The Media Monopoly and Other Myths

On the national level there is going to be more competition, not less, say the authors of this study. Local media are the weak links in the media revolution.

By Eli M. Noam & Robert N. Freeman

It's been said that generals always fight the last war, not the new one. And the question is whether media critics sometimes do that, too. For many years, we were worried about the concentration of private power over the media. The fear was a media mogul with a political agenda: a William Randolph Hearst, who started a war and ran himself for Mayor, Governor, and President. And that was just using newspapers. Later, when television was controlled by three networks, all within ten blocks of each other in Manhattan, the fear of control over hearts, minds, pocketbooks, and voting booths was amplified from the left and right. And today, with electronic media becoming smart, powerful, and pervasive, and with media mergers reported every week, the same fear is around more than ever, that in the end there will be only four media companies left in the world, and running the world, half of them owned by a guy named Rupert.

Ben Bagdikian expresses this fear in his article *The Media Monopoly*, published in *Television Quarterly* (Volume 28, Number 4). He pointed to the growing size of media mergers, the shrinking number of major media corporations, and their increasing diversification into multiple branches of media. He discounted the relevance of the diverse and publicly accessible Internet by pointing to the small share of Americans that have the equipment to get online. He also expressed frustration that the Telecommunications Act of 1996 has so far led to more cooperation than competition.

To evaluate all this, it is important to understand how the media world has evolved through stages. In the past of electronic media, twenty years ago, we had *limited* media, with only three networks, one phone company, and one computer company. Today, we are in the stage of multi-channel media, with many dozens of TV channels and with multiple phone networks. But this is still not the end of the story. The third stage, and the one we are entering now, is *cyber-media*. Cybertext is already established. Cyber-audio is here. And cyber-telephony and cyber-video are emerging. In time, this will lead us to an entirely different system of mass media. Yet governments, media companies, and media critics are still looking backward to the good old days of scarcity.

The discussion over media concentration often has that anachronistic flavor. So let's first look at the facts. Yes, there have been lots of mergers. Some are troubling, some are not. Going beyond the specific deal, the more important question is, in the aggregate, have American media become more concentrated?

Despite the conventional wisdom, the answer is not an obvious "yes." First, while the fish in the pond have grown in size, the pond did grow, too, and faster. The growth of the information industry has been 8% faster than inflation since 1987. Second, all these separate ponds are becoming more of a large lake, as the technological and regulatory dikes between them fall.

The combined share of the top 10 companies in the US information industry declined from 59% in 1987 to 39% today. This is a totally different conclusion from those who claim that US media are now controlled by ten firms. In 1979, AT&T alone accounted for a full quarter of the entire media and information industry *(Table 1)*. Today, even with two divestitures, AT&T is larger in dollar terms, but now commands only 7% of the total industry. IBM tripled in the past 15 years, but its share in the media and information industry dropped by one third, to less than 10%. CBS used to have 2%.

A decade later, even after mergers with Westinghouse and Infinity, the new company has only 1%. Bell Atlantic and Nynex both used to have about 3.5% each. A decade later, after their merger, their combined share is barely higher, at 4%. The major exception was Disney/CapCities/ABC, with a share that is now twice the combined share of these firms in 1979. But it's still only 2%. Also, both Microsoft and TCI grew from nothing to each capture 1% of the industry. But little of that growth was due to mergers.

When it comes to concentration, views are strong, talk is cheap, but numbers are scarce. Therefore, we have gotten our hands dirty by collecting the actual market share numbers, industry by industry, company by company, for 60 sub-industries from book publishing to film production to microprocessors, in order to trace the concentration trends over the past 15 years. We then aggregated these data into broader sectors such as telecommunications, video distribution, etc. And we aggregated those sectoral figures again into an overall industry concentration trend. This is probably the most detailed study ever of media concentration in America.

Share of Information Industry

Table 1

	1979	1987	1997
AT&T	24%	16%	7%
IBM	14%	17%	9%
CBS/ Westinghouse	2%	1%	1%
Bell Atlantic		3.2%	4%
Nynex		3.7%	
Disney	0.5%	1%	2%
ABC	0.2%	1%	
Microsoft	0.0%	0.1%	0.7%
TCI	0.0%	0.5%	0.7%

What did we find? Surprisingly, the overall concentration of the information industry did not increase, but declined somewhat in the past decade *(Table 2)*.

