Peer Review of "Relaxation of Media Ownership Limits and Concentration of Media Markets Undermines Minority Ownership," by S.Derek Turner and Mark Cooper (Study 13)

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The first part of this study presents a count of stations that are owned by minorities and a further breakdown according to the race/ethnicity of the owners, for each of three years: 1998, 2000 and 2006. The counts are based on FCC Form 323 Filing, NTIA and Free Press Research. I have no way of assessing the quality of the assignment of stations to minority or more detailed status and will simply assume that it is done correctly.

The figures show clearly that the rate of minority ownership was no different in 2006 than it was in 1998. The component parts of the rate attributable to the different race/ethnicities are not stable, however. The rate of African-American ownership fell substantially (although not statistically significantly) [1] over that period. The authors stress the fall in African-American ownership, while ignoring the increase in the Hispanic, American Indian/AK Native and Asian ownership rates.

The authors are careful not to explicitly infer anything about the relationship between concentration policy and minority ownership from these figures, but they do allow themselves the comment that "there has been no improvement" in minority ownership "despite" the increase of television stations by about 12 percent. No explanation is given as to why an increase in the total number of stations would normally have led to an increase in the rate of minority ownership, but the implication is that the relaxed rules on concentration have offset what

[1] There is no attempt to test for the significance of the fall in the African-American ownership rate. Given that these ownership rates are so small, one would expect substantial volatility in them. Indeed, the p-value for the Fisher exact test for no change across 1998 and 2006 is .17, indicating no significant change, using typical accepted threshold values.

otherwise would have been an increase in minority ownership. Inferring a negative effect of policy changes from a concurrent negative change in some outcome without a control group is always problematic; it is additionally so here when one of the policy change (the increase in the national cap from 25% to 35%) occurred in 1996, before the first year analyzed here, and when the change of the outcome of interest is not actually observed to be negative but is surmised to be so on the basis of some unspecified theoretical mechanism.

The authors go on to compare the average number of stations owned by minority versus non-minority owners,[2] and male versus female owners. Minority and female owners are shown to own fewer stations. The authors argue that consequently, minority and female owners are thus "more likely to better serve their local communities than stations controlled by large group owners", on the basis of an FCC study that showed that locally owner stations broadcast more local news. This argument sees minority/female ownership as a *mechanism* to ensure local ownership and so can not serve as part of a critique of relaxed concentration rules that is based on the effect of those rules on minority/female ownership. Furthermore, the authors fail to show that effecting local ownership through minority/female ownership is preferable to effecting it through direct policy rules on local ownership.

The authors also state that "minority and female station owners are more likely … to feel the negative effects of increased consolidation." This may be the case, but the authors provide no empirical evidence of it. No theoretical argument is given either, and, indeed, in standard models of competition, in which

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[2] The latter would appear to include corporate owners.

category broadcasting markets admittedly do not fall, non-merging firms typically benefit from the consolidation of other firms.[3]

The second part of the study identifies those sales of minority-owned stations that would not have been permitted under the old concentration rules. The implication is that had the policy changes not taken place, these stations would not have been sold. However, this is not necessary so: the minority owned stations might still have been sold, but simply to other owners whose acquisitions of the stations would not have violated the previous rules. Put another way, the changes in the rules may not have affected which stations were sold, only to which buyers they were sold.[4]

The last part of the authors' analysis is a statistical analysis of the relationship between the incidence of a minority owner in a market and the degree of market concentration. The results show that across markets, and given the market rank and the fraction of the population that is minority, the incidence of at least one minority owner is associated with lower concentrated.

The authors claim that this (partial) correlation between the presence of a minority-owner and low concentration suggests "that minority-owners thrive in more competitive markets, regardless of market or station characteristics". But this inference can not be made.

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[3] Salant, Switzer, and Reynolds, "Losses from Horizontal Merger: The Effects of an Exogenous Change in Industry Structure on Cournot-Nash Equilibrium", *Quarterly Journal of Economics*, May 1983, 98:185-99, and Deneckere and Davidson, "Incentives to Form Coalitions with Bertrand Competition", *The RAND Journal of Economics*, 16(4), 1985, 473-486.

[4] A more convincing argument, although would still not be definitive, would have been to show that the fraction of sales of non-minority owned stations that would not have been permitted under the old rules was significantly lower than the fraction of sales of minority owned station that would not have been permitted.

The results are equally well interpreted as saying that where there is a small owner, the market is likely to be less concentrated. By definition, allocating a station (whether an additional one, or one previously owned by a multi-station firm) to a single owner will decrease the concentration rate. The authors have shown us that minority owners hold fewer stations overall; it seems reasonable to assume that they own fewer stations within any given market as well. Thus minority owner may simply be proxying for single owner here; and such an association is simply a definitional artifact.

There are two additional problems with the statistical analysis in this part. First, concentration should be a function of market size, not market rank: the larger the market, the more stations that can operate profitably in it; it will not matter how many other markets there are that are bigger than the market of interest. If there are regulatory constraints that are defined according to market rank, then market rate will be a determinant of concentration, but in addition, not in place of, market size.

Second, it is well known that linear probability, probit and logit estimates are typically (corrected for scale; Amemiya, *Journal of Economic Literature*, 19(4), pp. 1483-1536.); it is not much of a robustness test to estimate the relationships with all three functional forms.