have been accused of employing restrictive practices to discourage competition with their member newspapers, usually by charging very high fees for new memberships in cities where there are already member-newspaers. This practice was held to be illegal in view of the antitrust law in the Associated Press case (1945). This case is of enormous importance for its precedentual value not only in the narrow substantive area involved, but in setting forth the notion that the government can and should, under the constitution and the antitrust law, intervene to protect and preserve competition in the marketplace of ideas, in ways which do not involve direct regulation. (See the quotation from Associated Press, supra p. __)

AP and UPI are by no means the only wire services, but they are the most important for newspapers; broadcast media also depend upon them heavily. (Radio stations, particularly, typically do little more than "rip and read" the news from the wire service.) On the other hand, the wire services' editors have fairly strong incentives simply to report "everything". The gatekeeping role of the services is not a very strong one, in part because of the diversity of the needs of its clients, and in part because of the incentive for speed in reporting the news, which tends to suppress the opportunity for the exercise of editorial judgment. Finally, there are a number of practical substitutes for AP and UPI, especially for metro papers. These considerations, together with the fact that the newshole available for wire service stories in the typical newspaper is in any event large enough to allow publication of a

tenth or less of the material available, suggests that wire service oligopoly is probably not a very serious problem in the marketplace of ideas.

The business of producing syndicated features (comics, political columns, advice, etc.) is apparently quite competitive.* Most large metro newspapers syndicate their major features, and there are in addition perhaps hundreds of independent syndicators. Some features are, of course, more popular than others. (It is said that Peanuts can make a significant difference in circulation all by itself, for instance,) There are two practices in this market which have been seen as anti-competitive. The first is packaging features for sale on an all-or-nothing basis, a practice akin to block booking in the motion picture industry. The second is the common, but by no means universal, custom of selling such features on a "territorial exclusive" basis. This simply means that a newspaper which buys a feature has the exclusive right to publish it in the marketing area defined in the contract. Newspapers at layer 1 in the umbrella model, the large metro papers, may thus buy up rights to packages of features which extend for a hundred miles or more from the central city. Some of these may not be published. This denies the feature to newspapers in subordinate layers. Sellers of features presumably benefit both from the lower transactions cost of dealing with just one buyer per region and from an ability to extract from that buyer some part of the scarcity rent thus created. It may be true that this helps to preserve the geographical extent of the major regional newspapers, and that it is thus actually beneficial to competition, given the growing strength of newspapers in lower layers.

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*The census reports 319 such establishments in 1967, with revenues of $154 million, and 5,700 employees. Statistical Abstract (1973) p. 754, Table 1262.

Another area affecting competition within the umbrella structure, as well as intra-city competition, is the issue of distributors. Newspaper distributors are responsible for getting the newspaper from the printing plant to readers' homes and to newsstands and dealers. They are sometimes just employees of the newspaper, and sometimes independent businessmen.

A newspaper distributor owns trucks and hires newsboys; in principle, there is nothing to prevent him from distributing more than one newspaper. Independent distributors thus provide the opportunity for newspaper competition. When the distributors are employees of the newspaper, a substantial barrier to entry is created, since any newspaper wishing to penetrate the area must duplicate this distribution network. Newspaper publishers prefer to deal with the distributors as independent businessmen instead of employees for a variety of managerial reasons; were it not for the prospect of inviting entry, there would probably be no question about dealing with independents. Sometimes, the newspaper attempts to write exclusive contracts with independent dealers. Antitrust policy should seek to preserve independent, non-exclusive distributors, for the reasons put forward in the last section of this chapter.

The final area of possible antitrust activity in the newspaper industry involves cross-ownership of broadcast stations and newspapers.

This form of horizontal concentration is harmful to economic competition among media on the regional level (down to "level 2" cities), and is also of course harmful to competition in the marketplace of ideas. This issue is discussed in detail in Chapter 3. Newspaper chains are a matter of considerable concern to many libertarians (See Rucker [ ], chapter). It is not clear, however, that they pose a very serious threat either to economic competition or to freedom of expression. At least, they are a second-order problem when compared to the issues we have been discussing. Their existence is probably attributable more to the peculiarities of the tax laws and the transferability of management skills than to a desire to reduce competition.

Public Policy Issues

The fact that newspapers face competition from other layers in the umbrella model, and from other media, provides a source of market discipline. In particular, editorial packages must be "correct" in order to reach a profitable number and type of readers. Probably there is not very much room for discretion in this regard. But this does not mean that, when it comes to particular issues of public importance, editorial policy cannot be "monopolistic" in the usual sense. The resident of a "layer 3" suburb has a number of alternative sources of news and entertainment, but only one source of coverage of local issues, such as local elections or city council meetings. The local newspaper can have a significant effect on the outcome of these issues, not only by its editorial page policy, but by its editorial decisions regarding coverage of candidates and events. Editorial power and influence on such issues is not insignificant. The same statements can be made about local news and local issues for the other levels of the umbrella model, with the exception that electronic media provide some check on the editorial discretion of the local newspaper. Still, the electronic media must be regional in interest, and have little time or resources available for coverage of local political issues in the central city. The problem is of course aggravated when the local newspaper also owns one of the local stations.

The public has the greatest number of sources of news and opinion when it comes to national issues; the least on local issues. With respect to national news, there are essentially five sources:

ABC, CBS, NBC, UPI, and AP. Local newspapers and broadcasters almost always depend on these sources in reporting national news.* National opinion is more widely dispersed as to sources (that is, there are lots of syndicated columnists and periodicals). But syndicated columnists must pass the gatekeepers of the local newspapers, and they are not on television. Periodicals do not reach very large audiences--or at least most of them do not.

What can be done about local newspaper monopoly? There are several alternatives: (1) Do nothing, because the problem just is not serious enough to warrant intervention. (2) Regulate the press, perhaps with a "fairness doctrine" like that used for broadcast stations. (3) Legislate a right of direct access for editorial announcements and other matter--e.g., make the newspaper into a public utility. (4) Restructure the newspaper institution so as to allow greater freedom of access through vertical disintegration of the stages of production. Let us examine these in turn.

It is not easy to make the case for intervention, since the effects of local press "monopoly" on freedom of expression are not clear cut. We have explored the case, above, for supposing that the extent of economic discipline on a local newspaper's choice of editorial product is quite severe. On the margin, local newspapers must be responsive to reader interests; but do they need to be

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*There are of course other sources, including other wire services and sending reporters to Washington. But these simply are not very important in practice, at least for the average evening newspaper of 26,000 circulation.

So: such editorial competition as there is, is gross: i.e. limits how far away from consumer interest the paper can grow before it is threatened by loss of subscription (needed by consumer for ads) or entry (cost of scale). However, argues press: consumer doesn't know best on editorial content; he is by definition the layman student rather than the teacher; the paper ought to have such insulation to be able to give the public (masses) what they ought to have.

responsive to non-marginal readers? A reader in the center of the city is not going to be lost to inept editorial policy until things get pretty bad. Moreover, in some dimensions profit may not be much affected by editorial decisions because readers on the margin are insensitive to them. When this happens, the paper has some degree of discretion, and it can "afford" to exercise its whims despotically with respect to the infra-marginal readers. When it comes to coverage of national events, this may simply not matter; readers who want access to such material do have other options, although they may be relatively costly. But in local issues, it may matter a great deal, not just to readers but to people who would reach those readers and who have no other reasonable alternative.

The political candidate who is ignored--not covered--in a local election will have to spend a great deal of money to overcome this display of antagonism by the local newspaper. The PTA group which is trying to reform the school curriculum may win or lose, depending on the presence of reporters at the school board meeting where they present their plans. Letters to the editor, even if published, are a poor substitute for news coverage. And no one can do anything about it; the editor's decision is final and there is no appeal. It is too expensive to reach people, at least regularly, in any other way.

Thus, there is some case for concern about local newspaper monopoly, and something to be balanced against the costs of intervention.

The alternative that seems to occur to many people who have thought about this problem is government regulation, modelled on our present regulation of broadcasting. I will not discuss this very extensively, because broadcast regulation is analysed in the next chapter, and because licensing of the press and government regulation seem to be ruled out prima facie by the First Amendment. Government regulation, even in theory, seems far worse than local monopoly. It may be bad for the local editors of 1500-odd monopoly newspapers to decide what their readers shall see; but it would be far worse for a single commission in Washington to make or affect these decisions, or to legitimize local decisions by the award and renewal of a license, as now happens in broadcasting.

The notion of a "right of access" for paid editorial announcements has a great deal more appeal, since it does not appear necessarily to require government licensing or regulation. (See Barron [ ]). The newspaper would be required to publish a schedule of rates for editorial matter, just as it does for advertising matter, and accept all comers at those rates. There are, however, some difficulties. (For the legal objections, see Lange [ ].) The first is that the content of these insertions will not, presumably, be of indifference to readers; thus, they will affect circulation quantity and quality. The effect of this will be to alter advertising revenues, in reaction to circulation changes. Given competition among newspapers and with other media, this may quite simply drive the newspaper out of business.

Check Tornillo decision

They said (?) the requirement to publish free & in comparable format an answer to editorial attacks was unjust: but non-discrimination of space ?!?

If it is true that the editorial content of a newspaper is rather strictly limited in order to be consistent with economic survival, then giving up a significant degree of control of editorial content will be inconsistent with survival. But we really do not know whether the premise is true or not.

The second problem with a "right of access" to newspapers is that the Supreme Court has recently said it is unconstitutional. The state of Florida had a law requiring newspapers to publish replies to editorial attacks on political candidates. In the Tornillo case, the Supreme Court struck down this law as violating the First Amendment.

Access to the editorial process is thus both uneconomic and unconstitutional, but the debate on this policy is somewhat confused for the reasons given in Chapter 1. The process to which a "right of access" might usefully be mandated is the transmission process, not the editorial process. What may be needed is a system of access to printing presses, as opposed to the pages of newspapers already existing.

The fourth and final possible solution to the problem of local press monopoly is an alteration of the institutional structure of the industry. Publishers employ editors and stereotypers and pressmen and (often) truck drivers and distributors. They integrate in this way because it is more profitable (less costly) to do so than to contract for such services with independent suppliers.

But it is in some of these functions that we find the economies of scale "responsible" for local newspaper monopolies. Could these transmission stages by split off? If so, would this allow greater freedom of access to the newspaper reading public?

The distribution function is in many cases already independent; that is, newspaper firms contract with independent distributors to deliver newspapers and service circulation business in local sub-areas. There are economies of scale in this function as subscriber density increases. It is not obvious why this function could not be employed simultaneously by two or more competing

The results of such a policy are not knowable in advance; such structural change therefore must be based on theoretical arguments about what the result is likely to be, or on arguments from first principles, such as Const, equity, etc, about the kind of society we want, as measured in terms of rules, rights, etc.

newspapers. The same thing is true of the press and typesetting functions. These could be centralized and independently owned, serving two or more newspapers. (Weeklies are already published this way.) If this institutional change were made, then the only economy remaining would be with respect to the public good character of editorial content. (There is nothing to be done about that.) The result might be that a number of different organizations could exist, each producing "a newspaper" of more or less competitive editorial content, and each using the facilities of a central printing and distribution service. It is fairly clear that the sports section or the women's section could thus be produced and sold independently and successfully; subscribers would simply tell their distributors which packages they wanted. What is not so clear is the extent to which this would result in head-on competition among firms producing the same sorts of editorial content. Could there be two competing sports sections? Or two competing local news sections? One does not know the answer. But it would nevertheless be true that access and entry (being now virtually synonomous) would be greatly enhanced. The political candidate or PTA coalition can regard the prospect of starting up a competing "newspaper" as not entirely hopeless, simply because the capital costs of entry would be considerably reduced. (Some notion of this can be gained by remembering that only about 16% of a newspaper's expenses are associated with producing non-advertising content, or by the fact that a morning-evening combination newspaper has % lower costs than separate firms of the same circulation.)

This alternative is attractive because it affords the opportunity for increased access and freedom without requiring government regulation, although it does require government restructuring, either by legislation or by antitrust action. There is no guarantee that the result will be a marked improvement, however. Also, one must assume that the change would cost something in terms of efficiency; publishers now own their presses for some reason, and one somehow doubts that it is only because they wish to deny access to others.

On balance, a restructuring of this type may be a desirable policy objective; it certainly is if we take the newspaper industry out of the context of changing technology. The advent of such potentially important new technologies as cable television and computerized pressrooms may make the problem less serious by substituting a new means of transmitting messages to the public on the local, as well as the national, level. On the other hand, it is precisely these technologies which may make the proposal workable.

The crucial point is that there is a way of increasing freedom of expression and competition in the newspaper field, which does not depend on compromising the editorial integrity of the newspaper itself. In newspapers as in broadcasting the key is the vertical structure of production and access to the means of transmission.

APPENDIX

Economic History of the Newspaper Industry: The Numbers

This section outlines broad economic trends in the newspaper industry from 1704 to the present day. Such an endeavor is difficult, because the statistics on newspapers are quite unreliable. The unreliability is partly the result of ambiguities in defining the term "newspaper", and partly the result of widely differing levels of coverage and accuracy in the statistical reports available. Accordingly, all of the numbers put forward in this section must be regarded as at best rough and ready; certainly these data should not be regarded as having any more usefulness than the indication of broad trends, over extended time periods

The data have two systematic biases. First, there is a tendency to count as "newspapers" things which do not really fit the modern meaning of that term. This is exascerbated by a tendency to count morning and evening editions of the same newspaper as separate newspapers. Thus, the numbers in this section which refer to "newspaper firms" are almost certainly overstated. The second systematic bias is in the circulation statistics. Newspaper publishers have always had an incentive to exaggerate their circulation, in order to increase the demand for advertising space in their publications. Before the creation of the Audit Bureau of Circulation (ABC) in 1914, all data on circulation, even from census sources, must be regarded as inflated. (None of these comments apply to the "Rosse data" for the years 1923,33,43,48,53,58,63,68,73.)

The first successful newspaper, a weekly, was published in Boston in 1704. The number of newspapers increased stadily during the colonial period, reaching 29 in 1770 (see Table 2-2 and Figure 2-2). The first successful daily newspaper appeared in 1783.

Figure 2-2 reveals that both daily and weekly newspapers grew steadily in numbers from their beginnings until about 1900, when significant decline set in, which has continued almost to the present day. (Figure 2-1 and subsequent figures are drawn on a log or ratio scale; anything growing at a constant rate shows up as a straight line.) One of the issues we will discuss in later sections is the cause of the decline in the number of newspapers after about 1900.

Newspaper circulation for dailies (total copies per day) is shown in Table 2-3 and Figure 2-3. This series shows growth at a fairly steadily decreasing rate over the whole period from 1810 to 1970 (this may not be true of the 1810-1850 period, but data for these years are very gross estimates.) Circulation of daily newspapers grew faster than population until about the last half-century.

Tables 2-4 and 2-5 and Figure 2-4 show changes in the size of individual daily newspapers. Average circulation per newspaper was about 550 in 1810, and grew to more than 13,000 by 1919. The largest daily newspapers grew from a circulation of about 900 in 1810 to one million by 1900. Press technology kept pace with the needs of the largest newspapers.

Daily circulation per 10,000 inhabitants grew from 19 in 1810 to 3,056 in 1970; in large cities like New York, circulation to population ratios have always been higher than for the country as a whole, in part because these cities have newspapers with large suburban and rural readerships. New York city was publishing 245 copies per 10,000 inhabitants per day in 1810; by 1929 it was publishing 10,528. (See Tables 2-6 and 2-7A and Figures 2-5 and 2-3A.) The striking feature of these statistics is the very small newspaper-reading population in the first three-quarters of the nineteenth century. (No direct estimate of newspaper readers can be made; the population data include, for instance, children, while some people surely bought more than one newspaper, and others read newspapers purchased by institutions or businesses.) It can hardly be said that daily newspaper reading was a habit of the general population by 1850. The big explosion came in the period after 1880. A big surge in circulation per population came between 1850 and 1900; but it then leveled off and even declined as people turned to other media for news and entertainment. When this is corrected for households, as in Figure 2-3A, it becomes apparent that the period 1880-1910 was one of revolutionary change.

Table 2-8 and Figure 2-6 tell an interesting story. The

nineteenth century witnessed a steady growth in the number of newspapers published per inhabitant. There were 278,000 persons per newspaper issued in 1810, but only 34,000 in 1899. After the turn of the century the steady decline in newspaper firms, combined with growing population, increased this number, reaching 113,000 in 1970 (equivalent to the state of affairs in the decade 1840-1850). Large cities like New York, on the other hand, seem always to have had a declining number of newspapers per inhabitant, suggesting that the geographical growth of the industry in the nineteenth century merely offset this trend for the country as a whole. That is, the number of newspapers increased as more cities became large enough to support them, but there was never a more than temporary growth in the number of papers per inhabitant in individual cities.

Table 2-9 reviews the history of the foreign language press; as one might expect it was most important in the decades following the great waves of immigration. Foreign language daily newspaper circulation reached a maximum of 1,947 copies per 10,000 foreign-born inhabitants in 1919-20.

Newsprint prices (Table 2-10 and Figure 2-7) demonstrate a dramatic decline over the whole period, 1800-1900. (These prices are in current dollars; prices in general fell during the last third of the nineteenth century, and have of course risen since.) The data on newsprint consumption, together with the circulation data, can be used to form a rough estimate of the sizes of newspapers. If all

newsprint consumed in 1828 had been used for daily newspaper production, newspapers would have been an average 7.7 standard pages; the same assumption shows growth to 12.2 pages in 1880, 17.5 pages in 1899, and 31.7 pages in 1919.