To confirm this result, we used two separate measures of concentration: the combined share of the top four firms in each sector, and the Justice Department's HHI index, a more sensitive but less intuitive measure. An HHI under 1,000 means a market is unconcentrated, an HHI over 1,800 means a market is highly concentrated, between 1,000 and 1,800, a market is moderately concentrated.

If one looks at the classic mass media industries alone (excluding telecommunications, computers, software, and equipment) they did increase in concentration *(Table 3)*, but remained unconcentrated by Justice Department standards. The main factors increasing these concentration figures were cable television systems (accounting for half) and home video (accounting for 20%).

The greatest drops occurred in telecommunications services, computers, TV programming, and music *(Table 4)*. In long distance, AT&T's share dropped from 80% to just over half. Soon, new entrants into mobile and local telephony will gradually further that trend. In computers, the market shifted away from mainframes to microcomputers, where no top firm controls much more than 10%. This shift also lowered entry barriers in the software market, which used to be vertically integrated with hardware, reducing the share of the top four firms to about one third. Concentration in TV programming dropped with the launch of new broadcast and cable networks. The share of the top four cable channel firms dropped from two thirds to about 40%. In pay cable, the share of Time Warner shrank slightly, but it still controls half the market. In music, the share of the top four labels dropped from 80% to 60%.

On the other hand, concentration *increased* in other industries *(Table 5)*. Microsoft controls 90% of the microcomputer operating system market, for all the talk about platform independent Java. This is the Bill Gates problem.

There is also a cable issue. The share of the top four cable firms grew from one-fourth in 1979 to nearly two-thirds today. That's a lot of gatekeeping power, though they now must contend with satellite TV firms. Concentration also increased in TV station ownership and retail bookstores, and more than doubled in radio station ownership and book publishing. But the top four firms still have only about a quarter of these markets, as measured by revenue. In terms of stations, the largest radio firm has 102 stations, which sounds like a lot, but there are over 12,000 stations nationwide.

Total Information Sector Concentration

(weighted aggregates)

Table 2

	1986	1990	1995
Top 4 Firms	52%	49%	50%
HH Index	1839	1347	1262

Mass Media Sector Concentration

(weighted aggregates)

Table 3

	1986	1990	1995
Top 4 Firms	33%	27.5%	40%
HH Index	514	491	574

In other industries, concentration held relatively steady *(Table 6)*. Film production remained fairly concentrated, with the top four firms controlling 60%. The movie theater, newspaper and magazine markets remained relatively unconcentrated, with the top four firms accounting for a quarter of sales.

Therefore, it cannot simply be said that US media have become, in general, more concentrated. Still, the next question then must be raised: even if a firm does not dominate any specific market, could it not be overpowering by being a medium sized firm in every market? The fear is that vertically integrated firms will dominate by having their tentacles in each pie. But in economic terms, this can only happen if a firm has real market power in at least one market, which it then extends and leverages into other markets. And such single-firm dominance of a market is becoming rare, as we have seen.

One exception is cable TV, where TCI and Time Warner can still favor their own channels over those of competitors. In New York, Time Warner could have shut out Murdoch's Fox News Channel, as a rival to its own CNN. This problem may disappear with satellite TV. The second important exception is Microsoft, which could extend its market power from computer operating systems to become the gate keeper of other cyber-media. If this control persists with no competitive relief, Microsoft will become the major media policy headache of the 21st century.

But where markets are competitive, vertical integration makes little sense. Disney should not earmark its best programs for ABC if other networks offer more money. Conversely, for Disney to force its lemons on the ABC television network would only hurt the company. This creates major centrifugal forces inside the organization which in a competitive environment will lead to a breakup of the company. In a competitive environment, media firms must divest and focus for optimal efficiency. To attract viewers, content production will separate from distribution, and news writing will separate from political lobbying.

And what about all those famous synergies? These have been more asserted than shown. In announcing its mega-merger, Disney CEO Michael Eisner invoked the word not less than five times in four consecutive sentences, like a mantra. But most of those cross-promotional benefits—film, books, toys, etc.—could be established by simple contracts. You don't need $15 billion mergers to create them.

