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Adjusting the Picture: Media Concentration Or Diversity?

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The Federal Communication Commission's decision to relax limits on television and radio ownership has sparked a wide debate on media concentration in America. In this panel discussion:

- Ben Compaine of MIT argues that media diversity and competition has vastly increased in recent years. There are now seven TV networks now instead of three; cable TV has spread, adding some 50 additional networks; and viewers can have 24-hour news instead of 30 minutes per night.
- Robert Okun of NBC discusses the effect of media regulations on broadcast networks, pointing out that network-owned stations have only about 2 percent of the TV market. Continued regulation, he argues, would threaten free, over-the-air television.
- Chris Core of WMAL-AM presents his perspective as a 30-year on-air radio industry veteran and describes some of the perverse consequences of media regulation.

This paper, in its entirety, can be found at: *www.heritage.org/research/regulation/hl798.cfm*

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JAMES L. GATTUSO: I was a little bit hesitant to schedule an event such as this for such a day. In many respects, economic issues and what the Federal Communications Commission does or does not do pale in significance compared to the events of September 11 and the commemorations and reflections today.

But it also occurred to me that September 11 is certainly not irrelevant to the issue that we're talking about today. In many respects, September 11 and the events that have followed it over the past couple of years have been among the most challenging and most revealing for the media in many decades, perhaps ever.

Many reporters were in personal danger on September 11. There was massive coverage. Channels that do not cover news broke away for coverage. Even networks like Comedy Central broke away to report that event thoroughly.

Since then, I have been struck by the diversity of media coverage as we progress from Afghanistan to the Iraq War and in foreign policy events that followed.

I remember the day that the Iraq War started. That evening, I was watching, I think, MSNBC coverage first. I remember looking at it and thinking, "Well, I'm not really getting what I want here; they don't seem to have all the information. Let me go check what CNN has." I checked CNN. I said, "Well, this was interesting. I wonder if anyone else has anything different."

I turned to Fox, and they had another aspect. I said, "Well, what is Tom Brokaw saying?" I checked Tom Brokaw on NBC And I checked ABC.

I think there were seven or eight different sources of news, many of them independent from each other, that I was able to view at a push of a button from my house. If that's not media diversity, I don't know what is. Other people I spoke to that night were watching, either through Internet or through cable, French TV or even Al-Jazeera TV. It really brought home to me the breadth of choice that we have today in media that didn't exist earlier.

As all of this was going on, the FCC promulgated new rules on media ownership. I believe these were relatively marginal changes in the pre-existing rules, but they spurred a very strong backlash—a hue and cry about media monopolies, about control of our media by a very few large conglomerates.

I think there are a couple of reasons that this issue touched a nerve. I think in the American mind there is an historical and almost gut distrust of big companies, even in competitive industries. Big makes people nervous.

I think there is a distrust of the media generally. Certainly, in conservative circles, the mainstream media have not been particularly popular. Whether or not there is an actual liberal bias is a question for another day.

The new development is that there are now conservative media, both in conservative talk radio and on Fox-TV. That for the first time has caused what you might call a liberal backlash: people of the left-of-center persuasion who are mistrustful of the media because they think that their views are not being represented.

Those two threads, both on the right and the left, I think have led to this populist backlash against media deregulation. Is it justified? That's something I'm hoping our three panelists can discuss today.

Each of our panelists comes to this issue from a different vantage point. Ben Compaine is an academic who has written widely on this issue. Bob Okun has been highly engaged in the legislative and the regulatory fights on this. Chris Core is the host of the Chris Core Show on WMAL locally, and has seen this business from the inside over four decades.

Let's start the panel with Benjamin Compaine. Ben is currently a research consultant at the MIT Program on Internet and Telecoms Convergence. He previously served as a research professor at Penn State University and a professor of telecommunications at Temple University, as well as director of the Program on Information Resources Policy at Harvard.

