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## **Subsidizing the Watchdog: What would it Cost to Support Investigative Journalism at a Large Metropolitan Daily Newspaper?**

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The website Paper Cuts tracks the almost weekly decline in the number of working newspaper journalists in the US. Aggregating the reports of layoffs and buyouts, the site reported that at least 15,970 newspaper jobs disappeared in 2008 and more than 8,484 had been eliminated through April in 2009.<sup>1</sup> If you believe that the public interest is defined by the public's interest, these job losses are part of the friction involved in creative destruction. The firings are simply a painful adjustment as, in the language of economics, workers relocate to their next best alternative use from society's perspective.

An alternative viewpoint rooted in economics is that the public affairs information provided by newspapers has always been subject to market failure.<sup>2</sup> For news that helps you in your role as a worker, purchaser, or consumer of entertaining fare, you seek out the information because if you miss out on reading it you miss out on its benefits. For news that would help you make a better voting decision, however, many people choose to remain rationally ignorant about politics. Given the low likelihood that your individual vote will matter, many people choose not to invest the time to follow what is going at the local courthouse, state capitol, or federal agency. This gap between what people want to know as readers and need to know as citizens means that newspapers do not face a strong demand for accountability or watchdog coverage.

If you go back 120 years, coverage of politics and government was directly subsidized by political parties in the US. If you go back 30 years, some of the families and individuals who owned papers were willing to trade off a measure of profits for expanded coverage which helped their communities. In a world where profit rates were high, you could do well and do good at the same time. Even managers in publicly traded companies had some leeway in arguing for a need to maintain public service journalism.

Those days are gone. The reasons for the financial straits of many large metropolitan daily newspapers are numerous: flight of classified advertising to the web, the inability to charge for information on the web if there are multiple sources for the news, the low rates for ads on the Internet, and the dismal advertising decline caused by the recent economic downturn.

The journalism most at risk at many daily newspapers may be watchdog investigative pieces and accountability coverage of local and state governments. This type of news is very expensive to create. Once the investigations are conducted and news revealed, the information circulates freely. These stories can have great impact, leading to changes in laws and in who holds office. Yet if these stories are more expensive to create, they are less likely to be undertaken. Potential readers who will benefit from the policy changes are most often willing to be free-riders. Why take the time to follow state government or local city council meetings? Unless those reports are inherently interesting to a reader, most will pass and go on to a different set of stories.

Newspapers serve a watchdog function through beat reporting on state and local government and through stories produced by investigative reporters. Survey evidence suggests both types of coverage are not faring well. A recent survey by the *American Journalism Review* found:

... only 355 full-time newspaper reporters at the nation's state capitols, a 32 percent decrease from just six years ago. It discovered that 44 statehouses have fewer full-time reporters than they did six years ago.<sup>3</sup>

A 2005 survey by Arizona State University students of journalists at the top 100 newspapers in the US found that, "Newspapers care about investigative stories, but frequently don't back that up with resources that reporters say they need to do in-depth work."<sup>4</sup> As many metro dailies reposition themselves to focus more on local news, some do choose to differentiate their news offerings by focusing more on investigative reporting. A 2008 survey released by the Project for Excellence in Journalism found that almost a third of the newsroom executives surveyed said they were devoting more resources to investigative reporting than three years ago.<sup>5</sup> The rapid decrease in journalists staffing many of the beats associated with government, however, suggests that overall the watchdog function of local newspapers is threatened.

If the decline in reporters at large daily metro newspapers does translate into less watchdog and accountability coverage, nonprofits may have a role to play in helping to correct this market failure. This discussion paper examines how nonprofits might subsidize the creation of information by commercial media outlets. To illustrate how this might work, I will analyze how nonprofits could support accountability journalism at a hometown source for people in the Research Triangle area – *The News & Observer (N&O)*.<sup>6</sup>

The Raleigh *News and Observer* has an illustrious history and a strong reputation for innovative, effective news coverage. The editorial page each day reprints a quotation from the will of former editor and publisher Josephus Daniels (editor and publisher from 1894-1948):

I advise and enjoin those who direct the paper in the tomorrows never to advocate any cause for personal profit or preferment. I would wish it always to be 'the tocsin' and to devote itself to the policies of equality and justice to the underprivileged. If the paper should at anytime be the voice of self-interest or become the spokesman of privilege or selfishness it would be untrue to its history.

