

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

In the Matter of)	
)	
2006 Quadrennial Regulatory Review – Review)	MB Docket No. 06-121
of the Commission’s Broadcast Ownership)	
Rules and Other Rules Adopted Pursuant to)	
Section 202 of the Telecommunications Act of)	
1996)	
)	
2002 Biennial Regulatory Review – Review of)	MB Docket No. 02-277
the Commission’s Broadcast Ownership Rules)	
and Other Rules Adopted Pursuant to Section)	
202 of the Telecommunications Act of 1996)	
)	
Cross-Ownership of Broadcast Stations and)	MM Docket No. 01-235
Newspapers)	
)	
Rules and Policies Concerning Multiple)	MM Docket No. 01-317
Ownership of Radio Broadcast Stations in)	
Local Markets)	
)	
Definition of Radio Markets)	MM Docket No. 00-244
)	

**WRITTEN EX PARTE PRESENTATION OF CLEAR CHANNEL
COMMUNICATIONS, INC.**

Attached for filing in the above-referenced dockets, and pursuant to 47 C.F.R. § 1.1206(b)(1), is the Statement of Professor Jerry A. Hausman (“*November 2007 Hausman Statement*”). The *November 2007 Statement* responds to the peer review¹ of Professor Hausman’s earlier statement that was submitted with Clear Channel’s opening comments in this proceeding.²

¹ See Statement of Charles Romeo Concerning Studies Submitted in MB Docket 06-121 (Sept. 18, 2007).

² See Statement of Jerry A. Hausman (attached at Exhibit 2 to Comments of Clear Channel Communications, Inc., MB Docket Nos. 06-121, 02-277, MM Docket Nos. 01-235, 01-317, 00-244 (filed Oct. 23, 2006)).

Respectfully submitted,

By:

A handwritten signature in black ink that reads "Andrew W. Levin". The signature is written in a cursive style with a large initial 'A' and 'L'.

Andrew W. Levin
Executive Vice President, Chief Legal
Officer, and Secretary
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Dated: November 16, 2007

Statement of Professor Jerry A. Hausman

1. My name is Jerry A. Hausman. I am the MacDonal Professor of Economics at the Massachusetts Institute of Technology (“MIT”) in Cambridge, Massachusetts. I graduated from Brown University in 1968. I received a D.Phil. (Ph.D.) in economics from Oxford University in 1973 where I was a Marshall Scholar. I have been at MIT since completing my D.Phil. My academic specialties are econometrics, the application of statistical methods to economic data, and applied microeconomics, the study of behavior by firms and by consumers. I teach a graduate course in applied industrial organization, which is the study of how markets operate. The title of the course is “Competition in Telecommunications,” and competition in the media industry (including radio broadcasting) is one of the topics covered in the course.

2. I have been an associate editor of *Econometrica*, the leading economics journal, and the *Rand (Bell) Journal of Economics*, the leading journal of applied microeconomics. In December 1985, I received the John Bates Clark Award of the American Economic Association, awarded every other year for the most “significant contributions to economics” by an economist under the age of 40. In 1980, I was awarded the Frisch Medal of the Econometric Society. I have been a member of numerous government advisory committees for both the U.S. government and the Commonwealth of Massachusetts. I have published over 150 academic research papers in leading economic journals including the *American Economic Review*, *Econometrica*, and the *Rand (Bell) Journal of Economics*. I have done significant amounts of research in the telecommunications industry. I have published numerous papers in academic

journals and books about telecommunications. I have also done research regarding advertising on television and radio.

3. I have previously submitted declarations to the Federal Communications Commission (FCC) and made presentations to the Department of Justice (DOJ) regarding competition in radio, broadcast television, and cable television. I have served as a consultant to companies that own radio stations, broadcast television stations, and newspapers. I have also consulted for a variety of companies that sell consumer goods and do large amounts of advertising.

4. In this statement I respond to Dr. Charles Romeo's comments on the two empirical analyses described in my October 2006 statement.¹ In the first empirical analysis, I found that radio industry consolidation had led to increases in format variety. Although Dr. Romeo agrees that my method is sound and that my results are consistent with the previous analysis of Professors Berry and Waldfogel², he notes three caveats.³ First, he notes that in addition to examining the effect of consolidation on the number of formats, Professors Berry and Waldfogel also examined the effect of consolidation on the number of stations and the number of formats per station. Second, he notes that Professors Berry and Waldfogel were concerned about the validity of their instrument and thus conducted robustness checks. Dr. Romeo's third caveat (which is related to the first), is that the number of radio stations has grown over the period I study, and thus the increase in format variety might be driven by increases in the number of stations rather

¹ Statement of Charles Romeo concerning studies submitted in MB Docket 06-121, and FCC MN Docket 06-121, September 18, 2007 ("Romeo Statement").