Postage was probably a significant expense for newspaper publishers, until ~~central~~ home delivery became significant in the present century, although it is difficult to find historical statistics to support this view. Certainly newspaper publishers have always been important lobbiest before Congressional committees setting postal rates, and have succeeded in receiving subsidized rates for most of two centuries. It was almost universal in the eighteenth century for newspaper publishers to be postmasters, a practice which apparently continued into the nineteenth century under the spoils system. (Kennedy [ ], Rich [ ].) Postmasters had the frank, and mailed their own papers free, while possibly harassing competing newspapers. Prepayment of postage for newspapers was not required until 1875; postmen collected from subscribers, and ofter fees were not collected at all. Moreover, postal rates for periodicals declined steadily throughout the nineteenth century. This presumably encouraged spread of urban newspapers into suburban and rural areas, where they competed with local daily and weekly newspapers.

Table 2-11 shows (for newspapers and periodicals combined) the late nineteenth and early twentieth century trends in industry revenues. Advertising increased steadily in importance as a source of revenue, while subscription revenues and job printing declined

in importance.

From 1880 onwards there has been a continuing increase in the number of cities able to support a daily newspaper, as Table 2-12 and Figure 2-8 demonstrate. But, since the decade of World War I, there has been a dramatic decline in the number of newspapers within a given city. Indeed, this decline has been so dramatic that the number of dailies declined by 30% between 1909-10 and 1970-1, while the number of cities with a daily increased 25%.

The preceding data has been received from a variety of sources: the Census, Ayer [ ] series, and Lee [ ], most prominently. The sources have numerous infirmities, disucssed above. Some notion of the problem can be gleaned from a comparison of Tables 2-7A and 2-7B. The five major cities are the same in each table. Table 7A is based on census data. Table 2-7B for 1881 and 1902 is based on data in Ayer [ ]. The Ayer data, compiled by the author, includes only general circulation English language dailies, excluding for instance business and mercantile dailies. The difference in the number of firms is considerable. Even if the data from Ayer are expanded to include foreign language dailies, business publications, and if separate editions of the same paper are counted as separate papers, there is still a substantial difference between the two sources. Either Ayer is less inclusive than the census, or the census was counting a lot of publications which were simply not daily newspapers. Fortunately, the circulation data are less difficult to reconcile, leading to the hypothesis that the census included firms of very low circulation. From 1923 onwards we do have consistent, well-

defined time series and cross-section data compiled under the direction of J. N. Rosse from Editor and Publisher Yearbook issues. These data are limited to general circulation English language dailies (excluding for instance, business dailies and campus newspapers). The data are all oriented to newspaper firms publishing at least five days a week. Many of these firms publish morning and evening and Sunday issues, but these are not counted as independent newspapers. Tables 2-13 to 2-18 provide a summary of this body of data.

TABLE 2-2
NUMBER OF NEWSPAPERS - 1704-1973

	Daily				Weekly		
Year	Series 1	Series 2	Series 3	Series 4	Series 1	Series 2	Series 3
1704					1		
1710					1		
1720					3		
1730					7		
1740					11		
1750					13		
1760					17		
1770					29		
1780					39		
1790	8(6)				83		
1800	24(16)				210		
1810	26(24)				343		
1820	42(37)				470		
1830	65				650		
1840	138				1,266		
1850	254				2,048		
1860	387				3,338		
1870	574				4,517		
1880	971	843	909		8,839	7,777	8,005
1889	1,610	1,494	1,522		11,042	12,474	12,911
1899	2,226	2,112	2,179		13,678	15,520	16,227
1909	2,600		2,427		14,611		16,796
1919	2,441		2,343		12,690		14,529
1923	2,271		2,310	1,977	6,389		13,817
1929	2,086		2,248		7,547		13,298
1933	1,903		2,199	1,745	4,492		12,516
1939	1,888				6,212		
1943	1,754			1,597			
1948	1,781			1,538			
1950	1,772				10,131		
1953	1,783			1,582			
1958				1,544			
1960	1,854				9,333		
1963				1,552			
1968	1,833			1,547	9,460		
1969	1,833				9,268		
1973	1,792			1,566	9,263		

(continued)

TABLE 2-2

(concluded)

Sources

Dailies

Series 1: 1790-1820 from Brigham's bibliography; includes all firms in existence at some time during the year; numbers in parentheses are firms surviving through the year; 1830 estimated by Lee; 1840-1933 from census data which includes periodicals (daily) until 1921; all of preceding from Lee [ ] Table VIII, p. 718. 1939-1953 from Historical Statistics of the U. S. [ ], series R-169 (from Editor and Publisher); 1960-1973 from Statistical Abstract (1973), Table 820, p. 502 (from Ayer).

Series 2: Rowell data; includes periodicals. From Lee [ ], Table X, p. 721.

Series 3: Ayer data; includes periodicals. From Lee [ ], Table XI, p. 722-3.

Series 4: Rosse data.

Weeklies

Series 1-3 same as above. Includes semi- and tri- weeklies. Series 1 drops firms with sales under $5,000 per annum after 1921, and includes periodicals until 1909.

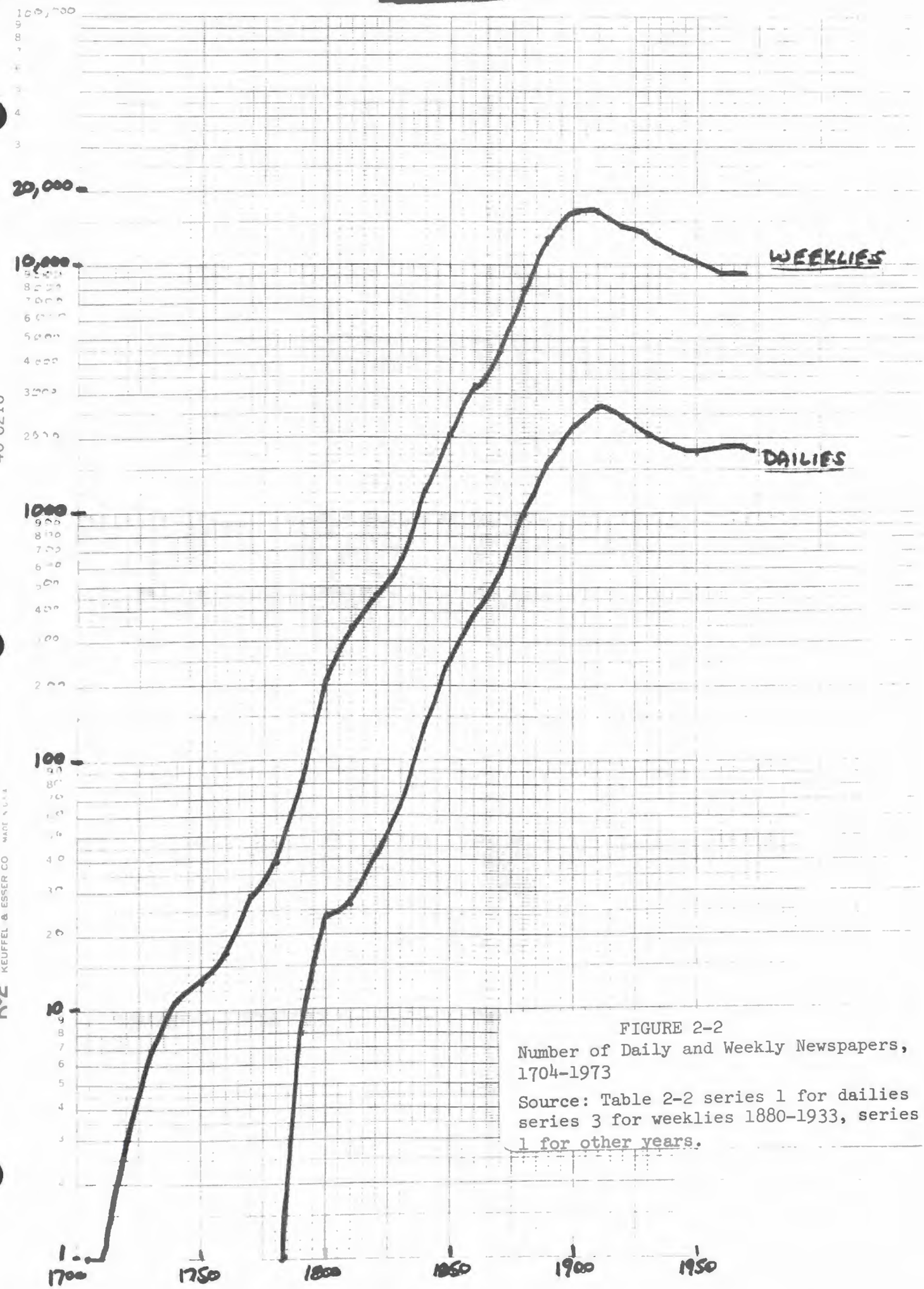


FIGURE 2-2

Number of Daily and Weekly Newspapers, 1704-1973

Source: Table 2-2 series 1 for dailies series 3 for weeklies 1880-1933, series 1 for other years.

TABLE 2-3
CIRCULATION OF DAILY NEWSPAPERS

(circulation in millions)

Year	Daily	Morning	Evening	Sunday
1850	.8			
1860	1.5			
1870	2.6			
1880	3.6			
1889	8.4			
1899	15.1			
1909	24.2	9.6	14.6	13.3
1920	27.8	-	-	17.1
1930	39.6	-	-	26.4
1940	41.1	-	-	32.4
1950	53.8	21.3	32.6	46.6
1960	58.9	24.0	34.9	47.7
1970	62.1	25.9	36.2	49.2

Source:

1850-1909 Lee [ ], Table XIII, P. 725 (from census data)
1920-19 Historical Statistics of the U. S. [ ], Series R170, p. 500.
1950-1970 Statistical Abstract (1973), Table 822, p. 503.

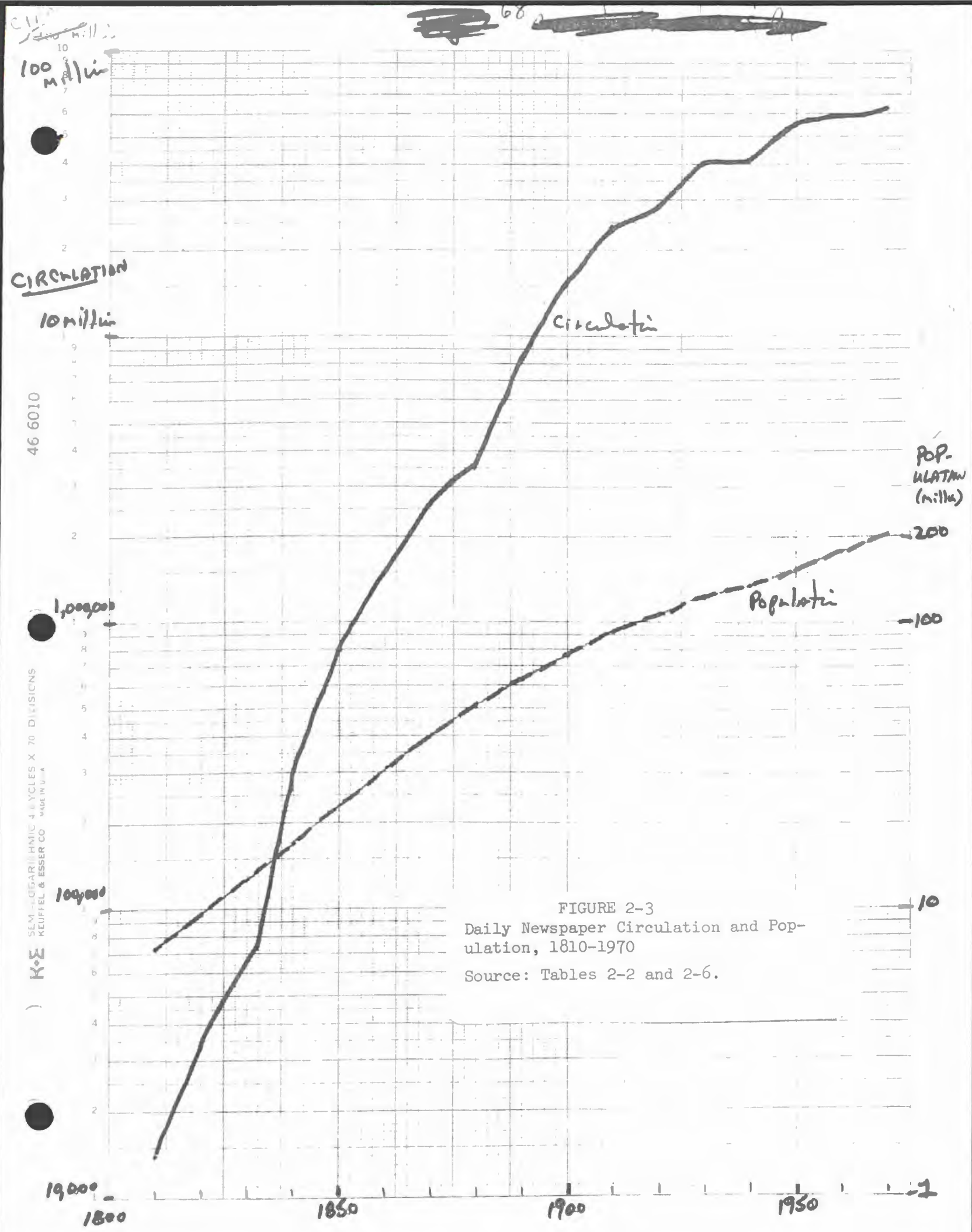


FIGURE 2-3
Daily Newspaper Circulation and Population, 1810-1970

Source: Tables 2-2 and 2-6.

TABLE 2-4

AVERAGE CIRCULATION PER ISSUE OF DAILY NEWSPAPERS

1810-1973 (copies per day)

	Mean	% Change	Median
1810	550	--	
1820	800	45	
1830	1,200	50	
1840	2,200	83	
1850	2,986	36	
1860	3,820	28	
1870	4,532	19	
1880	3,673	-19	
1889	5,209	42	
1899	6,785	30	
1909	9,312	37	
1919	13,531	45	
1923	15,000	--	4,000
1933	21,000	40	5,000
1943	28,000	33	6,000
1953	34,000	21	8,000
1963	39,000	15	10,000
1973	39,000	0	12,000

Source:

1810-1919 Lee [ ], Table XV, p. 728

1923-1973 Rosse data.

TABLE 2-5

MAXIMUM PRESS CAPACITY AND MAXIMUM DAILY CIRCULATION:

1819-1973[1]

Year	Maximum Capacity[2]	Max. Daily Circulation[3]
1810	400	900
1814	1,100	
1820		4,000[4]
1824	2,000	
1830		4,000
1835	4,000	
1840		21,000
1845	20,000	
1850		35,000
1856		55,000
1860		77,000
1868	24,000	
1870		85,000
1874	36,000	
1876	60,000	
1880	60,000	147,000
1881	120,000	
1887	192,000	
1889	288,000	
1890		300,000
1895	384,000	
1900		1,000,000
1902	1,152,000	
1923		623,000
1933		1,411,000
1943		2,013,000
1953		2,180,000
1963		2,055,000
1973		2,103,000

[1]Source: Lee [ ], Chapter V, passim, 1810-1902; Rosse data, 1923-73.

[2]For earlier presses, impressions per hour. For later presses, completed pages (printed both sides) per hour. To the extent that page sizes differ, the data are not strictly comparable.

[3]Largest daily circulation.

[4]Maximum circulation of a New York daily in 1816-1820. Lee [ ] p. 116.

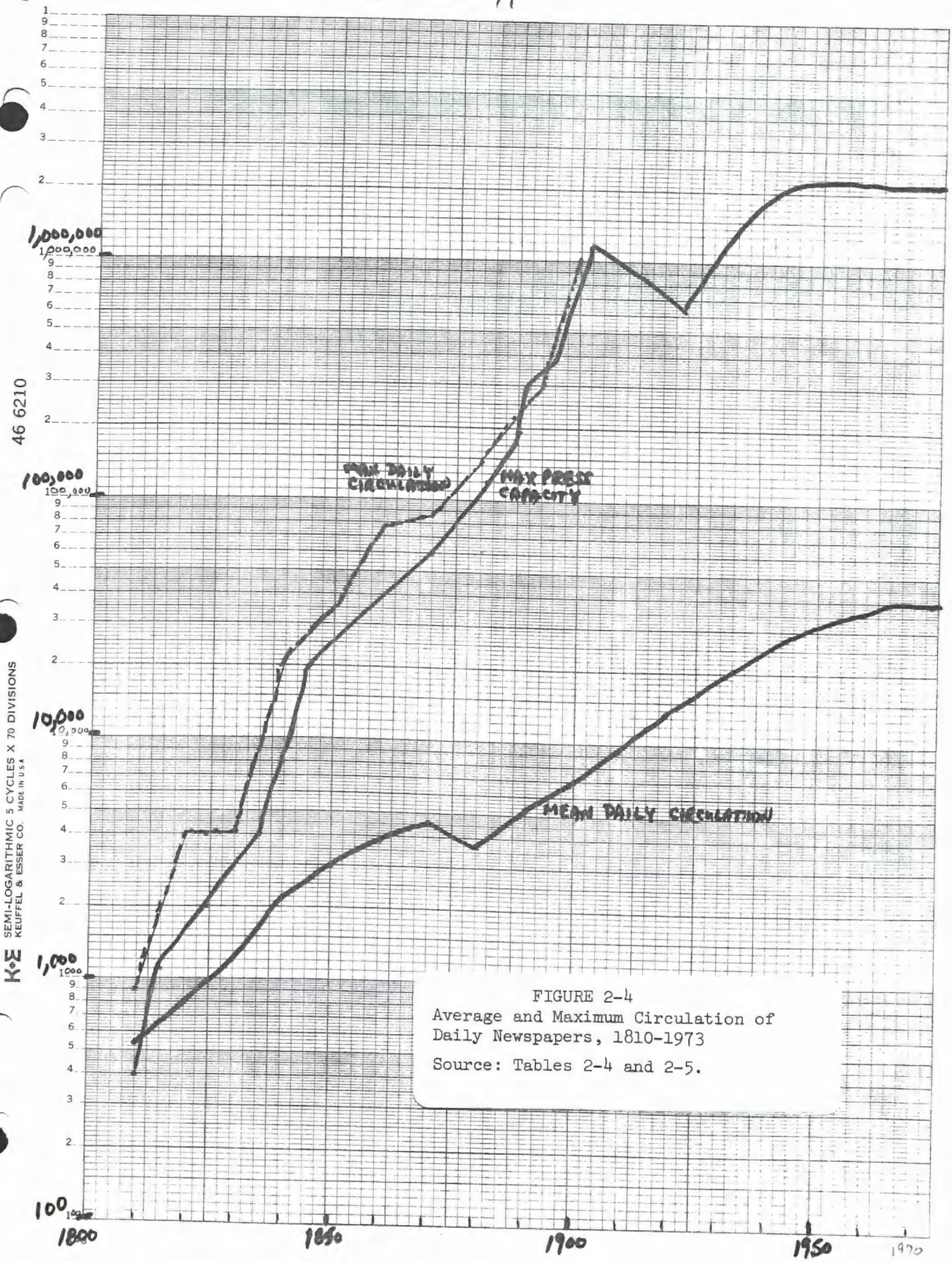


FIGURE 2-4
Average and Maximum Circulation of Daily Newspapers, 1810-1973

Source: Tables 2-4 and 2-5.