He is the author of a number of books on media and telecommunications issues, including *The Digital Divide* from 2001, and a book appropriately called *Who Owns the Media?* That was originally published in 1980 and was recently revised and reissued. Ben is a graduate of Dickinson College and received his Ph.D. from Temple University.

—James L. Gattuso is Research Fellow in Regulatory Policy in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.

BENJAMIN COMPAINE: Let me start with a disclaimer. I have never worked for any media company that's made more than $2 million in revenue. I've never taken a research grant from any of these companies. I've never been a research consultant or a consultant for any of the big media companies. Maybe there was two or three thousand dollars somewhere along the line, but essentially I've never been part of this industry.

I come to my conclusions not because of any axes to grind or any interests other than having looked at the data and come to some conclusions on those data, and having been immersed in the media since I was editor of my college newspaper.

Who are the media? A lot of folks. There are a lot of stockholders, a lot of different companies. In 1980, when we first did *Who Owns the Media?* we had a list of the 50 largest media companies, and that number is not shrinking

In fact, the percentage of revenue accounted for by the 50 largest firms as a percentage of total revenue was not very much greater than it was 15 years earlier—a little bit, but nothing that is worthy of all this dramatic stuff about concentration.

There's been a lot of rearranging of the deck chairs. We've seen that with a company like Universal—first Matsushita bought it, then Seagram's, and then Vivendi. Now Vivendi is going to sell part of it to NBC.

While we see in the headlines a lot of mergers, there is also a lot of divestiture going on and a lot of simple rearranging. The bottom line is that the actual amount of concentration in the media industry taken as a whole is very, very much the way it was in 1978.

Of course, there are a lot of people who are against the FCC rule proposals.

Many of the academics who are quoted most often in the press, if you look beyond their quotes and look at their research and their writing, have a very distinct anticapitalist bias (I would venture to say socialist bias). They essentially believe that big companies should be owned or controlled by the government. They're against any big capitalist ownership. So media just happens to be their latest whipping boy. It could be breakfast cereals or any other business.

The issue of media ownership, as I see it, actually has two big components. One is the notion of content diversity. That's the very emotional arm-waving thing, that we want to make sure that there's enough diversity and the same two or three companies don't own it all.

The second component is the antitrust component, the notion of monopoly power, that any company or set of companies actually has enough power to set prices for either consumers or advertisers.

It seems to me the second one is fairly easily disposed of. We have Federal Trade Commission and Justice Department merger guidelines and antitrust law. These work fairly well. No one is really saying—at least not credibly—that we've reached any sort of antitrust limits overall in media ownership.

Most of this is about content and the visceral feeling that we want to make sure there are enough players out there. That's a much harder thing to judge. The FCC, I think, has offered a reward to anyone who can come up with an index of media diversity. I've looked at that myself. It's hard to come up with a measurement for a factor that ephemeral. So it's really about the perception of a reduction in diversity of content should there be any greater consolidation.

Let me go through at least five points as to why I think the FCC was absolutely right to relax ownership limits. I'm going to concentrate just on television broadcasting, because the stakes are the highest there and the visibility is the greatest. I think the radio part is contentious, but TV seems to get everyone's blood flowing. So let me look at that in particular.

1. **More Networks.** What is absolutely irrefutable is that the most increasingly competitive part of the media business in the past 20 years has been television. Unlike newspapers, unlike any other part of the media, it's become much more competitive.

   When Newton Minow, then the chairman of the FCC, gave his speech in 1961 about TV being a vast wasteland, there were three television networks. That was it. You had to get it from three, plus PBS. Actually, I'm not sure. PBS wasn't even there then. Three networks.

   Today, there are seven national broadcast networks—not even looking at cable—of which five have totally independent ownership, and two have some overlapping ownership with others. Under the strictest set of assumptions, we've gone from three to five networks. That's a 67 percent increase.

