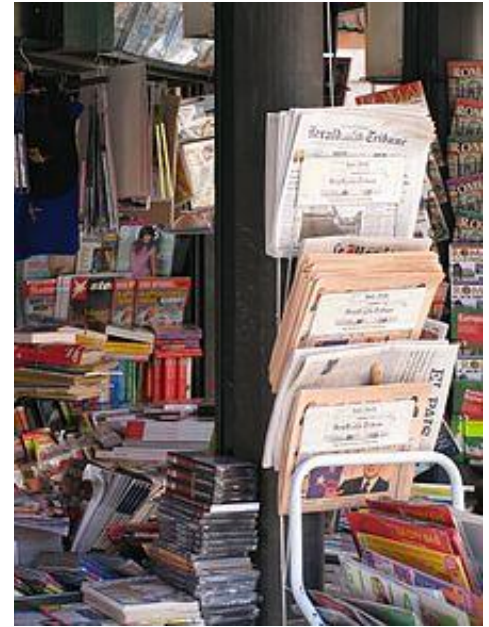


# Financing Dies in Darkness? The Impact of Newspaper Closures on Public Finance

Dermot Murphy, University of Illinois at Chicago  
OCNA Independent Publisher Retreat  
November 2020

# The State of the Newspaper

- Local newspapers have been on a steady decline since the early 2000s
- According to Pew, circulation numbers in the United States were down about 27% (55M to 40M) from 2003 to 2014
- During the same period, the number of full-time, statehouse reporters was down about 35%



# The State of the Newspaper

- As a result, the monitoring of local governments has significantly weakened
- An FCC report from 2011:
  - *“...in many communities, we now face a shortage of local, professional, accountability reporting. This is likely to lead to ... more government waste, more local corruption, less effective schools, and other serious community problems”*



# John Oliver on Journalism's Present

- Last Week Tonight host John Oliver on television/online journalism in 2016:
  - *“Those places are often just repackaging the work of newspapers.”*
  - *“Watch how often TV news ends up citing print sources.”*
  - *“Not having reporters at governor meetings is like a teacher leaving her room of 7<sup>th</sup> graders to supervise themselves.”*

