influential today.

Smith proposed a theory to explain how people interact with the market. When it comes to making financial decisions, Smith writes, it “is his own advantage, indeed, and not that of the society, which he has in view” (Smith, 1904). Smith argued that individuals rest in the “invisible hand” of the market, and that their actions will be market-driven. In the decades that followed, economists further developed comprehensive models. However, Smith's idea of self-interest remains a core pillar in recent economic theories. Individuals prioritizing their personal interests over the interests of a larger society is the foundational feature of economic theory developed in the 1970s referred to as the principal-agent problem, or the agency problem for short (Mitnick, 2006).

The Parties: Principal and Agent

There are two parties involved in the agency problem: the agent and the principal. Economists Michael C. Jensen and William H. Meckling (1976) provide a clear description of

these parties and their roles in the essay “Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure.” They define an agency relationship as “a contract under which one or more persons (the principal) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent” (Jensen & Meckling, 1976, p. 208). This kind of relationship is commonly seen in situations involving corporate management and shareholders, a lawyer and client, or a politician and the voters. In the case of a lawyer and a client, for example, the lawyer is the agent and the client is the principal. The lawyer is commissioned by the client to provide legal representation and advice. The client, in return, pays the lawyer.

The agency problem is called a problem because incentives between the agent and the principal will not always align (Financial Times Lexicon). As Jensen and Meckling explain, if “both parties are utility maximizers there is a good reason to believe that the agent will not always act in the best interest of the principal” (Jensen & Meckling, 1976, p. 208). In these sorts of relationships, it is most common for the agent to exert the most effort and bear the full cost of completing the principal’s requested task. However, agents typically do not reap the full benefits resulting from their efforts. For these reasons, agents become more selective about the agreements they enter into and the actions they perform under certain agreements.

Scholars in media and economics, Susanne Fengler and Stephen Ruß-Mohl, explain how agents become aware of their self-interests and alter their actions accordingly. “They seek to maximize their own benefits in the course of interactions, weighing the potential costs and benefits of the various options they can choose from,” said Fengler and Ruß-Mohl. “They will carefully consider where to ‘invest’ their scarce and precious resources” (Fengler & Ruß-Mohl, 2008, p. 672). Whatever service or product the agents are providing, be it representation and

advice in the case of the lawyer or political guidance and leadership in the case of the politician, they will view their efforts as a highly valued resource they can leverage against the principal.

Clearly, this can cause tensions.

Asymmetric Information between Parties

Tensions are exacerbated by an asymmetric balance of information that can exist between the principal and the agent. Asymmetric information arises when the agent knows more than the principal, making it nearly impossible for the principal to know if the agent is acting in the best interest of the organization (Fengler & Ruß-Mohl, 2008). Bengt Holmstrom, a professor at the Swedish School of Economics and Business Administration, explains, the “agent will often learn something new about the difficulty of his task or the environment in which it is to be performed” (Holmstrom, 1979, p. 88). One common example of information acquired by the agent is the idea of free riders. This economic concept was developed in regards to public goods and private consumption versus collective consumption (Samuelson, 1954).

To clearly illustrate this point, take the example of an entrepreneur hosting a fireworks show. The entrepreneur intends for individuals to buy tickets to the show, but people are able to see the show from windows or rooftops without paying. These nonpayers are considered free riders, meaning a person who benefits for free from something others will pay for. When the entrepreneur learns that people are seeing his show for free, he will adjust his actions as to try and ensure he still generates the most profit per person who watches. These adjustments could range from producing a cheaper show, since so many people who view it are not contributing to the production value, or attempting to hide the show or conduct it in a remote location so people could not view it unless they paid an admission fee (Cowen, 2008).

Free riding is just one example of the way that information can have an effect on actions and decisions. The control over knowledge puts the agent in a superior position of power. Possessing and, more importantly, sequestering knowledge is intimately linked to acquiring power. French philosopher Michel Foucault wrote prolifically on the relationship between power and knowledge. He said: “The formation of knowledge and the increase of power regularly reinforce one another in a circular process...[There is] a multiplication of the effects of power through the formation and accumulation of new forms of knowledge” (Foucault, 1977, p. 198). Power and knowledge reinforce one another. If journalists are distributing knowledge—and if this knowledge is then forming power—then the kind of information being distributed can affect who gains the power. If a moral hazard arises between media and the public, the knowledge and power produced can be hazardous as well.

Moral Hazard and How it Develops

A principal-agent relationship with disjointed interests between parties, combined with information asymmetry, can result in a moral hazard (Holmstrom, 1979). A moral hazard is the dilemma that develops when a contract creates incentives for the agent to behave against the interests of the principal (Financial Times Lexicon). According to scholar Philip Napoli, moral hazards negatively affect the principal within the principal-agent relationship. Attempts to monitor the agent’s actions are either impossible or expensive (Napoli, 1997).

To illustrate the idea of moral hazard developing from a principal-agent relationship, consider the example of the lawyer and the client. Say the lawyer was commissioned on a personal injury case where he is paid an hourly wage, as opposed to a contingency fee. Ideally, the lawyer would be acting to satisfy the client’s interests by winning the case and allowing the

client to collect a sum of money. In this situation, the lawyers exert all their effort to win the client the money but, in the end, the lawyers will never receive that money earned for the client. The primary interest of the lawyer is to make a profit. If the lawyers acted in their own interest, they would do what they could to generate the most profit. This would mean working unnecessary hours, even purposefully and needlessly extending the case as long as possible. The average client would have no way of knowing the true intentions of the lawyer. The lawyer has the power to withhold information about the case and about proper court proceedings. This is a clear example of a moral hazard between the lawyer and the client.

The Real Problem in the Agency Problem: Asymmetric Information

Principal-agent relationships exist everywhere. This kind of arrangement is engrained in society and, on its own, is not threatening or intrinsically oppressive. The true poison within the agency problem is not the arrangement between parties, nor is it the financial incentives causing parties' interests to deviate. The lethal component to principal-agent relationships is the presence of information asymmetry. When agents have the power to force principals into a state of ignorance, they gain control of a situation. Decisions are impaired if they were made based on inadequate or incomplete information.

According to Smith, people are concerned with their own interests and advantage. In the case of principals and agents, the superior position is unquestionably that of the agent. In situations where moral hazards arise, agents take advantage of their ability to control information and try to better their situation. Principals, on the other hand, fumble in the dark.

Applying Economic Theory to Media

This paper explores the way in which the agency problem can be applied to media. By confronting their close ties to the market, media can address the realities and consequences of their present arrangement. A critical look at current patterns and data within the field of journalism will reveal how the attitudes and opinions of the upper-class drive media content, when, in fact, media content should be driving the attitudes and opinions of the general public.

The Agent and the Agent's Interests

Without adequate safeguards, the current structures supporting media serve as the precursors for a detrimental principal-agent relationship. Journalism embodies the role of the agent, while the general public acts as the principal. The public commissions media to produce news on their behalf. Journalists assume decision-making responsibilities. As so often happens between principals and agents, the interests of journalists and the public are sometimes not aligned. A number of factors—an increase in media conglomerates and a low readership rate in certain demographics as two primary features—prompt journalism to act chiefly in the interest of profit maximization.

While it may not have always this way, today, the motivating interests of journalists are profit based. James Hamilton (2008), a communications professor at Stanford University, accurately expresses the way in which news is produced. “News emerges not from individuals seeking to improve the functioning of democracy,” Hamilton said, “but from readers seeking diversion, reporters forging careers, and owners searching for profits.” News is a business, reporters are widely understood as employees, and price tags are accepted—without question—on the covers of newspapers. Though, the real purpose of journalism is not commonly associated

with a business. Fengler and Ruß-Mohl employ the term the “nirvana approach” to describe the disconnect between the necessary and consciously accepted functions of news, and idealized beliefs about what news should do (Fengler & Ruß-Mohl, 2008).

Reporters and editors expect and depend on a paycheck as much as an investment banker. But due to the nature and reason why news industries developed, there is an idea that journalists should be working for some other kind of reward, some non-monetary reward. However, media are firmly grounded in a capitalistic system and, therefore, are forced to adhere to the basic rules of capitalism. To survive, let alone thrive, in current society, media industries must work to maximize revenues and minimize costs (Fengler & Ruß-Mohl, 2008). Profit maximization, in terms of media, means spending the least amount of time and money to produce a story, and then distributing that story in the most cost-effective way to the largest buying audience possible.

To determine media content, journalists traditionally relied on five Ws: Who, what, where, when and why. These questions were intended to direct the focus of a story, point to the primary sources, and establish the main conflict or tension of an event. In today’s commercialized society, Hamilton explains journalists are still directed by five Ws, but the Ws have been modified.

Who cares about a particular piece of information? What are they willing to pay to find it, or what are others willing to pay to reach them? Where can media outlets or advertisers reach these people? When is it profitable to provide the information? Why is this profitable? (Hamilton, 2004)

These modified Ws represent the kind of modified news being produced. The original Ws have been replaced by the five financial Ws. Because the market has such a strong grip on media

industries, the primary focus of reporters shifted from reporting news that will speak truths, to reporting news that will spike sales.

The Principal and the Principal's Interests

The other half of this agency relationship is the principal—in this case, the public. While a commercialized society has affected the interests and incentives of media, the public's priorities have remained the same. It is in the public's best interest to be informed of political, economic, and cultural happenings in their world. Good reporting has the potential to give citizens the one thing that Foucault so aggressively advocated for—knowledge. Good reporting demolishes the wall so many businesses, politicians and power-hungry citizens hide behind.

