

ownership holding constant concentration. We measure competition through the use of the Herfindahl-Hirschman Index (HHI).

Competitive analysis requires the definition of a relevant geographic market. This paper does not focus on identifying a single correct definition of the geographic market. For obvious reasons, public data on audiences are based on certain industry-standard geographic definitions. It is difficult to find data for geographic areas defined in other ways. Industry-standard geographic markets are far from arbitrary. Indeed, they should serve as an obvious focal point for competitive analysis because they are areas that the rating services have found most valuable to their customers—advertisers and advertising media.

For purposes of this analysis we use DMAs as a proxy for media advertising markets. Since what advertising media are measurably selling, and advertisers are measurably buying, from a geographic perspective is a DMA (or another industry-standard area), it makes sense to focus on such areas when considering the effects of media combinations. HHIs were calculated based on 1997 revenues attributable to each radio station, television station, or newspaper owner in the DMA. BIA was the source for radio and TV station revenues. Duncan's Radio Market Guide (1998) provided an estimate of newspaper advertising revenue for selected newspapers. Estimated revenue includes retail advertising, inserts, and commercial real estate and dealer automotive classified advertising.⁹ Advertising revenue was then summed across all newspapers for which Duncan provided an estimate. This sum was divided by the total weekly circulation of the same newspapers to form an average revenue/circulation ratio. For each newspaper not among those estimated by Duncan, this ratio was multiplied by the

⁹ Classified advertising that would be placed by an individual rather than a business is not included.

newspaper's average weekly circulation to get an estimate of advertising revenues.

Having estimated the advertising revenues of each commercial radio and television station and each daily newspaper in each DMA, the last step before calculating HHIs was to group together stations and newspapers under common ownership. Sources used to determine ownership were BIA, Editor & Publisher International Yearbook (1998), Broadcasting & Cable Yearbook (1997), and information on newspaper-broadcast cross-ownership supplied by the Newspaper Association of America (NAA).¹⁰

Procedures and Findings

The behavioral analysis contained here is a reduced-form regression analysis of daily newspaper advertising rates. A regression analysis is a statistical method generally designed to test a particular economic hypothesis. The regression analysis is implemented through the formulation and estimation of a model, the specification of the general relationship between a set of variables. Although a reduced-form model can be derived explicitly from a set of underlying structural equations which separately model the demand and supply for advertising from first principles, in this analysis the price of advertising for each newspaper is taken to be the result of this underlying equilibrium relationship without specifying the details, and assumed to be related to a set of exogenous explanatory variables.

The simplicity of the reduced form approach places certain restrictions on the choice of explanatory variables. For example, variables such as circulation or

¹⁰ BIA information from 1997 was used to determine ownership as of 1997, the year of the revenue estimates. The source databases were Version 1.6, issued February 1997 (radio) and Version 1.7, issued June 1997 (television).

total advertising revenues which could plausibly have an effect on price as well as being affected by price (i.e., variables which are endogenous to the underlying system) must be excluded from the estimated equation.¹¹

The 1998 Editor and Publisher Yearbook contains data on circulation and advertising rates for 1,509 U.S. daily newspapers. These data were combined with data from BIA, U.S. Census data, and other state-level data, in addition to the HHIs described below. The regression analysis utilizes data on each of the 1,412 U.S. daily newspapers for which these other data were also available. The equations to be estimated are of the following general form:

$$P_i = \alpha_0 + \alpha_1 X_i + \alpha_2 Y_j + \alpha_3 Z_k + \alpha_5 HHI_j + \alpha_6 XOWN_i + \epsilon_i$$

The following categories list the universe of variables which were considered for analysis:

P_i = The price per inch of advertising in newspaper i for the daily edition.¹²

X_i = Individual characteristics of newspaper i , such as newsstand price (daily edition), a dummy variable for papers which publish both morning and evening editions, population in the city where newspaper i is published, dummy variables for Saturday and Sunday editions, and a dummy variable for newspaper format (tabloid vs. broadsheet).

¹¹ The determination of which variables are actually exogenous with regard to the underlying system is of critical importance from an empirical perspective. For an extensive discussion of this issue in this exact context, see Bruce M. Owen, "Newspaper and Television Joint Ownership," *The Antitrust Bulletin*, Vol. 18 (1973), and especially James N. Rosse, "Credible and Incredible Economic Evidence: Reply Comments in FCC Docket 18110," Stanford University RCEG, 1971.

¹² The rate used is the open inch rate. A standardized measure which controls for newspapers of differing physical size and number of columns would be more appropriate, but such data are simply not available for such a large sample of daily newspapers.

Y_j = Characteristics of the DMA market j in which newspaper i is published. Market level measures include per capita income, retail sales, number of television households, expected and historical population growth, expected and historical household growth, percentage of the population belonging to various ethnic groups, as well as variables which indicate the presence of other competing media in this market, such as number of AM and FM radio stations, the number of UHF and VHF television stations, and cable penetration in DMA market j .

Z_k = Characteristics of the state k in which newspaper i is published, including state Gross Domestic Product (GDP), the average level of wages in state k , and the price per kilowatt-hour of energy in state k .¹³

HHI_j = The level of market concentration in DMA market j , where the market here is defined as radio, television, and newspaper advertising (see discussion on the construction of the HHIs above).

$XOWN_i$ = A dummy variable indicating whether newspaper i is cross-owned.

[Note: all variables except dummy variables and variables which may take on values less than or equal to zero (*e.g.*, variables which denote a percent change) are expressed in natural logarithms.]

A regression model was first formulated using those independent variables from the above list which yielded the best explanatory fit. A separate regression was then run adding to the basic model the HHI variable and the cross-ownership dummy variable.

¹³ State GDP is considered to be a general proxy for demand in state k . Wages and the price of energy are supply factors, related to the cost of actually publishing the newspaper.