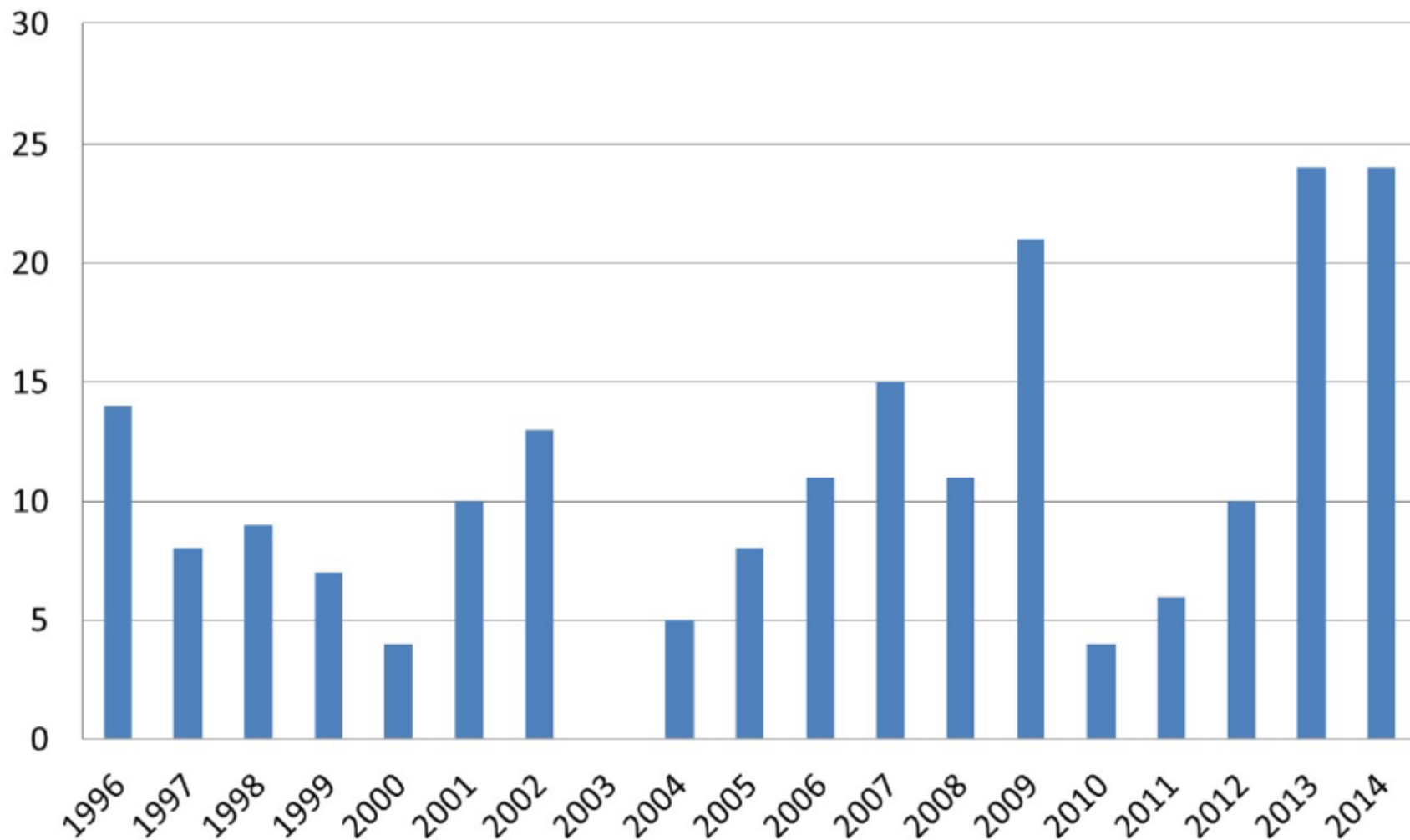


# David Simon on Journalism's Future

- David Simon in 2009 Senate Hearings on the future of journalism:
  - *"... You do not in my city run into bloggers or so-called citizen journalists at city hall, or in the court house hallways or at the bars where police officers gather."*
  - *"... The next ten or twenty years in this country are going to be a halcyon era for state and local political corruption. It is going to be one of the great times to be a corrupt politician. I really envy them."*