Information asymmetry is the true culprit in corrupt relationships. Businesses, politicians and power-hungry citizens feed off instances of asymmetric information and use this distorted balance of knowledge to further exploit whatever person or group is on the latter end of the agent-principal binary. By uncovering the sequestered knowledge and placing this knowledge in the hands of the general public, journalists eliminate the asymmetry and give control back to the people.

Journalists have often been described as *watchdogs against corruption*. It is commonly thought that the duty of reporters is to *dig up the truth* or *shed light on injustice*. These phrases all express the same idea. They all—in more visual and aesthetically pleasing words—communicate the idea that journalism should eliminate instances of asymmetric information. If journalists are supposed to act as the shovel and dig up the truth, it means someone, at some time, buried that truth in the first place. Someone, at some time, knew more than others and

knew it would be in their best interest to hide this knowledge from the very people who hired or commissioned them.

Exposing secrecy and acquiring new knowledge benefits the general public. Fengler and Ruß-Mohl explain the news has “undeniably positive effects for citizens as ‘third parties’ as even if they don’t buy newspapers, they can rely on journalism to publicly expose abuses of political or economic power, and this potential exposure will discourage many actors from abuses” (Fengler & Ruß-Mohl, 2008, p. 679). It follows, then, that it is in the public’s best interest to have comprehensive news that eliminates asymmetric information between themselves and the bodies that govern and regulate society.

Free Rider Problem in Journalism

The free rider problem is a situation where non-paying consumers can benefit from a service just as much as paying consumers. If a service is overused, and if many of the users are not contributing to production costs, then the value of that good will, either literally or metaphorically, erodes. The free rider problem is overwhelmingly apparent in cases of media. There are, in fact, two separate ways the free rider problem threatens journalism.

First, it can be applied in a direct sense. Since the rise of the internet, news industries have put their content online, typically for free. While many newspapers have begun erecting paywalls of some sort, the public became very accustomed to receiving their news, free of charge, online. While online advertisements still exist, the public reap the benefits of news without putting a penny toward production costs. Even if a newspaper constructs a massive paywall, the internet acts as a hall with a seemingly infinite number of doors to information. If people are set on not paying for their news, they are able to go door to door until they find one

that is unlocked. The availability of free, online news caused an increase in the prevalence of free riders. Prior to the digital free rider problem, media industries felt the effect of free riding in a different way.

The second form of free riders in journalism is those who do not pay for newspapers, but still benefit from public reforms initiated by public service news. As Fengler and Ruß-Mohl said, journalism benefits the public. The real might of the press is its ability to obliterate walls of asymmetry. Public service news exposes those who benefit from and hide behind this cloistered knowledge. Exposure, in the form of neat columns of copy, functions as a sort of promise. Public service news promises that which corrupt agents fear most: permanent surveillance.

Newspapers are an abstract version of Jeremy Bentham's panopticon. Originally developed as an architectural structure used for prisons, the panopticon is a circle-shaped building with a watchtower in the center. The periphery is divided into cells for prisoners. Each room has large windows so those in the watchtower can always see the prisoners, but the prisoners cannot tell if the watchtower is looking at them or not. The mere possibility of constant supervision forces prisoners to self-regulate. Foucault popularized the idea of the panopticon and coined the term panopticism to explain the notion of permanent visibility. While prison structures are no longer built in Bentham's preferred design, panoptic systems are present throughout society (Foucault, 1977).

A common example of a modern panoptic system is video surveillance at grocery stores. The cameras are visible to the public; however, the public has no way of knowing if a person is behind any of the cameras. The possibility of being constantly watched deters poor or illegal behavior. In most cases, there will not be an actual person watching each camera. It's even possible many of the cameras aren't hooked up or working at all. This system is not foolproof,

and some people will continue to behave poorly or will work harder to evade surveillance.

However, the presence of a panopticon creates the permanent image of that watchful eye and is enough to force many into a state of self-regulation.

Public service journalism is a panoptic system. Media's history of strong investigative reporting acts as an abstract version of the watchtower or the video camera in the corner. Headlines that exposed corruption impose a state of permanent surveillance on corrupt agents who may otherwise enjoy unbridled power and freedom. Daily and breaking news reporting is powerful in the sense that it is reactive and informative to those who read it. Public service reporting is powerful in an entirely preventive and reform-based sense. By uncovering instances of corruption and dishonesty, this kind of news functions as that ever-watching eye, a kind of conscience of the country. Because of these panoptic powers, it does not matter if the average person bought a newspaper that day. He or she will still feel the positive benefits of investigative news. Although they forgo buying the news, free riders benefit from the protection provided by investigative journalism without having to contribute financially.

These preventive and reform-based benefits pose a problem for media corporation leadership. The public will feel the positive effects without ever having to open a newspaper. Thousands of people benefit from an investigative news story exposing, say, a political scandal that ousted a corrupt politician. The majority would not have to buy a newspaper to feel these benefits. These non-paying thousands would be viewed as free riders in the eyes of corporate leadership. As with the case of the entrepreneur of the firework show, the entrepreneur would want to do what he could to maximize his profits by hiding the fireworks from free riders, or decreasing the value of the show to minimize his costs. The corporate leader of a media conglomerate who is focused chiefly on the bottom line would want to sequester information

behind paywalls—to limit the informative benefits to paying readers—and possibly reduce the production of investigative stories. The purpose and effect would be to exclude free riders from receiving any preventive and reform-based benefits.

This dilemma shows how journalism's dual purposes collide. Clearly, people should have to pay for a product or service. Media, when viewed as a business, must require payment from the public. People must pay for the news, and these paying customers allow media to fulfill their mission to generate a profit and continue to print. However, media's other purpose, to serve the public and generate awareness, does not fit as easily into business-minded procedures. If a corrupt politician is harming citizens through dishonest actions, then all citizens are being unjustly harmed and all citizens deserve justice. Media, when viewed as a public good, must provide parity to the public—the entire public, not just those who will pay for it. Media fulfill their mission to serve the public and act as a panoptic power when they watch over all people, not only those with a subscription in their name or a purchased paper in hand. Media's dual purposes cause journalism to straddle two very different categories: business versus public good.

Like any publically or privately held company during an economic downturn, media felt the pressures of a bottom line. The ascendancy of conglomerates has caused media leadership to embrace a business-minded approach to content production. This approach leans strongly on profit-maximization, which focuses on decreasing production costs while capitalizing on the buying audience. Readership demographics reveal that the characteristics of the buying audience are far from matching the characteristics of the average American. However, it is clear that non-paying consumers will benefit from the preventative and reform-based benefits brought on by public service news just as much as paying consumers.

This reality of the free rider problem encourages corporate leadership to eliminate free riders. A clear way to eliminate free riders is by reducing public service news. In order to survive at all, media managers became more attuned to profits. The effect of this has been a dampened appetite among media outlets to encourage and support public service-oriented investigative journalism (Ide & Vashisht, 2006).

Moral Hazard between Parties

There is an irony that exists in commercialized media. Journalism's real power is its ability to expose adverse instances of asymmetric information. However—and here's where irony rears its head—journalists impose asymmetric boundaries between themselves and the public on a daily basis. A journalist's job is to gather information, presumably information that is unknown by most. In ideal scenarios, reporters then distribute the knowledge they have gathered to the population still unaware of the information at hand. However, in a moment this paper will demonstrate that due to the constant pressures of a commercialized world, media industries have embraced a primarily market-driven perspective and, according to this perspective, it is not always beneficial for media organizations to present all information. In many cases, information most valuable to the public is least valuable—in a strictly profit-maximization sense—to media organizations.

News organizations must produce the most news that appeals to the most buyers. The ideal piece of news, from the perspective of a media owner, is that which can be gathered at the lowest price and distributed to the widest audience (Napoli, 1997). This kind of news reduces production costs while maximizing the potential buying audience. News stories that take a firm

stab at eliminating asymmetric information balances—primarily investigative news stories—typically do not fall into this category of profitably valuable news.

Professor and journalist Mark Feldstein conducted an in-depth study of the patterns of investigative journalism and summarized the frequent issue with forms of public service news. “Public service journalism has often been more celebrated than practiced in part because wrongdoing may be difficult to uncover,” Feldstein said, “and documenting it can generate costly lawsuits, alienate advertisers, and be expensive to produce” (Feldstein, 2006, p. 107). Following the exact format seen in the agency problem, journalists pursuing investigative stories must exert the most effort and pay the highest costs so the public may reap the benefits. Clearly, the primary interests of media industries do not align with the primary interests of the public. The stage is set for moral hazard between journalists and the public.

Applying the agency problem to an actual example in media will clarify how the economic theory is appropriate and relevant. The phone-hacking scandal in the UK that led to the demise of the tabloid, *News of the World*, is an example of the agency problem at work. Journalists tapped phones and broke laws in order to sell more papers. They were able to print salacious material that boosted sales and profits. Initially, the journalists tapped phones of celebrities, politicians, and members of the British Royal Family. In 2011, it was revealed that they tapped phones of the murdered girl, Milly Dowler, relatives of deceased British soldiers, and victims of the London bombings. In this example, the agents—in this case the journalists, editors, and managers at *News of the World*—acted in the interest of maximizing sales and profits but in doing so acted recklessly and without regard for laws intended to ensure privacy of conversation. The public—and specifically the victims whose rights were violated—in this case, act as the principal (Wring, 2012).

This situation represents a specific instance when the principal-agent problem can be applied to media and it is clear there was a moral hazard between parties. The journalists acted in their own interest, to spike sales and make money. Their actions were not, by any means, aligned with the interests of the public.