   Also overlooked is that the development of the Fox Network came about through two deregulatory decisions by the FCC. One was in 1986, when it allowed a single owner to own 12 TV stations instead of seven. That happened to be the year that the Fox Network got started. Coincidence? Deregulation gave News Corp. the ability to buy enough stations to have a core (I think 33 percent of the television audience) for a network and then add affiliates. Up until then, it was much too difficult to get that core needed for a network.

   The other decision was forbearance from the financial interest and syndication rules that prevented a network from owning its programming. News Corp. had bought 20th Century Fox, which had a TV production outfit. Those two things made the economics reasonable for a company willing to commit a lot of money to come in and try to do a fourth network. As it turned out, that worked and set the stage for UPN and Warner Brothers to start their own networks. But that was the model, and it was in large part because of some deregulatory decisions. I think that's often been overlooked.

As an aside, I find that many of the critics of television back then have not been happy with the Fox Network because they always thought that more diversity would bring more up-market stuff—we'd finally have opera and live theater. Of course the Fox Network went down market, but that's diversity. Be careful what you wish for, because you might get it.

2. **Cable and Satellite TV.** The second development is the rise of cable and satellite technology. Something like 96 percent of households today have access to cable; close to 70 percent choose to get it. Direct Broadcast Satellite service covers close to 100 percent of the country, so that anyone who wants to get it can get it.

   Some studies have shown that low-income households actually get cable at a higher percentage than upper-income households. It's a great value. You can watch a lot of television for your $20 or $25 a month. A monthly subscription to basic cable is roughly the same cost, depending on where you live, as buying the newspaper every day. I've never heard anyone say we should have free newspapers.

   So today there are at least 50 networks on cable and DBS. Probably more. It depends on how you count them, whether there are multiple ownerships and such, but there are at least 50 cable firms owned by a dozen, if not many more, different companies doing different things.

   In 1970, 90 percent of the prime time audience watched one of the three networks. Last year, under 50 percent watched the five major commercial networks in prime time. So clearly the audiences are using their clickers to move around, and they're getting what they want.

3. **Videos, DVDs, and Videocassettes.** The motion picture producers and distributors now get more than half their revenue from sales of DVDs and videocassettes. That also means that in the rental stores, Netflix online, at Wal-Mart, at Best Buy, there's a channel of distribution for lots of other stuff besides Hollywood movies. You can rent or buy old documentaries, exercise tapes, music, biographies, and all sorts of other things. So we have a whole new way of getting stuff on that tube than we had 20 to 25 years ago.

4. **Television News.** Television news has also changed. Back in 1975, there were 30 minutes of national news a day, and that was the evening newscast on the networks. Most of them were at the same time, so all any of us could get was only 30 minutes of national news. Today, we can get 1440 minutes—that's 24 hours by 60 minutes. You can get it from lots of different places: CNN, Fox, MSNBC, CNBC, and on and on.

5. **Internet**. My final point is the rise of the Internet. While the Internet isn't a direct competitor with television, it certainly is a direct competitor for time and a place to get information and news. You can get streaming radio. You can get material from Sri Lanka, Cyprus, Brazil. You can get whatever language you want. You can get it all over the country. You can get video. It's not great, but it's getting better.

Two-thirds of households now have access to the Internet. Almost 30 percent of those households now have broadband. It's not 30 percent of all households; that's the figure we often get wrong. Almost 30 percent of households that subscribe to the Internet now get broadband. People are signing up at a rate of millions a year.

MR. GATTUSO: Our next speaker is Robert Okun, who is vice president of NBC Washington. In that job, he's responsible for coordinating the development of NBC's policy positions on legislative and regulatory issues.

Before joining NBC, Bob had a long career in government service, both on the Hill, where he was most recently a floor assistant to House Speaker Bob Michel, plus holding a number of other positions on the Hill, and also served in the early '90s as assistant secretary for Legislation and Congressional Affairs at the Department of Education.

ROBERT OKUN: What we have here is a bumper-sticker debate. I'd say on the one hand, coming from the network perspective, our opponents say "Big Is Bad." I would venture to say the bumper sticker that we should develop is "Save Free TV." Let me describe that in a little more detail. I think Michael Powell's op-ed in today's *Wall Street Journal* was getting at that particular point.