# Newspaper Closures, 1996 to 2014



# Newspaper Closures, 1996-2000

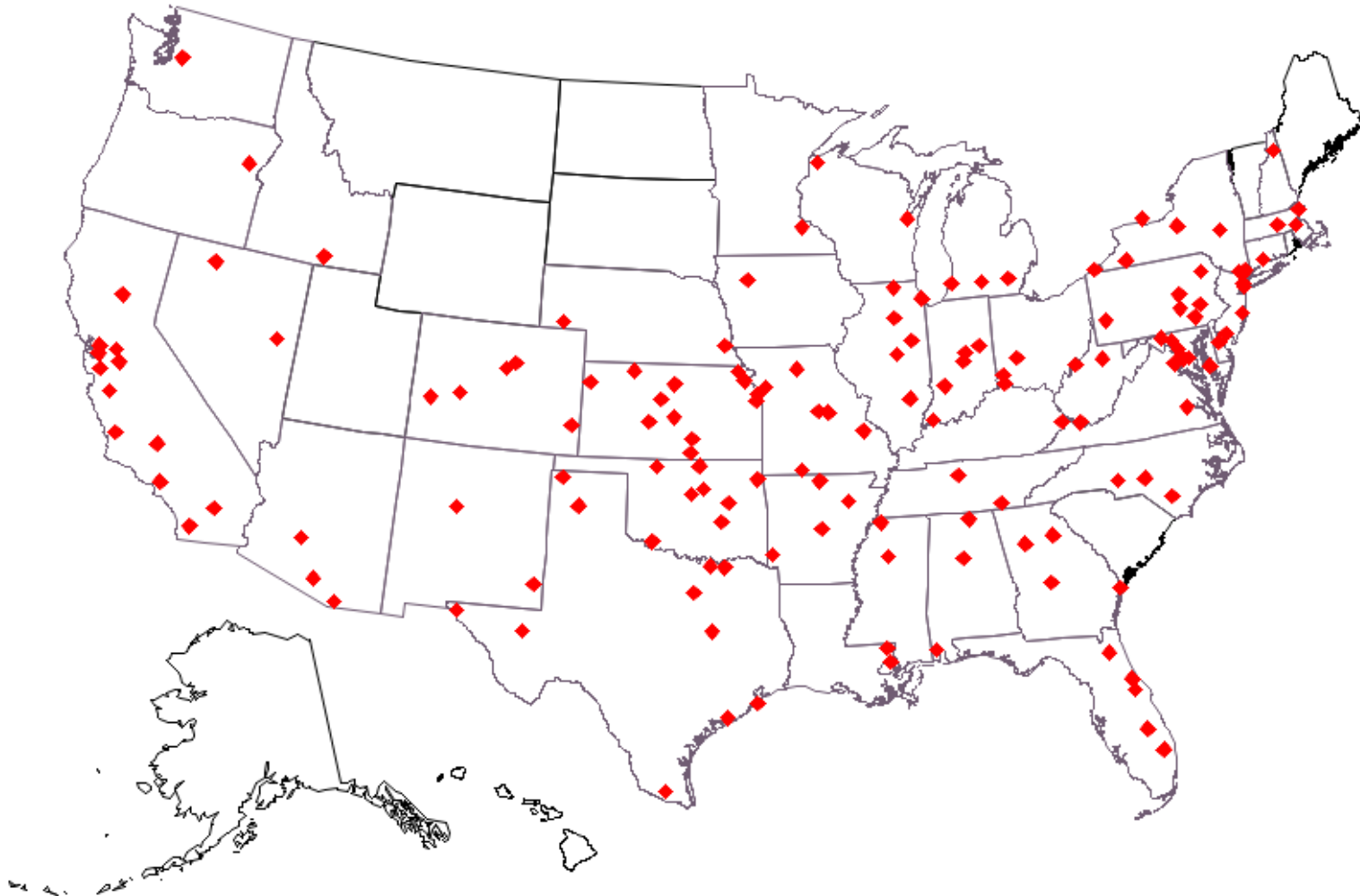


# Newspaper Closures, 1996-2005





# Newspaper Closures, 1996-2010



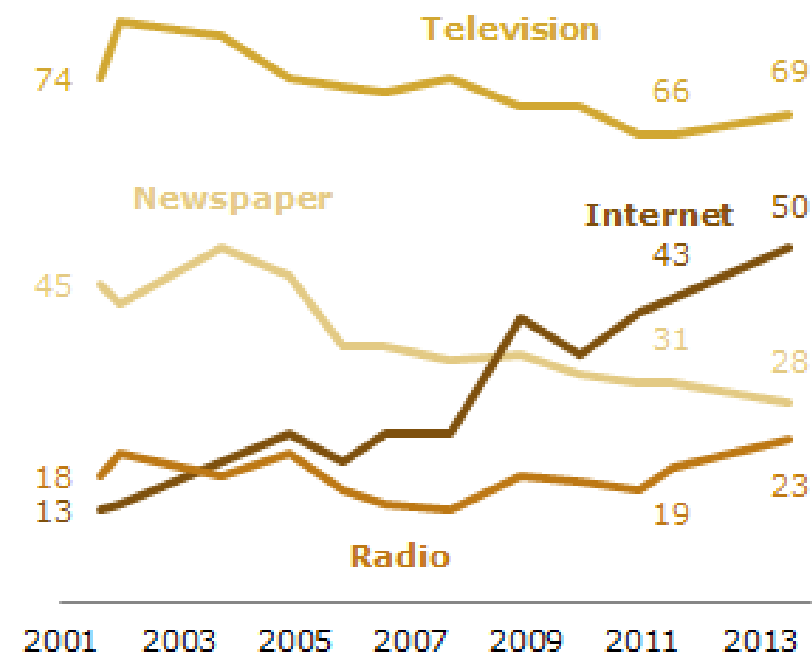
# Newspaper Closures, 1996-2014



# Why Do Newspapers Close?

- Decline in readership
  - Internet as an alternative outlet for news, especially among young people
- Erosion of newspaper advertising revenue
  - Search engines
  - Craigslist, which cost the newspaper industry \$5.4 billion from 2000-2007

**Main Source for News**



PEW RESEARCH CENTER July 17-21, 2013. Q46.  
Respondents were allowed to name up to two sources.