When Leonard Downie Jr. and Robert Kaiser published the *News about the News* in 2002, they profiled the *N&O* in their discussion of how newspapers originate most of the news in local markets. Assessing the paper, whose 165,000 daily circulation at the time made it the 67<sup>th</sup> largest newspaper in the country, Downie and Kaiser noted (p. 75):

The *News & Observer* stands out from most American newspapers because of its ambition and its execution. ... Raleigh, its region and the state of North Carolina are all better communities because the *News & Observer* is their paper. The paper challenges resident officials to confront serious issues. It creates a sense of shared experience that strengthens the connections among individuals and institutions in its area. Not incidentally, it enables readers to know what's happening that could affect their lives.

The newspaper today has the same aspirations, but radically fewer resources due to the economic factors affecting large metro dailies everywhere. In 2004 the *N&O* newsroom had 250 employees. By fall 2006 that dropped to 233. By the end of April 2009, the number of newsroom employees stood at 132.

When the newsroom staff declines by nearly a half, this translates into stories that the paper cannot discover or tell because of limited resources. One way to think about what stories are less likely to be told today is to look at the slots no longer filled: Durham Courts Reporter; Durham Schools Reporter; Legal Affairs Reporter; Agriculture Reporter; Lead Growth Reporter; Science Reporter; Environment Reporter; and Statewide Public Education Reporter. A Workplace Reporter once produced stories on illegal immigrants in NC, visa violations, and companies avoiding unemployment taxes. The full-time Banking Reporter wrote about Fannie Mae and Freddie Mac's mortgage ties in the Triangle and about predatory lending in the state. The full-time Tech Reporter covered the Research Triangle Park companies, and the Pharma Reporter covered local drug and health companies. With all those full-time reporters gone, the odds of similar series and stories being written have declined.

The topics at the heart of the local accountability coverage now reduced by the *N & O* – education, environment, immigration, growth, poverty – are the same topics that are of concern for many local nonprofits and foundations in North Carolina. If a nonprofit or foundation were interested in subsidizing particular types of coverage in the paper, one question that emerges is what different levels of funding might generate. Likely scenarios might include:

*Funding a beat reporter for one year* *\$61,500*

A reporter making \$50,000 (and generating a benefits charge of 22%) could be funded to write about a particular beat, such as local courts or the environment.

*Funding an investigative reporting unit for one year* *\$500,000*

A strong investigative unit might include an editor, three reporters, a researcher, and travel and legal expenses. The unit might generate 2-3 extended investigative series per year. To develop the 2-3 series, the unit would also engage in explorations that sometimes result in shorter, or no, stories.

*Funding a dedicated page each week*

*\$106,000*

With print and ink, a printed page in the *N&O* costs \$750. Multiplied by 52 weeks a year, the printing costs come to \$39,000. If a page took 2/3 of a reporter to produce each week and 1/5 of an editor, this would translate into writing costs of nearly \$67,000. This could support a weekly science or education page.

*Funding an investigative series*

*\$200,000*

In December 2008 the *N&O* published a three-day series on the operation of the probation system in North Carolina, which found since the beginning of 2000 that 580 NC probationers had killed people.<sup>7</sup> The series intensified the debate over the probation system, a debate which led the new governor to propose expanded funding and program changes. A series like that might involve the time of one reporter for six months, two reporters and an editor for three months, a database researcher for two months, another researcher and photographer for a month, and legal and travel expenses. While a three-day series might involve ten initial articles that were expensive to develop, there would be many (lower-cost) follow-up stories as policymakers reacted to the problems identified or as new tips came in.