There has been a public policy decision made in this country, and it was reaffirmed as early as 1996, after we rewrote the Communications Act, that we should have a robust, free, over-the-air broadcast system in this country rather than an entirely pay system.

Using that as our fundamental premise, how do we make sure that there is a robust, free, over-the-air TV system? We still have about 15 percent of the country or so, based on Ben's numbers, that get television free over the air. That is, they plug it in, they put up the rabbit ears, and they get the programming.

The constituency for this service is pretty varied: rural America, a number of people in urban areas who can't afford it, those who just choose not to have a pay service, those who have second sets in the home. This free, over-the-air broadcast system is still important to this country.

I think this was more than just an economic decision back in 1996. The decision was that there still are some shared national experiences with free, over-the-air broadcasting, whether it's watching the Olympics or the Super Bowl for free or watching a movie like *Schindler's List*, for example, which we had put on NBC almost commercial-free. That's important to the country, particularly as we move to a faster and faster pace and more fractionalized type of viewing patterns.

Now, who is our competition for free, over-the-air television? Well, it happens to be the pay services—that is, a combination of cable and satellite. The reason for the competitiveness is that when you look at the broadcast system, we have a single revenue source. That is, we put on the programming at the network. We own some stations. We have a whole system of affiliated stations. (We don't own those stations.) We sell advertisements.

NBC, for example, has close to 220 other stations around the country that are affiliated with us. They carry our programming, which, by the way, we give to them for free along with a check, which is called compensation, to carry our programming. In return, they agree to clear our programming so that we have a national footprint for the programming that we produce.

Then we go to advertisers around the country and tell them that we can reach a national audience, cover the entire country in most cases, if they will advertise on our programming. That's where the competition is between all the networks out there. That's why the ratings points and the shares, and who's got the best shows in the fall make such a difference.

If you're an advertiser with a new movie coming out or a company with a new soap product or toothpaste, you want to reach the demographics that you want and the broadest possible audience. So we have a single revenue source as a broadcast network, which is advertising.

Now if you're looking at cable and satellite, although it was not designed this way from the very outset, they have a dual revenue stream. So, obviously, they have a big advantage, both in terms of the subscription fees that they charge and being able to sell advertising.

In addition to that, they have some other advantages. They don't have nearly the content restrictions, or the First Amendment restrictions, if you will, that we have on broadcasting. We are using the public airwaves. We have certain restrictions in terms of the public interest, most specifically serving localism, diversity, and competition if you're a broadcaster. Cable doesn't have that.

As a result, they can put on much edgier programming. They can use this dual revenue stream to subsidize new and innovative programming.

That's why, as Ben was saying, you're seeing the edgier shows like *The Sopranos* and *Six Feet Under* and other programs that win all kinds of awards taking away the viewing audience for free, over-the-air broadcasting.

Given these changes, the FCC decided to look at the whole bevy of broadcast ownership rules. After two years, the FCC decided that, rather than give the broadcasters a direct subsidy, as some other industries such as airlines, for example, have gotten, it would move to modest deregulation. Among the changes, the FCC decided to modify the cap on the number of stations one entity like an NBC can own.

Specifically, the national cap was changed from 35 percent national reach to 45 percent. It is important to note that this is not market share, but simply the potential audience that can receive our signal. NBC's actual market share measures more like 2 percent.

Quite frankly, I believe, and our company believes, that the marketplace is so competitive that you might not even need a cap, but politically, that's not where the Commission or the Congress was going to end up. So this slight move in the cap was designed to let the broadcast networks own more stations.

Now, why would someone want to own more stations? As it turns out, owning a television station is a wonderful business proposition. The margins of owning stations are pretty good, and so there is a desire for us to own more stations. It's essentially a subsidy for us to then put on all the programming that people like to see.