# Closure Example in the U.S.

- The *Rocky Mountain News* operated out of Denver with a circulation base of about 250,000 subscribers
- Closed in 2009 due to declining circulation numbers and advertising revenues
- Provided valuable coverage of local issues such as:
  - A potentially illegal deal between the city and Lufthansa Airlines
  - A lack of oversight of “special taxing districts” in the Denver area



# Closure Example in Canada

- In 2020, Postmedia closed 15 newspapers in Manitoba and Ontario due to declining ad revenues
  - Newspaper editor in Manitoba: “They hold local councils, local school boards accountable. They’re also the main source of info for everybody who lives in those communities.”
  - Mayor of Winkler, Manitoba: “... the paper itself just became an advertising carrier rather than content that was local.”

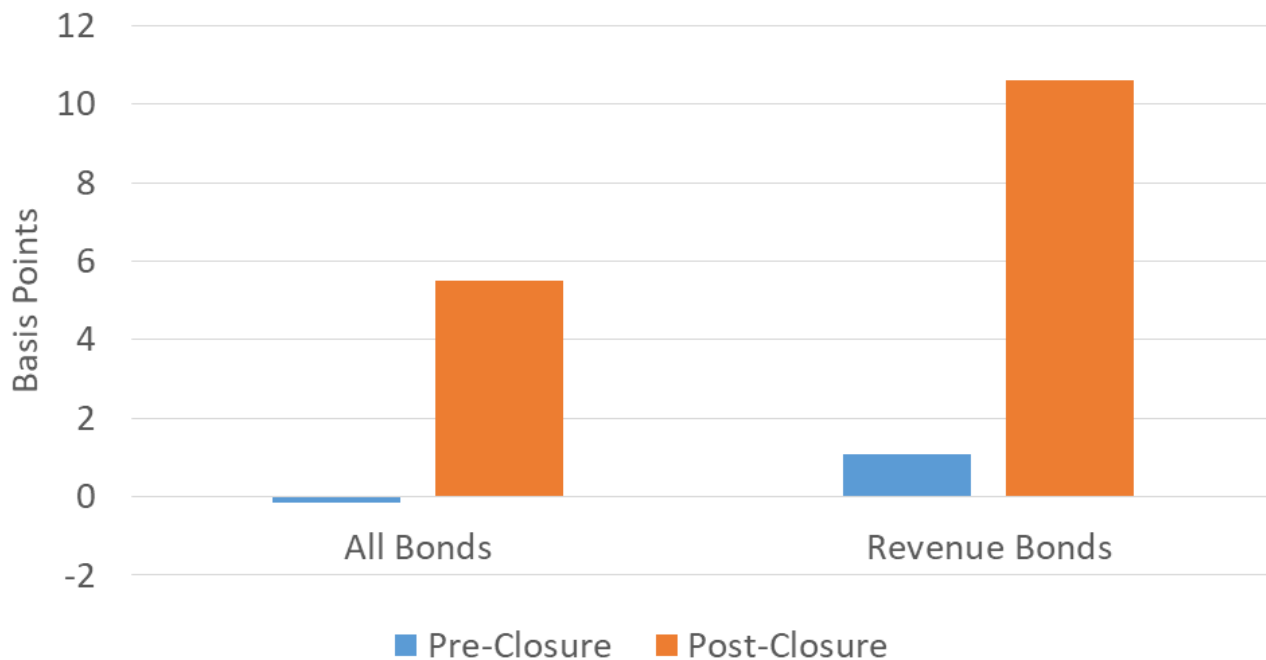


# Our Central Question

- **How do local newspaper closures affect public finance outcomes in the long run?**
- Proposed channel:
  - The loss of a local government watchdog means that the government is more likely to engage in bad behavior
  - Municipal lenders ask for higher interest rates to compensate for lending to riskier governments

# Baseline Results

## Yield Differences, Pre-Closure and Post-Closure



- Interest rates are significantly higher in closure counties compared to matched non-closure counties **(5 basis points)**
- Effect is even stronger for revenue bonds **(10 basis points)**

