Video Media Competition
Eli Noam, ed.
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Acronymphobia is an ailment frequently contracted by economists and other students of government involvement in markets. In its most common form, sufferers cringe at sets of letters denoting government agencies—ICC, ITC, CPSC, OSHA, FCC, and so on—as evidence of distortions and inefficiencies negatively affecting both producers and consumers. Acronymphobia also has been on the rise among participants in the telecommunications industry, but for a different reason. The communications sector, particularly the video media sector encompassing sources of transmissions including both pictures and sound, is rapidly undergoing widespread technological changes involving the growth of video cassette recorders (VCRs), direct broadcast satellites (DBS), multi-channel, multi-point distribution service (MMDS), and other services. In contrast to government, however, each new acronym in telecommunications represents an additional source of competition for traditional providers in this regulated industry.

The story of rapidly changing competitive terrain is explored in *Video Media Competition,* a collection of papers originally presented at a 1983 conference sponsored by the Research Program in Telecommunications and Information Policy at Columbia University's Graduate School of Business. The editor, Eli Noam, is Director of Columbia University's Research Program in Telecommunications and Information Policy. In addition to the editor's introduction, this book contains three sections: "Empirical Studies of Media Competition," "The Regulatory Issues in Media Competition," and "The International Outlook." Since space will not permit a careful examination of each of the papers, I will focus on a select few to provide potential readers with the flavor and import of the book.

Readers, especially those who have not watched carefully the rapidly changing video media market, are sure to be impressed by the explosion of technological advances in the industry and the competitive impacts of those changes. Even the title of the book reflects a rapidly changing environment. Ten years ago a similar book might have been titled "Broadcasting Competition," but the increasing choices available to consumers have continued to expand the relevant product market.

Despite the rapidly changing and increasingly competitive environment faced by those providing telecommunications products and services, one should not be misled into thinking that the communications industry is now free of governmental interference. The Federal Communications Commission (FCC), local municipalities, state utility regulatory commissions, and the federal courts all continue to play an important role in shaping the industry. The essays in this book make that clear as all contain more than a passing reference to the government's involvement, and two papers deal directly with FCC activities.

Readers unfamiliar with the wide range of choices facing consumers in today's market should read first the paper by John Abel, unfortunately located in the middle of the book. Abel reviews the types of services now offered, the FCC's involvement (or lack thereof) in the provision of each service, and the recent industry data and estimates for future growth. The data evaluated by Abel provide insights into the recent history of traditional as well as new services and indicate the prospects for the future.

By providing more choices to consumers, recent advances in technology are promoting competition between different types of firms in the industry. One notable example, analyzed by Walter Baer, is the growing competition between telephone systems (telcos) and local cable companies. Baer reviews the history of competition between these industries in providing new video services, including the technical aspects of the rivalry. In reading Baer's prediction for the future, one is struck by the number of government-sponsored hurdles the cable systems and the telcos must jump to compete effectively. But, the author concludes with a promising prediction: "it is clear," he writes, "that the technologies supporting both businesses are quickly converging. . . . There are no technical reasons why two separate systems cannot coexist and compete for services" (p. 211).

Eli Noam also examines cable systems, and reports some surprising results on the potential competition among rival cable companies. Using a translog function and recent survey data, Noam was able to estimate the economies of scale associated both with the technical distribution of cable services and with the marketing of the products sold by these systems. Based on his analysis, Noam concludes that "the cost advantages of size are not derived primarily by the technical distribution network, but rather by a large operator's greater ability to package and sell his services more effectively to potential basic and pay subscribers" (p. 113). This conclusion will be surprising to many, but it is consistent with the recent success and growth of firms owning multiple cable systems.