The agency problem can be soundly applied to media organizations. Not only are principal-agent subjects present, but there are also financial incentives that can distort story selection and messaging. Also, there is constant potential for severe asymmetric balances of information between media organizations and the public.

Journalists walk the same road as young Hans—they must decide whether or not they will plug the leaks they encounter. Media's access to vast troves of information places journalists at a crossroad: Do they act in the public interest by exposing corrupt instances of asymmetric information in political, social, and economic spheres, or do they act in their interest and try to maximize financial gain by turning a blind eye, creating a moral hazard between themselves and the public? The question becomes: How can media serve the public yet also survive as profit-making organizations in American society?

This paper will provide data and a framework for understanding and explaining how, more frequently than not, journalism's higher purpose of revealing injustice is compromised the more that media have to embrace a market-driven business strategy. When journalists succumb to commercialization and put money-making ahead of truth-telling, moral hazard can surface.

However, before proceeding further, it is useful to clarify two important features of the agency problem and state an assumption that grounds this paper. More simply said, it is helpful at this point to take a moment to contextualize the argument.

Assumptions and Clarifications

Theories typically operate in a vacuum. When plucked from this sterile setting and applied to the physical world, adjustments are be crucial. This paper has drawn connections between principal-agent relationships and journalism. However, to make this connection more meaningful, two points need clarification. Also, an assumption that is key to the overall argument of this paper must be made explicit.

Clarifications—Newspapers Aren't Villains

First, when speaking about principal-agent relationships in theory, it is easy to vilify agents who succumb to moral hazard. Tying this theory to media—where journalists assume agent roles—it is easy to cast daily newspapers as villains as well. This paper likened journalists to the little Dutch boy at the leaking dam. If Hans left the dike, most would view his departure as evil or selfish. Journalists who abandon society's leaks would similarly be viewed as immoral. However, a rush to judgment would be misguided. This paper is not arguing that newspapers owned by conglomerates are wicked or greedy. To clarify, this paper suggests a revised version of the fable.

To more accurately understand media's situation, imagine Hans and the dike once again. The story begins the same way. Hans is heading home and sees the leak. He runs over to the dam but—in this version of the tale—just as he is about to plug the leak with his finger, an angry bear appears on the path. If Hans plugs the leak and stays by the dike, he will be eaten by the bear. Now, Hans has a far more pressing desire to run home. In this situation, Hans seems more justified in abandoning the leak.

There is unquestionably a bear breathing down the backs of journalists. Newspapers across the U.S. are folding. Budgets are tightening as revenues shrink. Many daily newspapers must join conglomerates and focus on profit-maximization in order to continue printing (Pew Research Center, 2013).

While the term “profit-maximization” has been and will continue to be used in this paper, the intent is not to portray media as piggish or greedy. Newspapers focus on profit-maximization not to plump their wallets but to keep a paper alive. Obviously, the ideal situation is a system that produces both local, daily news and in-depth public service news. However, in today’s world—and due to a handful of factors beyond the scope of this paper—this ideal situation has been out of reach. Newspapers undeniably feel financial pressure, and this pressure leaves media with two choices: Produce daily news that does not invest in public service journalism, or close the doors and produce no news at all.

Adopting a new perspective, this paper suggests a two-branch structure that will allow for daily papers to prosper in the current economic climate while still fostering in-depth investigative news geared toward the public. This brings the next point of clarification. It concerns how we gauge the severity of the current system.

Clarification—Society Exists in a Spectrum

The following pages examine data about the media. This paper relies on the principal-agent theory to predict the effect on news content. However, the inferences drawn in this paper need to be tempered. The findings and conclusions of this paper rely heavily on theory and it is easier to forecast results in this abstract sense. In the physical world, there are an infinite number of factors at play that will skew such predictions.

Our world functions in a spectrum. One end represents the best-case scenario with respect to media. The other end represents the worst-case scenario. In the best case, journalism finds a way to fulfill its higher duty to illuminate injustice while also surviving in the increasingly competitive marketplace. In a less-ideal case, journalism survives financially but only by giving short-shrift to its investigative role in society. And in the worst case, journalism is unable to survive at all.

The truth is, our present situation lies somewhere in between these extremes. While this paper offers data and trends to suggest the press is leaning toward worst-case scenarios, the paper does not pinpoint the exact location of our media system in this spectrum. Rather, this paper acts as a roadmap, suggesting a direction that should be considered if, in the future, it becomes overwhelmingly clear that American press is falling prey to excessive commercialism.

Observing journalism through the lens of the principal-agent problem, this paper offers new insight on the current structure and cautions against problems that may arise from an entirely corporate-dependent system. With these two clarifications in mind, the paper now turns to consider the basic assumption on which the overall argument rests.

Assumption: Media have a Moral Duty

This paper operates on the assumption that journalists have a moral duty. Put in terms of the agency problem, journalists have a duty to eliminate corruption that feeds off asymmetric balances of information. The press should provide the public with comprehensive news about political, economic, corporate, and social spheres of society. The public may then generate accurate knowledge and make informed decisions.

This assumption of a moral duty is grounded in a combination of two philosophical theories, one proposed by philosopher Peter Singer and one proposed—in response to Singer’s argument—by philosopher Michael Slote.

Singer argues in “Famine, Affluence, and Morality” that people have a moral duty to help others when they are able. He states: “If it is in our power to prevent something bad from happening, without thereby sacrificing anything of comparable moral importance we ought, morally, to do it” (Singer, 1972, p. 230). Singer’s claims raise questions about the nature of helping and whether certain forms of help are obligatory or not.

Singer illustrates his view that many forms of help are in fact obligatory by creating an example, which this paper will call the Drowning Child. In Singer’s words:

If I am walking past a shallow pond and see a child drowning in it, I ought to wade in and pull the child out. This will mean getting my clothes muddy, but this is insignificant, while the death of the child would presumably be a very bad thing. (Singer, 1972)

Singer concludes the person is morally obligated to save the child. While the person will be sacrificing his or her clothes, this sacrifice is insignificant when compared to the overwhelming significance of the child’s life.

Singer goes on to connect the Drowning Child example to world famine and concludes people have an obligation to donate to famine relief. While this paper does not draw the same conclusions as Singer, what is relevant is the idea of public obligations. People have a moral obligation to help in situations where the help is both reasonable and feasible. It would be morally wrong not to save the drowning child.

This moral perspective is also what justifies people’s moral intuitions about Hans and the leaking dam examples. In the original scenario, Hans must temporarily sacrifice his comfort in

order to save the town. Obviously, the death of an entire town outweighs the temporary discomfort of one boy. Here, Hans has an obligation to stay and plug the leak. Singer explicitly notes people are obligated to help unless, by helping, they must sacrifice something of “comparable moral importance.” This clause explains why Hans is justified for leaving in the revised case of Hans and the dike. In this revised case, the bear will kill Hans if he stays. Hans would sacrifice his own life and the town would still be destroyed. Helping, in this case, is not reasonable or feasible. In this revised scenario, Hans does not have a moral obligation to stay.

According to this paper’s interpretation and application of Singer’s argument, people are breaking their moral duties when they do not help in cases where it would be easy for them to do so. However, there is a glaring hole in this line of thought.

Theories tend to function on presumptions about the physical world. In Singer’s case, there is an unspoken presumption that people are aware of the drowning child. Singer assumes people make a conscious choice to help or not help. And if they do not help, they are deemed immoral. It is more likely that, in the actual world, people are not aware of the dire situation at hand. A child drowning in a pond is an obvious and startling scene. Society is filled with “drowning children”; however, these cases are typically not as obvious. Instances of corruption and exploitation can arise when asymmetry exists between agents and the general public. “Drowning children” are typically kept out of sight. It is unfair, then, to deem people immoral because they are not helping.

It is clear people have a moral duty to save the drowning child, but the general public will never be able to fulfill this duty if they are unaware their help is even needed. However, ignorance does not seem to ease any qualms. It is necessary to bridge the gap between the public and the problems.

Journalism is this bridge. To understand this further, consider a revised version of the Drowning Child example: I am walking through a building with glass hallways and a pool on the ground floor. Through the glass, I see a child drowning in the pool. I try to run to the child, but I am locked in the hallway. A door across from the pool is slightly ajar and leads to a busy street, but none of the people walking by hear or see the child. In the hallway, I find a computer. Words that are typed into the computer are then projected onto a massive banner hanging outside the building.

The question is: Am I morally obligated to inform the crowds outside the building of the drowning child? It would seem so. This question seems as easy to answer as Singer's original question about whether or not a person is obligated to wade into the pond.

This modified version of the Drowning Child example illustrates journalism's moral role. Newspapers must inform the public about the ills of society so the public may then make a conscious decision whether or not to fulfill their moral duties and help. Newspapers are not physically able or morally obligated to save the drowning children themselves, but they are in a position to inform others of the problem. This informative role is in fact obligatory. By completing their duties, media enable the public to act as well.

Media generate awareness and empathy, something Slote focuses on in his essay, which critiques Singer's argument, "Famine, Affluence, and Empathy." Slote claims empathy is a necessary component in evaluating moral situations. He discussed the "empathy-altruism hypothesis," which states empathy will generate action. If a person can understand and feel the pain or danger another person is in, they will be motivated to help alleviate a situation (Slote, 2004). "Seeing or perceiving makes a difference in arousing or eliciting empathic and altruistic reactions" (Slote, 2004, p. 149). Journalism evokes that necessary awareness and empathy from

the public, thus triggering action and reform. By writing in-depth explanations of events and profiles of sources, reporters are able to introduce the public to unsettling situations and circumstances. With this knowledge, the public is then able to project themselves into another person's situation and feel the sensations accompanying that particular position. The public develops a sort of empathy.

