The 1996 Telecom Act and Market Concentration

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The Media Concentration Debate

• Iceland

Iceland President Ólafur Ragnar Grimsson

• Larry Lessig:
“within a few years, we will live in a world where just three companies control more than 85 percent of the media.”

Adam Thierer – Cato
“The media sky has never been brighter and getting brighter with each passing year. And this is most definitely not a case of looking for silver linings around the clouds; there are no clouds.”
“Avoid measurement, add commitment”

One Question: the Impact of the 1996 Telecom Act on Concentration

- Theory of the Act: facilitate entry, lower market power
- What happened?

Concentration index #1:
- Herfindahl-Hirschman Index (HHI)

\[ HHI = \sum_{i=1}^{f} S_i^2 \]

Antitrust enforcement guidelines classify markets
HHI < 1,000 Unconcentrated Market
1,000 < HHI, Moderately Concentrated Market
1,800 < HHI, Highly Concentrated Market

Weighted Aggregate HHI

\[ WAHHI = \sum_{j=1}^{n} \frac{m_j}{\sum_{j=1}^{n} m_j} \sum_{i=1}^{f} S_{ij}^2 \]

Where:
- j = an industry
- \( m_j \) = total revenue of an industry
- \( S_{ij} \) = each firm’s market share of an industry
- n = number of industries
- f = number of firms in an industry

Concentration of all Regulated vs. Unregulated Communications Industries

Concentration in Regulated and Unregulated Telecom Industries
Concentration of Radio Stations, TV Stations, and TV Networks

Concentration of Regulated Communications Industries: Mass Media vs. Telecom Industries

Concentration of Unregulated Communications Industries: Internet, Mass Media, Telecom, IT

Share of Top 5 Companies in Telecom, IT, and Mass Media Sectors

Local Concentration: Multichannel, Newspapers, Magazines, TV stations, Radio Stations

Weighted Average Concentration of Entire Information Sector: HHI and C4
Findings

• Information industries more concentrated or less concentrated? Depends on comparison year.
• 2004 more concentrated than 1996
• But less concentrated than 1984
• Regulated industries more concentrated than unconcentrated industries
• Regulated industries increase concentration, especially after 1996

Mass Media concentration has increased steadily after 1988, especially after 1996, and especially for regulated mass media

• But, concentration is not especially high by antitrust measures

Implication: Regular Antitrust Standards Might not constrain media concentration

• But traditional FCC ceilings, the status quo system, is not a good system
  – Includes some media (broadcast), excludes others (cable channels, print)
  – Cannot handle multiple media ownership

2003 FCC, as part of its media ownership proceeding
  – Creates “Diversity Index”
  – 5 Local Media
  – Counts “voices”
  – Some problems: “a voice is a voice”
    • New York Times = Poughkeepsie Bugle=2x Columbia College radio station
  – No historic trend provided
  – Dismissed by court

Alternative Index: “Media Diversity and Market Power Index”

• $I = \sum s^2 \div \sqrt{n}$
Causality of 1996 Act on Concentration?

- Iceland

Causality of 1996 Act on Concentration?
- Yes, directly, for radio
- Yes, indirectly, for telecom

Fundamental Instability of the Information Sector
- High Fixed Costs
- Low marginal costs
- Commodification
- Inelastic demand
- Network effects
- Competition

Fundamental Instability of the Information Sector
- Price deflation towards low marginal costs
- Below average costs
- Firms losing money

Strategies to deal with this instability
- Innovation
- Differentiation
- Consolidation
What has been the impact of this policy re-orientation?

The impact of deregulation on competitive market structure

Driving Force of Instability: high fixed cost, low marginal costs

- Incentives to expand rapidly to gain competitive advantage
- Competitive prices drop to very low levels that cannot support fixed costs

These factors of instability will remain:
- Tendency to overcapacity in supply
- Low marginal, high fixed costs: lead to price wars
- Inelastic demand
- Lags in supply, disinvestment and in regulation
- Wall Street short term perspective
Implications for Government Policy

The Lost Golden Age

• 1748 Benjamin Franklin, media mogul

Graph 1: Concentration of Regulated vs Unregulated Telecom Industries

Graph: Mass Media Distribution (HHI)
• Of the major media companies of 2004, several were going through crisis: Vivendi, Time Warner, Disney, Bertelsmann
• Viacom split-up
• TW shedding music and parts of internet

Next: Future Trends?
Has 1990s increase in media concentration been only temporary?
Will concentration trend continue?

Alternative Interpretation: Further Concentration is ahead, for fundamental reasons