TABLE 2-6

CIRCULATION AND POPULATION

U. S. DAILY NEWSPAPERS, 1810-1910

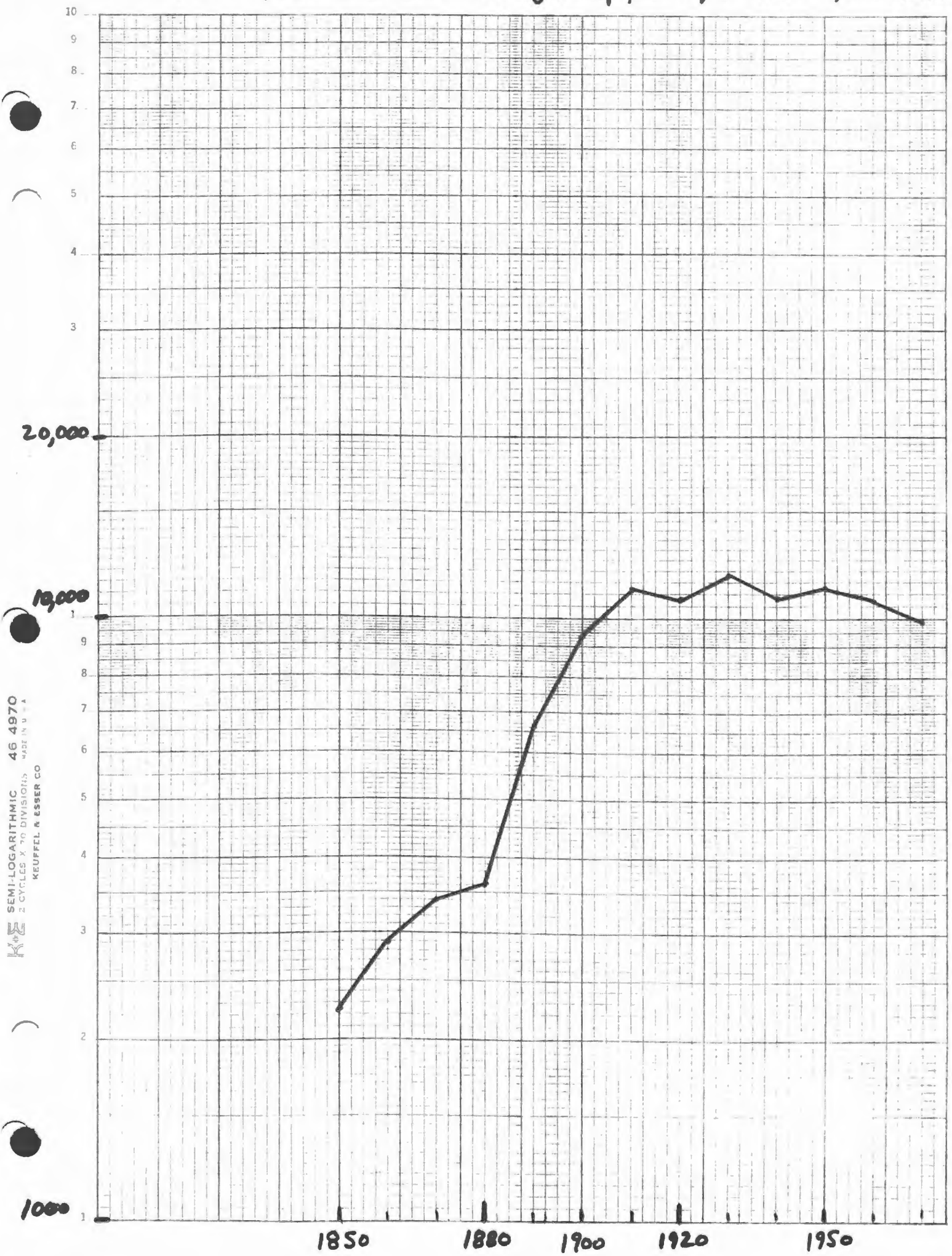
(thousands)

Year	Agg. Daily Circulation	Copies per 10,000 Population per day	Copies per 10,000 Households per day	% Change in copies per Household
1810	14	19	--	--
1820	34	35	--	--
1830	78	61	--	--
1840	303	178	--	--
1850	800	344	2,222	--
1860	1,500	477	2,885	30
1870	2,600	653	3,421	19
1880	3,600	718	3,636	6
1890	8,400	1,334	6,614	82
1900	15,100	1,987	9,438	43
1910	24,200	2,631	12,100	28
1920	27,800	2,630	11,583	-4
1930	39,600	3,223	13,655	18
1940	41,100	3,121	11,743	-14
1950	53,800	3,570	12,512	7
1960	58,900	3,300	11,113	-11
1970	62,100	3,056	9,857	-11

Source:

Estimates based on Tables 2-2, 2-3, 2-4 and U. S. Census data.

FIGURE 2-3A: Daily Newspaper Copies Per 10,000 Households



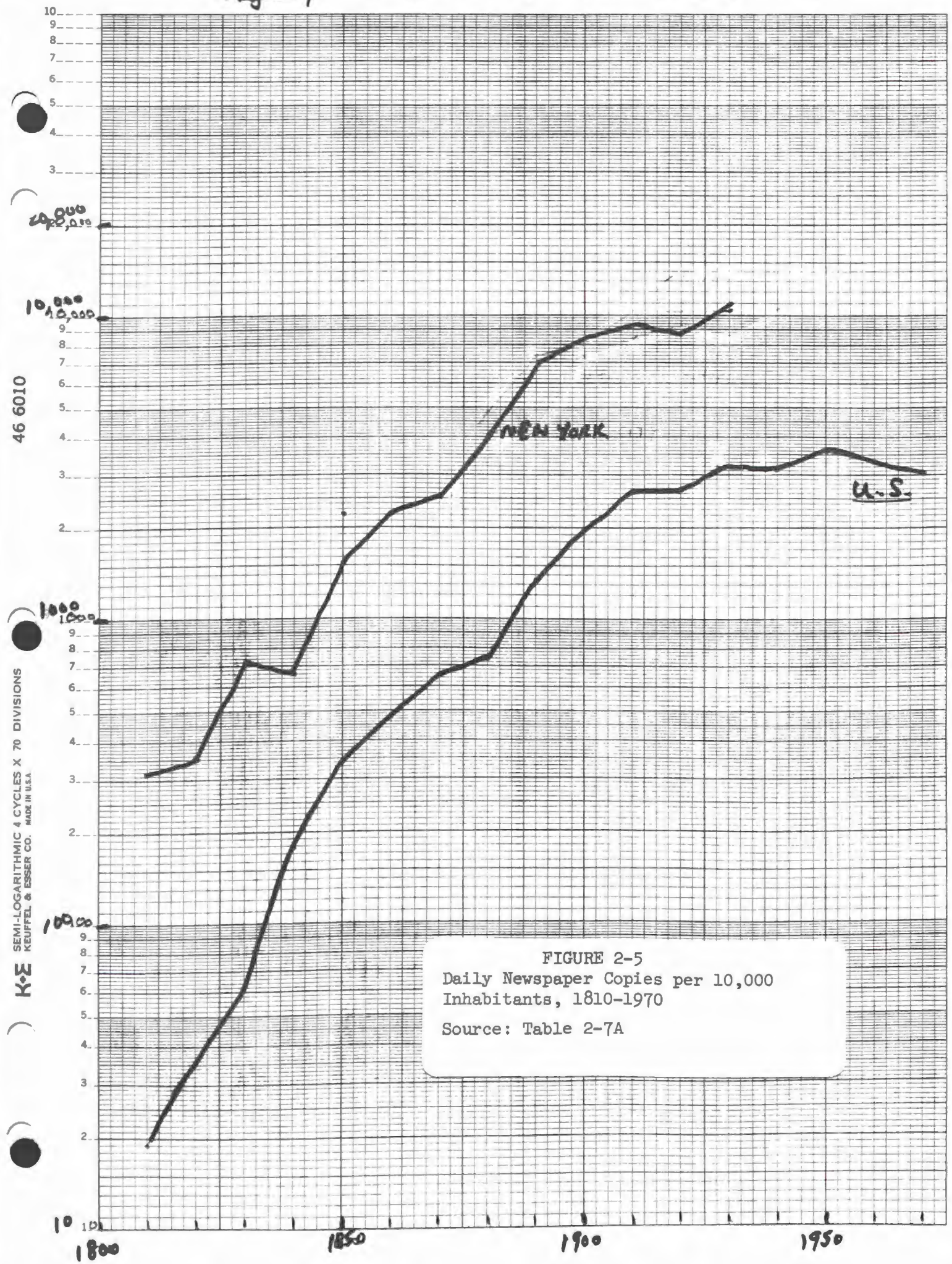


FIGURE 2-5
Daily Newspaper Copies per 10,000 Inhabitants, 1810-1970

Source: Table 2-7A

TABLE 2-7A

NUMBER AND CIRCULATION OF DAILY NEWSPAPERS IN LARGE CITIES

	New York City				Five Other Cities*			
Year	Number (M + E)	Combined daily Circulation (000)	Popula- tion (000)	Copies per 10,000 Population	Number (M + E)	Combined daily Circulation (000)	Popula- tion (000)	Copies per 10,000 Population
1790	3	1.2	49	245				
1800	5	2.5	79	317				
1810	7	4.2	120	350				
1820	8	10.8	152	711				
1830	11	16.0	242	661				
1840	18	60.0	391	1,535				
1850	14	153.6	696	2,213				
1860	18	300	1,174	2,555				
1870	26	590	1,478	3,992				
1880	33	814	1,912	4,257	82	1,009	2,107	4,800
1889	55	1,781	2,448	7,275	97	2,335	3,155	7,400
1899	29	2,732	3,344	8,170	137	3,432	4,279	8,000
1909	85	4,091	4,423	9,249	116	5,481	5,383	10,200
1919	-	4,807	5,576	8,621	-	6,654	6,578	10,100
1929	55	6,385	6,065	10,528	84	7,783	7,642	10,200

Source: Based on Lee [ ], Tables XVII and XVIII, pp. 730-732, plus census data.

*Chicago, Boston, Philadelphia, San Francisco, Cleveland

Note: Compare Table 2-7B.

TABLE 2-7B

CHANGING STRUCTURE IN FIVE LEADING CITIES*

(English language general circulation dailies only)

	1881	1902	1922	1973
Population (000)	2,106	4,278	6,578	7,406
Number of Newspaper firms by publication schedule				
Evening	15	14	13	2
Evening and Sunday	0	2	1	1
Morning	9	6	4	2
Morning and Sunday	8	10	9	1
Morning and Evening	2	1	1	0
Morning, Evening and Sunday	4	5	3	5
Daily	0	0	0	0
Daily and Sunday	0	1	0	1
TOTAL	38	40	31	12
TOTAL with known circulation	31	35	30	12
TOTAL circulation (000)	763	3,151	5,370	6,037
Largest circulation (000)	105	279	504	1,179
Mean circulation	25	90	179	503
Circulation per 10,000 population	3,623	7,366	8,171	8,151
Failures (or mergers)	--	12	17	20
Entries	--	14**	6	1

*Philadelphia, Boston, Chicago, Cleveland, San Francisco

**9 in Chicago

Source: Compiled from Ayer [ ] and Editor & Publisher Yearbook.

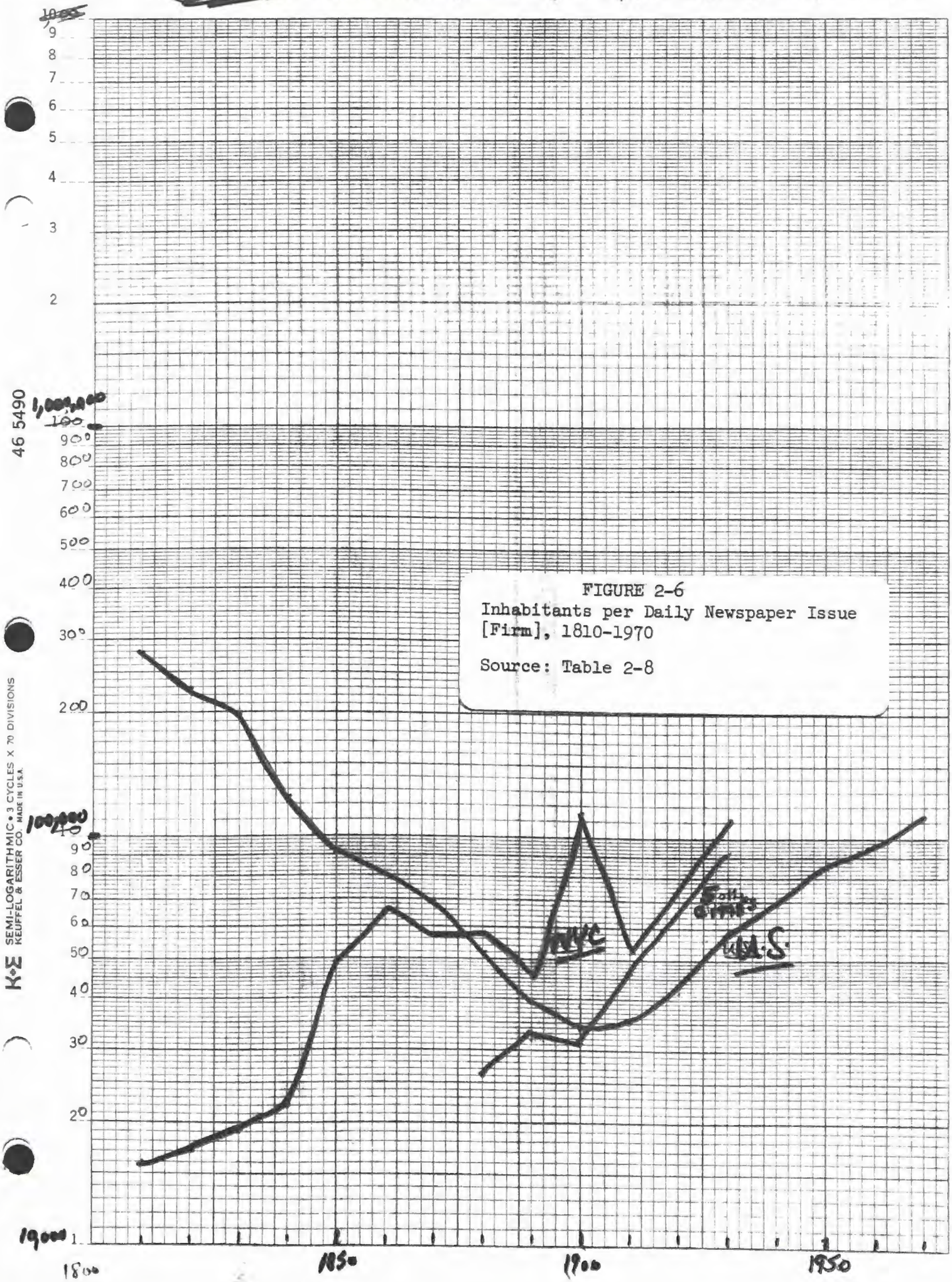


FIGURE 2-6
Inhabitants per Daily Newspaper Issue [Firm], 1810-1970

Source: Table 2-8

TABLE 2-8
INHABITANTS PER DAILY NEWSPAPER ISSUE
(000)

Year	United States	New York City	Five other Cities
1790	-	16	
1810	278	16	
1820	229	17	
1830	198	19	
1840	124	22	
1850	91	49	
1860	81	65	
1870	69	57	
1880	52	58	26
1889	39	45	33
1899	34	115	31
1909	35	52	46
1919	43	-	-
1929	59	110	91
1939	70	-	
1950	85	-	
1960	96	-	
1970	113	-	

Source: Tables 2-5 and 2-7A.