The cross-ownership dummy variable is used to measure the net impact of cross-ownership on newspaper advertising rates. Dummy variables are a convenient way of testing for the presence of structural differences between two groups of observations, controlling for other factors. The dummy variable $XOWN_i$ in the equation above provides a numerical estimate of the magnitude of the net effect of cross-ownership on newspaper advertising rates. The 5% statistical test of significance for the coefficient on $XOWN_i$ can be interpreted as a test of whether cross-ownership has any net effect on newspaper advertising rates. The results of the regression analysis from Economists Incorporated's 1998 study on the effects of cross-ownership are presented in Table 1 below.¹⁴

Previous results

Table 1 - Previous Results (Instrumental Variables)			
Variable	Parameter Estimate	Standard Error	t-Statistic
Intercept	-3.623*	0.843	-4.296
Price of Electricity	0.142*	0.051	2.757
Population	0.449*	0.009	49.337
Newsstand Price, Daily Edition	0.109*	0.044	2.481
Saturday Edition	0.243*	0.026	9.252
Sunday Edition	0.168*	0.026	6.467
Percent Population Hispanic	-0.054*	0.010	-5.694
Per Capita Income	0.116	0.062	1.885
HHI	0.032	0.056	0.563
Cross-Owned	0.086	0.064	1.353
R ² = 0.7934		* denotes statistically significant at the 5% level	

There are several indications that the estimated model in Table 1 provides an excellent overall fit to the data. First is the R² of the regression, which measures how much of the variation in the dependent variable (newspaper advertising

¹⁴ Table 1 is a reprint of Table 7 from Structural and Behavioral Analysis of the Newspaper-Broadcast Cross-Ownership Rules, Economists Incorporated, July 1998.

prices) is explained by these independent variables. The high value of 79.34% is a strong indicator that this regression has adequate explanatory power. In addition, the signs and magnitudes of the coefficients on each of the independent variables are consistent with what economic theory would predict. For example, the price of electricity is assumed to be a supply factor with regard to the publishing of newspapers, and has its expected positive sign. From the high value and significance level of the city population coefficient, it is clear that this variable has the most important positive effect on price.¹⁵ Although newsstand price (daily edition), Saturday edition, and Sunday edition may have both cost and demand effects, the expectation is that they are more an indication of newspaper quality, and thus would be expected to have a positive effect on advertising prices.¹⁶ No prior conjecture was made with regard to the effect on price of the percent of the DMA market population that is Hispanic, nor any of the other ethnic composition variables which were tried in the equation but found statistically insignificant. Clearly, DMA markets with higher per capita income are more attractive to advertisers, so that higher per capita income should (and does) have a positive influence on price.

If cross-ownership were to have a significant (positive) effect on prices, allowing for the overall level of concentration, then the XOWN dummy variable should also appear as a significant variable in the regression equation. However, the

¹⁵ Information on population is taken from SRDS, *Circulation '97*. For newspapers with information on Newspaper Designated Marketing Area (NDM) population, the city population is equal to the NDM population. For newspapers with no information on NDM population, the City Zone (CZ) population was used. For newspapers with no information on either NDM or CZ population, the city population was taken from 1996 U.S. Census data. For a small number of large metropolitan areas in which each of these measures likely understates the potential readership (e.g., Los Angeles), the Metro Area population was used as reported in *Circulation*.

¹⁶ Because of the relative infrequency of changes in the edition structure or the newsstand price of most daily newspapers, it is less likely that these variables could plausibly be the dependent variable in a regression with the price of advertising as an explanatory variable. Thus, the question of endogeneity is unlikely to arise here.

XOWN dummy variable was *not* found to be a significant factor in explaining newspaper advertising prices, controlling for other factors.

The HHIs in the regression assume a market which includes newspapers, radio, and TV. In the regression estimates in Table 1, HHI is not statistically significant. Finding that HHI is not significant could indicate that the relevant product market has been defined too narrowly. Newspaper, radio, and television also compete with other forms of advertising that were not included (*e.g.*, cable television, outdoor advertising, direct mail, etc.).

Smaller Markets

Having demonstrated that cross-ownership has no significant price effects across markets of all size, we turn our analysis now to the question of smaller markets. There are several ways to focus our analysis on smaller markets. The first is to simply run the original analysis on a subset of the data which excludes larger markets. The regression model in Table 1 was run again for the following market subsets, based on ranking the DMAs from largest to smallest: the smallest 52 DMAs (the lowest quartile), DMAs 106-158 (the third quartile), and the bottom 105 DMAs (the bottom half). The results of these analyses are presented in Table 2 as follows:¹⁷

Table 2 - Results for Smaller Markets Only (Instrumental Variables)			
Variable	Parameter Estimate for Cross-Ownership Dummy Variable	Standard Error	t-Statistic
DMAs 159-211 (lowest quartile)	-0.006	0.165	-0.040
DMAs 106-158 (third quartile)	0.078	0.105	0.740
DMAs 106-211 (bottom half)	0.078	0.145	0.540

¹⁷ Table 2 presents only the coefficients on the cross-ownership variable. The full regression results for each of the three regressions are omitted. The parameter estimates and significance levels for the other variables are qualitatively similar to the results for the entire sample presented in Table 1.

In all three sub-samples, the cross-ownership dummy variable is far from statistically significant, demonstrating that cross-ownership has no effect on advertising prices in each of these quartiles.