² S. Berry and J. Waldfogel, "Do Mergers Increase Product Variety? Evidence From Radio Broadcasting," *Quarterly Journal of Economics* 116, 2001, pp. 1009-1025.

³ Romeo Statement, p. 6.

than consolidation. Dr. Romeo suggests that using formats per station (rather than number of formats) as the dependent variables would alleviate this concern.

5. To address Dr. Romeo's first and third concerns, I have re-estimated my model using formats per station as the left-hand-side variable. To address Dr. Romeo's second concern, I have estimated the model both without instruments (i.e., using OLS rather than 2SLS) and using the alternative instruments (based on market population) used by Professors Berry and Waldfogel.⁴ Table 1 presents the results of the additional analysis. In all three regressions (OLS, 2SLS with the policy-band instruments used in my original analysis, and 2SLS with the population instruments), decreases in the number of owners lead to a statistically significant increase in the number of formats per station.⁵ Over the period of greatest consolidation (1993 to 2001), the average number of formats per station in a market increased from 0.57 to 0.67. These results indicate that consolidation was responsible for approximately 80% of the increase in formats per station during that period. Thus the additional analyses confirm my original result that consolidation in the radio industry has resulted in increased format variety.

6. Dr. Romeo also comments on the analysis of market share volatility in my October 2006 statement. As I noted in my statement, according to the *DOJ/FTC Merger Guidelines*, market shares should be calculated using "the best indicator of firms' future competitive significance," and that "[w]here all firms have, on a forward-looking basis, an equal likelihood of securing sales, the Agency will assign equal shares."⁶ I further noted that according to DOJ economist Gregory Werden, the two essential characteristics

⁴ The alternative instruments used by Professors Berry and Waldfogel are market population as of 1993 and its square (Berry and Waldfogel, p. 1016, p. 1020). To account for the additional time periods in my analysis, I also interact these two variables with year indicator variables.

⁵ The magnitude of the effect is similar to that found by Professors Berry and Waldfogel.

⁶ *Merger Guidelines*, section 1.41 and footnote 15.

of so-called “one-over- n ” markets are: “(1): a finite number of entities possess a readily identifiable set of assets essential for successful competition; and (2) the extent of ownership or control over the essential assets does not distinguish among these entities in any important way.”⁷ I noted that in the radio industry the essential tangible asset that all radio stations possess is the FCC license.

7. Dr. Romeo disagrees that the radio industry is a good candidate for being considered a one-over- n market.⁸ To support his argument, Dr. Romeo cites another excerpt from Dr. Werden’s article in which Dr. Werden states that “[c]andidates for the assignment of $1/n$ shares include markets for technology or innovation and Schumpeterian industries, in which competition occurs largely through the introduction of new products or technologies and competition is apt to be more ‘for the market’ than ‘in the market.’”⁹ However, Dr. Romeo fails to recognize that Dr. Werden is not claiming that all one-over- n markets must fit that characterization. Rather, Dr. Werden is only providing an example of one type of industry likely to be a one-over- n market. Instead, the two “essential characteristics” of one-over- n markets are those mentioned above, which I analyzed in my original statement.

8. In response to my argument that the FCC license is the essential tangible asset possessed by radio stations, Dr. Romeo objects that “not all FCC licences are alike,” because they can differ in power and location.¹⁰ However, Dr. Romeo fails to acknowledge that I took these technical differences between stations into account in my

⁷ G. Werden, “Assigning Market Shares,” *Antitrust Law Journal* 70, 2002, p. 85.

⁸ Romeo Statement, p. 7.

⁹ Werden (2002), p. 86.

¹⁰ Romeo Statement, p. 7.

original statement.¹¹ Dr. Romeo also discusses the prevalence of format changes and the possibility that advertisers may place ads on multiple stations to reach listeners in certain demographics. However, neither of these factors relates to the two “essential characteristics” of one-over-*n* markets, are thus are irrelevant.

