Insight

Eliminating Burdensome Media Ownership Rules Will Help Outlets Adapt To The Digital World

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At its next Open Meeting, the Federal Communications Commission (FCC) will vote on an order to modernize broadcast media ownership rules. The order, if it passes, will eliminate arcane rules from the 1970s that prevent one company from owning both a broadcast station and a newspaper in the same market, or both a radio station and a television station.

The proposal to eliminate these cross-ownership rules has sparked opposition. Former Democratic Commissioner Michael Copps decried the move, calling it "a virtual death sentence for local media." Craig Aaron of Free Press said the change would "eviscerate longstanding limits on how much local media one company can own, clearing the way for a new wave of mega-deals that would put the same cookie-cutter content on every channel and more journalists standing in the unemployment line."

But Copps, Aaron, and other critics of this change have misconstrued both the original intent of the rules and how this shift would affect the broader information ecosystem now. For starters, the rules are based on an antiquated view of antitrust. Moreover, research in the decades since the rule passage has found that cross-ownership limitations don't lead to more voices. Indeed, common ownership often leads to more local news programming. Finally, the move to digital platforms requires costly and complex modernizations that local newspapers, in particular, are struggling to make. Eliminating burdensome restrictions would help them survive and adapt to this new world.

What Would Change?

If it passes the commission, this order would go a long way to update media ownership rules. The biggest changes would:

- Eliminate the Newspaper/Broadcast Cross-Ownership Rule, which limits the ability of a single company to own both a broadcast station and a newspaper in the same market;
- Eliminate the Radio/Television Cross-Ownership Rule, which limits the ability of a single company to own both a radio station and a TV station in the same market;
- Revise the Local Television Ownership Rule, which requires a minimum of eight stations after two station owners merge, to institute instead a case-by-case review of proposed mergers; and
- Adopt an incubator program to encourage new entrants to enter the market.

These proposals are not new. Under the Obama Administration, FCC Chair Genachowski put out a proposal to relax the rules, but faced intense pressure from media advocate organizations and never brought the order to a vote. The market pressures remain, suggesting that the rules are, according to an FCC statement, "no longer necessary to promote viewpoint diversity and [prevent] combinations that would enable both broadcasters and newspapers to better serve the public interest."

The Context of 1975

All the broadcast cross ownership rules were originally adopted in 1975. The mid-1970s was a very specific time for the news business. TV stations were at the peak of their popularity, drawing nearly 95 percent of the prime-time audience. Similarly, nearly 80 percent of the population read daily newspapers, a high point for the industry.

The cross-ownership ban finds its roots in the belief, popular at that time, that all vertical mergers are anticompetitive. The original rules have countless mentions of "anti-trust" principles. Indeed, this focus is stated plainly: "Much of the discussion relating to daily newspaper-television station common ownership in the pleadings was approached from the point of view of anti-trust considerations." The FCC was merely reflecting the antitrust sentiment of the time when it created these rules, and the diversity-of-voices argument stems from this sentiment.

As the study of firms and organizations modernized, both economics and antitrust scholarship shifted to reflect a new insight: Vertical integration often helps consumers. Over time, the strict bans on mergers gave way to more nuanced judgements. In 1982, the Department of Justice published Merger Guidelines, a watershed document that signaled a dramatic shift in thinking about mergers and monopolies. Economies of scale and efficiency were now rationales for integration.

Yet while antitrust law has shifted, the cross-ownership rules in telecom have remained tied to that older way of thinking.

The Effects of Cross-Ownership

Research since 1975 has called into question the empirical basis of the diversity-of-voices argument. If it were the case that separate TV, radio, and newspapers stations led to more voices in the local market, then studies should all point toward that fact. But, the empirical literature tends to be much more mixed, and it often finds that cross-ownership actually increases the amount of news, which makes sense. Since gathering news is expensive, outlets can achieve economies of scale by combining their news production efforts.

When reform of these rules has been proposed in the past, the FCC supported outside economic research in 2006 and in 2010 to understand the effects of consolidation on the market. Stations cross-owned with a newspaper, one study found, provided 11 percent more news programming per day, which translated into 18 more minutes. This study also found that larger station groups nationwide tended to provide less news programming, and the same tendency also applied to locally owned stations.

In that same cohort of FCC-backed research, another study came to slightly different conclusions. Newspapers co-owned with other newspapers were found to have a 5 percent drop in the total amount of both national and local news. Despite this, cross ownership with radio or TV didn't seem to affect the quantity of news the papers published.

When the FCC again took up the issue of cross ownership in 2010, another pattern emerged. Television stations cross-owned with major newspapers in the same market tended to air more local news programming. Yet, that increase didn't translate into more local news programming at the market level, since non-integrated outlets produced less local news, their efforts crowded out by the new, larger companies. Moreover, when a single parent company controls two or more stations in the same market, and when broadband subscribership is higher, the amount of local news rises relative to national news programming.

Studies not backed by the FCC have found varying effects, but they broadly point toward reforming the current rules. An analysis of media surrounding the 2004 election found that "there is no empirical basis for believing that cross-owned media do any less than other media to serve the public interest." Another study, spanning 1993, 1999, and 2004, suggested that differentiation and variety increase with ownership concentration.

A primary criticism of all the papers mentioned here contends that the local media ecosystem was changing just as these studies were conducted. The media landscape has changed dramatically since 1975, with cable stations such as CNN and FOX competing with the legacy broadcasters and the Internet bringing competition to newspapers. This revolution began in the media world in the 1990s and 2000s. Thus, even when considering some criticisms of these studies, the research points to a broad takeaway: context matters. Strict bans should be replaced with careful case-by-case analyses.

The Move to Online Platforms

The move to online platforms has greatly impacted news outlets, and especially local ones. Adapting to the demands of the new environment is costly, and even legacy news outlets like *The New York Times* resisted changing to an Internet-first focus. While larger institutions sometimes have the resources to make this shift, local outlets often do not.

If local news wants to survive this shift, it will need to find the resources and capacities to evolve—and common ownership could provide just the answer to this challenge. Short video spots and podcasts have become standard for many national news organizations. At the local level, however, rules against newspaper, TV, and radio cross-ownership hamstring what could be a natural fit for converged media outlets. Consumers want media over multiple platforms. Allowing for common ownership among those platforms seems to be a sensible approach.

Conclusion

The media ownership rules were a product of their time, and while they might have made sense then, the information ecosystem has shifted. Today, the Internet dominates the landscape, and so change is rightfully in order. Empirical research confirms what is widely believed in the field of economics: common ownership can lead to more production. Since local news outlets, especially newspapers, are struggling to adapt to the online-first environment, eliminating a burdensome regime and replacing it with an updated case-by-case approach would be prudent.