TABLE 2-9
FOREIGN LANGUAGE PUBLICATIONS IN THE UNITED STATES

Year	All regular Publi-cations	Daily News papers	Daily Newspapers Circulation (000)	Foreign-born Population (000)	Copies per 10,000 Population
1810	20	1			
1820	17	2			
1839	45	-			
1850	158	30*		2,245	
1860	298	-		4,139	
1870	315	64		5,567	
1880	799	90	474	6,680	710
1890	1,028	116	-	9,250	-
1900	1,159	123	-	10,341	-
1909-10	-	137	1,786	13,516	1,321
1914	-	160	2,599	-	-
1919-20	1,040	154	2,710	13,921	1,947
1929-30	913	127	2,325	14,204	1,637

Source: Lee [ ], Tables XIX, XXIV, pp. 733-741.

*1856

TABLE 2-10
NEWSPRINT PRICES AND CONSUMPTION, 1790-1970
(Prices in $/lb - consumption in tons of 2,000 lbs)

Year	Newsprint Consumption	Price	Standard Pages Per Newspaper Index
1790		.150	
1800			
1810		.150	
1821		.170	
1828	1,300	.160	7.7
1832		.120	
1853		.100	
1860		.083	
1870		.123	
1875		.085	
1880	94,573	.069	12.2
1885		.052	
1890		.038	
1895		.031	
1899	569,000	.021	17.5
1905		.024	
1909	1,159,000	.021	22.3
1914	1,567,000	.023	
1919	1,895,000	.039	31.7
1923	2,778,000		
1929	3,775,800	.031	44.3
1933	2,680,600	.021	
1950	5,521,000*	.047	47.7 (36)
1960	6,800,000*	.064	53.6 (43)
1970	9,071,000*	.070	67.9 (47)

Source: Lee [ ], Table XXVI, p. 742, for consumption and price data, 1790-1933; Statistical Abstract (1973), Table 576, p. 353, for prices, 1950-1970, and Table 823, p. 504 for consumption. Pages per copy calculated by formula: pages = (tons used X 2000 X 72) / (daily circulation X 310). There are nowadays approximately 72 standard size pages per pound of newsprint, and the formula assumes 310 days of publication per year. However, newsprint consumption includes weekly and Sunday papers; therefore this series should be regarded as a rough index only. (Data in parenthesis for 1950-70 are actual averages for daily papers only from Statistical Abstract (1973), Table 823, p. 504.)

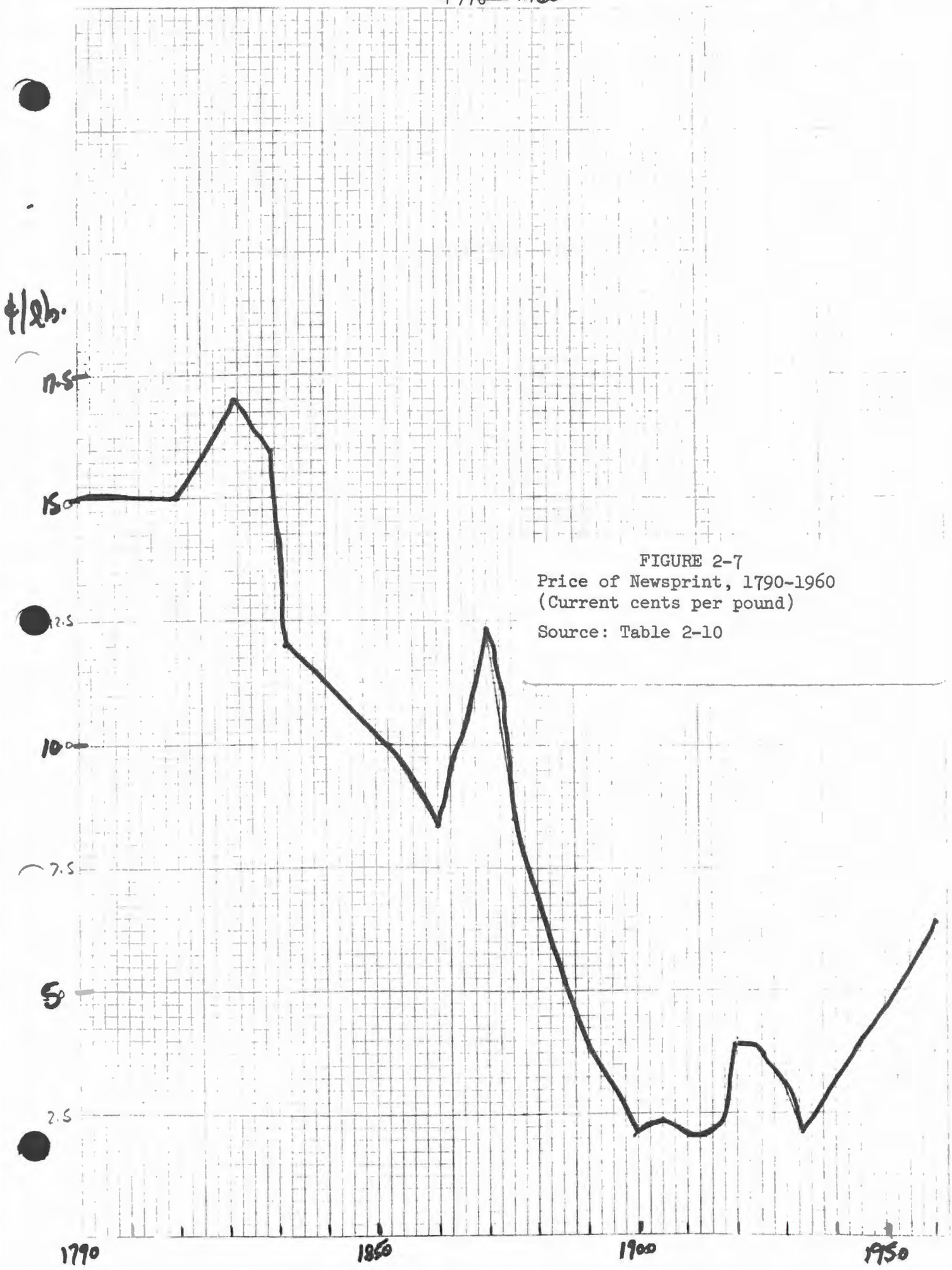


FIGURE 2-7
Price of Newsprint, 1790-1960
(Current cents per pound)

Source: Table 2-10

TABLE 2-11

NEWSPAPER AND PERIODICAL REVENUES, 1849-1929

(millions of dollars)

Year	Industry Revenues	Job Printing	Subscriptions	Advertising	% Industry revenue from newspapers
1849	9				
1859	21				
1869	25				
1879	89	- 50	-	39	
1889	180	36	73	71	
1899	223	47	80	96	
1909	406	68	135	203	69
1919	924	118	278	528	70
1929	1,738	158	460	1,120	68
		PERCENTAGES			
1879	100	- 56	-	44	
1889	100	20	41	39	
1899	100	21	36	43	
1909	100	17	33	50	
1919	100	13	30	57	
1929	100	9	26	64	

Source: Based on Lee [ ], Tables XXX and XXIX, pp. 748-750.

NOTE: Daily and Sunday Newspaper Revenues, 1958-1967

	Total	Advertising	Subscriptions
1958	3,125	2,209 (71%)	916 (29%)
1963	3,792	2,728 (72%)	1,064 (28%)
1967	4,962	3,653 (74%)	1,309 (26%)

Source: Statistical Abstract (1973) p. 502.

TABLE 2-12
DAILY NEWSPAPER COMPETITION, 1880-1971
(General interest English language Dailies)

Year	Cities with Daily	Cities with 1 daily firm	Cities with 2+ daily firms
1880	389	150	239
1910	1,207	518	689
1920	1,295	743	552
1930	1,402	1,114	288
1940	1,426	1,245	181
1945	1,396	1,279	117
1961	1,461	1,400	61
1971	1,511	1,474	37

Source: Editor and Publisher, July 17, 1971, p. 1.

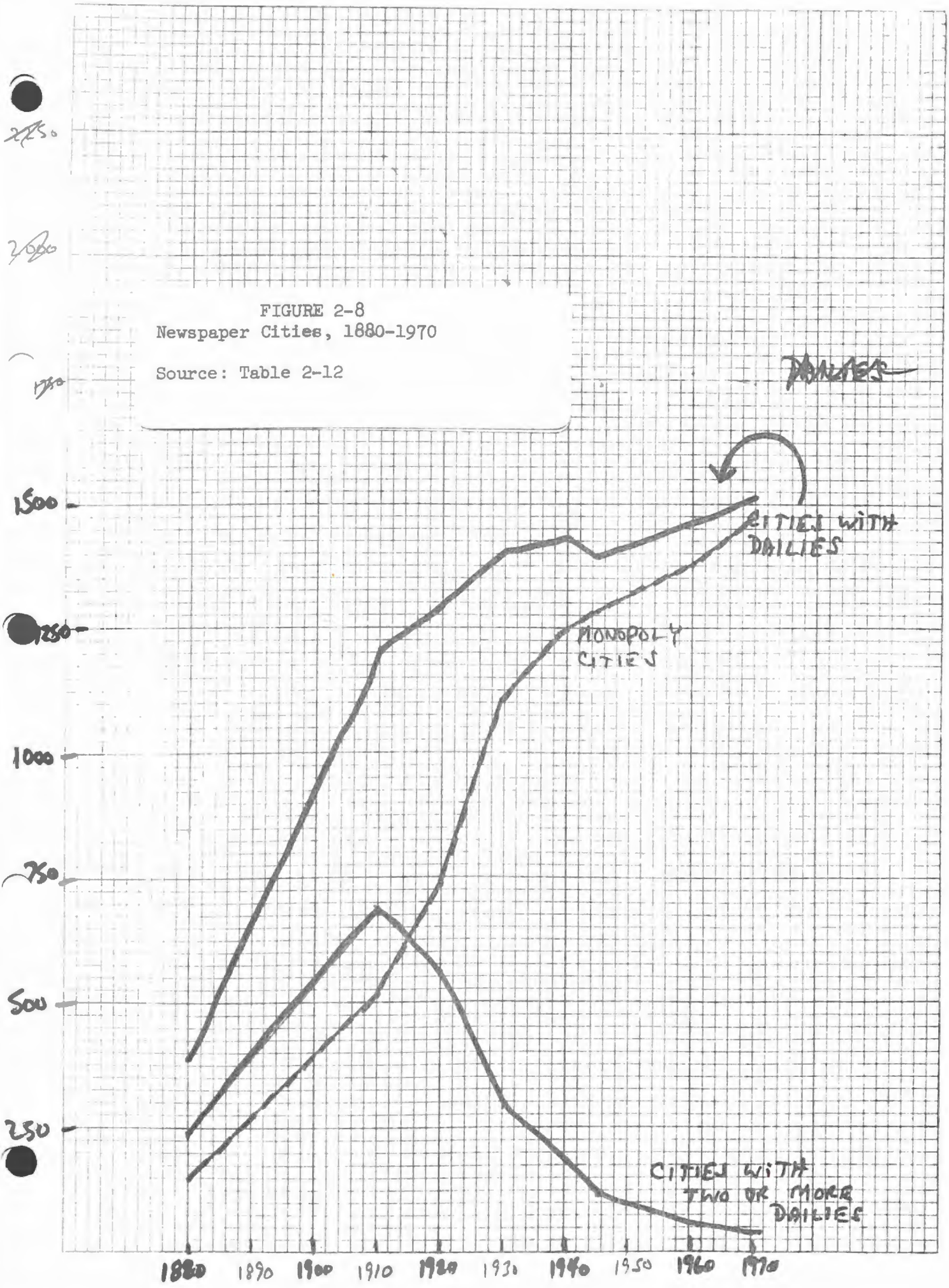


FIGURE 2-8
Newspaper Cities, 1880-1970

Source: Table 2-12

TABLE 2-13

STRUCTURE OF DAILY NEWSPAPERS 1923-1973

	Year									Percent Change
	1923	1933	1943	1948	1953	1958	1963	1968	1973	1923-1973
No. Firms	1,977	1,745	1,597	1,536	1,582	1,545	1,552	1,547	1,566	-21
Agg. Circulation (10^6)	30	37	44	51	54	57	60	61	61	103
Mean Circ. (000)	15	21	28	33	34	37	39	39	39	160
Median Circ. (000)	4	5	6	7	8	9	10	11	12	200
Max. Circ. (000)	623	1,411	2,013	2,402	2,180	2,079	2,055	2,112	2,103	238
Agg. Sunday Circ. (10^6)				44		47		48	50	
Mean Sunday Circ. (000)				91		87		85	84	
No. Sunday papers				486		539		562	594	
Agg. Morning Circ. (10^6)				20		23		24	24	
Mean Morning Circ. (000)				65		80		81	76	
No. Morning papers				310		288		296	314	
Agg. Evening Circ. (10^6)				30		34		36	36	
Mean Evening Circ. (000)				21		23		26	26	
No. Evening Papers				1,405		1,430		1,411	1,397	
No. Firms by Type										
Evening	1,339	1,141	1,024	972	964	938	930	901	875	-35
Morning	106	80	65	49	63	45	69	66	80	-24
Evening Sunday	204	222	225	249	301	309	309	332	359	76
Morning Sunday	282	133	96	77	59	60	55	56	71	-75
Morning, Evening, Sun.	26	139	151	154	165	166	170	165	155	496
Daily & Sunday	1	0	2	5	5	4	5	11	12	1,100
Morning & Evening	19	29	30	30	23	17	9	11	9	-53
Daily	0	1	3	1	2	6	5	5	5	--
Monopoly Cities	795	1,183	1,297	1,283	1,364	1,377	1,425	1,450	1,482	86
Cities with 2 Firms	404	205	118	93	74	57	42	38	33	-92
Cities with 3+ Firms	103	38	19	16	17	9	9	5	4	-96
TOTAL CITIES	1,302	1,426	1,434	1,392	1,455	1,443	1,476	1,493	1,519	17

Source: Based on Rosse data.

TABLE 2-14

COMPETITION IN THE NEWSPAPER INDUSTRY

Year	No. of Firms in Multi-Paper Cities	% of Firms in Multi-Paper Cities	% of Daily Papers Sold by Firms in Multi-Paper Cities
1923	1,182	59.8	88.8
1933	562	32.2	73.9
1943	318	19.9	64.2
1948	253	16.5	62.0
1953	218	13.7	54.2
1958	168	10.9	51.7
1963	127	8.2	43.3
1968	97	6.3	36.1
1973	84	5.4	32.2

Source:

Based on Rosse data.

TABLE 2-15

DAILY NEWSPAPER SIZE DISTRIBUTION--

DAILY CIRCULATION; END POINTS OF DECILES, SMALLEST TO LARGEST

Decile \ Year	1923	1933	1943	1948	1953	1958	1963	1968	1973
0%	211	385	480	500	840	910	1,100	1,215	600
10	1,286	1,659	2,372	2,725	3,082	3,273	3,681	3,844	4,000
20	1,829	2,439	3,225	3,775	3,929	4,291	4,609	5,027	5,378
30	2,460	3,060	3,984	4,639	4,944	5,397	5,813	6 223	6,937
40	3,050	3,815	4 835	5,851	6.284	6 837	7,410	8,085	8,619
50	3,871	4,731	6,072	7,322	8,217	9,104	9,805	10,521	11,643
60	5,276	6,626	8,571	10,293	11,116	12,191	13,374	14,504	15,591
70	8,424	10,102	13,187	15,540	17,106	18,325	19,723	21,429	22,674
80	14,246	18,439	24,974	27,848	29,321	31,057	31,049	34,509	35,461
90	32,240	42,012	60,598	74,173	76,431	81,020	76,549	75,318	35,461
100	622,749	1,410,901	2,013,200	2,402,368	2,179,693	2,079,423	2,055,266	2,112,244	2,103,363

Source: Based on Rosse data.

TABLE 2-16

PERCENT OF TOTAL DAILY CIRCULATION OF QUARTILES

Years	Smallest 25%	Second 25%	Third 25%	Largest 25%
1923	2.2	4.8	10.4	82.5
1933	2.2	4.4	9.2	84.2
1943	2.2	4.2	9.3	84.3
1948	2.2	4.2	9.1	84.5
1953	2.3	4.4	9.7	83.6
1958	2.3	4.5	9.7	83.5
1963	2.4	4.6	10.0	83.0
1968	2.5	4.9	10.7	81.9
1973	2.8	5.4	11.4	80.4

PERCENT OF TOTAL DAILY CIRCULATION FOR LARGEST 10%, 5%, 1% FIRMS

Years	10%	5%	1%
1923	64.9	50.3	22.6
1932	67.4	52.8	23.2
1943	66.6	51.3	22.4
1948	67.9	52.5	22.8
1953	66.6	50.8	21.0
1958	66.5	50.2	19.2
1-63	65.7	52.3	22.1
1968	64.8	50.3	20.7
1973	66.3	49.3	20.6

Source:

Based on Rosse data.

TABLE 2-17

CIRCULATION AND POPULATION, 1923-1973

	Year						Percent Change 1923-1973
	1923	1933	1943	1953	1963	1973	
Comb. Daily Circ. (10^6)	30	37	44	54	60	61	103%
Population (10^6)	112	126	137	160	189	210	88%
Households (10^6)*	24	30	35	43	53	63	162%
Circ./population x 100	27	29	32	34	32	29	7%
Circ./household x 100*	125	123	126	126	113	97	-22%

*Households are for preceding decade years (1920, 1930, etc.) from Census data.