Another way to concentrate on smaller markets is to estimate a separate effect of cross-ownership for each DMA separately. This approach provides the maximum flexibility in isolating the effect of cross-ownership across market size by allowing any potential price effect of cross-ownership to differ for each and every market.¹⁸ A regression similar to the analysis displayed in Table 1 was run, including a separate variable for the effect of cross-ownership in each DMA. Below in Table 3, the individual coefficients are presented for all DMAs which contain any cross-owned newspaper and broadcast properties in the bottom half of the rankings.¹⁹

Table 3 - Results for Each DMA Separately (Instrumental Variables)			
DMA	Parameter Estimate for Cross-Ownership Dummy Variable for Particular DMAs	Standard Error	t-Statistic
DMA 113	0.121	0.408	0.300
DMA 126	0.255	0.408	0.630
DMA 139	0.369	0.408	0.910
DMA 141	-0.122	0.408	-0.300
DMA 148	-0.153	0.411	-0.370
DMA 161	0.095	0.410	0.230
DMA 167	0.060	0.408	0.150
DMA 168	-0.088	0.410	-0.210
DMA 182	-0.237	0.413	-0.570

¹⁸ Out of the full sample of 1,412 newspapers, 45 of them are cross-owned. These newspapers are published in 39 DMAs.

¹⁹ Table 3 presents only the coefficients on the cross-ownership variables. The full regression results for the three regressions are omitted. The parameter estimates and significance levels for the other variables are qualitatively similar to the results for the entire sample presented in Table 1.

For each of the nine DMAs out of the bottom 106 DMAs which contain any cross-owned newspapers, the effect of cross-ownership on price is far from statistical significance, demonstrating that cross-ownership has no effect on advertising prices in these smaller markets.

Possible Measurement Error

The HHIs used in this analysis are potentially subject to at least two types of measurement error. First, it is unlikely that the DMA is the proper geographic market for all of the daily newspapers in the sample. For example, small newspapers compete in geographic markets that are considerably smaller than the DMA. Practical necessity dictated using DMAs, as it was not possible for this study to undertake a detailed analysis of the correct geographic market for over 1,400 newspapers. Second, there may be significant imprecision in the revenue estimates for individual newspapers, television and radio stations.

To account for this measurement error in the HHI calculations, the model described above was estimated using instrumental variables (IV). The essence of the IV approach is to find variables which can help to predict the variable which is suspected of measurement error, but which are unrelated to the dependent variable. Although the exact revenues for each of the radio, television, and newspapers in each DMA is not known exactly, the *number* of each type of property in each DMA is known exactly. These counts are clearly correlated with the HHIs, and thus are a natural choice to serve as instruments. Thus, the total number of radio stations, television stations, and newspapers in each DMA are used in a “first-stage” regression to predict the value of the HHI for that DMA. This predicted value is the one which appears in the final models in Tables 1-3.

Conclusion

This paper finds no reason to believe that cross-ownership is likely to lead to higher prices, specifically in smaller DMAs. We focused our analysis on smaller markets using two separate analyses. The first performed standard regression analyses on subsets of data which included only smaller markets. The second analysis tested for any potential impact of cross-ownership for each and every DMA separately. After controlling for other factors, there was no statistically significant difference between advertising prices of cross-owned newspapers and those of other papers in either analysis.

APPENDIX IV

*Horizontal and Vertical Structural Issues
and the
Newspaper-Broadcast Cross-Ownership Ban*

Kent Mikkelsen
Economists Incorporated

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HORIZONTAL AND VERTICAL STRUCTURAL ISSUES AND THE NEWSPAPER-BROADCAST CROSS-OWNERSHIP BAN

Economists Incorporated

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Introduction and Summary

This paper explores structural indicators of competition in a sample of locales. There has been a considerable increase in the amount of competition since the newspaper-broadcast cross-ownership prohibition was adopted in 1975. Even if a national policy prohibiting cross-ownership were justified based on competition concerns in 1975, that justification would not hold today, especially because individual transactions are already subject to case-by-case review under the Clayton Act.

The Federal Communications Commission focuses on competition among newspapers, television and radio to sell advertising. This focus is overly narrow because it excludes other relevant competing media, but it is adopted here to investigate changes in the ownership concentration of advertising in these three media in a sample of 21 Designated Market Areas (DMAs) between 1975 and 2000. Ownership concentration has decreased or remained unchanged in 20 of the 21 DMAs examined, despite acquisitions of radio stations permitted following the passage of the Telecommunications Act of 1996.

Newspapers and broadcast stations may improve their news product and realize cost efficiencies through sharing of news leads, sources, personnel and operations in various forms. Economic theory finds that the types of cooperation that appear most likely may not be undertaken, or undertaken only at greater

cost, if a cross-ownership ban prevents newspapers and broadcast stations from being brought under common ownership.

*Competition in Advertising*¹

An important step in assessing the potential competitive effect of joint ownership is to define a relevant market. For a merger or acquisition to affect market concentration, it is necessary that both firms involved in the acquisition participate in the same market. Thus, for example, common ownership of a newspaper, television station or radio station with a dry cleaning firm would have no effect on either concentration or single firm market share because dry cleaning does not participate in any market in which any of the three media outlets competes.

The Commission has identified advertising as the primary economic market in which newspapers and broadcast stations may compete.² There can be no competitive rationale for the cross-ownership rule unless the relevant product market is at least this broad. The Commission acknowledges that cable television also competes in this advertising market.³ Newspapers other than daily newspapers, direct mail, yellow pages, and outdoor advertising are other media that compete with newspaper, radio and television advertising. This paper,

¹ This section provides an update of findings previously reported in "Structural and Behavioral Analysis of the Newspaper-Broadcast Cross-Ownership Rules," Economists Incorporated, July 1998, attached as Appendix B to the Newspaper Association of America's (NAA) comments in In the Matter of 1998 Biennial Regulatory Review—Review of the Commission's Broadcast Ownership Rules and Other Rules Adopted Pursuant to Section 202 of the Telecommunications Act of 1996, MM Docket No. 98-35, (released March 13, 1998) ("1998 Biennial Review"). Previously reported numbers for 1975 and 1997 are not directly comparable to the numbers in this paper, due to changes in the geographic coverage of some DMAs, increased availability of revenue estimates for broadcast stations, and the correction of some minor data errors.

² In the Matter of Cross-Ownership of Broadcast Stations and Newspapers; Newspaper/Radio Cross-Ownership Waiver Policy, MM Docket Nos. 01-235, 96-197, FCC 01-262 (released September 20, 2001 ("NPRM")), ¶19.