The cost of programming, both at the entertainment level and the sports level, is out the roof. If we don't have the ability to own more stations and amortize some of those costs, you're going to see a lot of programming migrate to cable. I think you saw it even this year in NBA basketball.

NBC, which I would argue is the lead network, has been out of football, baseball, and basketball. Who would have thought five years ago that we'd be out of those three major sports? We do have NASCAR and extreme sports and some golf and tennis, but those are the three sports I think that people recognize most.

In basketball, most of the NBA playoff games were on cable. That is a trend. I think that will continue. I think you're seeing a lot of first-run movies go to cable. I'm not sure where the Super Bowl will end up three or five years from now. But I think that is the point the chairman of the FCC was making in today's paper about this whole concept of Save Free TV—that if they hadn't made what I believe is a very minor regulatory modification, you'd see more and more programming migrate to cable.

Now, the other point is that when a network owns a TV station, as I said, it's good business, it's profitable, but it just so happens to intersect with the public interest. As it turns out, when NBC owns a station, on the average, we do 30 hours plus of news and information per week. That's 30 percent more than non-network–owned television stations. Here's the reason.

Here in Washington, D.C., Channel 4 is an NBC-owned and operated station. We have 14 of these stations around the country. They happen to be in major cities like Miami, Los Angeles, and so on. We also own some stations on our Telemundo network, which is the second of the two Spanish-speaking networks.

When you own a station, you want to be number one in that market. The only way you can be number one in that market is if everybody knows your anchor, and your sports person, and your weather person. So everybody here knows Doreen Gentzler and Jim Vance and Bob Ryan, the weatherman, because they're very connected to the community. So it's in our profit interest to have the best news and information team. It turns out it's also in the public interest.

My final point: This whole concept of local ownership is really from a bygone era. It's true, NBC is headquartered in New York. But we hire general managers around the country that happen to be very connected to those local communities.

In fact, in terms of diversity of programming, I would argue that the networks actually do a better job—and I believe the FCC found that in terms of their studies—at local news and information programming than do non-network–owned stations.

MR. GATTUSO: Working on this issue here at Heritage, we speak to a lot of reporters in the print media and television and radio. One thing that struck me is that, unlike almost every other issue we work on, these reporters and radio hosts know as much about this issue—or more—than the policy experts do.

On both sides of the issue, time and again, radio hosts have personal stories to tell; have experiences either positive or negative. They have informed opinions, and they've really been on the front line of the economic, policy, and social aspects of what's been happening in their media.

That's why today we've decided to turn the tables a little bit. Instead of having a radio talk show host

host us, we decided to host a radio talk show host. I think we picked a good one, Chris Core, here locally on WMAL at the Chris Core Show.

I had heard Chris a number of times on this issue on the air, and one time in particular really got my attention. He had on the publisher of *The Seattle Times*, who I think was not expecting an informed interview and said his usual lines and statements.

He got quite a bit back from Chris, who I think got the better of that interview. That program stuck in my mind, and I thought of it when we were putting together this panel.

CHRIS CORE: I'm not a scholar and I'm not an expert. I'm just somebody who has spent the past 30 years or so in broadcasting. Mainly it's just my observation. But the best observation, the best illustration that I have, is this: When I first started working for WMAL Radio back in the mid 1970s, we were owned by *The Washington Star* newspaper.

The families that owned *The Washington Star* newspaper decided, for family reasons, to sell the properties. They sold the properties, which included *The Washington Star* newspaper, WMAL television, WMAL radio, and a couple of other broadcast properties not in the city, to Joe L. Albritton.

As soon as Mr. Albritton bought the properties, the FCC came forward. This is really, I think a story of unintended consequences, if you follow along. The FCC said to Mr. Albritton: We have these rules in place now. We're worried about a monopoly of opinion in a market, so because of our rules, you cannot own a newspaper, a radio station, and a television station in the same market; it's not going to be allowed. You're going to have to sell two out of the three. You may keep one, but you're going to have to sell two out of the three.

