

# CBS-Viacom and the Effects of Media Mergers: An Economic Perspective

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## I. INTRODUCTION

Like other large-scale mergers between media corporations, the proposed CBS-Viacom combination has attracted a great deal of public attention. It immediately rose to the top of the national news agenda when announced in September 1999, and congressional hearings followed on October 28.<sup>1</sup> The merger plan brings together the extensive motion picture

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1. See *The Viacom/CBS Merger: Media Competition and Consolidation in the New Millennium: Hearings Before the Subcomm. on Antitrust, Monopolies, and Business Rights of the Senate Comm. on the Judiciary*, 106th Cong. (1999) (statements of Honorable Paul Wellstone; Sumner M. Redstone, Chairman of the Board and Chief Executive Officer, Viacom, Inc.; Mel Karmazin, President and Chief Executive Officer, CBS Corp.; Andrew Jay Schwartzman, Executive Director, Media Access Project; Larry Grossman, former President, NBC News; David Waterman, Associate Professor of Telecommunications, Indiana University—Bloomington) [hereinafter *Senate Hearings on Viacom/CBS Merger*]. This Article is partially based on testimony by the author at those hearings.

and television production, cable network, video retailing, television station, television network, and publishing assets of Viacom, Inc. with the television network, radio station, and cable programming holdings of CBS, Inc., to create the world's second largest<sup>2</sup> media conglomerate (behind Time-Warner), having combined 1998 revenues of \$18.9 billion. (A more complete description of the merger elements appears in Appendix Table 1).

The CBS-Viacom debate has raised important questions about undesirable effects that this merger—and media mergers more generally—may have on our economy and society. Like mergers in other industries, media mergers can have adverse effects on prices, output levels, and other elements of economic welfare. Media mergers are of exceptional policy interest, however, because they may also threaten the diversity of voices or a free “marketplace of ideas” in the United States.

Among the main issues that have been raised about CBS-Viacom are whether the merger will lead to excessive market power or a reduced diversity of voices within particular media market segments, such as in broadcast networking or in local radio and television station markets. A second issue is the effects of increased vertical integration, especially the combination of CBS's television network with the movie and television production facilities owned by Viacom. Will this integration increase barriers to market entry by independent suppliers of television programming, to the detriment of program diversity and freedom of market access by program producers? A third, broader concern about CBS-Viacom involves the growing size of media conglomerates in the United States. Does the CBS-Viacom merger take a significant step toward the concentration of control of the all media in the United States into too few hands? In the words of Senator Paul Wellstone, who testified at the October 28 Senate hearing:

Mr. Chairman, I think most people would be shocked by the degree of media concentration that has occurred in the last [fifteen] years. When Ben Bagdikian wrote “The Media Monopoly” [sic] back in 1983, about [fifty] media conglomerates controlled more than half of all broadcast media, newspapers, magazines, video, radio, music, publishing, and film in this country. By 1986, that number had shrunk from [fifty] to [twenty-nine]. By 1993[,] it had shrunk even further, to [twenty] firms. Today fewer than [ten] multinational media conglomerates—Time/Warner, Disney, Rupert Murdoch's News Corp, Viacom, Sony, Seagram, AT&T/Liberty Media, Bertlesmann, and GE—dominate most of the American mass media landscape.<sup>3</sup>

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2. This ranking assumes that Disney's revenue from theme parks is not counted as media. If theme parks are included, Disney would be the second largest and CBS-Viacom third.

3. *Senate Hearings on Viacom/CBS Merger*, *supra* note 1 (statement of Senator Paul

Of special significance in this respect—and receiving perhaps the greatest amount of attention at the October 28 hearing—is the threatened concentration of control by a handful of corporations over the major sources of news and information in the United States.

Related questions about the effects of CBS-Viacom and other media mergers on the quality and integrity of news were also raised at the CBS-Viacom Hearings.<sup>4</sup> Both journalists and academics have in fact devoted much attention in recent years to the effects of common ownership of news with entertainment or other nonmedia products on news reporting.<sup>5</sup> The blending of entertainment into news programming, the increased subservience of news organizations to budget-minded executives, and the rising specter of conflicts of interest in news reporting have all been linked to the increasing size and breadth of media conglomerates.