³ 1998 Biennial Review, ¶5.

however, will focus only on those media that are the subject of the cross-ownership ban. Excluding other relevant media from the study makes it possible to examine structural changes in concentration among the three media that are the subject of the cross-ownership rule. Note that this narrow focus has the effect of significantly overstating the level of concentration measured in local markets.

Competition takes place within a certain geographic context. Precisely defining the relevant geographic market in which these media compete is a task beyond the scope of this paper. For purposes of year-to-year comparisons, the relevant geographic markets are proxied by Designated Market Areas (DMAs). DMAs are defined by Nielsen Media Research for purposes of measuring television audience information, and thus are a likely candidate for the appropriate market for television advertising. Newspapers and radio stations located within the same DMA can be viewed as among the alternative means of reaching an advertising audience within the DMA. Since an important objective of this study was to compare concentration levels across time, a precisely correct definition of the geographic market is less important than maintaining consistent geographic market definitions across time. Accordingly, the geographic area defined to be within each DMA in 2001 was applied to 1975, even though that area differed in some instances from the area included in those DMAs as they were defined in 1975.

Due to the high cost of manually extracting and assembling 1975 data from printed sources, the analysis of structural change between 1975 and 2000 was limited to a sample of 21 DMAs. In a previous paper,⁴ 21 DMAs were chosen at random from among each ten consecutively ranked DMAs. Thus, for instance, Chicago (rank 3) was chosen from the DMAs ranked 1-10, Phoenix (rank 17) was

⁴ See footnote 1.

chosen from the DMAs ranked 11-20, etc.⁵ This study utilizes the same DMAs studied in the previous paper. Table 1 shows the DMAs included in the sample as well as their 1997 and 2001 market ranks. The sample DMAs appear to match the entire population of DMAs quite well.⁶

Procedures for estimating the advertising revenues of individual newspapers, radio station and television stations were constrained by the information available both for 2000 and for 1975. For 2000, estimates are available for the advertising revenues of many individual commercial radio and television stations as well as many newspapers. The information available in 1975 was limited to the number of commercial radio stations and television stations and the number and circulation of daily newspapers.

Lacking revenue information for individual radio and television stations in 1975, it was not possible to determine how concentration of advertising revenue among these stations changed between 1975 and 2000. For these media, the main structural change that could be observed was the growth in the number of stations. The number of commercial radio stations increased in all of the sample

⁵ The lowest ranked 11 DMAs were treated like a group of ten.

⁶ The table below compares the average (mean) and median for variables related to DMA size and number of media. Data were derived from BIA, Inc.; *Federal Communications Commission News*, "Broadcast Station Totals as of September 30, 2001," October 30, 2001; Newspaper Association of America, *2001 Newspaper Facts*; and the number of DMAs in 2001 (210).

	<i>Average</i>		<i>Median</i>	
	Sample	All DMAs	Sample	All DMAs
Population (2000, thous.)	1,343	1,282	661	658
Effective Buying Income (1999, \$ mil.)	23,487	22,681	10,476	10,082
Number of Commercial Radio Stations	51.1	51.3	40	n.a.
Number of Commercial TV Stations	6.1	6.2	5	n.a.
Number of Daily Newspapers	6.1	7.0	5	n.a.

DMAs. The median number of radio stations in the sample DMAs increased by 17, from 23 stations in 1975 to 40 stations in 2000. See Table 2. The number of commercial television stations also increased in all of the sample DMAs except two DMAs in which the number was unchanged. The median number of commercial television stations increased from three in 1975 to five in 2000, an increase of two stations. An increase in the number of separately owned radio and television stations, holding other factors constant, decreases the overall concentration in the advertising market.

The increase in stations within the sample DMAs is consistent with national trends. In 1975, there were 7,230 commercial radio stations; by 2001, this has increased almost 50 percent to 10,778 stations.⁷ The number of commercial television stations on air increased from 706 in 1975 to 1,309 in 2001, an increase of over 80 percent.⁸

Separate estimates were available from BIA for total radio and television advertising in each DMA in 2000.⁹ From these totals, the average advertising revenue for each radio and television station in each sample DMA was calculated. To express the relative importance of radio stations and television stations as sellers of advertising in 1975 and 2000, the average advertising revenue for each radio station and each television station in each DMA in 2000 was applied to stations in 1975.¹⁰ This assumption made it possible to include radio and television stations in the calculation of an HHI for each DMA in 1975 and 2000.¹¹

⁷ *Statistical Abstract of the United States: 1990*, Table 914; and *Federal Communications Commission News*, "Broadcast Station Totals as of September 30, 2001," October 30, 2001.

⁸ *Television & Cable Factbook: Services 2001*, Table I-45.

⁹ Data on radio and television stations in the 21 DMAs were supplied by BIA, Inc. from existing databases as a special report to Economists Incorporated.

¹⁰ The underlying assumption is that the ratio of average radio station revenue to average television station revenue in each DMA was approximately the same in 1975 and in 2000. No

As with radio and television stations, no estimate of newspaper advertising revenues was available for 1975. However, circulation information was available for both 1975 and 2000. Changes in relative circulation size among newspapers in a DMA can give some indication of the changes in their relative shares of advertising revenues. An HHI based on total weekly circulation was used to summarize newspapers' relative circulation size. The median circulation HHI in the sample DMAs decreased by about 573 points from approximately 7,113 to approximately 6,540.¹² See Table 3. Over the 21 sample DMAs, weekly circulation became less concentrated in 14 DMAs, became more concentrated in five DMAs, and was unchanged in two DMAs.