Source: Based on Rosse and Census data.

TABLE 2-18

DAILY NEWSPAPER FIRMS AND CIRCULATION BY CITY SIZE

Year	City Size (000)					
	less than 10	10-99	100-500	500-1,000	more than 1,000	TOTAL
	Circulation (000)					
1948	1,676	13,280	13,908	8,533	13,947	51,345
1958	1,753	15,594	16,594	10,255	13,013	57,209
1968	1,741	18,113	17,957	11,052	11,955	60,817
1973	1,758	19,728	17,460	10,950	11,389	61,285
% Change, 1948-1973	+5%	+49%	+26%	+28%	-18%	+19%
	No. of Firms					
1948	451	881	137	337	30	1,536
1958	409	927	137	44	28	1,545
1968	365	975	151	34	22	1,547
1973	333	1,030	149	33	21	1,566
% Change, 1948-1973	-26%	+17%	+9%	-11%	-30%	+2

Source: Rosse data.

Draft #2
January 1975

CHAPTER 3: TELEVISION

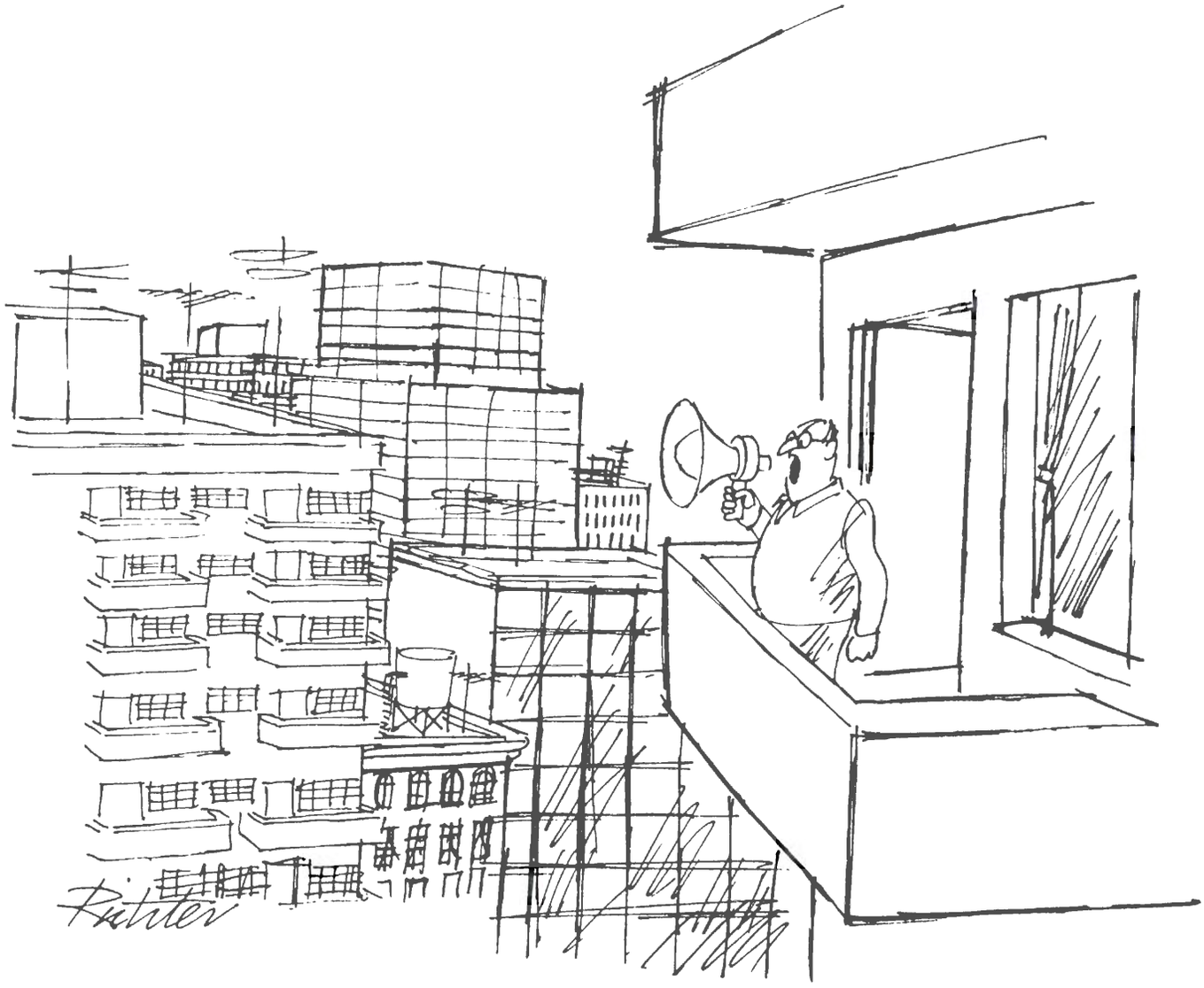
B. M. OWEN

The result [of a right of paid access to broadcast stations for editorial announcements] would be a further erosion of the journalistic discretion of broadcasters in the coverage of public issues, and a transfer of control from the licensees who are accountable for broadcast performance to private individuals who are not. The public interest would no longer be "paramount" but, rather, subordinate to private whim ....

--Opinion of the Chief Justice (and the Court) in CBS v. DNC, 412 U.S. 94, 124 (1972).

Nor is it enough that he should hear the arguments from his own teachers, presented as they state them, and accompanied by what they offer as refutations. That is not the way to do justice to the arguments, or to bring them into real contact with his own mind. He must be able to hear them from persons who actually believe them; who defend them in earnest, and do their very utmost for them.

--J. S. Mill, On Liberty, quoted in Red Lion v. FCC, 395 U.S. 367, 392 (1968) and CBS v. DNC 412 U.S. 94, 189 (1972), (Brennan, J., dissenting.)



"Attention out there! We now bring you an opposing viewpoint to a CBS editorial!"

NEW YORKER, 2/10/75, P. 45

Introduction

Broadcasting is unique among the mass media in America, for it is the only medium subject to direct government regulation licensing. Licensing of the press has always been contrary to the spirit of the First Amendment. It was initiated for broadcasting in an era when sober men did not regard broadcasting as a part of the "press," and it continues today for rather different reasons. Aside from its peculiar status as a regulated medium, broadcasting seems to have enormous social import. The survey firms which supply ratings of programs claim that Americans spend an almost unbelievable number of hours each day watching television. Children especially view television a great deal, and there is considerable controversy concerning the effects of this on their development. Many, perhaps most, adults depend on television for news and entertainment to a greater degree than on newspapers and other print media.

In this chapter we shall be concerned with the economics of television, the theory and practice of regulation, and the ways that economic analysis can give insight into policies designed to increase freedom of expression in broadcasting.

Early History of Broadcasting

The early history of broadcasting has left an unfortunate legacy for freedom of expression. From the beginning, congressional committees and courts with no real understanding of the technology of spectrum utilization conspired with happenstance to produce a framework of legal and policy attitudes favoring what now seems to be exactly the wrong institutional structures for the broadcast media.[1]

Four factors were influential from the beginning. The first was the obvious usefulness of radio to military units and to safety and rescue services. This invited early government control. The second was that broadcasting emerged first as an amateurish novelty, used by department stores for publicity stunts, and that these uses challenged use of the spectrum for safety purposes. The third factor was the absence of any serious attempt to determine by legislation a system of transferable property rights in the spectrum. Finally, early broadcast technology was characterized by the absence of any practical mechanism for enforcing payment by listeners for the service they received.

---

[1] See Barnow (43), Minasian (363), and Herring and Gross[ ] for early history of broadcasting regulations.

Speculation about historical events which take the "for want of a nail" line are seldom fruitful. Nevertheless, the consequences of the early history of broadcasting are sufficiently important that some insight may be gained from a few "what if" questions. For instance, if initial uses of the electromagnetic spectrum had not involved military and safety services, it is possible that the governments of the world would have been less ready to exercise control over the allocation of this resource. In that event, commercial users who faced the problems of interference and chaotic allocation conditions would presumably have exerted pressure on courts and congress to establish a system of property rights in the spectrum. In the event, this trend was thwarted by the government's direct resort to fiat allocation. Similarly, broadcasting might have begun with wire transmissions rather than over-the-air transmissions, or it might have begun with sufficiently complex receivers that broadcasters could have exercised control of a rental market in receivers in order to collect from listeners for the broadcast service.* In either case, the dominant role of advertising in determining industry structure might not have developed.

The climate of opinion generated by early uses of the technology resulted, however, in fiat allocation and in "free" (zero price) radio service. These "accidental" beginnings were incorporated in the Radio Act of 1927 and later in the Communications Act of 1934. Fiat allocation of the spectrum in the "public

*Actual receivers were too easy to build -- or "pirate" -- thus making them useless as exclusion devices.

But of course there are better & worse ways of assessing content for this program: affirmative answer = burden of proof

interest" by a group of administrative agencies (chiefly the FCC and IRAC)[2] became imbedded in the law, and it was not long before a body of judicial philosophy evolved to defend this state of affairs. Of course, no one in the early days of radio could foresee the enormous importance that television would come to have. Probably few people saw radio, in 1927, as an important source of news and opinion, or as a part of the "press" contemplated by the First Amendment.

The Federal Radio Commission and its successor, the FCC, embarked on a program of awarding radio broadcast licenses. Initial concern was centered on technical questions of interference: power levels, antenna locations, hours of operation, and the like. But at a zero price there was more demand for the licenses than the amount of spectrum the government wished to make available for this particular use. Some criterion was needed for selecting among the applicants and for renewing existing licenses. Congress's instructions on this point were far from clear: the Commission was to award licenses in a way which served the "public interest." Since no reasonable application of this criterion by the Commission could avoid examination of the content of communications, that content became the subject of regulation. It is true that at first this regulation was quite general and benign. But as we shall see, the foundation was laid for increasingly detailed federal regulation of content

---

2 Interdepartmental Radio Advisory Committee - see Coase (131).

cf. access channel debate today.

Not a myth: it's just that without a market-clearing mech like sale of operating rights the "scarcity" is more visible than the issue of how to allow the right to clear (as in land).

Idea: map or chart showing unused spectrum (channels) & price of land

in the electronic media.

The remaining major implication of early decisions was equally profound. The Commission allocated less spectrum to broadcasting than was demanded at the price of a license. The result was the creation of scarcity rents or excess profits associated with the license itself. This in turn established a class of firms with a vested economic interest in the status quo of regulation and technology, an interest group with both economic and political power. This precedent was perpetuated and worsened when television frequencies were allocated. The elementary economic and political error involved in this allocation decision might have been avoided either by providing more spectrum for broadcasting (and therefore less for other services) or by changing technical standards so as to accomodate all of the demand, or by charging a license fee which cleared the market at the supply level preferred by the Commission. These things might have been done at the onset with little political cost. The moment they were not done, the vested interests created a formidable block to reform which has continued to the present day. Perhaps worse, a myth was created that there was a "limited" supply of spectrum for broadcasting, and this myth provided the rationale for a long series of judicial decisions confirming the Commission's policies and undermining freedom of expression in the electronic media.

The major point can be illustrated vividly by a hypothetical example. Suppose the government decided that because of its (considerable) effect on the environment, the paper-making industry should be nationalized as a public resource. "Trees belong to the people." Moreover, the Federal Paper Commission would grant licenses to individuals allowing the consumption of paper produced by the government. The licenses would be awarded in a manner which served the public interest, and at a zero price. Obviously, at a zero price, demand would exceed supply at present production levels. The government would either have to expand production or allocate licenses on some other basis. Since expansion of production would harm the environment, licenses would have to be awarded only to a limited number of individuals who used the paper in a manner which served the public interest. The Commission would have to inquire into the content of matter printed on the paper. Before long, government control of print media content would be full-blown. This example seems silly only because no one is frightened by the technology of paper production. The historical development of radio regulation has no greater justification, save only the absence of a preexisting set of rules governing property rights in the resource itself.

Spectrum Allocation

The electromagnetic spectrum is a medium of communication as well as an input to various non-communication production processes. Among the uses to which the spectrum can be put, besides radio and television broadcasting, are: radar, military communications, microwave relay systems, police radio systems, ham and amateur services, taxicabs and delivery vehicle dispatch, microwave ovens, and communication satellites. The signals involved in these uses can, in many cases, be sent over wires (or otherwise be "contained") as well as over-the-air.

The physical characteristics of the spectrum are such that a full specification of the signal requires a multi-dimensional enumeration of characteristics.[3] Among these are frequency or wavelength, modulation technique, polarization, geographic space, and time. A crucial characteristic of the signal for reception purposes is the signal-to-noise ratio, where "noise" is the presence of unwanted interference from various sources. Thus, the "quality" of a signal is a function not merely of its own characteristics but also the character of interfering signals. In the absence of a property right, this phenomenon can be regarded as an externality. The nature of the externality is such that negotiation among users is difficult, so that the Coase Theorem can not be applied.[4]

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[3] See Rostow Task Force Report, Staff Papers.

[4] Coase, "The Problem of Social Cost." The Coase Theorem says that, provided negotiation costs are negligible, any definition of property rights is consistent with efficiency in the presence of external effects.

#3: Govt defines rights & allows sale (ex zoning)

Question: if broadcasting is so important & a security so severe & broadcast industry so powerful, why doesn't industry use its clout to push for more spectrum?

There are two solutions to the interference problem. The first is the use of private markets and private property rights.[5] These could evolve either through common law adjudication of infringement suits, or by legislation. Some parts of the spectrum have an international character, requiring that this problem be dealt with on that level. The second approach is government or monopoly allocation. This "internalizes" the interference externalities. In either case, the spectrum can be allocated more or less efficiently among users and uses by equating marginal social costs and benefits, to the extent that appropriate information is available. One way to generate this information in a centralized system of allocation is to auction off leasehold or rental rights. Any of these alternatives can in principle achieve economic efficiency in the use of the spectrum; if this were all that were at stake, the choice among them would be purely pragmatic.

But more is at stake. The use of part of the spectrum (not a large part) for broadcasting means that both the monopoly solution and the government allocation solution raise certain First Amendment issues. These difficulties are not insuperable. There is no necessary conflict between centralized spectrum allocation and freedom of expression, provided that the allocation rules are neutral with respect to the content of the signals.

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5 See Coase (130), De Vany (160).

(Even this is too strong a statement; since the content of signals has something to do with the economic value of the signal, the allocation system can take this into account without losing its neutrality.) For instance, the government can allocate spectrum by auction, and fiddle with the rights definitions until the criteria for efficiency are met as nearly as possible.

The spectrum is not a "limited resource" in any sense beyond the sense in which other economic resources are limited. (Indeed, physically, the spectrum is infinite, although only parts of it are usable for communication under current technology.) The spectrum can be used more or less "intensively." The best analogy is that as the price of paper goes up, one would expect people to use narrower margins. The "margins" in spectrum use are also variable. If more money is spent on equipment quality, less spectrum is needed for a given signal.[6] Similarly, spectrum has many substitutes, including wires, paper, and travel. The presence of substitutes and the fact that spectrum can be used in variable proportions with equipment to produce signals means that the allocation mechanism, whether centralized or private, must take account of the prices of substitutes and complementary inputs in order even to approximate efficiency.

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[6] For example, communication equipment is seldom perfectly on the correct frequency. Accordingly, there are buffer zones to prevent interference between adjacent channels. As the accuracy (and cost) of the equipment (both transmitter and receiver) increases, these buffer zones can be decreased, allowing more channels.

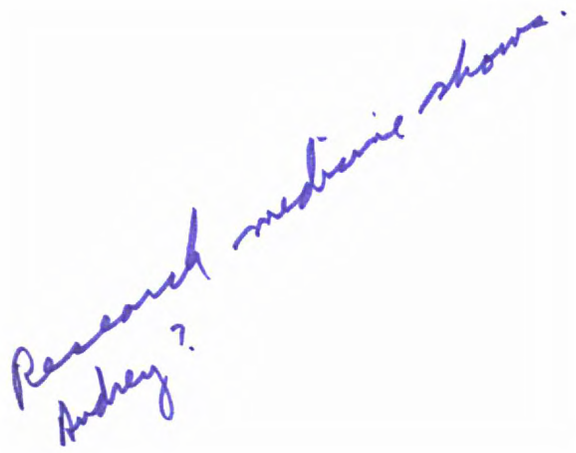
No real reason why we couldn't allocate in present way & renew pro forma.

The preceding analysis of spectrum allocation, when contrasted with the actual manner in which the allocation is presently carried out, leads directly to two serious indictments: (1) The present allocation scheme can not be economically efficient; society would, from a purely economic point of view, be better off with some allocation other than the present one. (2) The present allocation & regulation scheme is quite unnecessarily in conflict with the First Amendment.

These two indictments are based on the fact that the allocation of spectrum is now based on what are, from an economic point of view, entirely arbitrary rules and traditions. The FCC and the other agencies concerned allocate spectrum in the "public interest." In practice, this means spectrum is allocated according to tradition and current political equilibria, equilibria in which the public's interest is not in fact well represented. Since license fees are minimal, no user has anything like the proper incentives to use inputs in the right proportion, or to substitute other media appropriately.* Moreover, in broadcasting, the allocation is far from independent of the content of messages; allocation is not "neutral" from the First Amendment viewpoint. Instead, the government decides what kinds of messages, and how many, shall be broadcast, purely from the point of view of its own ill-defined standard of public welfare. (This is to be distinguished from an attempt

*This is aggravated by the fact that much of the spectrum is allocated for government use, where incentives for internal efficiency are slack to begin with.

to simulate the results of a private market, which is for some reason thought to be impractical. In the latter case there must be an explicit attempt to determine the parameters of consumer demand, while in the former there is reference only to what consumers "ought" to see and hear.) The process by which the government determines what messages shall be broadcast includes both direct regulation of these messages and the selection of licensees on the basis of their representations as to what programs they will broadcast in the future.