In this Article, I address these issues from an economic perspective. In doing so, I begin with the premise that preserving a diversity of voices and open access by the creators of media products to the public is of paramount importance. I also make no dispute of claims that the blending of news and entertainment and an increased focus on profits from news operations have deteriorated the quality and integrity of commercial news in the United States. With some caveat, however, I conclude that the concerns of this merger's critics are misdirected. In my view, the CBS and Viacom merger is unlikely to pose a serious anticompetitive threat or a threat to the diversity of media voices.

In summary, I argue that the most appropriate criterion for evaluating either the economic or diversity-of-voices effects of media mergers is the extent to which they increase horizontal market concentration within particular media market segments or geographic areas. In the case of CBS-Viacom, those increases in concentration appear to be relatively minor or easily resolved by divestiture. With respect to vertical integration, I argue that the combination of television content and distribution facilities is unthreatening, mostly because the nature of creative production limits foreclosure effects on unaffiliated program suppliers. In terms of the overall size and control of media conglomerates, I offer some statistical data suggesting that while media conglomerates are in fact growing far larger, this growth appears much less dramatic when compared to growth

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Wellstone).

4. See *Senate Hearings on Viacom/CBS Merger*, *supra* note 1 (statements of Larry Grossman & Andrew Jay Schwartzman).

5. See PATRICIA AUFDERHEIDE ET AL., *CONGLOMERATES AND THE MEDIA* (1997); Anne Wells Branscomb, *Megamedia Moguls and Multimedia Madness*, in NANCY J. WOODHULL & ROBERT W. SNYDER, *MEDIA MERGERS* 168 (1998); BEN BAGDIKIAN, *THE MEDIA MONOPOLY* (5th ed. 1997)).

in the size and diversity of the media industries themselves. With respect to the various issues about the declining quality and integrity of news raised in the context of CBS and Viacom, it is very difficult to know the effects that conglomeration of media have. It seems likely to me, though, that technological advance and deregulation leading to increased competition in the media have played the overwhelmingly important role in those changes.

## II. HORIZONTAL CONCENTRATION WITHIN PARTICULAR INDUSTRY SEGMENTS

There is a popular conception that media conglomerates compete with each other as massive, self-contained corporate entities in which all the media together are the playing field. For the most part, however, competitive battles in the media are actually waged within much smaller industry segments, such as among the national television networks, among the radio stations within a certain local market area, or within particular niches, such as televised sports or news magazines. Cross-media ownership can also be significant, such as within local market areas where packages of television, newspaper, or radio advertising can be offered by one firm.

The importance of maintaining competition within definable industry segments is uncontroversial. Horizontal concentration levels are an overwhelming concern of the Department of Justice (DOJ) and the Federal Trade Commission in their antitrust investigations of mergers and acquisitions because the ability to exert power over prices is directly related to the degree of concentration within the relevant market.<sup>6</sup> The Federal Communications Commission's (FCC's) concerns are broader. They involve diversity of voices and access issues as well as the preservation of competition per se. To a great extent, however, the FCC also focuses its regulations and merger investigations on market shares within narrowly defined market segments. Of course, the appropriate levels of concentration deemed necessary to insure adequate access and diversity of voices might be higher or lower than those necessary to preserve economic competition. But the focus on horizontal market shares is appropriate because preserving competition is mostly consistent with preserving access and diversity of voices.

As proposed, the CBS-Viacom merger would seem to result in fairly minor increases in horizontal market concentration. The merger will combine radio station, television station, and outdoor advertising properties of CBS and Viacom in several local markets. To the extent that the DOJ might conclude that such ownership consolidation would threaten

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6. At this writing, investigations of the CBS and Viacom merger by the U.S. Dept. of Justice and the FCC are in progress.