Table 3 also shows how the number of daily newspapers changed between 1975 and 2000. The number of daily newspapers increased in six DMAs, was unchanged in ten DMAs, and fell in five DMAs. The net effect across all the sample DMAs was to decrease the number of daily newspapers by four newspapers, or about 3 percent. This contrasts somewhat with the national trend over the same period, in which the number of daily newspapers fell by about 16 percent.¹³

Calculation of the overall concentration of advertising revenues among the three media in each DMA requires that each newspaper be assigned some revenue value, as was required for radio and television stations. The following procedure

information was available on average station revenues in each DMA in 1975, but national station averages support this assumption.

¹¹ The HHI, or Herfindahl-Hirshman Index, is calculated as the sum of the squared shares of all participants.

¹² The decrease in concentration may be overstated slightly; there were a number of newspapers in 1975 for which circulation was not available and which were treated as zeros. A similar pattern emerges looking only at the eight DMAs for which there was no missing circulation data. Among these DMAs, median circulation HHI fell by 1,184 from 8,487 to 7,303.

¹³ 2001 *Facts About Newspapers*, Newspaper Association of America, Table 14.

was used for 2000. Duncan's Radio Market Guide (2001 Edition) provided an estimate of newspaper advertising revenue for selected newspapers. Estimated revenue includes retail advertising, inserts, and real estate and automotive classified advertising.¹⁴ Advertising revenue was then summed across all newspapers for which Duncan provided an estimate. This sum was divided by the total weekly circulation of the same newspapers to form an average revenue/circulation ratio. For each newspaper not among those estimated by Duncan, this ratio was multiplied by the newspaper's average weekly circulation to get an estimate of advertising revenues.

The structural changes observable among newspapers are changes in the number of newspapers and their relative circulation size. To capture the effects of the changes, the ratio of revenue to weekly circulation calculated for each newspaper in 2000 was applied in 1975.¹⁵

Having estimated the advertising revenues of each commercial radio and television station and each daily newspaper in each DMA, the last step before calculating HHIs was to group together stations and newspapers under common ownership. Sources used to determine ownership were BIA, Editor & Publisher International Yearbook (1976, 2001), Broadcasting & Cable Yearbook (1976, 2001), and information on newspaper-broadcast cross-ownership supplied by NAA.

Using the procedures described above, HHIs were calculated for each sample DMA for 1975 and 2000. The results are shown in Table 4. Across the 21 DMAs in

¹⁴ Classified advertising that would be placed by an individual rather than a business is not included.

¹⁵ The underlying assumption is that average advertising revenue per radio station and average advertising revenue per television station in each DMA changed in approximately the same manner as average newspaper advertising revenue per circulation between 1975 and 2000. No information was available on average station revenues or newspaper circulation per circulation in each DMA in 1975, but national averages support this assumption.

the sample, the median HHI decreased from 2,761 in 1975 to 1,614 in 2000, a change of 1,148. This change is very significant, as it represents a decrease in concentration of about 40 percent from the 1975 HHI levels. The change was mirrored by decreases in all but one of the individual DMAs. All but one the decreases were 500 or greater, and all but two of the decreases reduced 1975 HHI levels in the DMAs by at least 20 percent. The only increase was in Little Rock. Due to the closing of the Little Rock Arkansas Gazette, Little Rock went from two newspapers of roughly equal size in 1975 to a single newspaper with roughly the combined circulation, causing concentration to increase slightly.

Projecting the sample results to the nation as a whole, it appears that with possible rare exceptions, the level of concentration of newspaper and broadcast advertising revenues has decreased markedly from the levels that prevailed in 1975.

The cross-ownership rule itself is not responsible for the dramatic decreases in concentration shown in Table 4. In seven of the 21 sample DMAs, the sale of a newspaper or broadcast station caused a pre-existing cross-ownership to be broken up. The cross-ownership rule could have had some deconcentrating effect if it is assumed that the newspaper and broadcast stations would not have been sold separately in the absence of the cross-ownership rule. In practical terms, however, the effect was mostly negligible. In these seven DMAs, a hypothetical HHI was calculated as if the previously cross-owned newspapers and broadcast stations were still cross-owned in 2000. This assumption raised HHI levels in six of the DMAs by an average of just over 40 points. In only one DMA, Omaha, would the 2000 HHI have been significantly higher had the cross-ownership not been broken apart. The Omaha HHI would have been 2,340 instead of 1,804, a change of 536 points. The total drop in HHI in Omaha between 1975 and 2000 was 644 points, implying that factors other than the cross-ownership rule were

also responsible for considerable deconcentration. In all other sample DMAs, the cross-ownership rule had little or no effect on concentration.

Table 4 is useful in assessing the decrease in concentration levels since 1975, but it must be emphasized strongly that it should not be used to indicate actual concentration levels typical in the United States. First, as was pointed out previously, the HHIs presented here do not take account of competition from other newspapers, cable television, direct mail, yellow pages, outdoor and other forms of advertising. For this reason, these HHIs significantly overstate the level of concentration. Previous work on a sample of DMAs showed that concentration in a newspaper-radio-television-only market is decreased by an average of over 1,100 points when the other competing media are added.¹⁶ Second, the sample of DMAs chosen was intended to represent the broad range of DMAs in the country by giving equal weight to all DMAs, regardless of size. In fact, most of the United States population lives in DMAs where concentration levels are relatively low.

Table 5 presents information that may be more useful as an overall picture of concentration levels among newspapers, television and radio. The first column presents HHIs from Table 4. As noted earlier, these HHIs were calculated assuming that each radio station and each television station in each DMA had the same share of advertising revenue. This assumption was necessary to make comparisons with 1975.¹⁷ The second column presents HHIs calculated using available estimates of radio and television stations' actual advertising revenues.

¹⁶ See Economists Incorporated, *An Economic Analysis of the Broadcast Television National Ownership, Local Ownership and Radio Cross-Ownership Rules*, May 17, 1995, submitted in MM Docket No. 91-221, at Table 5, p. 32.

¹⁷ For broadcast stations, an equal shares assumption resembles a capacity-based HHI, which is often used to measure concentration when firms can rapidly increase their share of sales and sales shares are volatile.