Research medicine shows.
Audrey?.

Current Status of Broadcasting

Broadcast stations sell audiences to advertisers. They attract the audiences, of course, by broadcasting "free" programs. In this respect also, broadcasting is a unique medium; other media combine advertiser and subscriber support, or depend on subscribers entirely. There are more than 900 TV broadcast stations in the U.S., and upwards of 7500 radio stations. Many of these (220 of the TV stations) are educational or public broadcasting stations. (See Table 1.)

Tables 2-10 present a financial profile of the television industry in 1972 and 1973. Note the dominance of the networks in general, and of VHF network-affiliated stations in the top 100 markets (cities) in particular.

Networks dominate TV broadcasting, which is a result of the economies of sharing program costs over large audiences. The overwhelming majority of viewer hours are spent watching shows produced or selected by the three networks, rather than by stations themselves. Stations can of course choose to produce or purchase their own shows, but it is nearly always less profitable to do so.[7] (Independent stations are independent because there are not enough networks to go around in cities with more than three stations.) Nevertheless, stations are responsible for program selection in the legal sense, since they and not the networks are licensed. In practice, stations have little power to select programs, especially if there are more than three stations in a city; the network whose programs are not "cleared" often enough

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7 See Owen, Beebe, Manning, Chapter .

TABLE 1

Broadcast Stations on the Air, Oct. 31, 1974

Type of Station	Number On Air
Radio	
Commercial AM	4422
Commercial FM	2605
Educational FM	711
Television	
Commercial VHF	514
Commercial UHF	196
Educational VHF	95
Educational UHF	144

Source: FCC data.

I: 5, 6, 8, 10, 20, 23, 24, 26, 28, 31, 36
39, 40, 41, 42, 43, 44, 45, 47, 49, 50, 51
52, 54, 55, 57, 58, 60, 63

II: 1, 14, 18, 20, 21-22, 24, 26-27, 29, 30
32, 34, 36-37, 40, 44, 45, 49-50, 51, 52
55-56.

III: all

ECONOMICS AND FREEDOM OF EXPRESSION:

Issues of Media Structure and the First Amendment

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[Early draft included]

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Revised draft
12/13/74

Chapter 1: Introduction

[F]reedom of speech does not exist in the abstract. On the contrary, the right to speak can flourish only if it is allowed to operate in an effective forum--whether it be a public park, a schoolroom, a town meeting hall, a soapbox, or a radio and television frequency. For in the absence of an effective means of communication, the right to speak would ring hollow indeed. And, in recognition of these principles, we have consistently held that the First Amendment embodies, not only the abstract right to be free from censorship, but also the right of an individual to utilize an appropriate and effective medium for the expression of his views.

-- CBS v. DNC 412 U.S. 94,193 (1972) (Brennan, J., dissenting).

Overview

This monograph is about the ways in which mass media economic structure and public policy affect freedom of speech and press. An understanding of the economic structure of the media is essential (though not sufficient) to public policy seeking to enforce basic First Amendment objectives. In order to examine these relationships satisfactorily, we shall first inquire into the economic meaning of freedom of expression through the media, and then examine individual media seriatim.

Lest any reader be misled, it is well to state at once those issues which, while they involve freedom of expression, are not dealt with in this monograph. These issues include: personal (non-media) expression, rights of assembly and petition, sedition, privacy, obscenity, pornography, libel, and religious and academic freedom. While these issues (particularly privacy and libel) are obviously of great importance (and indeed, occupy the bulk of Emerson's treatise [ ] on the First Amendment) they are not issues about which economics has a great deal to say. The issue which really provides the background for the present work is the constitutional and political role of the media in American society.

It is in fact the press - broadly defined - which provides the greatest part of the flow of information and expression in society, and the press is essential to the "effectiveness" of more personal forms of expression in the social and political sphere. Thus, speeches and demonstrations are well-known to be affected by, as well as to affect, media presence, and much of their impact, if any, is due

to this relationship.* A second justification for focusing on this narrower issue of media performance is simply that people - either qua citizens or qua consumers - spend an enormous part of their lives consuming media output, and it is worth asking the traditional economic questions about how this output is produced.

Finally, there is the issue of "media power," which may exist on both sides of the relationship between media and government. Much of this relationship can be understood only in economic terms, but its implications go far beyond the realm of economics. The possession of discretionary power is a terribly difficult thing to prove. Sometimes its "possession" depends on its not being exercised. Sometimes, indeed, nearly always, it can only be exercised in certain situations, and can only be applied successfully when a number of other factors are favorable to the desired outcome. In this respect the discretionary power of media oligopolists over content and hence over political events is no different from their control over their own profits. This environmental, institutional, and competitive attenuation of power does not mean that monopolists have no more discretion than competitors; it simply means that the possession of discretionary power does not confer omnipotence. For this we may be grateful, of course, but that does not make the possession of such power a desirable or negligible circumstance.

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*Thus, the notion of a "media event" - that is, an event created by or for the media while pretending to be of spontaneous and independent origin and significance.

Moreover, it may sometimes be the case that discretionary power exists without reference to economics directly. That is, one political slant may be just as profitable as another. In this case, it is absolutely crucial to look at "numbers," and to consider the naked possibility that more voices are better than fewer. (It is in general naive to associate the number of competitors with the extent of competition or with performance.)

The reader is entitled to an explicit forewarning of the author's prejudices, or at least those prejudices of which the author thinks he has made conscious use. Briefly put, there is a libertarian, anti-paternalistic bias to the present work, consistent with a literal interpretation of the First Amendment. "The Congress shall make no law . . . abridging the freedom of the press. . . ." This literal or "strict constructionist" bias is however modified or compromised to this extent: The "spirit" of the First Amendment will be taken to mean not merely a negative constraint on the power of government, but a positive obligation to intervene in various carefully defined ways when freedom of expression is threatened by private agglomerations of power. That is, I would permit - indeed encourage - intervention by government to remedy structural or institutional conditions which "constrained" unnecessarily the freedom of expression through the media, provided this is done in ways which are consistent with the negative constraint of the First Amendment. This extension of the First Amendment is consistent with (but not identical with the theory of) such cases as Associated Press, where the Court found that the First Amendment did not bar antitrust activity against the media:

> "It would be strange indeed however if the grave concern for freedom of the press which prompted adoption of the First Amendment should be read as a command that the government

> was without power to protect that freedom. The First Amendment, far from providing an argument against application of the Sherman Act, here provides powerful reasons to the contrary. That Amendment rests on the assumption that the widest possible dissemination of information from diverse and antagonistic sources is essential to the welfare of the public, that a free press is a condition of a free society. Surely a command that the government itself shall not impede the free flow of ideas does not afford non-governmental combinations a refuge if they impose restraints upon that constitutionally guaranteed freedom. Freedom to publish is guaranteed by the Constitution, but freedom to combine to keep others from publishing is not. Freedom of the press from governmental interference under the First Amendment does not sanction repression of that freedom by the private interests." (326 U. S. 1 (1945.)

A very great deal can be accomplished, particularly in broadcasting, by simply regarding the first amendment as a statement of laissez faire, provided it is acknowledged that the antitrust laws in their present form are as applicable to the media as to other businesses. Some of the notions in this book go beyond this, and suggest particular institutional restructuring which might require legislation particular to the media. Although these results might conceivably be reached through antitrust, some of them might not be. In most, if not all, of the cases considered, laissez faire is an acceptable alternative, and the improvement to be gained from going further is certainly a debatable trade-off with the philosophical argument against direct structural legislation. The major area where this problem comes up is in cable television. The major area where this problem comes up is in cable television. The proposal that cable television systems be common carriers does not seem to me to be any greater infringement on the laissez faire principle than the notion

that the telephone company should be a common carrier; in neither case are conditions imposed on the creative or intellectual functions of the media, but only on the process of transmission.

The theme of this book is provided by the quotation from Justice Brennan which appears at the beginning of this chapter. Effective exercise of First Amendment rights requires a system of freedom of access to the means of transmission. Such a right is quite distinct from the right to insert messages in already existing edited collections of messages; the latter "right" amounts to a license to destroy mass communication, while the former is crucial to the free exercise of speech through the media. The distinction rests on an understanding of the economic and technological relationships among the stages of production within the present media, an understanding which seems heretofore to have been absent from the reasoning of First Amendment scholars and jurists.

What about the positive purposes:
- informed electorate
- ideas withstanding crucible of debate
-

Meaning of Freedom of Expression

There are a number of metaphysical issues raised by the phrase "freedom of expression." I shall side-step a number of these by limiting the inquiry to freedom of expression through the mass media. But problems remain. Aside from philosophical objections raised against the social usefulness of freedom (see Marcuse [ ]), we have to come to grips with the systemic purpose of this freedom. The political history of the concept itself, dating back at least to Milton [ ], is associated with more or less self-serving propositions put forth by the intelligentsia. Nevertheless, it seems generally to be accepted that a system of freedom of expression serves as a safeguard on the exercise or retention of other personal and political freedoms vis a vis government authority. Historically, suppression of dissent had taken the form not only of newspaper and book censorship, including prior restraint, but also economic sanctions (see Collet [ ]). These have the effect, other things equal, of reducing the power of non-establishment groups, whether religious or political. The American revolutionists suffered from the effects of these tactics, and they presumably sought to prevent their use in the future. The theory that open dissent may serve as a substitute for violent revolution is perhaps more modern. In any event the current theory is that a system of free press and speech serves at least two purposes: A check on abuse of government power (by means of its effect on public opinion within the democratic process), and a safety valve for the peaceful resolution of divisive issues.* Both purposes can be served only so long as there

*Personal expression alone may be inadequate to the purpose if there are barriers, political or economic, to mass dissemination of those expressions.

exists some broader community of interest among the population, since there are many people who would willingly give up this freedom (especially for others) in order to achieve their own particular form of the utopian state.

It is important to note at once the economic context which faced the framers of the First Amendment. Their experience suggested a set of "communications media" (essentially newspapers, pamphlets, and books) which was comprised of a number of small enterprises. Particularly as regards pamphlets and books, there seemed to be no difficulty of entry, and the resources required to achieve access by this means to the populace were not great.* From the resulting polyphony of voices, the theory goes, the polity can by some magical process distill political virtues, and exercise their power through the ballot.

In 1780 there were about 37 newspapers published in the former colonies, most of them weekly or twice-weekly. (The first daily appeared in 1783.) By 1790 there were 8 dailies and 83 weeklies. A great deal of political expression also took place in printed pamphlets and books, often published by the same printers who published newspapers. The structure of colonial and nineteenth century newspapers will be considered in Chapter 2 below.

Thus, we can regard the First Amendment as having at least one implicit assumption, and that is that competition in the marketplace of ideas** will be conducive to political virtue and stability. It is a small step from the condemnation of monopoly by government in this marketplace to a general objection to monopoly by any private institution.

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*Equipment to start up a newspaper could be had, at the end of the eighteenth century, for well under $1000 (Mott [ ] 162). See generally pp , infra.

**I use this perhaps overworked phrase throughout the book without much apology; it seems to me to carry the right connotations, at least to an economist.

But the positive, informational rule—
should it that come first (or at least the sequel?)

I will take it as given in this monograph that any institutional monopoly or other significant concentration of power - public or private - in the marketplace of ideas is contrary to the theory of the First Amendment, recognizing that this is not the most extreme strict construction of the amendment. This is to be distinguished from the related issue of monopoly or concentration in the transmission of messages.

There is a school of thought which suggests that a monopolist will supply all of the products demanded in the marketplace, only at a higher price. This theory suggests that from the First Amendment standpoint, monopoly is not necessarily a factor leading to a decline in diversity of sources of opinion. We must reject this. First of all, it is not clear that a monopolist does produce the same range of product choice produced by competition (Spence [ ], and the appendix to Chapter 3). Moreover, there is considerable doubt that the take-over, capital-market check on failure to maximize profits (as, for instance, through unprofitable exclusion of certain political views) works very well in the newspaper industry (where family ownership is still very common) or in broadcasting (where all major stock purchases must receive FCC approval). Finally, monopoly does in any event charge a higher price, and this in itself is hardly defensible from the point of view of access, where price may very well be crucial.

The political role of the press is founded on a healthy antagonism with government. This doctrine has permeated First Amendment discussion for many years. The theory is that a skeptical, even cynical, press which questions government activity at every level will help to

maintain virtue in the body politic. This model of the press suggests not merely the use of the spotlight of publicity to illuminate the corruption of government, but the use of the press to keep the public continuously informed regarding substantive public decisions which ought to affect the electoral process. It is important to note that this model of the press does not necessarily require "competition." The press here is merely a conduit for information which is essential to informed voting. In order to find a role for competition, we have to ask what incentives are otherwise present for vigorous pursuit of this objective by the press, and what abuses might arise within the press itself in the absence of competition.

Since pre-revolutionary days there has been a theory that newspapers in particular ought to open their pages to all shades of opinion and ideas. Benjamin Franklin rejected this theory for his own paper (Mott [ ], p. 55), and so have many others since. We will explore this notion in Chapter 2.

If the press is to function as a political watchdog and an information conduit, it must have incentives to do so effectively and consistently. The principal incentive it might have is of course competition, provided that this "role" has a high survival value in the marketplace. (E.g., competition rewards firms which best satisfy consumer demand; if consumers do not want to read about these things, competition will not provide them.) It seems pretty clear that the public does relish scandal, and government corruption has sold a lot of newspapers. If this be the case, we can count on the press to perform this

role so long as it must in order to survive in the retail marketplace. A monopoly press does not have vigorous incentives to perform this role, or at least has a great deal more discretionary power in deciding on the extent and degree of its coverage of such things. It is this discretionary power possessed by a monopoly which is, of course, antithetical to the second theory of the role of the press. It is not difficult to imagine situations in which the profit seeking owners of a monopoly press can gain by selective performance in this realm, and even by implicit cooperation with the politicians whom they are supposed to watch. Certainly it has always been supposed that an "establishment press" has this characteristic vis a vis scandal in the social and economic establishment itself.*

This brings up a major issue regarding freedom of expression. The "watchdog" theory of the press, however recent, has much to recommend it, as the Watergate scandals illustrate. But there is certainly a school of thought which holds that courageous exercise of this function requires that the media be large, wealthy organizations with the "resources" necessary to "subsidize" investigative reporting. If so, there is some conflict between this theory and the "more is better" theory of

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*Whether or not a publisher "censors" the news, reporters may be reluctant to say unkind things about the country club set to which the publisher and major advertisers belong.

freedom of expression with respect to the number of editorial "gatekeepers" who are competing in the marketplace. It is certainly true that the monopoly media were responsible for the decisions to publicize the Watergate scandals, but it is not clear that this took any extraordinary degree of "courage." The original stories in the Washington Post by Woodward and Bernstein do not appear to have required the massive resources of a great organization; it is far from clear that these or other reporters employed by a more competitive press would not have broken the story just as soon.* Indeed, it might have broken sooner if newspaper editors and their electronic counterparts felt more competitive pressure and less sense of "social responsibility."

The "countervailing power" theory of the role of the press must, it seems to me, be rejected.** It requires a belief in the efficacy of of conscious moral action by institutions with at least sometimes contrary incentives, and it depends unduly on the frail reed of human nature. Neither the profits nor the prophets of the press are themselves "elect." We are far better off with a system in which it is assumed that everyone is following his own self-interest; behavior is then predictable and can

*Indeed, a close reading of Woodward and Bernstein [ ] suggests that competition did play a role in hastening the publication of the story.

**By "countervailing power" I mean the notion, popularized by Galbraith [ ], that large monopolistic institutions are necessary to deal effectively with the corresponding power of, in this instance, government.

be discounted appropriately. When an institution sets itself up as the moral and ethical protector of "truth," and claims to stand above the incentives affecting its own self-interest, more than a few citizens may be seriously misled, and even those who are not will have difficulty interpreting the direction and extent of the inevitable biases.

The proper performance of the social and political role of the press ought not to be a matter of "courage" but a matter of survival. Whenever there is an element of discretion* in the performance of the press, there is danger of abuse and an imperfection in the theoretical structure on which the First Amendment is based. The process cannot depend on "fearless" editors and it cannot depend on "responsible" editors. It must depend on editors concerned for their competitive survival in the marketplace.

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*The editorial process by definition involves the exercise of discretion. But in a world of competition the resulting output must stand the test of the market. The editor who makes unprofitable discretionary choices will not survive.

Clearly the demand side of this model is of enormous importance, and we can trace many of the failures of the First Amendment system to imperfections in its theory of demand. There does not seem to be any difficulty in the area of scandal and corruption. The public's appetite for scandal seems nearly insatiable, although Watergate may have strained the outer limits. But for other kinds of information, particularly technical information relating to government actions affecting the public, as individuals, only slightly, demand is not so great. Much of the activity of the Federal Government and state governments comes under this heading, and this makes possible a great deal of special interest legislation and anti-consumer interest regulatory activity. Special interest legislation favoring farmers, for instance, is likely to get covered in the local agricultural-state press, whose readers are benefited, and not in the rest of the country, which pays the bill. The reasons for this are fairly obvious.

