

## **The gutting of your local paper is deadly for democracy**

Starting in 2012, your local newspaper, already regrouping from dramatic declines in ad revenue, faced a completely unexpected threat: the scourge of private equity. Seven years later, we now know that hedge funds are actively gutting your access to essential information.

### **• The threat to local news**

Local news is facing an existential threat. Hedge fund Alden Global Capital, which owns the **Newspaper Name** and nearly 100 other newspapers across the country, has cut staff and resources to unthinkably low levels, and democracy is suffering for it. Alden's president Heath Freeman has milked hundreds of millions in profits from its newspaper holdings to invest in unrelated businesses, some of whom have gone belly-up. Yet, Freeman and other Alden associates continue to profit handsomely from the board salaries, bonuses and management fees they pay themselves.

### **• A devastating impact on democracy**

The hollowing out of local news is no mere inconvenience. Because of the draconian cuts, many local newspapers can no longer cover city meetings, community events, school board votes or high school sports. Recent research from the University of Illinois–Chicago and the University of Notre Dame found that communities that have become “news deserts” pay higher taxes and bond rates and are at greater risk of political corruption.<sup>1</sup> Other studies show lower voter turnout and increased partisanship.<sup>2</sup> In other words, when the watchdogs are gone, democracy dies.

### **• Alden's chop-shop strategy**

This isn't surprising behavior from private equity funds like Alden, given a long track record of risky bets premised on ruthless cost-cutting and financial engineering.<sup>3</sup> Private equity is an important force in our economy — it employs nearly 6 million people in the U.S. and the companies it owns contribute taxes and fuel growth. But certain “vulture” hedge funds like Alden take advantage of

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<sup>1</sup> Kriston Capps, "Uncovering the Financial Impacts of Local News Deserts," Pacific Standard, June 5, 2018: <https://psmag.com/economics/economic-damage-from-losing-local-news>. The academic paper can be found here: Pengjie Gao, Chang Lee, and Dermot Murphy, "Financing Dies in Darkness? The Impact of Newspaper Closures on Public Finance," May 2018: [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3175555](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3175555)

<sup>2</sup> Matthew P. Hitt, Joshua Darr, Johanna Dunaway, "Why Losing Our Newspapers Is Breaking Our Politics," Scientific American, March 26, 2019: <https://www.scientificamerican.com/article/why-losing-our-newspapers-is-breaking-our-politics/>. See also Lindsay H. Hoffman & William P. Eveland Jr. (2010) Assessing Causality in the Relationship Between Community Attachment and Local News Media Use, *Mass Communication and Society*, 13:2, 174-195: <https://www.tandfonline.com/doi/full/10.1080/15205430903012144>

<sup>3</sup> Hema Parmar and Sonali Basak, "Private Equity's Returns Questioned, This Time by Buffett," Bloomberg, May 6, 2019: <https://www.bloomberg.com/news/articles/2019-05-05/private-equity-s-returns-questioned-again-this-time-by-buffett> and Paul J. Davies, "Does Private Equity Really Beat the Stock Market?" Wall Street Journal, February 13, 2018: <https://www.wsj.com/articles/does-private-equity-really-beat-the-stock-market-1518520639>

loopholes in the law that allow and even encourage the pillaging of struggling businesses – rather than turning them around and making them healthy again.

These vulture funds burden companies with unsustainable debt and ultimately strip them for their assets like some back-alley chop shop. Instead of investing in the future, Alden reaps hundreds of millions in profits while selling off newspapers' printing presses and plants and cutting staff below bare-bones levels.

- **The need for responsible, local owners**

But it doesn't have to be this way. Some local newspapers, from the tiny Berkshire Eagle in Massachusetts to the Star Tribune in Minneapolis, are surviving and even thriving. The difference is they have local owners, owners who care about their communities more than reaping short-term, double-digit profit margins at any cost.

At last some in Washington are recognizing the threat posed to jobs and communities when unaccountable private equity firms dismantle retail stores like Toys R Us, Sears and Payless Shoes, which, incidentally, Alden controls. Sen. Elizabeth Warren has introduced legislation, The Stop Wall Street Looting Act, which demands more transparency from private equity.

Workers, families and communities all suffer when vulture funds shut down retail giants. But we must remember that such devastation is made even worse when these vulture funds go after essential services such as health care — as they recently did with Philadelphia's Hahnemann Hospital — and local journalism.

Some might argue society shouldn't be averse to change, that we are clinging to the last-century relic of the printed newspaper. But this is about the survival of local news — which means professional newsgathering. It doesn't matter if that news is printed on dead trees or glowing on your Smartphone. There is no inevitability to the death of local news, and some national and local outlets are thriving after investing intelligently in a dual print/digital strategy.<sup>4</sup> This is about saving democracy.

- **Invest or sell**

It's not too late to turn this ship around. We can and should demand more from our news chain owners. All across the U.S. there's an upswell of innovation and inspiration in local news. Nonprofit news enterprises are on the rise, and local owners who value civic life over exorbitant profits are coming forth in some communities to make sure local news is here for the next century.

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<sup>4</sup> Marc Tracy, "A Paradox at the Heart of the Newspaper Crisis," The New York Times, August 1, 2019: <https://www.nytimes.com/2019/08/01/business/media/news-deserts-media-newspapers.html> and Tom Goldman, "Digging Deep Into Local News, A Small Newspaper In Rural Oregon Is Thriving," NPR, November 26, 2018: <https://www.npr.org/2018/11/26/670058419/digging-deep-into-local-news-a-small-newspaper-in-rural-oregon-is-thriving>

It's time to chase the vultures away. It's time to tell Alden Global Capital to invest in local news or get out of the business. If Alden won't engage in dialogue with its community stakeholders and change course, then it needs to pack its bags and sell its papers to responsible owners who care about journalism, communities and democracy.