competition in advertising within these market areas, divestitures are justified on straightforward antitrust grounds as a condition of the merger. On the national level, a combination of the CBS and Viacom television station chains would reportedly reach forty-one percent of U.S. television households, in violation of the FCC's thirty-five percent national ownership reach cap. If local markets are themselves concentrated, media chains with substantial national market shares can have anticompetitive effects on programming supply or advertising markets.<sup>7</sup> Given the FCC's fairly cautious restrictions on dual TV network ownership within the same market, however, it seems unlikely that this degree of concentration could result in anticompetitive control over national television advertising programming supply markets on antitrust grounds. The FCC primarily bases its thirty-five percent cap, however, on diversity-of-voices concerns, and perhaps on fears that certain broadcast station owners would gain excessive influence over the legislative process. Whether or not the combined CBS-Viacom TV chain would lead to excessive concentration in the marketplace of ideas or too much legislative influence is simply a matter of political judgment. In any case, the few percent excess over the FCC limit is minor and could easily be resolved by divestiture.

Another evident issue of increased horizontal market control due to CBS-Viacom is that the CBS television network and the nascent UPN network would have an ownership link due to Viacom's fifty percent equity share in UPN.<sup>8</sup> The CBS-UPN link would presumably violate the FCC's standing rule against dual TV network ownership and is worthy of detailed analysis because of technological and governmental barriers to entry in broadcast networking.<sup>9</sup> However, while the CBS network earned an approximately sixteen percent share of national television advertising in 1998, UPN's share was under one percent.<sup>10</sup> These market share levels seem unlikely to excite much interest from the DOJ. Overall, the CBS-UPN

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7. See David Waterman, *Local Monopsony and Free Riders*, 8 INFO. ECON. & POL'Y 337 (1996).

8. In March 2000, Viacom announced its intention to buy the other 50% of UPN. See Bill Carter, *Viacom Buys Chris-Craft's Stake in UPN for \$5 Billion*, N.Y. TIMES, Mar. 21, 2000, § C, at 1.

9. The number of broadcast networks that can survive in the market is limited by the number of stations that are available for network affiliation in local markets across the country, which are in turn limited by FCC spectrum allocation decisions. At least until digital spectrum uses become widespread in broadcasting, the number of viable national networks may be limited at about eight or nine, with perhaps half of those substantially handicapped by market reach or reception shortfalls.

10. This calculation is based on total 1998 national television advertising revenues of \$21.07 billion, and estimated advertising revenues for the CBS Network of \$3.49 billion and for UPN of \$200 million. See Joe Mandese, *Matching Ratings to Ad \$\$, ESPN Comes out Tops*, ADVERTISING AGE, Apr. 12, 1999, at 2; TV DIMENSIONS 33 (1999).

link is of minor empirical significance, at least, and could also be easily resolved by divestiture.

In summary, the horizontal market concentration issues in CBS-Viacom are a legitimate focus of attention on both antitrust and marketplace of ideas grounds, but they appear to be of fairly minor significance. In any case, they could be resolved through divestiture without a major effect on holdings of the merged firm.

### III. VERTICAL INTEGRATION OF CONTENT AND CONDUIT

A disproportionate amount of public attention in the CBS-Viacom debate, as well as in debates about other media mergers over the years, has been focused on the common control of media production and media distribution facilities within conglomerate organizations. In economic terms, this is vertical integration, which simply means the common ownership or control of successive stages of the production and distribution process of a good or service.

Unlike the horizontal changes, the extent of vertical integration between media production and distribution facilities caused by the CBS and Viacom merger is extensive. Paramount Pictures, Spelling Entertainment, and Viacom Productions would have a one hundred percent ownership link to the CBS Network. The most widely expressed public concern about such integration is that inevitable self-dealing between the CBS network and Viacom's production studios will tend to foreclose independent television producers from access to what remains one of the few most viable distribution networks for television programming.<sup>11</sup> In turn, by this reasoning, the viewing public would suffer from reduced diversity and quality of programming.<sup>12</sup>

The same issue was a central focus of public debate about the 1995 merger of Disney and ABC. In fact, the issue of vertical integration by television networks with program production has a long regulatory and judicial history. Between 1976 and 1980, the DOJ obtained consent decrees from CBS, NBC, and ABC imposing severe limitations on the percentage of "in house" programs those networks could produce.<sup>13</sup> The FCC's financial interest and syndication rules (fin-syn rules), promulgated in 1970, also prohibited the networks from owning syndication rights to any

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11. A related concern has been that greater bargaining power of affiliated producers will disadvantage independents and could monopolize production. *See* STANLEY M. BESEN ET AL., MISREGULATING TELEVISION 154-156 (1984).