This may present a better picture of present concentration.¹⁸ The next two columns show the 2000 population in each DMA and what share of population in the sample DMAs is found in each individual DMA. These shares can be used to calculate weighted average HHIs, as shown in the last two columns. By this measure, the average HHI is about 1,360 to 1,667. HHIs would be significantly lower if other competing media were included in the calculation.

Joint Ownership and Cooperation

Newspaper owners anticipate that closer cooperation between jointly-owned newspapers and broadcast stations can bring significant benefits.¹⁹ Among the potential benefits are the following:

- Newspapers and broadcasters can more readily share leads. For instance, a newspaper may alert an affiliated broadcast station about a story that would not otherwise be covered by the station (or covered only at a later time).
- Newspapers and broadcasters can more readily share news. Information gathered by a newspaper reporter, for instance, could be used in a story reported on a broadcast news show.
- Newspapers and broadcasters can more readily share news personnel. For instance, a television meteorologist can prepare forecasts for the newspaper, a broadcast reporter can write an article for the newspaper, or a newspaper reporter can appear in a broadcast news show.

¹⁸ These levels are somewhat overstated because stations for which BIA provides no revenue estimate were assumed to have zero revenues; assigning some positive revenues to these stations would reduce HHIs.

¹⁹ More detail is provided in Comments of the Newspaper Association of America to the NPRM.

- Newspapers can direct their readers to information available on the broadcast news, and broadcast stations can direct their audience to information available in the newspaper.
- Newspapers and broadcast stations can collaborate in operating and providing content to an Internet website.
- Newspapers and broadcasters can reduce duplication, resulting in lower costs and expanded services. For instance, some news events that would otherwise be covered by different reporters from the newspaper and the broadcaster might be covered by a single reporter. This could free up another reporter to cover an event that would otherwise not be covered.
- Newspapers and broadcast stations may also realize cost savings in such areas as administration and support services.

In any deliberation about whether to impose or retain a regulation, the basic test is whether the net benefits of the regulation outweigh the net benefits of not having the regulation. Examples of cooperation that can be achieved by jointly-owned newspapers and broadcast stations were provided above. Such cooperation is relevant to the benefits of removing the regulation if a) the likelihood of such cooperation is increased by cross-ownership or b) such cooperation can be achieved at lower cost through cross-ownership.

Firms can choose from among a number of forms of coordination available to them. Arms-length market transactions between two firms are very common. This can be as simple as a one-time purchase-sale exchange without any contractual relationship. For other types of coordination, firms may use contracts to lay out the responsibilities of each firm in the cooperative relationship. One form of contractual relationship is a joint venture—following contractual rules, firms cooperate to achieve a common objective. Internal non-market coordination is also very common. In this case, the cooperating parties are under

common ownership, and coordination tasks such as the assignment of responsibilities and monitoring are made within the firm.

Economists routinely assume that firms attempt to maximize profits. When two independent firms propose a merger or acquisition to achieve common ownership, it is possible that they are attempting to increase profits through the acquisition of market power. Antitrust analysis has been developed by the Department of Justice (DOJ) and the Federal Trade Commission (FTC) with the purpose of detecting and preventing acquisitions that would tend to reduce competition. It is crude and simplistic for the FCC to bar all newspaper-broadcaster joint ownership on the grounds that some combinations could reduce competition.

If firms choose joint ownership rather than some other form of coordination for reasons other than acquiring or exercising market power, it is presumed that the joint ownership is the most efficient way to organize and cooperate. Joint ownership can benefit society in at least two ways. First, the jointly-owned firm can conserve on the resources used to achieve coordination between what had been independent firms. The resources that are freed up are available for other productive uses in the economy. Second, there may be some cooperative projects which have an uncertain payoff. If the coordination costs are too high, the firms will simply not undertake the project. Thus, permitting coordination at lower cost can induce firms to undertake cooperative projects they would otherwise not undertake.

Joint ownership is not necessarily more efficient than other alternative forms of cooperation in every situation. For example, a recent trend in management has been outsourcing—replacing activities previously performed within the firm with goods and services purchased from independent suppliers. However, economists have identified a number of conditions which tend to induce firms to choose joint

ownership rather than other means of coordination such as arms-length market transactions.²⁰ Several of these conditions appear likely to be present for the type of cooperative projects that newspapers may undertake with a television station or radio station.

a) *Complete contracts are costly or impossible.* Firms use contracts to specify the actions that each agrees to take. In some cases, which actions would be most desirable will depend on future conditions that are unknown when the contract is written. To some extent, this can be addressed by including "contingencies" in the contract. This is difficult when the parties anticipate many different future states of the world that call for different actions. If there is a great deal of uncertainty about the future, it may be impossible to adequately identify the contingencies and agree in advance what actions should be taken. When the two firms are under common ownership, a single decision-maker can assess conditions as they arise and direct the firms to take the most desirable actions.

There is considerable uncertainty about the nature and extent of cooperation it will be desirable for a newspaper and a broadcaster to undertake. For this reason, it is difficult to write a contract that will specify in advance just what each party should do. It is quite possible that internal decision-making within a jointly-owned newspaper-broadcaster firm would have the flexibility to deal with developing situations, whereas firms involved in a contractual relationship would be unable to react appropriately or do so at a much higher transaction cost.

b) *Monitoring effort and performance is difficult.* In addition to uncertainty about the state of the world, firms seeking to cooperate may have difficulty determining

²⁰ These conditions are discussed in Oliver Williamson, *Markets and Hierarchies: Analysis and Antitrust Implications* (New York: The Free Press, 1975); Oliver Williamson, *The Economic Institutions of Capitalism* (New York: The Free Press, 1985); and Benjamin Klein, Robert G. Crawford and Armen A. Alchian, "Vertical Integration, Appropriable Rents, and the Competitive Contracting Process," *The Journal of Law and Economics*, October 1978, pp. 297-326.

whether each has actually performed as agreed. For example, suppose two firms agree that one will provide carbon steel plates to the other. Their agreement will probably include the quantity to be supplied, the dimensions of the plates, the quality or chemistry of the steel, the time and place at which delivery will occur, and the price to be paid. In such a transaction, as in numerous similar transactions throughout the economy, it is relatively easy for both the seller and the buyer to determine whether each has upheld its part of the bargain, because each part of the agreement is measurable and verifiable.