A number of other papers analyze the competition cable systems face from other providers of services. Jonathan Levy and Peter Pitsch discuss the effect of VCRs on cable systems and television stations. They find that VCRs tend to be substitutes for cable while being complements to television. Michael Wirth and Harry Bloch attempt to analyze cable's impact on the three television networks and local television stations. They conclude that cable has not had an effect on stations' revenues, nor do they expect any future impact. Wirth and Bloch also argue, however, that the expansion of cable has, through competitive pressures, prompted stations to spend more on programming. These somewhat ambiguous and counter-intuitive results may well arise from the questionable data used by the authors.

After being overwhelmed by tales of a rapidly changing and increasingly competitive video marketplace, the reader is confronted in the second section with four papers and as many comments on the government's part in shaping this market. In the first paper, Henry Geller surveys the present regulation of video services. The unlevel playing field troubles the author who suggests that broadcasting should be treated more like the print media with less regulation of its content. But Geller advocates more government intervention in other areas. He calls for a spectrum usage fee, levied as a percentage of television revenues, to fund public broadcasting. Geller also suggests regulation of cable systems in the form of federally imposed mandatory numbers of cable channels available for release to local broadcasters.

In his review of recent FCC actions, Michael Botein recommends new regulation of cable systems "in order to insure its parity with the other new video media" (pp. 326–27). Botein's preferred form of regulation is licensing and/or a certification process. While the author is probably correct when he says that the level playing field for the new video technologies is still full of potholes, further regulation does not seem the appropriate "filler."

Former FCC Commissioner Stephen Sharp, in commenting on Botein's paper, ably defends the recent FCC deregulatory efforts and argues against efforts to reverse that course. Sharp reveals that after many years at the FCC, he came to realize that regulation was not the most efficient means of achieving social goals. In fact, Sharp coins the term "regulatory dysfunction" to describe many earlier FCC actions. Regulatory dysfunction is, according to Sharp, "the impairment of other worthy goals created by the existence of government regulation" (p. 331).

In the final two papers, readers are offered a preview of future government involvement in the video marketplace. The number and geographic location of stations any individual or one corporation could own have traditionally been strictly limited, precluding any need for antitrust concerns in the broadcast industry. Steps have been taken to loosen those restrictions, however, and there is even discussion of abolishing them. Many industry observers therefore expect the Justice Department to play an increasingly important role in policing the growth and concentration of ownership in the video media markets.

In the first article discussing this phenomenon, Lawrence J. White demonstrates the application of the Justice Department's 1982 Merger Guidelines to the proposed merger and joint venture of two cable services and two movie studios late in the same year. He concludes that the application of the 1982 Merger Guidelines by the Justice Department is a potentially viable means of dealing with possible vertical and horizontal concentration issues in the industry. The second article by Stanley Besen and Leland Johnson reviews the evidence for and against the multiple ownership rules applied to broadcast stations and proposes as an alternative approach the application of the Merger Guidelines to future broadcast station transactions.

It is encouraging that Besen and Johnson convincingly argue the absence of a need for absolute ownership restrictions. In light of the evidence provided in the book's first section, that conclusion may be even stronger than those authors suggest. Yet, the expanding market would make any merger analysis, particularly product market definition, very difficult. Consequently, attempts to substitute antitrust enforcement for other outdated regulations might introduce new dangers to a free market operation. Those who would place *significantly greater emphasis* on antitrust enforcement should tread carefully.

The last section of the book, concerning the international outlook, contains only two papers. The first, by Helmut Schafer considers the European view of competition and control, and in the second, Ernest Jouhy discusses the impact of new video technologies on the Third World.

Those reading this excellent collection of articles and reviews should be comforted by the dynamic changes occurring in this market. New competitors are entering and older competitors are being invigorated through rapidly changing market circumstances and deregulatory efforts at the state and federal levels. Those concerned about the misallocative effects of government agencies will not be entirely pleased, however. The telecommunications industry has long been characterized by government intrusion in many forms, and there is no sign these will disappear in the foreseeable future. One can only hope that the acronyms spelling new competition will overwhelm any thought of further involvement by the older agencies and other governmental bodies.

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