Public service journalism has a duty to inform others of the drowning children they encounter. This information then allows the public the opportunity to fulfill their moral obligations to rescue and reform. This paper is grounded in the assumption that news has a higher moral duty. If this duty is left unfulfilled, both journalists and the public will suffer.

Implications

The cost of a world without investigative journalism is too high. Bob Woodward and Carl Bernstein reported on the Watergate scandal 41 years ago. Upton Sinclair released his book exposing shocking practices in meatpacking plants 108 years ago. Nellie Bly reported on brutal conditions in women's asylums 127 years ago. These stories date back decades, even centuries, yet these names are still remembered—and even commonplace—today. The issues exposed by these investigative journalists are thought of as atrocious stains on American history. These moments reveal what society would be like if corrupt agents had unbridled power. Watergate, *The Jungle*, and the asylum exposé are remembered because they represent moments where society slipped up, where democracy and justice took the backseat. These moments last in memory because they are skeletons in America's closet. If news cannot fulfill its duty to inform, then the members of the public cannot fulfill their duties to reform. Then, these undesirable irregularities could become commonplace.

Public service journalism has a duty to inform the public of societal ills. However, there is a contingent factor fastened to this duty: the bear. The morality of the two examples of Hans and the leaking dam were evaluated earlier. It was concluded that, in the original case, Hans would not be justified in leaving the dike leaking. By staying, he was not sacrificing anything of comparable moral importance by plugging the leak until morning. However, in the revised example, Hans was justified for leaving. Because a bear would kill him if he stayed, Hans was not considered immoral for running away from the leak. The bear's presence does not hinder Hans's ability to plug the leak—it merely ends his obligation to do so.

This is the same in the case of media. Financial pressure does not eliminate a reporter's interview skills or an editor's abilities. A newspaper is still physically capable of producing an investigative story; however, financial pressure can destroy that paper's sustainability and hinder future production. Financial pressure lifts media's obligations to produce investigative news.

But what really should be relinquished? The obligations or the bear itself? *Watergate*, *The Jungle*, and the asylum exposé suggest it is necessary to do whatever is possible to eliminate the financial pressures and allow media to be free to fulfill their moral duties. It is necessary to find a structure to alleviate investigative journalism of financial pressures so they may continue to produce public service news.

Before suggesting such a structure, this paper will provide recent data and trends to prove this financial pressure is present. Predictions will be made, according to the agency problem, to suggest this pressure and commercialization may have a negative effect on media and reduce their ability to fulfill their moral duties.

Proving the Commercialization of Media

Massive media conglomerates are becoming the norm within the world of journalism. At one time, a city newspaper was a locally owned production, autonomous and accountable for their actions. Today, due to a drastic rise in media conglomerates, a city newspaper is a chess piece in a game played by powerful corporate leaders.

Shifts in Ownership: From Humble to Huge

In 1983, 90 percent of American media were owned by 50 companies. Less than 30 years later, in 2011, that same 90 percent of media was owned by six companies: GE, News Corp., Disney, Viacom, Time Warner Inc., and CBS. These companies are billion-dollar corporations that own nearly every kind of media, from newspapers to radio to TV to movies. For example, News Corp. owns the *Wall Street Journal* (the largest newspaper in the U.S.), *The Sun* (the largest newspaper in Europe), and the *Australian* (the largest newspaper in Australia), and generated a revenue of \$33.4 billion in 2011 (Free Press, 2003).

It is common for these mass media corporations to have monopolies on key industries. Time Warner Inc., for example, owns HBO, CNN, and Warner Bros, two leading cable networks and one of the largest film, music and entertainment companies. Time Warner also has its hand in print businesses and owns TIME Inc., the company responsible for leading magazines such as *Time*, *Sports Illustrated*, and *People* (Free Press, 2003).

Despite owning businesses dedicated to hard-hitting journalism—such as *Time* or CNN—the CEO of Time Warner is not a journalist. Jeff Bewkes, who was president of Time Warner in 2005 and elected to CEO in 2008, was never a reporter or an editor. A businessman,

Bewkes, attended the Stanford Graduate School of Business and spent the first years of his career as a commercial banker in New York City (Time Warner Inc.).

Bewkes is not the exception but the norm when it comes to the experience and backgrounds of the owners and leaders of today's media conglomerates. Owners are owners because they can run a successful business. It is expected that the CEOs would use their business degrees and financial backgrounds to ensure profits remain a focus.

There is a kind of trickle-down effect that then occurs. This trickle-down influence is described by economist Edward Herman and philosopher Noam Chomsky as the "first filter" that media content is subject to (Herman & Chomsky, 2008). The decisions media managers, editors and reporters make regarding media content are tainted by the underlying goal of profit. Corporate CEOs and presidents will desire profit-maximizing behavior from media owners and will hire and supervise accordingly. Profit-minded media owners will then similarly desire profit-maximizing behavior from media management and will hire and supervise accordingly. Profit-minded media management will then follow the same cycles and so on. An average reporter will feel, whether consciously or subconsciously, pressures from the businesspeople higher up the ladder. The actions of this average reporter will ultimately reflect the desires of corporate leadership (Napoli, 1997).

Readership Demographics

Ownership structures clearly support the claim that media industries are cradled in those hidden hands Adam Smith described. The question now becomes: how, specifically does profit-maximizing behavior take form in day-to-day reporting, and does this behavior affect the moral force of media content?

As described earlier, profit-maximization means minimizing costs and maximizing audiences (Napoli, 1997). Investigative reporting is an expensive and labor-intensive endeavor that may or may not pan out. The results of investigative news do not always tell the public what they want to hear. For these reasons, it is easy to imagine how the CEO of a media conglomerate could, more or less, discourage a media owner to discourage media management to discourage editors to discourage reporters from pursuing such avenues (Napoli, 1997). However, a review of recent data about readership demographics, and a close examination of recent trends involving principals of business and audience maximization, reveal it is clear that newspaper management tend to shy away from particular topics while giving excessive attention to other topics. An analysis of demographical data reveals blind spots in media coverage are not accidental but rather, strategically intentional (Fengler & Ruß-Mohl, 2008).

The Pew Research Center founded the Project for Excellence in Journalism in 1997 to assess the state of news and information. Every year, Pew releases a report compiled from public polling, demographic studies, media content analysis and other various forms of social science studies. The State of the Media annual report aims to inform the public about the issues, attitudes and trends within the world of American media. The State of the Media Report takes the temperature of American media and the public's reaction to and involvement in news.

The 2013 report summarized “a continued erosion of news reporting...a news industry that is more undermanned and unprepared to uncover stories, dig deep into emerging ones or to question the information put into its hands” (Pew Research Center, 2013). These conclusions reflect what this paper has established—that media are falling away from hard-hitting news that serves the public by exposing systems of asymmetric information. However, the Pew report also provides detailed figures about readership that suggests there is a deeper reason for media's

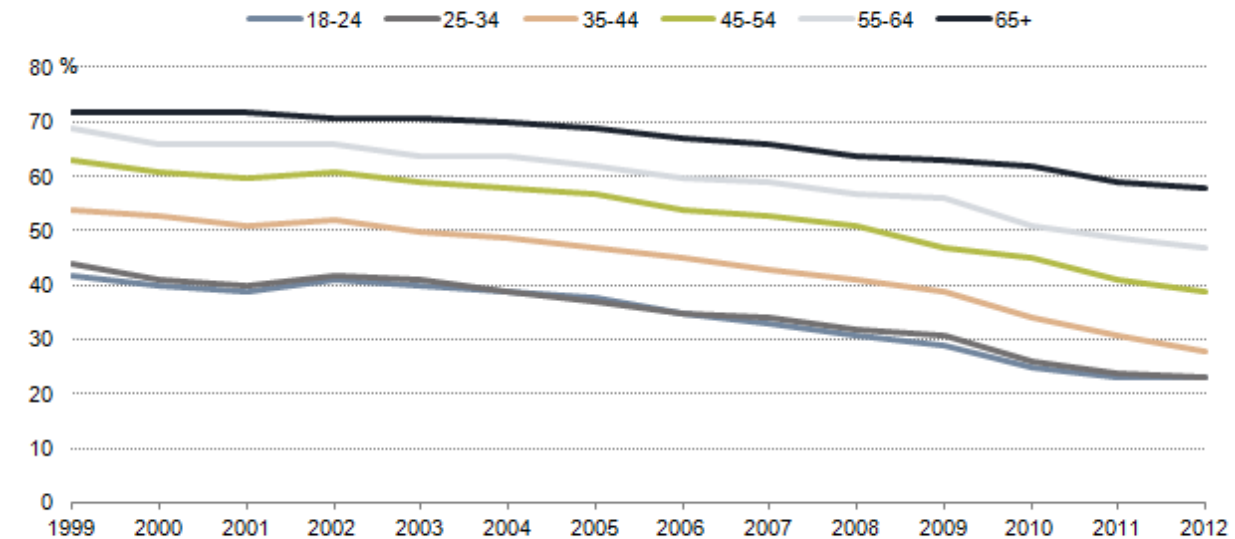
decreased attention to investigative stories. Using data about readership demographics, it is possible to draft a sort of character sketch that reveals key features of the person most likely to buy a newspaper. This sketch is characterized by four dominant aspects: Readers tend to be older, highly educated, rich, and white.