12. *See Senate Hearings on Viacom/CBS Merger*, *supra* note 1 (statements of Larry Grossman & Anthony Jay Schwartzman).

13. *See* BESEN ET AL., *supra* note 11, at 45.

network programs, regulations which in practice greatly limited vertical integration by the networks into programming supply. The DOJ decrees have now expired and the FCC replaced the fin-syn rules in 1995, paving the legal path for the Disney-ABC merger as well as for CBS-Viacom.

The possible effects of CBS-Viacom on television production can be informed by observing the actual effects of comparable vertical relationships between the two other major broadcast television networks and production studios: the Fox Network with the Fox television studios, and ABC with Disney Studios as well as other ABC production entities. (NBC is not currently affiliated with a major production studio.) The top sections of Table 2 in the Appendix show the destinations of all regularly scheduled prime-time programs produced for the 1998-99 season by the Fox studios and by the three ABC-affiliated production branches. The bottom sections of the Table show the origins, by production company, of the prime time programs exhibited by the Fox and ABC networks, respectively, in the same season.

The data of Table 2 in the Appendix suggest three main observations. First, at least the Fox Network does in fact “favor” the programming produced by its affiliated production branches. Fox affiliates produced or coproduced ten of its nineteen prime-time shows. In the case of ABC, its affiliated producers only produced or coproduced four of its twenty-two programs, two of those four by Disney studios. The ABC experience thus suggests little such favoritism of corporate-affiliate programming. Viewed from upstream, however, it is notable that a majority of the programming produced both by the Fox production arms (ten of sixteen programs) and by Disney’s production entities (four of five programs) were sold to their affiliated networks. A second point of interest is that the Fox production companies supply their other six programs to three competing networks (ABC, CBS, and WB), while Disney provides its one additional program to WB. Thus, while there is clear evidence of “self-dealing” in television programming and exhibition within both the Disney and Fox corporations, majorities of the prime-time programs exhibited by both networks are produced by other studios, and the production branches of both firms do business with competing networks. A third observation from Table 2 is that while both corporations show the same general pattern of behavior, there is a large difference in the extent of self dealing in television by these two corporations.<sup>14</sup>

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14. Although I have not systematically investigated other vertical relationships in television programming, it is apparent from press reports that both Paramount Television (affiliated with UPN) and Warner Brothers Television (affiliated with the WB Network) also supply most of their prime time programs to competing networks. *See* Lawrie Mifflin,

There are several economic reasons why we might observe this tendency toward self-dealing in television production and distribution. One is that contracting costs tend to be lower if business is conducted within the same corporation. For example, opportunistic behavior by a producer whose show becomes more successful than expected will not materially affect a corporation that owns both the network and the show. The network also desires to control the production process to ensure that quality and content conform to expectations. That control is probably easier with commonly owned facilities. A related factor is reduced risk. Under common ownership, the network has no need to fear unexpected migration of the program to another network, and vice versa with respect to cancellations. Also, it may be that information about programming ideas are more effectively conveyed to networks and programming needs conveyed to producers within integrated companies.<sup>15</sup>

One can speculate on the reasons for the much greater degree to which the Fox Network relies on Fox-produced programs. One factor may be that the Fox integration occurred much earlier, effectively originating in 1986 when News Corp., parent company of the Fox studios, launched the Fox Network. If so, we might expect ABC's reliance on Disney programs to increase. Another factor likely to affect the extent of CBS network and Viacom production self-dealing is management organization. Some media conglomerates choose to grant high autonomy to subsidiary branches in an attempt to replicate the discipline of the marketplace within the conglomerate organization, a strategy that tends to limit self-dealing. Others choose to rely more upon top down management direction, a strategy more likely to encourage intercorporate transactions.<sup>16</sup>

The extent to which CBS is likely to rely upon Viacom programming in the long term is thus uncertain, but the experience with television integration suggests that it is reasonable to expect a disproportionate amount of self-dealing. Of most significance, though, is the tendency for both ABC and Fox to rely on other program suppliers for the majority of their programming. In nonentertainment industries, vertical integration between a producer of an input and a manufacturing branch using it very often leads to total foreclosure of other suppliers of that input as a matter of course.