If there is a deficiency in the First Amendment's theory of demand, one must raise serious questions about the rest of the theory and its implications. For special interest groups, the theory works well. Particular industries, trades, professions, and societies are generally well-served by specialized publications which provide quite complete and thorough reports on government activity affecting the interests involved. Such organs are often crucial to the organization of lobbying efforts by these groups. It is often, if not always, true that the gains scored by such organized activity come at the expense of the general public.

It is not entirely clear that the media catering to the general public fails to provide relevant information on these issues; perhaps the public is well aware of and content with the situation, or resigned to it. Certainly it is irrational for an individual to spend much effort worrying about the individual instances of this phenomenon.

The First Amendment theory of the press was formulated, of course, in the days of newspapers, and the world is different now. The electronic media - radio and television - have in large part supplanted the newspaper as the source of news and opinion (and entertainment) for most citizens. Does the end of the Gutenberg revolution imply that our constitutional theory of the press is outmoded? Do we need a new theory for the electronic media? These are serious questions to be addressed after we have examined the economic context of the media.

Methodology

There has been a tendency in the literature on the economic structure of the media to equate "numbers" with the degree of competition and the degree of freedom. This is not readily defensible. Numbers, while important, cannot tell the whole story. For instance, the dramatic decline in the number of newspapers over the past 70 years is not in itself necessarily a bad thing. First, other media may have grown more than enough to affect the decline. Second, the character of the newspaper may have changed in such a way as actually to increase ease of access.

There are a number of separate issues to untangle. The narrowest possible focus for the present work would be this: an examination of the economic structure of each mass medium, on the presumption that an understanding of the economics of mass communication will assist courts, the Congress, and regulatory authorities in making policy affecting First Amendment rights involving the media. This is fine, so far as it goes, if somewhat naive. But one would like to make positive statements about the way in which mass media economic structure does affect freedom of expression. This is much more difficult.

It is virtually impossible to make general descriptive statements along this line. On the other hand, it may be possible to make statements about narrowly focused issues: What is effect of media economics on alternative sources of information about local political events? The effect on local politicians seeking to communicate with the electorate? On national politicians

seeking to express their views on specific policy issues? On the ease with which private citizens can gain information about specific classes of events? All of these questions can, with some degree of accuracy, be answered.

It is tempting to try to make a prima facie case that freedom of expression has declined in the United States over the past years because there has been a tendency toward increasing concentration of control in the media. Such an effort would not be tenable. First, it is not clear that concentration has increased with respect to all potential speakers and all potential consumers. For some speakers and consumers it is now cheaper and easier to send or receive communications than it used to be, and there are more alternatives. For other classes the opposite is true.

The fact that the number of daily newspapers per city has declined drastically over the past half-century is of no particular significance in general for freedom of expression. One must consider many other factors, and narrow the scope of effects being examined. Because the following chapters treat individual media seriatim, there may be a tendency to jump to premature conclusions on these points, and this danger must be avoided. The final chapter will attempt to bring these things together in a coherent way, and to answer some specific questions about the effects of economic structure on freedom of expression.

Finally, "freedom of expression" can in no way be measured. It has many dimensions and many meanings, and means something different (and perhaps contradictory) when applied to speakers or to the audience. All I can hope to do in the present work is to deal with such approximations to or proxies for freedom of expression as the price of access by speakers, the price of access by the audience, and the range of product choices for each. These things throw light upon but do not fully span the concept of freedom, which has, of course, a much richer philosophical basis than economics alone. Moreover, the media industry supplies other things besides freedom of expression: things like privacy, accuracy, immediacy, and entertainment. Evaluation of media performance must also be multidimensional.

The point is that the issues being dealt with in this book are only part of the picture, and we must avoid the temptation to impute undue significance to those phenomena or those trends which happen to be quantifiable. Numbers, while important and helpful, do not tell the whole story. The shadows on the wall of the cave may have sharp edges, but they remain shadows, and should be recognized for what they are.

The Demand for Mass Media Messages

The traditional and most useful taxonomy of economic effects is the distinction between supply and demand. Before we can explore these two sides of the media marketplace, we must ask what commodity is being supplied and demanded. This is a difficult point, since the output of the media is neither one-dimensional nor concrete. The most obvious answer is to say that the media supply "information."

The term information has required a rather clear mathematical meaning as a result of studies in the theory of communication.* Information is defined, in that literature, as an event which changes an individual's a priori probability distribution regarding alternative possible realities. When you are walking home in the afternoon, you do not know whether your house is on fire or not. Presumably, your a priori expectation that it is not on fire is rather high. But smoke on the horizon provides a signal which may reduce the probability with which you hold this expectation, and fire trucks headed down your street may reduce the probability drastically. Both events or signals have provided information. An event does not contain information if it does not change your a priori subjective probability distribution of any possible reality. The mathematical theory of communication is concerned with such questions as how to code signals efficiently, and how to maximize the information flow in a given channel of communication.

These notions do not seem to help very much in dealing with the media, at least at first glance. After all, much of media output is "entertainment" or "opinion." Relatively little is "news" of the

*Shannon and Weaver [ ], Cherry [ ].

kind which fits into the information theory paradigm. But what is "entertainment?" Clearly we must look at these ideas from the point of view of consumption behavior. Here, the social psychology of media consumption may help us sort out the nature of the commodity. Unfortunately, most of the social psychology research in this area is concerned with attitude change and persuasion, and particularly propaganda research.* These studies are of course useful in advertising research, but they do not seem to shed much light on the consumption of entertainment. (One theorist has however constructed a "play theory" of mass communication.)** They are also troubling to an economist who is used to assuming (no doubt quite unrealistically) that tastes are exogenous to the economic system. One idea which is prominent in the psychological literature is the "dissonance" theory of communication.*** Briefly put, people tend to discount messages which are at variance with their a priori expectations. Thus, persuasion requires use of devices to overcome this resistance to cognitive dissonance, such as repetition. "Reinforcing" messages or signals, on the other hand, are "accepted" by consumers and valued highly even though they do not impart much information, precisely because it gives satisfaction to have one's opinions "confirmed." Now it is perfectly rational not to change one's opinion on a matter simply because one dissonant signal has been received. And it is understandable that the psychological cost of changing a belief system in any significant way may lead people to "reject" (put a low value on) dissonant signals. Presumably the same reasoning explains people's tendency to put a high value on "reinforcing" messages. These considerations may very

*Handbook of communication
**Stephenson
***Festinger

well explain why the economic value of information may have a great deal more to do with its relationship to people's belief systems than with its "objective" content measured in information theory terms. Whether this approach is sufficiently robust to "explain" entertainment or "play" demand is another matter. The empirical work on persuasion and attitude change does suggest that it is extraordinarily difficult to make people believe things they are not already inclined to believe.

It seems clear that it will not be fruitful to proceed very much further on the psychological level. Henceforth we shall take it for granted that people have "a demand" for news and entertainment, and that this demand is affected by such standard variables as price and income, and that different people like different things. Since it is essential to the political theory of the First Amendment, we shall also assume that people demand information about their government and its behavior. This will be demanded in varying degrees of detail as individual economic interests and tastes warrant. Finally, no distinction will be made among news, opinion, and entertainment. This last assumption requires some justification.

Why not treat news separately from entertainment? First, news is sometimes consumed because it <u>is</u> entertaining. It is otherwise difficult to explain yellow journalism, political cartoons, "happy talk" TV news shows, or movie magazines. Second, much entertainment contains political and social commentary which is crucial to the First Amendment system. Surely the most powerful and subtle vehicles for attitude change and persuasion, as well as reinforcement, are dramatic and literary works.

These arguments suggest that from the point of view of First Amendment theory any distinction among communicated messages by "type" is fruitless, and indeed dangerous. The courts have generally accepted this view, with the exception of pornography and obscenity cases, and with the important exception of "commercial" speech.*

The demand for mass media messages surely depends on the social and cultural environment in which people live, since this environment conditions the "usefulness" of the information received. This effect will determine, or help to determine, the structure of the media themselves, since the media affect the attractiveness of the message, a la McLuhan.** The present work is hardly broad enough in scope to encompass this set of issues in a way which can lay any claim to comprehensiveness. They are nevertheless important, and will be brought into the discussion from time to time. Suffice it to say, for the moment, that media technology is not exogenous to the socio-economic system. Social conditions are no doubt different in the electronic era than they were in the age of print, but it may be very difficult to separate cause from effect with respect to the role of the media themselves in this change.

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*That is, advertising messages as a class seem to have a much lower degree of First Amendment protection than most other utterances; on the other hand, they are viewed kindly by the media.

**McLuhan, Innis.

The Stages of Production of Media Messages

There are three stages of production on the supply side of the media marketplace. These are: (1) The creation of messages, (2) the selection or editorial process, and (3) the transmission of messages to the audience. This has more than taxonomic significance, for each stage has different economic characteristics.

The creation of messages takes place in the writing of a news story, in the process of authoring an article or book, or in the production of a TV program or movie. In this process there is great heterogeneity. The frequency distribution of messages with respect to their "creators" is very nearly flat. There is great competition, despite the fact that creative talent is relatively scarce. There are few barriers to entry, in the sense that nearly anyone can sit down and write a novel or a screenplay or a news story; but getting it published or produced is another matter. Measured in terms of the ratio of people who are employed in this endeavor to the number who would like to be, there is an over-supply of talent and great unemployment in this stage of message production.

The editorial process is performed by newspaper editors, publishers, TV directors and program executives, motion picture studios, and the like.* Economic organizations at this stage decide which of many potential messages will in fact be transmitted to the public - which messages the public will be allowed to choose from. This "gatekeeping" ** role is enormously influential if editors have real discretionary power.

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* And may be subject to control by capital market decision makers.
** Schramm

this may be true
on those dimensions
affecting the economic
decision to buy, but untrue
on other dimensions.

They do not have this power if they are "simply" responding to consumer demand, where their survival as economic entities depends on their selecting just the right mix of messages. Probably the best examples of this are the magazine trade and the book trade. But sometimes, for various reasons, editors do have great discretionary power. Then there exists a wide range of choices available to them, all of which are compatible with economic survival. Newspapers and television are examples of media with some degree of this power, and it is here that "numbers" play an important role, though they are not the whole story. Sometimes this power is channeled by implicit or explicit professional codes, which move the journalist or editor in the direction of "leading" the public's opinion, and which impose standards of responsibility. These are a rather unsatisfactory response to the problem of monopoly power.

The editor who competes with other editors for survival serves as a surrogate for the consumer. He must be able to assess with great accuracy the tastes of his readers or viewers. This job may be equally difficult for the general publication and the highly specialized limited circulation media. Often the editor must worry not merely about his audience's tastes but the kind of audience desired by his advertisers. Clearly different content will produce different audiences, and not all audiences are equally valuable to advertisers.

The transmission stage of mass communication involves "broadcast" of the messages selected by the editors. This can take the form of printing presses and delivery boys or the U. S. mails, or the electro-

magnetic spectrum, or movie theaters. The technology of the transmission process has been subject to enormous change over the years, in marked contrast to the creative and editorial stages. In this century even printing technology has changed drastically, to say nothing of the invention of phonograph records, tape recorders, motion pictures, radio, television, and cable television. These technological innovations have had a profound effect on media structure and costs, and derived effects on consumption patterns.

In terms of information flow, probably the most important aspect of the new technologies is that they are cheaper. An investigation of the question would doubtless reveal that the proportion of average household income required to consume constant quantities of information had declined significantly over the past 100 years. (Of course, the proportion actually spent has almost certainly increased, but this is due to the probably high income-elasticity of information demand.) In terms of "bits" television has a far lower transmission cost than newspapers. Whether the economic value of bits transmitted in the two cases is the same is another question. (Even from the technical point of view much of the television transmission is "redundant.") More significant, perhaps, is the fact that the new media are much more "popular" than the old, and the fact that the electronic media face a constraint (time) not faced by the print media. Time spent watching television (and, earlier, listening to the radio) is far greater on average than the time people used

to spend reading. That this has some sort of social and cultural significance, there is no doubt, but there is wide disagreement about the nature of this significance.

For our purposes the crucial point about technological change in the transmission stage is that it has frequently been the occasion for new legislation and new judicial interpretations of the First Amendment. If the First Amendment can be fairly characterized as libertarian and antipaternalistic in spirit, then more recent acts of government have been the opposite. One of the questions we shall try to answer in this monograph is whether this change is justified by the technology or social context of the new media.

The three stages of mass media message production are all, of course, related. Different media have structured the relationship among the stages in ways which are dictated partly by the demands of technology and partly by the forces of economic self-interest. Sometimes the government mandates a certain relationship. As we shall see, it is in the interrelationships among these stages that much of media structure and behavior can be explained.

In the next three sections we shall explore the economic sources of concentrations of private power in the media.

Careful: may be more capital investment in production studios & equip than with — & more in desks, bldgs, etc than press — & where is line between editing & transmission in newspaper? in the putting press really transmission? ? collator?

Vertical Integration

Figure 1-1 provides a stylized view of the three-stage production process for five major media. Reading across the figure, it is apparent that there are marked similarities among the first two stages in different media. Neither creation nor editing requires much capital investment (except for movies); both are labor-intensive. Entry is (conceptually, treating the stages as independent) easy. There ought to be a great deal of competition in these stages.

In contrast, the transmission stage is characterized by heavy capital investment costs, economies of scale, licensing, and other barriers to entry. These effects are particularly important for broadcasting, newspapers, and motion pictures. They are less important for magazines and books, largely because postal service is independently supplied, and even subsidized.

The economic conditions for private power in individual media are clearly present in stage three. They are not present in stages one and two. Yet we find great concentration at stages one and two in some media. Why is this? Clearly it must be an effect of the non-neutrality of stage three.

Consider the media where concentration is absent at stages one and two: magazines and books. For these media, the transmission stage (printing, mailing, bookstores, bookclubs, newsstands) is independently owned; there is little or no vertical integration. In contrast, for broadcasting and newspapers, the owners of the concentrated transmission stage are vertically integrated; they control editing and sometimes creation. Consequently the number of competing message sources and competing editorial services is reduced. Competition is constricted by

FIGURE 1-1: STAGES OF PRODUCTION

	TV	NEWSPAPERS	MAGAZINES	BOOKS	MOVIES
Creation	program packagers and their factors	news source reporters syndicates UPI, AP	writers photographers	authors	writers producers directors talent
Editing	networks, stations	editors publishers	editors publishers	publishers	studios
Trans-mission	transmittors spectrum	press ? trucks newsboys newsstands	press ? mail newsstands	press bookstores mails	distributors theaters (Also TV)

virtue of the power of the most concentrated stage to control access and content.

The owner of a newspaper press does not act like the post office; he does not accept all requests for transmission at published rates.* He actively controls transmission, editing, and to some extent, creation. Thus, in an important sense, it is vertical integration of control in some media which is responsible for private monopoly power in the market place of ideas, given the increasing degree of concentration in the transmission function occasioned by scale economies, licensing, and other causes. Behind this, of course, lies the technical or economic source of concentration in the transmission stage; these effects will be explored below. In addition, there may be technical or economic reasons why vertical integration is "necessary" in some media. It may be hard to imagine a daily newspaper publisher acting like a common carrier, for instance, largely because this may interfere with the economics of the editorial process, or because of "externalities" within the newspaper. It is somewhat easier to imagine TV stations as common carriers, like the postal service, and we shall explore this idea later.

The important point is that given the perhaps necessary or "natural" concentration of the transmission level, vertical integration may be "responsible" for concentration in the crucial creating and editing stages. After all, provided that the transmission media are "neutral,"

*Although, for advertising matter, something close to this does happen.

expand!

there is no other reason to suppose that there would be significant concentration at the earlier stages. For those media (magazines and books) which <u>are</u> characterized by neutral transmission media, there is extensive and vigorous competition at the earlier stages. It is only in the broadcast, newspaper, and motion picture industries that economies of scale, licensing, or other conditions give rise to individual firms with discretionary power to control content. We shall return to this point again and again, since vertical integration is often the key to policy changes which might enhance freedom of expression.

The usual explanation of vertical integration in industry is that there sometimes exist "economies" of integration,such that the final product can be produced more cheaply if one firm controls two or more stages of production.* Somewhat less plausible explanations run in terms of extensions of monopoly power to new markets, denial of inputs to competitors, and the like; nevertheless these are sometimes important.

It is easy to see why, in the media, a newspaper would hire reporters rather than buy news stories from independent free-lance journalists. First, there is an element of timeliness which does not allow much opportunity for dickering over terms and conditions of sale. Syndication is much more common and competitive for non-news items.

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*Also, an upstream monopoly can gain from integrating into a downstream competitive industry in order to capture the gains which result from eliminating the distortion caused by monopoly pricing of the input (Schmalensee [ ]). This argument probably applies to backward integration.

Second, the "product" is in this case one which has to be in effect "consumed" by the buyer in order for him to make a bid; but the news story is not easily protected from piracy as a result of such transactions, since the event involved, once known, can usually be independently verified and reported. For less timely material, the author or creator can and does exercise greater control, but simple "ideas" are practically impossible to appropriate. While free-lance "reporters" do exist, they are not an important source of news for this reason, and their mere existence depends on conventions of "gentlemanly behavior" on the part of buyers, or (in the case of news services) the absence of much competition.

& the higher the "price"
costs that can be ~~the~~ suggested -

Economics of Scale and Licensing

If the source of power and concentration in the first two stages is vertical encroachment from the concentrated transmission stage, what is the source of power in the transmission stage? Typically this power derives from economies of scale in transmission.