Twenty years ago, CBS bought the New York Yankees baseball team and the big publisher Simon & Schuster, all to achieve those same vaunted synergies. Nothing came of it. Sony bought Columbia Pictures and Records, to merge film and music with consumer electronics, and lost billions on movies. Its share in music fell

Declining Concentration (4 firm shares)

Table 4

	1986	1990	1995
Telecom. Services	77%	76%	73%
Computer Hardware	56%	45%	45%
Computer Software	42%	39%	35%
3 Major TV Networks	70%	63%	53%
Basic Cable Channel Firms	67%	53%	39%
Pay Cable (Time Warner)	57%	57%	51%

Rising Concentration (4 firm shares)

Table 5

	1986*	1990	1995
Microcomputer Operating Systems	55%3	85%	90%
Cable TV Distribution	37%	46%	60%
TV Stations	15%	16%	26%
Radio Stations	8%	9%	20%
Book Publishing	15%	30%	33%
Book Stores	20%	23%	26%

* The 1986 column actually contains Microsoft's 1984 market share.

from one-fourth to one-sixth. In Time Warner's case, the synergies became negative as the rap music business dragged down the respectability of the news magazines; today, the company is a collection of feuding fiefdoms. Disney, Viacom, and News Corp. will get there too, after their empire-building leaders have left the scene.

Although media companies have become more diversified, they can only exploit cross-ownership for so long as they retain market power in distribution. While the Telecommunications Act of 1996 led to an immediate spurt of media mergers, it also opened the door to competition between cable, wired, and both satellite-based and terrestrial wireless distribution systems. Such developments will not be as instantaneous as the media deals. But in time they will undermine the economic power and rationale for diversified media corporations.

Does this mean there is no concentration problem? No. But the real problems in media concentration are not national, but local. 98.5% of American cities have only one newspaper. (They rarely editorialize about that.) 98% of American homes have no choice in their cable provider. Alternative local residential phone service may be coming, but is not here yet. Local radio concentration has increased considerably since the Telecommunciations Act of 1996 relaxed local ownership ceilings, and is more of a problem than national radio concentration.

None of this is surprising. Local media are the weak link in the media revolution. Competing national media lead to narrowcasting. Programs are expensive, and must be produced for the world, not just for a town, in order to make money. Media companies must aggregate increasingly scarce eyeballs nationally and internationally. That's also true for cyber-media, which have been world-wide from the beginning. And local media are even more in trouble in the future. In cyber-television, advertising can be customized and targeted, and advertisers will migrate away from local newspapers as advertising vehicles.

But on the national level, to repeat, there will be more competition, more conduits, more content. With the number of channels increasing, smaller firms can enter. The Internet is rapidly becoming an important media outlet. In 1996, some-

Stable Concentration (4 firm shares)

Table 6

	1986	1990	1995
Film Production	62%	62%	61%
Cinemas	29%	29%	29%
Newspapers	25%	25%	26%
Magazines	23%	22%	22%

where between 9 million and 42 million US residents used the Internet, depending on whose estimate you believe. These estimates have been doubling annually. The current Internet is primarily a medium for text, graphics, and audio information. In the future, small firms will connect their video servers to such cyber-networks, and users will come to them. It will be more like in book publishing today, some big players and many small ones.

Does this solve all of our concerns? Not all of them. Diversity still does not assure openness. Competition can lead to exclusion of unpopular voices in order not to offend. Advertisers have more power. Content becomes more sensationalized. In the past, common carriage was the bedrock of free speech in an environment of private carriers because it prevented a carrier from discriminating against any speaker or lawful speech. But now, the days of common carriage are numbered. Most importantly, the regulatory status of the Internet is up for grabs. And those are the issues we should focus on. ■

Eli M. Noam is Professor of Finance and Economics and Director, Columbia Institute for Tele-Information. Robert N. Freeman is Media Concentration Research Project Manager, Columbia Institute for Tele-information.

Quote...

News Bites Dog

"In the crucial period before the Nov. 5 elections, Bay Area television stations almost entirely ignored local, state and national politics...there were almost no stories from the TV news departments that sorted out the issues and gave viewers any hope of understanding the real story. Instead, the broadcast journalists on whom most people rely as their primary source of news were busy doing detailed reports on disaster, mayhem, crime, and animals. All the local stations spent a vast amount of time covering the fires in Los Angeles. KGO even aired a report on how fires affected the filming of *Bay Watch* (and yes, it included shots of Pamela Anderson in her swimsuit). KPIX ran an item about a farmer in Austria who yodels to his cow. KRON reported on a goose and a dog who became friends.

"Hot stuff.

"Why is this happening? Why is one of the most intelligent, politically sophisticated media markets in the country getting such horrible television news?"

—*The San Francisco Bay Guardian*

...Unquote