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*CBS-Viacom Deal Raises Competition Questions*, N.Y. TIMES, Sept. 9, 1999, at C1.

15. These and related reasons are discussed in BESEN, ET AL., *supra* note 11, at 154-156.

16. For a discussion of these issues in management of diversified media corporations, see THOMAS R. EISENMANN & JOSEPH L. BOWER, *THE ENTREPRENEURIAL M-FORM: A CASE STUDY OF STRATEGIC INTEGRATION IN A GLOBAL MEDIA COMPANY* (Harvard Business School Working Paper 99-005, 1998).



I would hypothesize that the nature of entertainment production insures that foreclosure of unaffiliated producers due to vertical integration of production and distribution facilities will be minor. The various broadcast networks, especially Fox, UPN, and WB, tend to segment audiences along different demographic or other lines. These competing networks also specialize in products of different average quality. For example, WB, UPN, and to some extent Fox programs are less attractive and earn lower ratings than programs appearing on CBS, ABC, and NBC. Unlike widgets, entertainment products—such as movies or television series—are unique and, in advance of their production, have notoriously uncertain demand and probably, to some degree, uncertain demographic appeal. It is thus very difficult for the owner of a distribution facility, such as a television network, to predict in advance the source of products that will be most appropriate for exhibition on that network. Complete vertical integration is thus impossible to achieve, inherently leaving open opportunities for independent suppliers. As expressed by one television executive: “You can’t consolidate creativity.”<sup>17</sup>

As a matter of definition, any degree of self-dealing due to vertical integration in television has some foreclosure effect on unaffiliated producers. From a public policy perspective, however, the most important issue is access by the creators of those programs. Obviously, producers provide important creative services. Nevertheless, the same writers, talent agents, and other agents of production still have the ability to sell their ideas to the production entities of the major integrated networks. The result of integration is likely to be replacement of some independent producers with vertically affiliated producers. The continued access of other creative agents to network decisionmakers, however, mitigates restraints on the effective flow of ideas through the system to viewers. Also, independent producers can cooperate with vertically affiliated producers, as evidenced by coproduced prime-time programs appearing on both the Fox and ABC networks.

Finally, the CBS-Viacom merger leaves the four major broadcast networks (not including WB and UPN) as separately owned, competing buyers to whom producers or other creative agents can market programming. These networks are the gatekeepers to viewers. What determines the diversity of programming available to viewers is not whether those gatekeepers choose to make their decisions on a program-by-program basis or through some ownership relation, but on the number and

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17. Mifflin, *supra* note 14, at C1.

horizontal market power of separately owned gatekeepers that are making those decisions.

#### IV. CONGLOMERATE SIZE AND CONTROL OF MEDIA RESOURCES

While the flow of record setting mergers makes it obvious that media conglomerates, including the proposed CBS-Viacom combination, are becoming much larger and more diverse in their holdings, it is important to consider this growth in perspective with that of the media industries in which they operate.

Table 3 in the Appendix quantifies the total final market revenues (consumer spending + advertising) of the major consumer media industries in the United States over time, for the years 1977, 1987, and 1998. Table 4 in the Appendix shows, for the same three years, total revenues from the same industries earned by the six largest media conglomerates whose primary source of media revenues is the United States.<sup>18</sup> Although this selection of years is arbitrary, these data are unlikely to fluctuate much from year to year, and I use them only for descriptive purposes.<sup>19</sup>

Several points are evident from these tables. First, Table 4 shows that the largest conglomerates are indeed a great deal larger than they were in 1977, and that most of that growth has occurred since 1987. A second point, from Table 3, is that the media industries in the United States have themselves grown rapidly as well. The industry growth shown in Table 3 reflects not only general price inflation, but a substantial expansion in media demand as a proportion of Gross Domestic Product (GDP). Final market demand for media in terms of consumer spending and advertising revenues was two percent of GDP in 1977 and 2.9% in 1998. That industry growth has not only occurred due to explosive development of media that barely existed in 1977, notably multichannel television systems and videocassettes, but due to remarkably healthy growth at the same time in advertiser supported media, both print and electronic. Several long established media, including broadcast television, radio, magazines, and

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18. These criteria exclude Bertlesmann, having total 1998 media revenues of approximately \$14.7 billion, because the majority of those revenues are earned outside of the United States.

