

When local newspapers close, government runs unchecked, costs increase

June 8 2018, by Shannon Roddel

It's no secret the U.S. newspaper industry is in decline. Nationwide, circulation is down by some 40 percent in the last two decades, and this year alone, multiple prominent newsrooms, including those at the Denver Post and Sacramento Bee, have been further gutted by layoffs.

But new research from the University of Notre Dame shows the loss of city newspapers affects more than those nostalgic for print—it also leads to poorly run [government](#) and higher costs.

"Financing Dies in Darkness? The Impact of Newspaper Closures on Public Finance," a working paper by Pengjie (Paul) Gao, Viola D. Hank Associate Professor of Finance in Notre Dame's Mendoza College of Business, finds [local newspapers](#) hold their governments accountable in numerous ways.

"When local newspapers aren't there to hold governments accountable, we see costs increase due to a lack of scrutiny over local deals," Gao says. "With the loss of local news coverage also comes higher long-term borrowing costs for cities—more so than in neighboring counties. Costs for bonds increase from 5 to 11 basis points, and these results are not due to underlying economic conditions.

"Also, the increase in borrowing costs tends to happen only when the last newspaper disappears," he says, "not when one leaves but others remain, indicating it's the paper's watchdog function rather than economics driving the effect."

The team looked at some 1,600 English-language newspapers serving 1,266 counties in the U.S. between 1996-2015 excluding counties without any daily local newspaper. They matched small and adjacent counties with and without newspaper closures but sharing similar economics and geographics and demographic characteristics.

As an example, the report shows declining circulation and advertising revenues led to the closure in 2009 of Denver's Rocky Mountain News. The paper had provided valuable coverage of local government issues, including an audit of questionable federal funds allocated to the sheriff's department, a handshake deal between city government and Lufthansa Airlines, which may have violated federal law, lack of oversight for 390 "special taxing districts" established in the Denver metropolitan area, and an "under-the-table" scheme at Denver International Airport that paid employees for undeserved wages.

The stories indicate the Rocky Mountain News served as a watchdog agent providing local residents with information on how their tax dollars were being spent. After the paper closed, the average (median) yield spread for newly issued local municipal bonds increased by 37 basis points.

Gao says other government inefficiencies also develop when local newspapers disappear.

"We see higher likelihoods of costly advance refundings and negotiated issues, and higher government wages, employees and tax revenues," he says.

The Cincinnati Post—also highlighted in the report—closed in 2007, another victim of declining circulation as well as the conclusion of a 30-year joint operating agreement with the Cincinnati Enquirer. The Post reported on a city manager's altering of city workers' internal audits,

a lawsuit alleging the city conspired with local churches to evict low-income families in favor of redeveloping apartment buildings into condominiums and the formation of a pension task force to refine the budgeting of annual retiree health-care costs.

Like the Rocky Mountain News, the report states, the Cincinnati Post played an important government watchdog role. Gao's team found that not only did voter turnout and campaign spending significantly decline following the closure in regions that were the most reliant on the newspaper, the average (median) yield spread for newly issued local municipal bonds increased by about 66.1 (64.5) basis points following the closure, further suggesting newspaper closures have negative implications for public finance.

Contrary to some beliefs that alternative sources of media can replace the local [newspaper](#), the team's long-term evidence suggests local newspapers play an important and unique role in proper functioning of the government and markets.

More information: Gao, Pengjie and Lee, Chang and Murphy, Dermot, Financing Dies in Darkness? The Impact of Newspaper Closures on Public Finance (May 8, 2018). Available at SSRN: ssrn.com/abstract=3175555

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