The benefits of the accountability coverage by the *N&O* are widely distributed across the residents of the Research Triangle area and (for its state government coverage) the state of North Carolina. These benefits are often unrecognized. If the probation system had worked more efficiently in North Carolina, many of the victims of homicides committed by people who were in violation of their probation terms would still be alive today. But they would never know their good fortune was attributable to a well functioning probation system. Even when people recognize that a newspaper generates a public good, such as better educational outcomes in the public school system generated by media scrutiny, they have the incentive to sit back and free ride. If the stories are written, local residents will benefit regardless of whether they read the paper (and generated revenue through subscriptions, or the sale of their attention to advertisers).

Nonprofits and foundations in North Carolina exist in part to help overcome these public goods problems. They aggregate contributions and bequests and target their resources to help remedy problems not solved easily by the market or government. Potential contributors to subsidies for the *N&O* face an interesting set of questions as they consider how their support for the watchdog function might work:

*Uncertainty:* Funders of a beat reporter or investigative unit would not know when making their grant what stories will be produced. The general area might be specified (e.g., environment, education), but the actual output would be uncertain. In part this is because for investigative reporting the *N&O* will often have to explore many leads that prove unpromising before settling on a series topic. Even if funders could envision the content of stories, the articles produced are part of a long chain of causation in the policy process. Once information is revealed, there still remains the uncertainty about how it will be used and the impact it will have on policymakers.

*Expansion, not substitution:* When subsidies are given for one area of coverage, the temptation might be to draw down current staffing in that area and simply substitute nonprofit funds for current newspaper resources. If this happened then overall coverage of an issue might not increase at a paper. This suggests that funders might want to pick areas that are clearly not supported now in current coverage, or want to link their support to a given level of matching effort by the newspaper. If one were interested in increasing investigative coverage, for example, the support might specify that funds would go to creation of more reporting slots in addition to the currently maintained level of the investigative unit.<sup>8</sup> Support for coverage might best be provided in at least a two-year commitment, since this would allow the paper time to hire and plan and would allow the funder time to see how the arrangement was working.

*Support metro daily, or an organization focused on accountability reporting:* The *N&O* has many comparative advantages in producing watchdog coverage: wide circulation in print and the web; a brand-name reputation for accuracy and excellence; experienced reporters; and the ability to spread fixed costs such as legal work, liability coverage, database costs, and editors across many types of stories. A stand-alone reporting organization focused on local public affairs, organized as a nonprofit, and publishing only on the web would not have these advantages. But the stand-alone unit would have another set of benefits: ability to focus on public affairs coverage; ability to hire reporters at lower cost (and free-ride off experience these journalists may have gained at metro dailies); and freedom from costs associated with parent company debt or printing and distribution costs.

*Commercial media versus nonprofit media support:* The large reduction in news staffs across the country in 2008 did not mean that each of the newspapers cutting staff was unprofitable. For some metro dailies, cuts were made to enable the newspaper to send profits back to the parent company to pay for debt service generated by media property acquisitions made when industry outlooks were much brighter. This means that subsidies by nonprofits and foundations could be going to some newspapers that were profitable in 2008 or are still profitable in 2009. To prevent the subsidies from simply allowing a paper to substitute nonprofit funds for company resources and send the gain back as profit to a parent company to pay off debt, nonprofits and foundations would want to make sure that their support went to generate accountability coverage that otherwise would not exist. This could be done by specifying particular beats and topic areas, or requiring a given level of matching funding by the newspaper. Support for nonprofit media would not entail these concerns.

The *News & Observer* also faces an interesting set of questions if it were to consider accepting grants from nonprofits or foundations. (Note that this background paper does not consider the legal requirements associated with foundation support for a commercial enterprise, which might entail the foundation grant being made to a nonprofit, which would then contract with the metro daily newspaper). Assuming that there were funders willing to support the watchdog coverage by the *N&O*, the newspaper would consider many factors to make sure the support were consistent with its Ethics Policy, a code that begins with this statement:

For the *News & Observer* to be the Triangle's primary source for news and information, we must have the trust and confidence of our readers. Readers must know that the newspaper that arrives at their

doorstep every morning is there to serve them – not politicians of a certain stripe, not special interest groups. That puts the burden on us – editors, reporters, copy editors, news researchers, photographers, designers, graphic artists and support personnel – to avoid conflicts of interest or even the appearance of such conflicts.