19. The Author assembled the data for 1977 and 1987 appearing Appendix Tables 3 and 4 in 1989 for an unpublished economic study media conglomerates. The year 1998 is the most recent for which comparable data were available. Similar data for 1986 and 1997 are presented by Benjamin Compaine, *Mergers Diversitures, and the Internet: Is Ownership of the Media Industries Becoming Too Concentrated?*, Paper presented at the 27th Annual Telecommunications Policy Research Conference (October 1999). Trends in the size of media conglomerates are also discussed by Eli M. Noam, *Media Regulation—New Rules for New Times*, in WOODHULL & SNYDER, *supra* note 5, at 39-45.

book publishing, have grown faster than the general economy, in spite of the new media competition. Only movie theater, newspaper, and recorded music revenues have grown less rapidly than GDP over the full twenty-one year period.

One factor in growth of the largest media conglomerates shown in Table 4 has been internal expansion due to the media industry growth, especially in video and other markets for movies and television programs. Certainly a major factor, though, has been a series of major media mergers, including Time and Warner Brothers in 1989, ABC and Capital Cities in 1993, Viacom and Paramount Pictures in 1994, ABC/Capital Cities and Disney in 1995, and Time-Warner and Turner Broadcasting in 1997.

The net result, indicated in Table 4, has still been a considerably faster rise in the total size of media conglomerates than in U.S. media revenues, at least since 1987. While total media revenues have grown 529% since 1977, aggregate revenues of the six largest media corporations have increased by 945%. In qualification, Table 4 overstates the growth of U.S. media receipts by the largest conglomerates because foreign revenues have become a larger proportion of revenues for the largest conglomerates than they were in the earlier years.<sup>20</sup> I acknowledge that these data do not necessarily represent “control” of media industries. They are intended only as broad indicators of size and trends over time. Nevertheless, comparisons of the corporate revenue data in Table 4 with the media industry revenue volumes in Table 3 do not suggest domination of the U.S. media by a relatively few conglomerates—at least not to the extent implied by Mr. Badikian’s claim—in any of the years.

The proposed CBS-Viacom combination will obviously contribute in some degree to increased control of the U.S. media by the largest conglomerates. To add some perspective, however, consider that in 1977, CBS, Inc. was the largest media conglomerate in the U.S., its \$2.3 billion in revenue coming mainly from television and radio broadcasting, music publishing, and magazines. Twenty-one years later, in 1998, the \$18.9 billion combined media revenues of Viacom and CBS are approximately 704% larger than that of the old CBS. Thus, the new CBS-Viacom will not

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20. The percentages of total 1998 media and nonmedia revenues earned outside the U.S. are available in Annual 10-K Reports for Time-Warner (20%), Disney (21%), Viacom (23%), Sony (69%), and News Corp. (26%). For 1977, foreign earnings data are separately reported only for CBS (16%) and Warner Brothers (25%). The overwhelming sources of revenue for ABC, Newhouse, RCA, and the Tribune Company in 1977 were broadcasting and publishing, media industries whose export revenues generally account for a very low percentage of total receipts. The major media assets of Seagram in 1998 were movie and television production and distribution, businesses that generally earn a relatively large percentage of their receipts from foreign markets.

only account by itself for a relatively minor fraction of total media revenue in the United States by these aggregate measures, but relative to growth of the U.S. media, it will be only slightly larger than the old CBS of 1977.

Of special interest are the effects of media mergers on the diversity of news sources. Although the heterogeneity of news media makes quantification difficult, it seems evident that technological change has increased the number of substantial, nationally distributed television and radio news services in the past twenty years. In the same time frame, at least one national newspaper has been started and many providers of national news have begun service via the Internet. Of course, a number of these new national services have been formed by large media conglomerates using basically the same news content that they already distribute via other media. Perhaps this multimedia proliferation by the same conglomerate conveys a sense of omnipresence that increases their influence over public opinion in some way. To my knowledge, however, only one media merger in the past twenty years has consolidated major sources of national news under common ownership—the combination of *Time* magazine and CNN in the 1997 Time-Warner/Turner Broadcasting merger. Since CNN did not exist twenty years ago, the net result cannot have been any reduction in national news sources in the United States due to media mergers. Overall, it is apparent that we have a greater number of substantial, separately owned national news sources that we did twenty years ago.