Table 1, Table 2, Table 3, and Table 4 target different sample groups and aim to draw conclusions about different factors, but in each case, surveyors asked their sample group the same question. Surveyors asked people if they read any daily newspaper yesterday. Tables 1-4 present data from 1999 through 2012 and illustrate readership statistics concerning age, level of education, income, and race. Readership levels across the board are either declining or stagnant. The interesting patterns within the data do not concern the steady decline of newspaper readers, but rather who the top readers are and where they fall in society (Pew Research Center).

Table 1 (below) provides data about which age group recently read a newspaper. The leading age group in terms of readership is, by almost 10 percent, the 65 or older population. Fifty-eight percent of the surveyed 65 and older population read a newspaper yesterday. The 18-24 age group and the 25-35 age group have the smallest percentage of readers. Only 23 percent of these age groups recently read a newspaper. The percentage of newspaper readers steadily declines as the population gets younger. The conclusion from this table is that an older demographic is far more likely to buy a newspaper.

Table 1:
Readership Falls for Most Age Groups

Percentage Nationally Who Read Any Daily Newspaper Yesterday



Source: Scarborough Research survey data

Note: 1999 – 2012 Scarborough Report, Release 1

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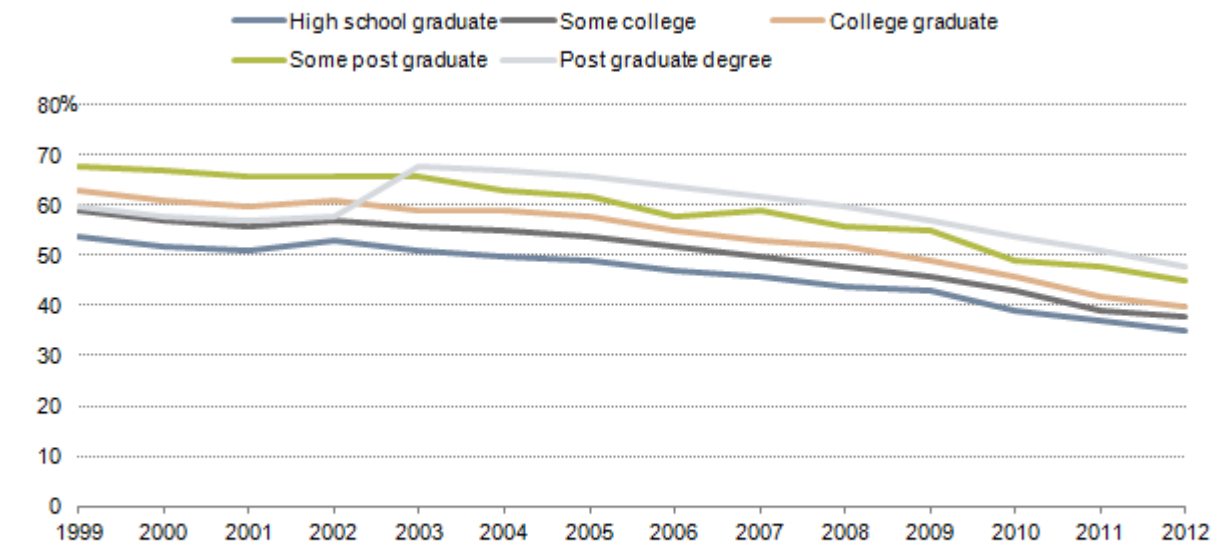
Table 2 (below) focuses on readership's correlation to education levels. While the standard deviation for these figures is smaller, the population sample with the highest education level has, for the past 10 years, had the largest percentage of newspaper readers. The amount of newspaper readers in the sample of those with a post-graduate degree is 13 percent higher than the sample of those with only a high school diploma.

Similar to the age group statistics, as the population samples become less educated, the less likely they are to have read a newspaper yesterday. The primary take-away from this table is that highly educated people are more likely to buy a newspaper.

Table 2:

Newspaper Readership Correlates to Higher Education Levels

Percentage Nationally Who Read Any Daily Newspaper Yesterday



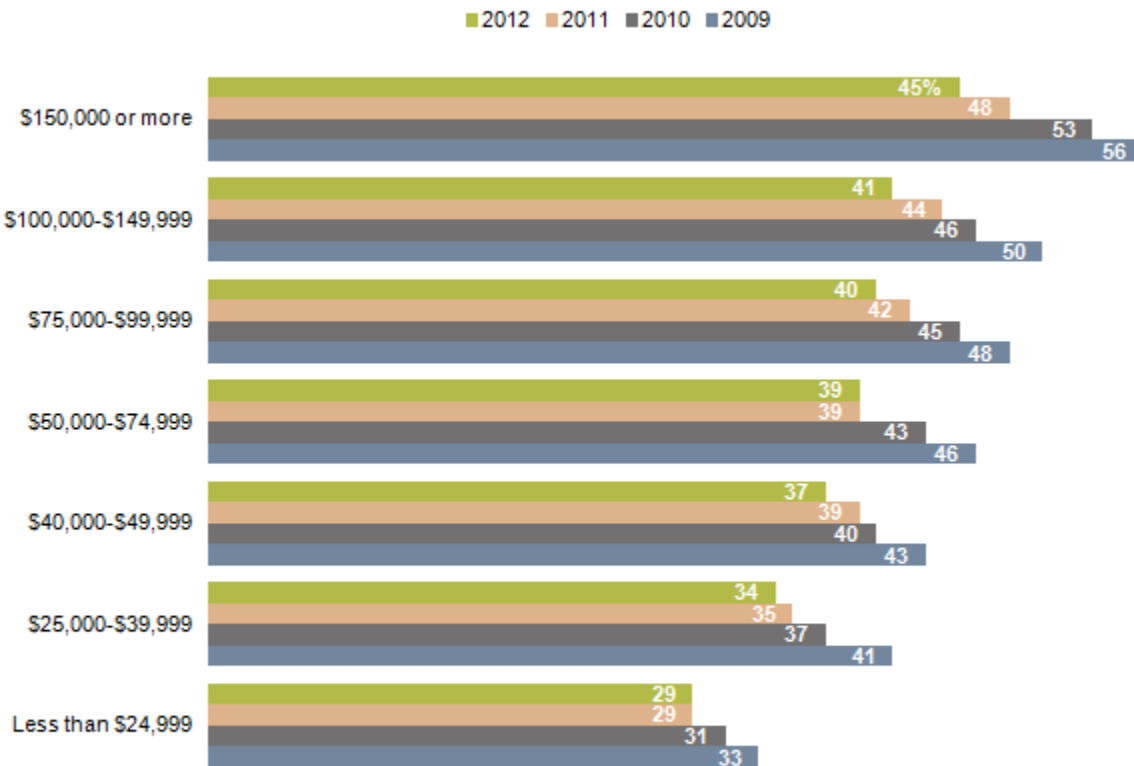
Source: Scarborough Research survey data
 Note: 1999 – 2012 Scarborough Report, Release 1
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Table 3 (below) presents information about readership rates and income levels. The data shows the population with the highest readership rates is the income bracket of \$150,000 or more. Readership decreases as the population samples’ income level decreases. Forty-five percent of people in the highest income bracket read a newspaper yesterday, while only 29 percent of people in the lowest bracket, those making less than \$24,999, recently read a paper. Overall, it is clear that high income levels strongly correlate with high readership.

Table 3:

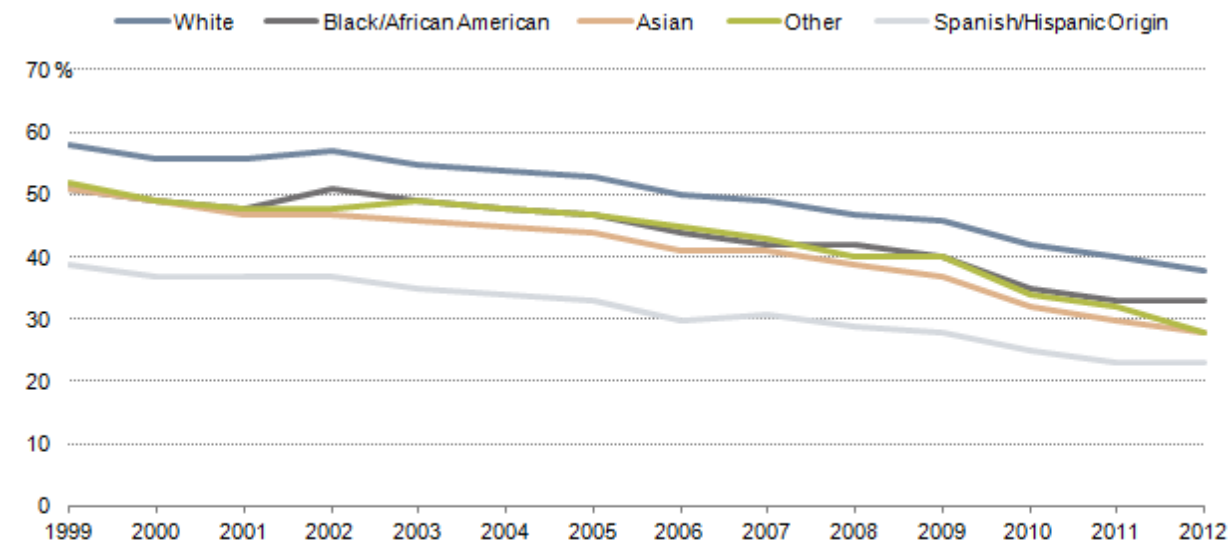
Newspaper Readership Correlates to Higher Income Levels

Percentage Nationally Who Read Any Daily Newspaper Yesterday



Source: Scarborough Research survey data
 Note: 1999 – 2012 Scarborough Report, Release 1
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Finally, the last table (below) shows how race and ethnicity play into readership. The white population sample had 38 percent readership, five percentage points above the next sample group, which was black. The “Asian and Other” categories tied with 28 percent of the population sample having read a paper yesterday. The Hispanic sample group had the lowest readership, with only 23 percent of the population reporting they had read a paper yesterday. The general conclusion is that the white population is more likely to buy a newspaper.