Albritton then went to the FCC and said that he needed a waiver on this. If you make me sell the broadcast properties, he explained, the newspaper will fold. I cannot afford to keep *The Washington Star* afloat without the revenue coming in from the radio station and the newspapers and the television station. Too bad, said the FCC; our rules are our rules.

So Albritton, being a smart businessman, kept the television station, which is the most profitable of the three, and sold WMAL Radio to ABC, which still owns us, and sold *The Washington Star* newspaper to *Time* magazine, which quickly discovered what Albritton had tried to tell the FCC. The newspaper could not stand on its own, and it closed.

That left Washington, D.C. with one newspaper. So in the interest of trying to make sure there was not a monopoly of opinion in Washington, the FCC, in its great wisdom, took us from a vibrant two-newspaper town to a one-newspaper town, and to this day we still suffer because of that decision.

Had Albritton been able to keep the radio station, the television station, and *The Washington Star*, my guess is we might still have a version of *The Washington Star* here, and it would not have allowed *The Washington Post* to monopolize political opinion and local opinion for the past 20 years. True, we have *The Washington Times* now. I'm a subscriber, and it's a good newspaper, but it is not the paper of record in Washington. For the most part, it is not the opinion-setter. It's not the one that all the newsrooms open to find out what the big story is. They go to the *Post*.

It's directly because of this idiotic decision, in my opinion, by the FCC, to tell Albritton, "No, we're worried that you're going to monopolize opinion in Washington." Give me a break.

The other part of this is, I think that when you come to broadcasting—and this is what you were talking about, Robert—there's an economy of scale here. For example, to use your company, I watch CNBC, I watch MSNBC to get my news. My guess is that if MSNBC was not owned by the big corporation, GE and NBC, MSNBC probably could not make it on its own and probably would fold, just simply because there's no profit in that programming.

But because NBC has this great big pot and can use reporters from all the different services that they can trade with CNBC, with NBC, with the other properties that you own, we have many more sources for information than we've ever had before.

If somebody came in and said you can own only one, MSNBC would go under, CNBC would go under, NBC would continue to exist in some form, but lots of these other choices that you were speaking about, Ben, would just disappear, because economically, that couldn't happen. You need a big company to provide a lot of diversity.

Will this big company monopolize opinion? In my opinion, the answer is no, and the reason is very simple. I will tell you this: If you don't believe this, all you have to do is spend a little bit of time in the broadcast world. Broadcasting is not about controlling opinion. Broadcasting is not about trying to win hearts and minds.

Broadcasting is entirely about getting ratings and making money. Now, is that a good thing or a bad thing? I don't know. I think it's a good thing because what it allows is an incredible diversity of opinions.

It would be ridiculous for Rupert Murdoch to found five more television stations to pound a conservative viewpoint, because all he would be doing is cannibalizing the audience that he already has on Fox. So my guess is that if Murdoch decides to branch out, he'll put out a liberal station, a socialist station, a libertarian station, because every time you do that, you attract another piece of the audience. and again, because of the economy of scale, it doesn't cost that much more to do it.

Once you've got the building, once you've got the electricity and the bathrooms and the secretaries, once you've got the four walls around you, you've paid a pretty big price for the property. Now, you divide that up with these different fingers, as I call them, of the broadcasting hand, and you begin to bring in real revenue.

So I think that there is more danger of having a monopoly of opinion if you shrink the amount of properties that one owner can own than there is the other way around. My company is Disney now, which bought ABC, which was bought by Cap City, so we've been eaten several times by this.

If I saw on any of these mergers that there was some corporate directive to pound a certain political viewpoint or social viewpoint through the airwaves, I probably would have a different opinion. But the opposite is true. We've never been directed by our bosses on what we're supposed to say, any opinion we're supposed to have, any editorial position we're supposed to take at all.

If anything, these big companies have allowed us to have this incredible diversity of opinion. Scroll through the cable channels that Ben was talking about, and you can see everything from the far left to the far right. I think that's because the market is in play.