9. In order to determine whether actual market shares are the best indicator of future competitive significance, I performed an empirical analysis and found that volatility in market shares for radio stations is very high: over the course of a one- to three-year period, a radio station is more likely to experience a large increase or decrease in market share than it is to experience relatively constant share. Thus, I concluded that actual market shares are not a reliable guide to future competitive significance. In response to this analysis Dr. Romeo argues that “[c]hanges in station outcomes are attributable to both the power of the licences and the programming choices, and it is exactly in this sense that I argue that Professor Hausman’s table on listening share volatility misrepresents competition in the market.”¹²

10. I disagree with both aspects of Dr. Romeo’s criticism. With respect to Dr. Romeo’s point about the power of the broadcast signal, I note that my analysis looks at how ratings for over 5,800 individual stations changed over the 2002-2005 period. While a few of these stations may have experienced significant changes in the power of their broadcast signal during this time period, taking this effect into account would not have a qualitative effect on my results. Furthermore, to the extent that stations have modified their operations to increase their coverage, the ability to make such changes provides stations a mechanism to improve their ratings, and thus further weakens the relationship

¹¹ Hausman October 2006 Statement, footnote 18.

¹² Romeo Statement, p. 8.

between current and future market shares. With respect to Dr. Romeo's point about programming choices, I note that the ability of radio stations to change their programming also strengthens my point rather than weakens it, because it allows low-rated stations with unpopular programming to increase their ratings by changing formats.¹³ Thus I disagree that my analysis "misrepresents competition" in the radio industry.

11. Dr. Romeo also argues that "changes in station outcomes are not entirely random."¹⁴ However, what matters in determining whether actual market shares are the best indicator of future competitive significance is not the source of market share volatility, but the amount of market share volatility. The amount of volatility that is due to random factors versus the amount due to changes in observable factors is not important, and thus Dr. Romeo's argument misses the point.

12. Dr. Romeo suggests two alternative analyses that he claims would provide alternative views of the degree of volatility, but neither of these analyses would accurately measure changes in the competitive situation within radio markets. First, Dr. Romeo argues "for creating a second table with entrants and exits removed, as these are likely to be a substantial portion of the stations with the largest listening share growth and decline."¹⁵ However, since my analysis is based on percentage changes in listening share, and the percentage change starting from a zero share is undefined, my analysis already excludes entrants. With respect to exit, there is not enough exit over the 2002-2005 period for excluding exiting stations to have a qualitative effect on my results.

¹³ Indeed, Dr. Romeo's research has shown that "major format changes do produce substantial market share gains on average" (C. Romeo and A. Dick, "The Effect of Format Changes and Ownership Consolidation on Radio Station Outcomes," *Review of Industrial Organization* 27, 2005, p. 374).

¹⁴ Romeo Statement, pp. 8-9.

¹⁵ Romeo Statement, p. 9.

Furthermore, since entry and exit are part of the competitive process in the radio industry, it is appropriate to consider entrants and exits as part of an analysis of market share volatility (and thus I am being conservative by excluding entering stations from my analysis).

13. Dr. Romeo's second suggestion is to look at "listener share rank correlations over a three year period."¹⁶ However, such an analysis would take into account only the ranks of radio stations and not their actual shares, and thus it would understate the amount of economically relevant volatility in the radio industry. For example, consider a two-station market in which in 2002 station A has a 20% share and station B has a 5% share. Suppose that in 2005 station A's share falls to 10%, and station B increases its share to 8%. Even though there has been a substantial change in the competitive situation in the market, Dr. Romeo's suggested analysis would find zero volatility (whereas my analysis would capture this change in the competitive situation). Thus I disagree with Dr. Romeo that the analysis he suggests would provide useful information about volatility in radio markets.

¹⁶ Romeo Statement, p. 9.

Table 1: Additional Format Variety Regressions

Dependent variable: Formats per station

Variable	OLS	2SLS (Policy-band instruments)	2SLS (Population instruments)
Number of owners	-0.0106 (0.0008)	-0.0128 (0.0016)	-0.0134 (0.0018)
Population (millions)	0.0442 (0.0268)	0.0533 (0.0265)	0.0562 (0.0259)
R ²	0.7252	-	-
Root MSE	0.0705	0.0708	0.0710
N	964	964	964
Hausman test p-value	-	0.119	0.083

Notes: All regressions include market and year fixed effects. Heteroskedasticity-robust standard errors in parentheses. For “2SLS (Policy-band instruments)” regression, policy band variables and policy band-year interaction variables used as instruments for the number of owners. For “2SLS (Population instruments)” regression, 1993 population, square of 1993 population, and interactions with year used as instruments for the number of owners. Null hypothesis for Hausman test is that number of owners is not jointly endogenous.