Table 4:**Whites Are More Likely to Read Newspapers Than Other Ethnic Groups***Percentage Nationally Who Read Any Daily Newspaper Yesterday*

Source: Scarborough Research survey data

Note: 1999 – 2012 Scarborough Report, Release 1

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The data, collectively, trace a picture of the person who most likely read a newspaper yesterday and, ergo, will most likely buy a newspaper tomorrow. This older, highly educated, rich, white person represents the buying audience. Corporate leadership wants to connect strongly to the population that is most likely to pay them. Basic business strategy pinpoints a target audience and sells toward that audience in order to maximize sales. For journalism industries, directing a product toward the buying audience means producing content the newspaper-reading archetype would relate to or would be interested in learning about. If the primary goal is profit, then the interests and preferences of the buyer archetype will weigh heavily on media content.

The issue with media content essentially dictated by this particular buying audience is that this archetype does not, by any stretch of the imagination, accurately reflect the average

American. To put the previous data into perspective, the characteristics of the buying audience will be compared to the characteristics of the general U.S. population.

In terms of age, the newspaper-reading archetype is 65 or older. However, only 13 percent of the total U.S. population is 65 or older (U.S. Department of Commerce, 2012). In regard to education levels, only 28 percent of Americans 25 years or older have received a bachelor's degree or higher (U.S. Department of Commerce, 2012). This means the three highest readership categories (post-graduate degree, some post-graduate, and college graduate) only apply to 28 percent of the U.S. population, while the remaining 72 percent of Americans over the age of 25 occupy the two lowest readership categories—the categories a corporate business owner would view as least valuable.

The news consumer archetype deviates even further from the average American when it comes to income levels. Similar to education level and age, readership across income brackets decreases steadily as the population's income drops. The possibility of profit drops alongside this decreased readership and accordingly—through a profit-maximization lens—the audiences' value drops as well. There were seven categories in Table 3, with incomes ranging from \$150,000 or more to \$24,999 or less. The per capita income for an American is \$28,051, landing the average citizen in the second-lowest income bracket (U.S. Department of Commerce, 2012). Again, looking through the lens of profit-maximization, this data suggests the most appealing audience is the population that has an income \$120,000 *more* than the average American's income.

Finally, Table 4 suggests the race most likely to buy a paper is the white population. According to 2012 U.S. Census data, whites make up 63 percent of the population while minority groups, collectively, account for 37 percent of the population (U.S. Department of

Commerce, 2012). However, according to Stan Perea, author of *The New America: The Moo-Shoo Burrito*, population proportions will flip. Currently, 75 percent of the population 70 years or older are white. Seventy-five percent of the population 10 years or younger, however, are non-white. Future generations will not be predominately white (Perea, 2004).

This data suggests—albeit in an oversimplified way—that the average American does not read the newspaper. In the eyes of the principal-agent problem, the majority of Americans would be free riders. If public service journalism has corporate ties and faces financial pressures, then the logical business move would involve eliminating free riders. In order to solve the free rider problem, the bulk of investigative news would be eliminated as well. It is clear the issue comes down to a choice: eliminate the investigative news, or eliminate the financial pressure facing investigative news. This paper suggests that investigative news must be alleviated of the financial pressure. The following section proposes a structure that can accomplish this.

Proposed Solution

There is a clear and unwavering need for journalism in the U.S. Yet there is eroding support among current structures for public service news. The ideal system is one that allows for both local, profit-oriented breaking news and public service-oriented investigative news. To achieve both prongs, it is necessary to envision a new structure. This paper proposes a two-branch approach to journalism, with one branch dedicated to local breaking news and one branch dedicated to public service news.

This sort of structure resolves two issues. The first issue concerns the profit-oriented breaking news. This kind of news aims to inform, but when papers are stretched thin and restricted by budgets and time, comprehensive news suffers (Pew Research Center, 2013).

Removing investigative departments from the local, breaking news branch would improve daily news by alleviating the current workload. Reporters in this branch could narrow their sight to focus solely on reaching their target audience and providing that audience with the informative benefits brought about by local and day-to-day coverage.

The second issue relates to public service news. As established, investigative news is not always profit-maximizing. This kind of news can be neglected or omitted completely. A branch dedicated to public service news would put due attention toward investigative topics. Funded by nonprofits and government subsidies, this branch will no longer be engaged in a strict financial contract with the public, thus evading moral hazard brought on through a principal-agent relationship. A two-branch method allows for the best of both forms of journalism.

Branch One: Local and Breaking News

The first branch closely resembles the current journalistic system in place. This branch of media will be produced by local newspapers and will cover breaking news, sports, local politics, weather, small-scale business stories, personal profiles and other types of daily news. Newsroom staffs have drastically reduced in the last decade, and total newsroom employment is down 30 percent since 2000 (Pew Research Center). These kinds of reductions make accurately covering topics such as breaking news or local politics difficult. Trying to adequately cover investigative news on top of day-to-day stories can be nearly impossible. Daily newspapers could focus solely on daily endeavors, and this narrowed sight would save money, time, and space. Local newspapers would be able to put their full attention toward daily coverage.

The local and breaking news branch will have the same type of corporate ownership that exists today. This ownership will continue to target the paying audience and will work to

eliminate free riders by erecting pay walls and covering the most profitable stories. A paying audience will receive a better, more verified form of news than the non-paying. However, because of the second branch, the public, both paying and non-paying, will still receive the preventative and reform-based benefits brought about by public service reporting. By shifting investigative-news coverage from daily papers to public service outlets, journalists in the local and breaking news branch won't be as restricted by costs and thinned staff. Daily coverage will be more financially autonomous, and this autonomy will allow for reporters to use more time to verify their information and distribute more accurate and comprehensive stories.

Branch Two: Public Service News

The second branch of journalism that this paper proposes is dedicated to public service news and will allow media to fulfill their moral duty to identify, document, and publicize practices that are harmful to the public. This branch will conduct in-depth investigations into corrupt systems and will work to expose asymmetric balances of information. This sector of news aims to spark reform and act as the panoptic eye to discourage future abuses. As Feldstein explains, this news features “fact gathering to challenge authority and oppose the abuse of power—political, governmental, corporate, or religious—on behalf of ordinary citizens” (Feldstein, 2006, p. 106). Unlike the local and breaking branch, this branch would not feature newspapers working out of specific cities. Instead, investigative organizations represent a state or a region and produce stories to benefit the people within their reach. This paper will consider a national organization as well as a local organization that produce only investigative and public service news to illustrate how this branch of news will function.

National Example: ProPublica

ProPublica, formed in 2008, is an independent newsroom headquartered in Manhattan. Its mission is to “expose abuses of power and betrayals of the public trust by government, business, and other institutions, using the moral force of investigative journalism to spur reform through the sustained spotlighting of wrongdoing.” According to ProPublica, many news organizations view investigative news as a luxury. Newsrooms that still maintain an investigative branch typically lack resources and time. However, ProPublica views public service reporting as an “integral” part of democracy. In ProPublica’s view, new models are necessary to ensure the continuation of democratic systems.

Paul Steiger, the former managing editor of *The Wall Street Journal*, founded ProPublica and served as the editor-in-chief until 2012. The organization is now led by Stephen Engelberg, the former managing editor of Portland newspaper *The Oregonian*, and Richard Tofel, the former assistant publisher of *The Wall Street Journal*. Along with Engelberg and Tofel, there is a governing board with Steiger acting as the executive chairman. The governing board is a mix of journalists, philanthropists, and professors. Together, Engelberg, Tofel, and the board guide ProPublica through its day-to-day endeavors. The organization as a whole has 40 journalists dedicated to investigative news. In 2012, ProPublica published more than 80 in-depth articles. In 2010, only two years old, ProPublica was awarded a Pulitzer Prize for investigative reporting for their article about euthanasia in a New Orleans hospital after Hurricane Katrina. Just one year later, ProPublica received another Pulitzer Prize for national reporting for their coverage of corrupt Wall Street bankers. (ProPublica)

ProPublica is funded primarily through grants and contributions. In 2013, the organization had revenue of roughly \$11,932,000. Forty-seven percent of this revenue came

from major—meaning \$50,000 and above—grants and gifts. Forty-one percent came from contributions from the board of directors and related grants. Roughly 10 percent comes from contributions from the business advisory council, online grants and gifts and other small grants and gifts. Ad revenue accounts for less than 2 percent while earned income accounts for roughly 1 percent of total revenue. Much of the grant and gift money comes from contributors such as the Sandler Foundation, the Knight Foundation, the MacArthur Foundation, and The Pew Charitable Trusts (Bronzan, 2014).

Many traditional daily newspapers can devote 15 cents of every dollar to news production. ProPublica is able to devote 85 cents of every dollar to news, ensuring quality and accuracy. Website page views have increased steadily since 2008 and spiked in 2010 and 2011 with the Pulitzer Prize wins. While the organization began with 28 reporters and editors, the staff has swelled to 47 people plus interns. There are 40 journalists on board along with seven management and fundraising employees. This growth is evidence of the successfulness of their model (Bronzan, 2014).