In contrast, when it is information, rather than some physical good, that one firm supplies to another, the firms will generally experience difficulties in setting up an appropriate contract and policing the terms of the contract.²¹ If a broadcast station and a newspaper agree to supply news leads and information to one another, for instance, it is difficult for either party to measure the quality or quantity of the information provided. In such situations, a jointly-owned firm may be better suited to assure that both the newspaper and the broadcast station are forthcoming and cooperative in providing the information that is to be exchanged.

Note that the advantages that joint ownership offers in dealing with incomplete contracts and monitoring effort and performance would be reduced significantly if joint ownership were not coupled with some degree of joint management. If jointly owned firms were compelled to keep their management functions separate, there would be no one in a position to resolve unanticipated coordination problems as they arise, nor anyone able to observe the degree of effort of both cooperating parties from the inside. For this reason, imposing

²¹ See Williamson, *Markets and Hierarchies*, pp. 86-7.

structural separation may eliminate some of the key advantages of joint ownership of a newspaper and a broadcast station.²²

c) *Asset value depends heavily on a specific use.*²³ Firms sometimes make investments in assets whose value depends critically on the behavior of a key supplier or customer. When this occurs, one of the parties may be vulnerable to "opportunistic behavior" by the other. For instance, suppose that a supplier locates its plant close to its principal customer in order to reduce the supplier's transportation cost. Once the supplier's plant is built, the customer can threaten to stop purchases unless it receives a significant price reduction; if the supplier's only option is to sell to more distant customers at much greater cost, it may be forced to accept the low price, even if it cannot recover the cost of its investment at the low price. Unless the supplier can get protection against such opportunistic behavior, it may be unwilling to build a plant near the customer and so will lose the cost savings that proximity would have achieved. If contracts cannot provide adequate protection, the only firm willing to invest in the supplying plant may be the customer itself. In other words, a particular type of investment may only be undertaken if there is joint ownership.

Several forms of newspaper-broadcast cooperation discussed above require investments by one or both of the parties. A television news department, for instance, may devote resources to training newspaper staff in how to prepare and present a news story on air, since this requires skills that newspaper reporters may not otherwise have. The television news department may also devote resources in obtaining training in how to write or contribute to newspaper articles. All of these investments have little use to the television station outside of the cooperation with the newspaper. Most communities have

²² The Commission raises the possibility of structural separation in NPRM, ¶51.

²³ See Williamson, *The Economic Institutions of Capitalism*, pp. 95-6.

only one metropolitan daily newspaper, so there may be limited opportunities to use these skills in collaborating with another local newspaper. If the newspaper were to behave "opportunisticly," the television station could get a much smaller return on its investment than it intended. Out of fear of such opportunistic behavior, a television station may be unwilling to make the needed investments. It may be that the only effective assurance against opportunistic behavior is for the newspaper and the television station to be jointly owned.

The cooperation that is anticipated between newspapers and broadcast stations is similar in some important ways to situations in which common ownership has been found to be desirable. One cannot say that cooperation will not happen without common ownership. However, one can say that, without common ownership, such cooperation may be at greater cost and be more limited. It is also possible that, in some instances, newspaper-broadcast cooperation will not be undertaken at all without common ownership.

These are the potential benefits from cross-ownership. Where markets are unconcentrated, there is no economic benefit from prohibiting cross-ownership. No general prohibition is warranted, and any competitive concerns that emerge can be handled by the appropriate antitrust agencies.

Conclusion

A structural analysis of 21 DMAs was undertaken to determine how competitive conditions among newspaper, radio and television have changed since the enactment of the cross-ownership ban in 1975. Within these consistently defined geographic areas, estimated ownership concentration of advertising revenues fell or was unchanged in 20 of the 21 areas studied, and changes were very substantial. These findings indicate that the structural conditions for advertising competition have improved, such that a broad prohibition is no longer needed to maintain competitive conditions at their 1975 level.

A proper analysis of how competitive structure would be changed by increased cross-ownership should be conducted by the antitrust agencies on a case-by-case basis. Such an analysis would take account of such factors as the relative sizes of the two entities that would be cross-owned, the concentration of advertising revenues among newspaper, television and radio as well as other competing media, and the proper definition of the relevant geographic market in that area. The competitive concerns are indistinguishable from the concerns raised in anti-trust analysis. No across-the-board prohibition on cross-ownership is warranted.

Newspapers and broadcast stations may improve their news product and realize cost efficiencies through sharing of news leads, sources, personnel and operations in various forms. Economic theory finds that the types of cooperation that appear most likely may not be undertaken, or undertaken only at greater cost, if a cross-ownership ban prevents newspapers and broadcast stations from being brought under common ownership.