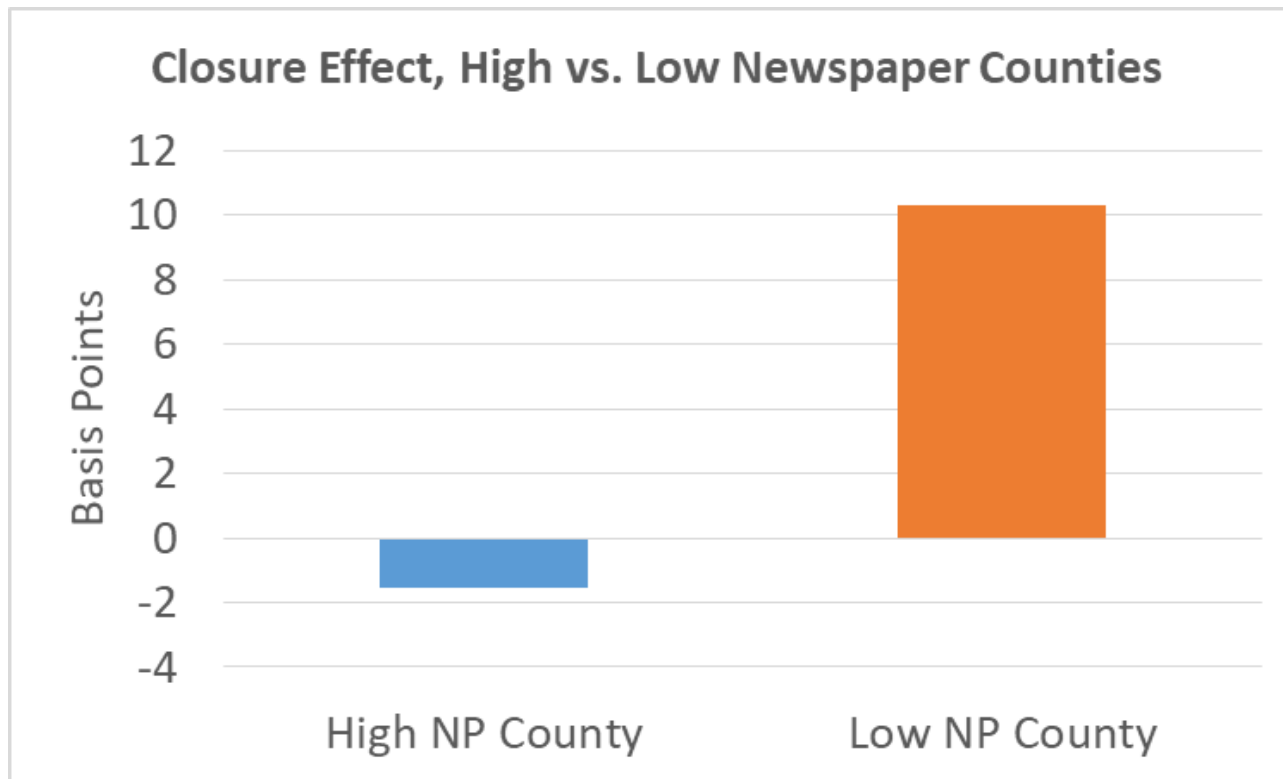
# Baseline Results: Dollar Terms

- In dollar terms, the newspaper closure effect leads to an additional **\$650K** in interest on the average loan
- This is a lower bound estimate:
  - Municipalities take out many loans over time
  - Interest rates can get higher if coverage worsens



# Effect on Low Newspaper Counties

- The effect of newspaper closures on public borrowing costs is high for counties with a low number of newspapers
- That is, the effect is most pronounced for “news deserts”





# Government Inefficiencies

- Related, we also find strong evidence of increased government inefficiencies after newspaper closures:
  - Higher government wages: **\$1.4 million per year**
  - More government employees: **4 per 1,000 employees**
  - Higher taxes per capita: **\$85 per person (annually)**
  - Higher deficits per capita: **\$53 per person (annually)**

# Conclusion

- Public borrowing costs increase and government inefficiencies become more pronounced following a newspaper closure
- Takeaway: local newspapers play an important watchdog role for local governments that is not easily substitutable by other sources
- Policy implications: state/provincial funding for local journalism initiatives? (If so, independence is crucial)
- David Simon: *“The day I run into a Huffington Post reporter at a Baltimore Zoning Board hearing is the day that I will be confident that we’ve actually reached some sort of equilibrium.”*