Unlike current media, ProPublica's aim is not the audience that will generate the most profit. This organization is not weighed down by that invisible hand of the market. Instead, ProPublica targets the audience that will benefit most from their investigative articles. Many articles are published, free of charge, in a local daily newspaper so the news reaches a relevant audience. For larger-impact stories, ProPublica partners with organizations such as *The New York Times*, *Los Angeles Times*, *Newsweek*, *The Washington Post*, NPR, "60 Minutes" and others. ProPublica's goal is to maximize public impact. Nearly all their stories are available for reprint under a Creative Commons license to make the work as widely accessible as possible. ProPublica clearly demonstrates the positive impact an investigative outlet can have on society.

Local Example: iNews

While ProPublica is evidence of the successfulness of a nationwide investigative news outlet, iNews proves there can be similar success on a more localized level. iNews is the public service journalism arm of Rocky Mountain PBS. The goal of iNews is to provide Coloradans with quality journalism that sparks reform. iNews “investigates the stories that would otherwise go untold.” iNews has already seen changes due to their investigative reports. One of the iNews articles exposed hidden funding from drug companies. Thanks to the efforts of iNews, doctors must now disclose drug company payments. Another article resulted in a change in Colorado tax laws after iNews revealed movie stars and developers were getting tax breaks meant for farmers and ranchers.

iNews is proof of the power of awareness. Forcing corruption out of its shadows, reporting of this nature is able to initiate changes that benefit the typically exploited public.

These investigative outlets look similar to current daily newspapers. The journalists are still the agent and the public is still the principal. Journalists still have access to more information than the public. However, there are two key differences between an organization like ProPublica and a current corporately owned daily newspaper. First, there is no financial contract between parties with an outlet like ProPublica. Secondly, organizations like ProPublica or iNews are not chess pieces in a profit-minded corporate leader’s board game. There is no one pushing ProPublica away from the tough, complicated stories. Due to these differences, moral hazard is less likely to arise between these journalists and the public. Reporters within ProPublica and iNews are able to eliminate the asymmetric systems the encounter instead of perpetuating the divides. These news organizations do not suffer from mixed motives. They serve solely the public’s interest, not profit-maximizing interests.

Press Subsidization: A Viable Option

Funding an Investigative News Branch

A common criticism of investigative-only news outlets like ProPublica or iNews is that they represent nothing more than an impractical utopia. However, it is entirely possible for a dozen-plus news outlets to function, completely separate from the market. The public service news branch will be funded through non-profit organizations and press subsidies.

Outlets in this branch will also receive funding through governmental subsidies. Many cringe at the sound of the word “subsidy.” Arguments against press subsidization vary, but the greatest worry is typically about independence. Journalist and former columnist for *The Washington Post* Ezra Klein explains this concern: “Just as we fear that corporate ownership of the press will lead to an insufficiently critical approach to corporate power, so too does public subsidy look likely to breed a cozy, even pleading relationship to those holding power” (Klein, 2007). This analysis seems to make sense. It seems by allowing government money to fund news, today’s problems with media content would not be solved, but merely shifted under a new “owner.”

With press subsidies, the question becomes: Wouldn’t the same issues of tainted media content arise with financial ties between government and journalism? The next section of this paper will examine this question; and the paper will determine public service journalism is a public good worthy of subsidies. Then, the Swedish model of journalism will be closely examined to demonstrate that the subsidization of the press is not guaranteed to result in tainted media content or insufficient coverage.

News as a Public Good

This section will examine media through the principal-agent lens. It will show that investigative news is, in economic terms, a public good. While the investigative branch of news can be defined as a public good by being both “nonexcludable” and “nonrivalrous,” this type of news is not treated—financially—as a public good (Cowen, 2008).

To be considered a public good, the good must have two necessary components: Nonexcludability and nonrivalry. Typically, nonexcludability is considered the more vital component, but the issue of nonrivalry will be explored first (Cowen, 2008).

If some good is nonrivalrous, it means its consumption does not prevent simultaneous or future consumption. For example, a cookie is rivalrous. If consumed, the cookie is gone and future consumers may not enjoy the product. Consumption is limited to one consumer. Now consider a playground. If a consumer—say, a child—were to utilize the good by playing on the swing set, this consumption does not limit other or future consumers from benefiting as well. If one child plays on the playground, it does not cost anything for another child to play on the slide or to use the swing set the next day. A playground is a nonrivalrous good.

News is also a nonrivalrous good. Take the example of Mark and Marsha. Say Mark was reading a newspaper on the bus. Mark is “consuming” that good. When Mark reaches his stop, he leaves the newspaper on the seat. Marsha boards the bus and picks up the paper. Marsha is able to “consume” the exact same good, and this additional consumption does not cost the newspaper a penny. If the good were rivalrous, like the cookie, Mark would consume the good and this consumption would limit Marsha from consuming. A cookie-maker would have to spend money to produce another cookie for Marsha to eat. News is like a bottomless good. It does not run out or disappear simply because others have used it. While the initial production may be

costly, once produced, news can be consumed by an infinite number of people at no cost to the journalists.

The other aspect of a public good is that it must be nonexcludable. Nonexcludability refers to non-paying consumers. If something is nonexcludable, it means the cost of limiting a good only to paying consumers is too high. In other words, the cost of eliminating non-paying consumers from benefiting from a good is too expensive.

For instance, let's return to the example of the fireworks show. It would be too expensive for a fireworks entrepreneur to try and limit the show to only paying customers. To truly exclude non-payers, the entrepreneur would have to do something outrageous, such as construct a massive dome to hide the show or travel miles and miles from any town. Both of these options are expensive and unrealistic. The fireworks show is nonexcludable (Cowen, 2008).

News is also a nonexcludable good. Media conglomerates can construct paywalls or try to limit the production of investigative news to deter free riders from the informative benefits brought on by daily news and the preventative and reform-based benefits from public service news. But the cost of these kinds of actions is too high as well. Paywalls are an acceptable approach for daily news, but the real nonrivalrous benefits from news are those that result from investigative news. To try and hide these benefits from non-paying consumers goes against media's moral duties. The only surefire way to make public service news excludable is by not producing it at all. The nature of public service news is to expose corruption. To limit the benefits of this exposed corruption to those who pay for newspapers is impossible. The kind of public service news this paper advocates for will never be able to fit under the category of excludable. For these reasons, news, and particularly investigative news, is both nonrivalrous and nonexcludable. In strictly economic terms, public service news is defined as a public good.

The Model: The Corporation for Public Broadcasting

Despite its definition as a public good, public service news is treated as a private good in the U.S. It seems the definition alone may not be enough to sway society to federally fund public service news. This paper will examine systems and goods in society that do receive federal funding. The systems in place suggest that public service news should be given similar treatment.

Many services in the U.S. are deemed public goods and are federally funded. For instance, public education is federally funded. Lighthouses are federally funded. Dams are federally funded. The question becomes: Why should investigative news outlets receive federal funding?

On an abstract level, preventative and reform-based news does what these services do. Investigative news educates the public about their political, economic, cultural, and social environment. This news acts as a searchlight, exposing corruption and illuminating exploited populations. This kind of news serves as a floodgate, preventing waves of authoritative abuses from washing over society.

These metaphors explain why investigative news should receive funding in an abstract sense. However, if this structure is to be considered as a possible solution for media, there must be a reason that rests on something more than abstraction. There must be evidence that federally funded news can be successful. Looking into structures and systems in place today, it is evident there is in fact a stronger reason. Investigative news should receive federal funds, and could be successful with such funds, because this kind of structure already exists and has proven to be successful and sustainable, and an important ingredient in maintaining an informed citizenry and healthy democracy.

This paper looks to the Corporation for Public Broadcasting as evidence of the success of federally funded news. The CPB was founded in 1967 from the Public Broadcasting Act signed by President Lyndon B. Johnson. The CPB led to the creation of the Public Broadcasting Service and National Public Radio. These two entities have developed in the last four decades and have become celebrated household names (Corporation for Public Broadcasting).

While many of the stations on PBS are geared toward education rather than hard news, there are a handful of programs dedicated solely to news. “Frontline,” “PBS NewsHour,” and “Washington Week” explore in-depth news stories and public affairs. In addition, NPR produces public service news daily. “Morning Edition,” for instance, claims to be the most listened-to news radio program in the country and produces two hours of, as NPR describes, “multi-faceted stories and commentaries that inform, challenge and occasionally amuse” (NPR). These programs are just a few of many examples of hard-hitting and investigative news produced from PBS and NPR.

It seems PBS and NPR were just the kinds of organizations President Johnson had in mind when he signed the Public Broadcasting Act. In his speech prior to his signing, President Johnson eloquently communicated the problems he saw facing media.

He began his speech by recalling the message Samuel Morse sent in the first electric telegraph: “What hath God wrought?” President Johnson went on to explain that message still resonates. “Today, miracles in communication are our daily routine,” he said. “Today our problem is not making miracles--but managing miracles. We might well ponder a different question: What hath man wrought--and how will man use his inventions?” (Corporation for Public Broadcasting, 1967). President Johnson was describing an interesting conundrum that is even more applicable today.