The CBS-Viacom merger—and the FCC's relaxed television and radio station ownership rules more generally—are nevertheless likely to reduce the number of available news sources at the local level in some markets henceforth. A more than twenty-five percent increase in the number of operating radio stations in the United States between 1980 and 1999, and a more than fifty percent increase in the number of operating television stations in that period, however, serve to balance those reductions in ownership diversity at the local level.

## V. THE QUALITY AND INTEGRITY OF NEWS REPORTING

While it is hard to bring evidence to bear on the important questions that have been raised about the effects of CBS-Viacom and other media mergers on the quality and integrity of news media, some observations from an economic perspective can be made.

On the one hand, it is quite plausible that a media conglomerate will use its news media to promote entertainment products it also owns, or that the news branch will avoid reporting scandals and other information that would reduce profits coming from other branches or that would diminish

the corporate name in general. It can at least be said, however, that sufficient competition in the media marketplace strongly disciplines such activities. For example, when a thirty-two-page special advertising supplement for Warner Bros. appeared in *Time* magazine to commemorate the fiftieth anniversary of Bugs Bunny in 1990, reporters from other media vigorously objected, alleging disreputable behavior by Time-Warner.<sup>21</sup> The entertainment assets of media conglomerates presumably benefit from such activities, but the news branches risk their greatest asset, credibility. On other occasions, news organizations have apparently gone out of their way to report criticisms of their parent organizations in order to avoid any appearance of conflicts of interest.<sup>22</sup> Of course, as the critics of media conglomerates have pointed out, self-censorship or self-promotion may be subtle enough to escape this discipline. Nevertheless, adequate horizontal competition among news organizations is very comforting in this regard. Also comforting, in my opinion, is the fact that most conglomerates with media assets have now specialized their corporate activities on media—rather than, for example, on large scale industrial manufacturing. Only General Electric's ownership of NBC still gives the "military-industrial complex" in the United States a link to a major media outlet.

It is conceivable that the often-lamented blending of entertainment into news reporting in recent years is also facilitated by the common ownership of news and entertainment assets by media conglomerates. Surely, however, the overwhelming cause of this trend is the increasing competition among the media itself as technology and deregulation have expanded the number of electronic media outlets—especially in television. Unfortunately, entertainment-blended news seems to sell, and as bottom-line pressures have increased due to competition, temptations for the major news media to follow along have probably been impossible to resist.

At the CBS-Viacom Hearing, Larry Grossman raised the related point that as news organizations have become smaller and smaller components of total media conglomerate holdings, they have been seen by corporate executives as more readably expendable and therefore more subject to budget cuts. This is also plausible. On economic grounds, however, it would seem that the opposite conclusion is at least as, if not more plausible. The greater the share of corporate revenues that a television news organization accounts for, the less likely that the company would be able to afford to insulate its news organization from the growing competitive pressures.

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21. See Paul Farhi, *Time-Warner merger paying off?: Bugs Bunny Promotion Raises Competitive Questions*, WASHINGTON POST, May 3, 1990, at E1.

22. See Todd Gitlin, *Introduction*, in AUFDERHEIDE ET AL., *supra* note 5, at 8.

## VI. CONCLUSION

The questions about economic and social effects of increasing media conglomeration raised in the CBS-Viacom debate are important. From both an economic and a diversity-of-voices perspective, however, the concerns about this and other media mergers should focus on the extent to which they create horizontal market concentration within particular media market segments or within particular local market areas. On those grounds, the CBS and Viacom merger poses few significant problems. More generally, if the quality and integrity of the media—especially the news—have declined as media mergers and acquisitions have increased, the causes are not the mergers and acquisitions, but technology, deregulation, and the consumer sovereignty model for media provision that we have chosen in the United States.

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