Table 1. Sample DMAs and Rank

DMA	1997 Rank	2001 Rank
Chicago	3	3
Phoenix	17	16
Raleigh-Durham	29	29
Nashville	33	30
New Orleans	41	43
Little Rock-Pine Bluff	57	56
Flint-Saginaw-Bay City	62	64
Omaha	75	75
South Bend-Elkhart	85	87
El Paso	99	101
Lansing	106	111
Reno	119	110
Corpus Christi	128	129
Bakersfield	132	130
Lubbock	147	148
Panama City	159	159
Utica	166	168
Lake Charles	179	174
Great Falls	184	187
Charlottesville	199	192
Victoria	206	204

Table 2. Number of Commercial Radio and Television Stations in Sample DMAs

DMA	Commercial Radio Stations			Commercial Television Stations		
	1975	2000	Change	1975	2000	Change
Bakersfield	17	35	18	3	4	1
Charlottesville	6	12	6	1	1	0
Chicago	96	111	15	7	13	6
Corpus Christi	20	40	20	3	4	1
El Paso	23	26	3	3	7	4
Flint-Saginaw-Bay City	36	54	18	3	5	2
Great Falls	13	21	8	2	6	4
Lake Charles	7	13	6	1	2	1
Lansing	20	24	4	2	5	3
Little Rock	64	111	47	3	9	6
Lubbock	27	43	16	3	6	3
Nashville	100	137	37	4	10	6
New Orleans	44	56	12	4	8	4
Omaha	30	45	15	3	5	2
Panama City	17	32	15	2	5	3
Phoenix	60	117	57	6	15	9
Raleigh-Durham	74	87	13	3	9	6
Reno	22	38	16	3	6	3
South Bend-Elkhart	27	40	13	4	4	0
Utica	15	24	9	2	3	1
Victoria	3	7	4	1	2	1
Total	721	1,073	352	63	129	66
Median	23	40	17	3	5	2

Table 3. Number and Circulation Concentration of Newspapers in Sample DMAs

DMA	Number of Daily Newspapers			HHI of Weekly Circulation		
	1975	2001	Change	1975	2001	Change
Bakersfield*	2	2	0	10,000	9,284	-716
Charlottesville	1	1	0	10,000	10,000	0
Chicago*	32	23	-9	3,155	3,085	-70
Corpus Christi*	2	2	0	10,000	9,047	-953
El Paso*	4	2	-2	7,113	6,497	-616
Flint-Saginaw-Bay City	8	7	-1	6,974	6,589	-386
Great Falls*	2	2	0	10,000	8,592	-1,408
Lake Charles	1	3	2	10,000	6,540	-3,460
Lansing	3	3	0	4,901	5,000	99
Little Rock-Pine Bluff*	16	14	-2	3,175	5,778	2,603
Lubbock*	3	2	-1	8,291	8,470	180
Nashville	9	9	0	5,577	6,132	555
New Orleans*	7	7	0	9,249	7,085	-2,164
Omaha	7	7	0	6,306	8,234	1,928
Panama City	1	2	1	10,000	8,017	-1,983
Phoenix*	8	9	1	7,313	5,868	-1,445
Raleigh-Durham*	8	12	4	3,072	2,569	-503
Reno*	4	6	2	6,701	5,223	-1,479
South Bend-Elkhart*	9	9	0	3,739	2,627	-1,111
Utica*	4	5	1	6,952	3,816	-3,136
Victoria	1	1	0	10,000	10,000	0
Sample DMAs:						
Total	132	128	-4	-	-	-
Median	4	5	1	7,113	6,540	-573
DMAs without missing circulation information:						
Total	31	33	2	-	-	-
Median	2	3	1	8,487	7,303	-1,184

*1975 circulation was not available for one or more newspapers; missing circulation treated as zero for HHI calculation.

Table 4. Estimated Advertising HHIs in Sample DMAs

DMA	1975 HHI	2000 HHI	Change
Bakersfield	3,233	2,657	-575
Charlottesville	4,037	3,498	-539
Chicago	1,793	984	-809
Corpus Christi	4,070	2,379	-1,691
El Paso	2,761	1,723	-1,038
Flint-Saginaw-Bay City	2,531	1,559	-973
Great Falls	6,164	3,649	-2,515
Lake Charles	4,758	2,603	-2,155
Lansing	2,168	1,408	-760
Little Rock-Pine Bluff	1,355	1,399	44
Lubbock	2,972	1,635	-1,337
Nashville	1,874	1,133	-740
New Orleans	3,047	1,595	-1,452
Omaha	2,448	1,804	-644
Panama City	3,055	1,977	-1,079
Phoenix	2,172	1,521	-650
Raleigh-Durham	990	781	-209
Reno	2,017	1,454	-563
South Bend-Elkhart	1,843	1,250	-593
Utica	3,063	1,614	-1,450
Victoria	8,611	6,533	-2,078
Median	2,761	1,614	-1,148

Table 5. Weighted Average 2000 Estimated HHIs

	Estimated HHI		Population	Population Weight	HHI x Population Weight	
	Equal Shares	Estimated Shares			Equal Shares	Estimated Shares
DMA						
Bakersfield	2,657	2,756	571,000	2.0%	54	56
Charlottesville	3,498	3,555	148,000	0.5%	18	19
Chicago	984	1,326	9,018,000	32.0%	315	424
Corpus Christi	2,379	2,523	552,000	2.0%	47	49
El Paso	1,723	1,801	882,000	3.1%	54	56
Flint-Saginaw-Bay City	1,559	1,696	1,195,000	4.2%	66	72
Great Falls	3,649	3,768	167,000	0.6%	22	22
Lake Charles	2,603	2,928	247,000	0.9%	23	26
Lansing	1,408	1,664	661,000	2.3%	33	39
Little Rock-Pine Bluff	1,399	1,584	1,292,000	4.6%	64	73
Lubbock	1,635	1,909	403,000	1.4%	23	27
Nashville	1,133	1,371	2,156,000	7.6%	87	105
New Orleans	1,595	1,799	1,736,000	6.2%	98	111
Omaha	1,804	1,965	985,000	3.5%	63	69
Panama City	1,977	2,335	332,000	1.2%	23	27
Phoenix	1,521	2,172	3,779,000	13.4%	204	291
Raleigh-Durham	781	1,012	2,268,000	8.0%	63	81
Reno	1,454	1,549	610,000	2.2%	31	33
South Bend-Elkhart	1,250	1,672	855,000	3.0%	38	51
Utica	1,614	1,729	269,000	1.0%	15	16
Victoria	6,533	6,589	82,000	0.3%	19	19
Median	1,614	1,801				
Total	43,157	47,704	28,208,000	100.0%	1,360	1,667
Weighted Average	1,360	1,667				