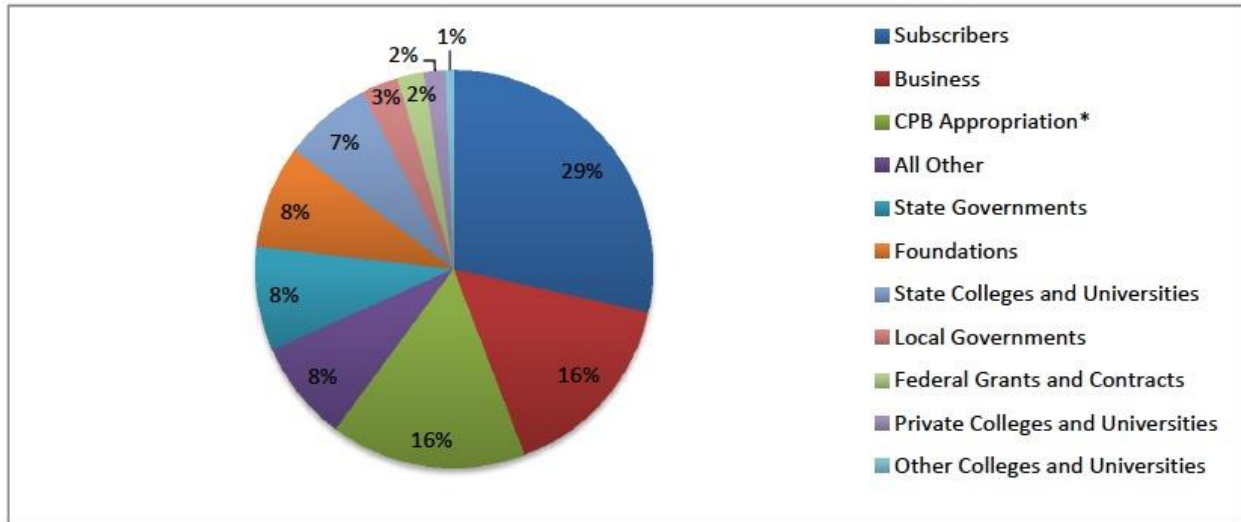
In the Age of Information, people are bombarded with so many facts from so many sources, it can leave people feeling less informed and less sure of truth. The principal-agent problem suggests society is tied in an infinite number of financial contracts that all push for profit. President Johnson understood the value in capitalism and commercialism, but thought it was necessary to step outside the capitalistic system to ensure knowledge still had a place. This, he said, was the reason for the creation of the CPB. “The CPB] announces to the world that our Nation wants more than just material wealth; our Nation wants more than a ‘chicken in every pot.’ We in America have an appetite for excellence, too,” President Johnson said. “While we work every day to produce new goods and to create new wealth, we want most of all to enrich man's spirit.” President Johnson saw this enrichment in the form of the CPB. With PBS and NPR as evidence, this enrichment was created for broadcasting. This paper suggests it is necessary to encourage this kind of enrichment for print news as well.

This paper advocates for a similar structure to the CPB. In addition to the Corporation for Public Broadcasting, there should be a CPP—the Corporation for Public Press. Why limit public service effort to television and radio? There is no significant reason why broadcasting is allowed public funds for public news but print business are not. While there may be a worry that government will taint the news coverage, PBS and NPR are clear examples of the possibility of news independence despite federal funds.

Although they cover, critique, and even criticize the government, PBS and NPR receive a portion of their funding from the government. Table 5 shows public broadcasting revenues for 2012, and reveals that a significant portion comes from the government (Corporation for Public Broadcasting, 2012).

Table 5:

Public Broadcasting Revenue by Source, FY 2012
Public Radio and Public Television
Total Revenue: \$2.8 Billion



Federal/Non-Federal	Tax/Non-Tax Based	Source of Revenue	% of Total	(In Thousands)
Non-Federal	Non-Tax Based	Subscribers	28.5%	\$791,985
Non-Federal	Non-Tax Based	Business	15.6%	\$434,490
Federal	Tax Based	CPB Appropriation*	16.0%	\$444,100
Non-Federal	Non-Tax Based	All Other	8.2%	\$227,883
Non-Federal	Tax Based	State Governments	8.4%	\$234,452
Non-Federal	Non-Tax Based	Foundations	8.4%	\$232,370
Non-Federal	Tax Based	State Colleges and Universities	7.2%	\$200,339
Non-Federal	Tax Based	Local Governments	3.1%	\$85,204
Federal	Tax Based	Federal Grants and Contracts	2.2%	\$60,054
Non-Federal	Non-Tax Based	Private Colleges and Universities	1.7%	\$48,209
Non-Federal	Tax Based	Other Colleges and Universities	0.7%	\$18,706
Total Reportable Revenue			100%	\$2,777,792
Total Federal Revenue			18.1%	\$504,154
Total Non-Federal Revenue			81.9%	\$2,273,638

With a total revenue of \$2.8 billion, 18 percent comes from either the CPB (federal appropriations) or federal grants and contracts. This discredits the claim that federally funded news is doomed to be tainted and insufficient. PBS and NPR are able to produce investigative stories, many of which involve or even target the government. This paper suggests establishing the CPP, which would give similar amounts to the investigative news branch. Between this

funding, nonprofit grants and gifts, outlets like ProPublica and iNews could flourish. These outlets would be able to run successful investigations, while escaping the hands of the market.

The CPB is solid evidence that broadcast news can be successful with federal funds. To show press subsidization within print news can be fair and comprehensive, the next section will examine the successfulness of the Swedish model of journalism.

The Swedish System of Journalism

Since the 1970s, Sweden has had an extensive system of press subsidization. The Swedish media system is known as “an independent and monitoring ‘fourth estate,’ and relationships between the political system and the media system are considered necessary in order to maintain diversity and public service” (Nord, 2011, p. 13). The country has a relatively small population—of roughly 9 million—yet it is not uncommon for metropolitan areas to have three or four successful and diverse newspapers. Sweden is known to have a high newspaper penetration (Nord, 2011, p.13).

For the last three decades, three different forms of subsidies have been consistently employed in Sweden, with the most popular form being direct cash subsidies to publishing businesses for production support. The total amount of money given to public media in 2009 was 58,015,000 euros (Nielsen, 2011).

That same year, Sweden ranked first on the World Press Freedom Index. The index, produced annually by Reporters Without Borders, generates a list that measures the level of freedom of information in 180 countries. The rankings reflect the “degree of freedom that journalists, news organization and netizens enjoy in each country, and the efforts made by the authorities to respect and ensure respect for this freedom” (Reporters Without Borders, 2013).

The index scores countries on six criteria: pluralism (the degree to which opinions are represented in the media), environment and self-censorship (analyzes the environment in which journalists work), legislative framework (measures the quality of such framework and its effectiveness), transparency (measures transparency of institutions and procedures in place that affect news content), infrastructure (measures the quality of infrastructures), and media independence (measures the degree to which the media are able to function independently of the authorities).

In 2009 and 2010, Sweden was the highest-ranked country for press freedom. In the past 12 years, the lowest place Sweden ever received was 14th. To compare, the U.S. has never been ranked first. In fact, in the past 12 years the highest place the U.S. received was 17th place, while the lowest ranking was 53rd in 2006. Clearly, Sweden has done something right (Reporters Without Borders, 2013).

These rankings obviously cannot fully represent the success of different countries' systems. However, the fact that Sweden is constantly ranked among the highest countries for press freedom suggests it is at least possible to have both press subsidies and press freedom. This analysis discredits the common fear that the press is doomed to censorship and insufficient coverage if it were to be governmentally funded.

Conclusion and Summary

As the father of economics so frankly said, "It is his own advantage, indeed, and not that of the society, which he has in view" (Smith, 1904). Society sits in the palm of that invisible hand of the market. However, this paper suggests that a particular branch of news—public service news—should not have a place on that palm. The agency problem dictates that moral

hazard will arise between principals and agents if interests are mismatched and if asymmetric information allows the agent to deviate from the principals' well-being. Within the world of media, the morally hazardous stage is set.

To keep corruption at bay, this paper argues that journalism must be divided into two branches. The public service branch should not be subjected to the profit-minded perspectives of the market. It may seem counterintuitive, but public service news must slip away from capitalism in order to ensure the continuation of fair capitalism. A primary role of journalism is to help save capitalism from itself. History shows that capitalism needs a governor to ensure fair and just procedures. Investigative journalism is capable of being this governor, this watchful eye. In this context, the term "governor" refers to the mechanism used on motors to keep them from overheating and breaking down. However, in order to fully assume this role, journalism must be separate from that which it hopes to guide. The two-branch structure this paper proposes allows journalism to separate from a corporate capitalistic system to conduct public service-oriented news, while still maintaining local, profit-oriented news in daily newspapers.

Ironically, the explosion of information made possible by the rise of the internet has accelerated a trend toward fewer news agencies devoted to investigative journalism and more toward for-pay arrangements.

Smith did say that people will act in their own advantage. However, there is another line in the same chapter that is more frequently overlooked. Smith writes, "The study of his own advantage naturally, or rather necessarily, leads him to prefer that employment which is most advantageous to the society." Upon careful inspection, it's clear that, in the long run, the interests of an individual and the interests of the larger society will in fact cross.

Hans had a direct interest to leave the dike leaking and return to his warm bed. However, the young boy knew it was best for society, and ultimately best for him, to stop, and plug the leak. Media are not established in a way that allows journalists to plug many of the leaks they encounter. By restructuring the current arrangement, media will be able to fulfill both profit and public service. This paper suggest creating a system similar to the Corporation for Public Broadcasting. The Corporation for Public Press would allow the investigative branch of news to flourish. With this two-branch system, daily journalism could thrive within the conglomerates, and public service news will be produced free from the market. Media will be able to survive in the increasingly commercialized climate while still fulfilling their moral obligations to expose corruption and inform the public.

Many may think this approach is impractical. However, there are systems currently in place—both in the U.S with the CPB and in Sweden—to suggest this kind of solution could be successful.

This paper will conclude the same way President Johnson concluded his speech prior to signing the Public Broadcasting Act in 1967. To those who were uncertain of the possibility of such a system, he said: “A wild and visionary idea? Not at all. Yesterday’s strangest dreams are today’s headlines and change is getting swifter every moment.”

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