Issues the *N&O* would likely consider include:

*Transparency:* If a reporter, investigative unit, page, or series were supported by funds by a nonprofit or foundation, the newspaper would acknowledge this when the stories produced were printed. This would ensure that readers would understand that outside resources made the work possible.

*Nonpartisanship:* The set of nonprofits and foundations the paper would likely accept funding from would not include those with a partisan reputation or affiliation. Since the paper guards its reputation as a nonpartisan source for information about politics and government, accepting support from groups active in politics would violate its ethics code. Likely funders would probably look like a subset of current nonprofits and foundations that support local public radio.

*Independence:* All support for the creation of information comes with a cost. Subscription revenues focus attention on reader interests, and advertising flows make the attention of particular demographic groups desirable. Nonprofits and foundations providing support for newspapers do have the goal of changing the set of information created and consumed by people. It will be true that a newspaper will be more likely to cover a topic if it accepts support from a nonprofit or foundation. Yet the paper could retain its commitment to independence by not promising particular outcomes in its stories and by not allowing funders to prescreen reports.

Working out whether nonprofits and foundations in North Carolina would be willing to support accountability/investigative work by the *News & Observer*, and how the paper might be willing to accept such support, will involve discussions that currently are not taking place. The *N&O* does now accept interns supported by some outside groups, such as a foundation supporting work by an intern writing about science or an intern sponsored by a group promoting the work of female sports writers. Indirectly these internships do help accountability coverage, because they free up the time of paid staffers who would otherwise be doing work performed by the interns. With the steep decline in the number of newsroom staff, however, nonprofit leaders in North Carolina and management at the *News & Observer* may want to consider whether now is the time to discuss whether outside grants to the newspaper would represent a desirable and feasible way to support the watchdog function in the Triangle area.

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<sup>1</sup> For an updated count of US newspapers jobs lost, see <http://graphicdesignr.net/papercuts/>.

<sup>2</sup> For more on the economics of public affairs coverage, see James T. Hamilton, *All the News That's Fit to Sell: How the Market Transforms Information Into News*, (Princeton, NJ: Princeton University Press, 2004). Discussions that examine nonprofit news ventures as solutions to market failures include *News in the Public Interest: A Free and Subsidized Press*, the 2004 Breaux Symposium, and *New Models for News*, the 2008 Breaux Symposium, available at [http://www.lsu.edu/reillycenter/Breaux\\_NewModels-News\\_Web.pdf](http://www.lsu.edu/reillycenter/Breaux_NewModels-News_Web.pdf).

<sup>3</sup> See "Statehouse Exodus" at <http://www.ajr.org/Article.asp?id=4721>. The assessment of statehouse coverage also noted that some online sites devoted to state capitol coverage were being founded to help fill the void left by newspaper staff reductions.

<sup>4</sup> See "Today's Investigative Reporters Lack Resources" at <http://www.azcentral.com/specials/special01/0528bolles-stateofreporting.html>.

<sup>5</sup> See "Changing Content: What Topics Are Losing Space and Resources" at <http://www.journalism.org/node/11963>.

<sup>6</sup> Residents of Durham, North Carolina have at least three newspapers that provide coverage of local government. The Durham *Herald Sun* had an average (Monday-Friday) circulation of 29,449 in Fall 2008, according to the Audit Bureau of Circulation. The Raleigh *News and Observer* had an average circulation of 158,573 in that time period. The *Independent Weekly*, a locally owned alternative weekly which has won many national investigative awards, had an audited circulation of 44,392 in June 2008. This discussion paper will focus on the *News and Observer*, but nonprofits and foundations interested in supporting accountability coverage in the Triangle area would also consider these other outlets as potential sources for stories to support.

<sup>7</sup> The December 2008 probation series in the *News and Observer* can be found at <http://www.newsobserver.com/probation/>.

<sup>8</sup> In April 2009 the *N&O* announced it was shifting a reporter from another beat to the investigative unit, which gave the unit three reporters. In an era of declining resources overall, the *N&O* is increasing the share of resources available to investigative reporting.