There are two sorts of scale economies. The first we shall call "first copy" costs. These costs are incurred no matter how large the audience; they are the same for one reader or viewer as for ten thousand or ten million. Obviously, the larger the audience, the lower the pro rata (average) first copy costs are. The effect is illustrated in Figure 1-2. It is essentially a "public good" effect, and we will return to it in the next section.

The second sort of scale economy is found in the technology of distribution itself. It may be cheaper to produce and deliver the 100,000th copy of a newspaper than the 50th. Put another way, a newspaper of 100,000 circulation may have lower average total costs than one of 50,000, even leaving first copy costs aside. An extreme case is that of a TV station, where an additional viewer (within the signal area) costs the station literally nothing.* This effect is illustrated in Figure 1-3, showing declining marginal cost of circulation.

*In the partial sense. It may cost a relatively significant sum to improve the attractiveness of a program sufficiently to induce the marginal viewer to watch.

FIGURE 1-2

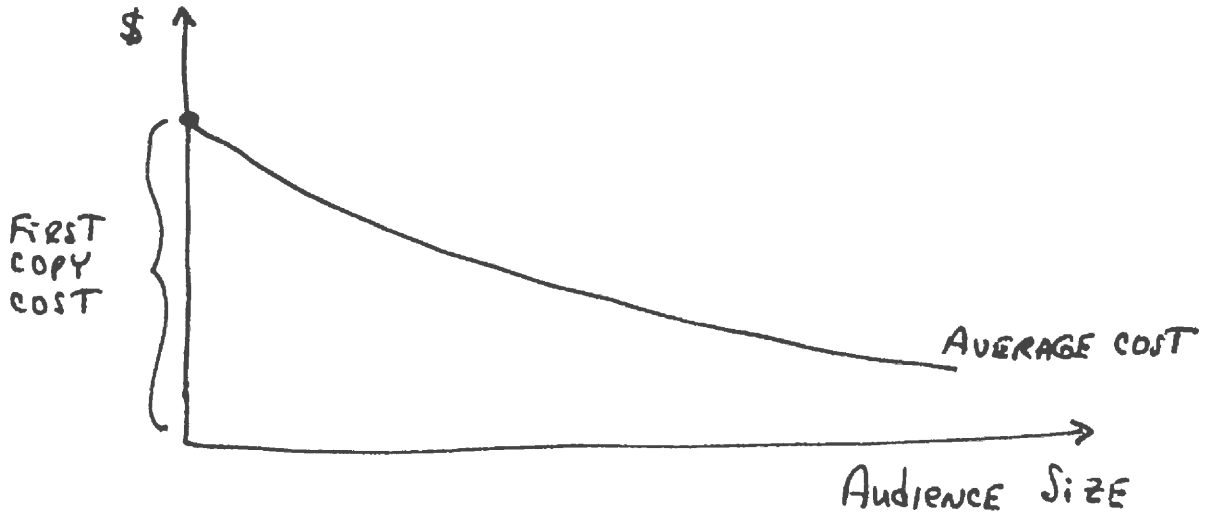
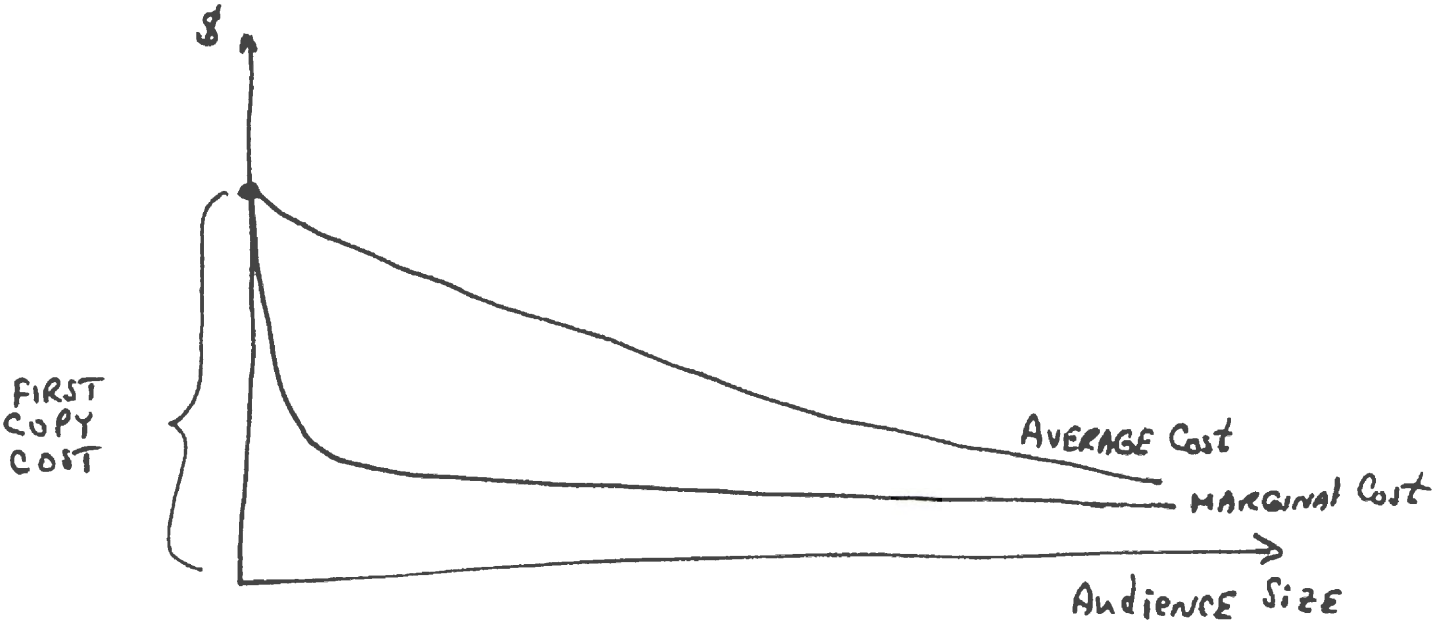


FIGURE 1-3



So long as marginal cost is declining, so must average costs decline. The effect of this is clear: The larger the audience the greater the competitive advantage. Large* newspapers will tend to drive out smaller ones; two smaller newspapers can both gain by merger; a new motion picture distributor must have great difficulty obtaining a viable foothold in the industry; a UHF station which can only reach some of the homes in its market will do poorly compared to a VHF station which can reach all homes.

Scale economies of one kind or another are responsible for much of the concentration we observe at the transmission stage of mass media, but they are not the only cause. (In broadcasting, government policy is at least equally important.) Moreover, it must be remembered that scale effects are not and cannot by themselves fully determine the extent of competition. They must be taken in context with the "extent of the market" and the characteristics of consumer demand. Just one illustration of this point: If newspapers have economies of scale, why is there not only one newspaper in these United States? The reason is clear: demand for newspaper content is geographically specialized; this specialization of demand eventually offsets the scale effects, and determines the geographical extent of local newspaper monopoly.

Scale economies have mixed effects on consumers. Given the structure of the market, economies of scale mean increased consumer welfare as the extent of the market grows, simply because costs and

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*As we shall see, the most important scale economy in daily newspapers may be with respect to the number of pages, rather than circulation.

therefore prices fall.* But the presence of scale economies tends to produce non-competitive markets; non-competitive markets are characterized by inefficient monopoly pricing and perhaps a deficient rate of technological innovation. Depending on the magnitude of the scale effects and the elasticity of demand, consumers (and advertisers) may or may not derive a net benefit from this trade-off. This is the sort of problem with which the antitrust authorities must constantly deal. But in the present context the presence of monopoly power due to scale effects has an additional negative effect: it constricts access and freedom in the market place of ideas, and this in turn generates pressure for government intervention which may extend to content.

Finally, the obvious effect of licensing must be mentioned. The government can and does create concentration in the transmission stage of some media by restriction of entry through licensing. More on this in Chapter 3.

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*Even a monopolist lowers his price if his marginal costs fall.

Public Goods and Monopolistic Competition

A "public" good has the characteristic that one person's consumption does not reduce the amount available for others. Clearly, by this definition, a TV broadcast is a public good while bananas are not. Most goods have some element of the public good in them; there are few "pure" private goods and few "pure" public goods. But media messages are close to being pure public goods, although they are often embodied in a private good, such as the physical newspaper, book, magazine, or a TV set. (In television, both the program and the signal are public goods.)

Public goods have enormous economies of scale in consumption; marginal cost for an additional reader or viewer is almost literally zero beyond the transmission cost. This phenomenon is simply the "first copy" cost discussed in the previous section, and resembles all fixed costs in its effects. Note that the first copy cost does presumably influence how many people will want to receive the message, but not how many can.

Truly competitive production of public goods is either impossible (price competition will drive prices down to equality with marginal cost, which is zero) or likely to be inefficient, relative to the social optimum.* On the other hand, media messages are almost by

*See the Appendix to Chapter 3.

definition "differentiated:" No two are identical.* This product differentiation attenuates the debilitating effects of price competition. If there are a large number of firms producing goods which are sufficiently differentiated to make them only imperfect substitutes, we refer to the market as being monopolistically competitive. The creation and editing stages of mass media production can therefore (absent concentration) be described as the monopolistically competitive production of differentiated public goods.

One characteristic of monopolistic competition is that entry (of new products) and competition (in price and "product space") keeps profits of individual firms down to "normal"levels. There are no profits in excess of normal returns. Until recently not much was known about the problem of firm location in product space in monopolistic competition. Recent work has demonstrated that firms in a monopolistically competitive equilibrium tend to produce too few products of a certain type, relative to the social optimum. The products which tend not to get produced are those with low price elasticities of demand. These are generally associated with small groups of customers who place

*Copyright laws are intended to prevent them from being identical, and represent an interesting social response to an economic problem which was only defined by economists much later.

a high value on products with specialized characteristics. There is a bias toward production of "mass consumption" products; this is "caused" by the presence of fixed costs. On the other hand, it can be demonstrated that media structures characterized by relevant forms of monopoly do even worse in this respect.

We will return to this issue below in the context of our discussion of television. But the public good "problem" is quite a general one in the mass media, and it has certain implications for freedom of expression. One of these implications is that there may be a tendency toward underproduction of messages generally, simply because of the difficulty and cost of excluding "free riders." The law of copyright is a sort of second-best solution to the public good problem in in communication. There are two interests at stake: The need to provide an economic incentive to producers of messages, and the inefficiency which results from charging a price above the marginal cost of making the message available.* A second implication is that first-best solutions are unlikely to be available without direct government intervention in the process of defining message sources and content. We are constrained from this by the First Amendment itself. In any event, the information requirements for a first-best solution are so heavy, and the incentives

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*It is inefficient to exclude a consumer from consumption of such a good by means of a price which exceeds that consumer's reservation price; this does not preclude charging a positive price for the good, but it may imply a need for price discrimination.

for people to give false information are so great, that government intervention in practice is certainly not guaranteed to leave anyone better off even in economic terms. For related reasons, the private, price-discriminating monopolist solution to the public good problem must be rejected in the present context.

Despite its demonstrated biases, monopolistically competitive production of public good messages may be a tolerable second-best situation from the First Amendment viewpoint. This is so at least in part because the character of consumer demand is apparently sufficiently heterogeneous that the worst conceivable cases of market failure are not observed in practice. A really dominant plurality of consumers with nearly identical tastes in media content could have very serious implications for the robustness of expression, given the incentives facing producers in this market. As things are, the more serious problems are found on the supply side, and even here the pathologies are traceable to influences external to the creating/editing process which is at the heart of First Amendment concern.

Diversity

Most people seem to think that diversity is a good thing, but it is not obvious why this should be so. In the area of freedom of expression, a "diversity of viewpoints" is often used synonymously with freedom itself, or as a measure of the success of the "safety valve" theory, and this has resulted in much judicial mischief. After all, a totalitarian state might, if it wished, offer the public access to a "diversity" of viewpoints, even though no one had any freedom of expression.

Similarly, a monopolist might choose to produce a wide range of opinions for his audience. This would go some ways toward relieving the effect of monopoly on consumers, or on the audience, but does not provide effective freedom for speakers. The First Amendment clearly is meant to apply to speakers, and while it may be based partly on the theory that freedom for speakers is good for the audience, this does not justify the substitution of government-or monopoly-supplied "diversity" in place of freedom for speakers. (This is the fundamental error in the Supreme Court's Red Lion decision, which will be discussed below and in Chapter 3.)

It is conceivable on the other hand, that a completely "free" society could be so homogeneous that there was no diversity of ideas or opinions, expressed or unexpressed. As we shall see below in the context of broadcast regulation, the courts have concluded that the government has the obligation to provide the public with a "diversity"

or has it not been put to them right?

of viewpoints, but have rejected the notion that there is any private right of access to the media in our society.

Even from an economic point of view, diversity has little normative content. There is no necessary relationship between the extent of diversity of media content (as conventionally measured)* and consumer welfare. This is particularly true if there are economies of scale. There is certainly no presumption that people would be better off with a choice of blue, orange, and yellow aspirin at $1.00 per bottle than they are with white aspirin only at $.50 per bottle. They might be, but we cannot say for sure without knowing the structure of preferences.

Finally, diversity of content is terribly hard to measure. In broadcasting, the standard approach is to think in terms of "program types" (such as Westerns, situation comedies, quiz shows, etc.). In print media, one uses "content analysis" (essentially categorizing and counting adjectives and nouns.)** These methodologies are infirm, since they are not grounded on any theory of consumer psychology or perception.*** It is simply not true that one situation comedy is a perfect substitute for any other, for many people, or that one "pro-Labor" word is equal to another and exactly equal to minus one "pro-Management" word.

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* See Levin [ ], Land [ ].

** For an example of this methodology see Efron.

*** At least, an explicit theory; they do contain an implicit theory, but it is very naive.

If we wished to measure diversity from the economic point of view, we could try to partition individual items of content into categories such that the cross-elasticity of demand within categories was high, and cross-elasticity between categories low. This would be an empirical matter, not a conceptual one.

But whatever its interest as an ethical or humanistic concept, diversity is really a red herring for our purposes. When it refers to content it has no necessary relationship either to freedom or to economic efficiency and consumer welfare. If, on the other hand, it refers to the sources of media messages, then it may be a measure of freedom of access, provided that the society itself is heterogeneous. But we might as well go directly to the main issue, which is ease of access to the media of expression, for speakers, and ease of access to alternative independent sources of information for the audience.

Access

There is a close relationship between freedom of expression and ease of access to the media for individuals. Ease and flexibility are definitions of freedom. If one or a few persons "control" who shall speak and who shall not, there is no freedom of access or expression. If access to the media is controlled by a multiplicity of persons or by a set of neutral rules,* and if it is not structured in a way which makes expression by some groups much more difficult than for others, then there is relative freedom of expression. But there are a number of thorny problems which remain.

First, freedom of access to the media means little if there is no audience. Second, the cost of access (in a private system) can hardly be zero, because the cost of transmission is greater than zero. This means that people with "too little" money are denied some degree of freedom of expression, just as they are denied some degree of freedom in other consumption activities. Third, if the number of media channels is in any way limited, some rationing device (such as prices or queues) must be employed, and it is hard to think of "fair" rationing devices. Finally, effective economizing behavior by consumers leads to their

*It is hard to define a neutral rule. Many rules are neutral with respect to content per se but non-neutral with respect to the economic, social, or other characteristics of speakers, and thus the messages they are likely to want to deliver. First-come, first-served discriminates against people who value their time highly or who don't like queues.

selection of editors or editorial services which screen out in advance unwanted messages. A "right of access" to such "edited" collections of messages would be an intolerable burden on the consumer, leading to a complete breakdown of mass communication. Access, if it is to be a useful concept, must mean the opportunity to utilize the means of transmission for the conveyance of messages. That is, the ease or degree of access is determined by the economic and institutional conditions surrounding transactions between speakers and the owners of the transmission stages -- the airways, the presses, and the mails. Access cannot usefully mean the opportunity to insert messages into the editorial process of another. This distinction is no doubt confusing when, as with television and newspapers, the owners of the means of transmission also own their own editorial and creative services, but the distinction is nevertheless conceptually clear and essential to the formation of appropriate policy. Moreover, it is a distinction which would greatly aid in clarifying the meaning of the First Amendment in its application to modern media.

Clearly freedom of access to the media cannot mean "free" access - access at a zero price. For this would have two consequences, both likely to be intolerable. The first would be a demand for media capacity which could not be satisfied without government subsidies. With subsidies comes intervention.* The second would be an "overload" of

*A trivial example: A government subsidized TV channel would surely have rules against pornography. Less trivial examples are likely. If the subsidies and their rules were really controlled by elected officials rather than bureaucrats, we could argue their workability, perhaps, but reality is different.

consumption capacity such that few messages would be received. The cost to consumers of exercising choice would be raised to the point that far fewer choices would be worth making. I am not saying that it is inefficient to allow as many people as wish to, to manufacture (say) automobiles, of all descriptions. What

would be intolerable is a "right" on the part of anyone to attach accessories to the automobiles of any manufacturer, forcing the manufacturer to sell them as a unit with the car. Such a right would simply reduce the value of automobiles, and certainly increase their prices, with the result that few, if any, would be sold. Freedom of access cannot be taken to mean the right to insert messages "in the midst of" a package of edit-

ed messages for which some one else has built up a paying audience and goodwill. To accept this as a right would in effect destroy the incentive to invent and compete in the market for edited packages of messages.

These considerations suggest that it would be unwise, for instance, to legislate a "right" of free (zero price) access to newspapers, magazines, or TV channels as presently conceived. They also suggest that it may be undesirable even to have a right of paid access, although as we shall see below this may be a second-best solution to the problem of freedom of expression.

The extent to which a right of paid access is undesirable depends on the consequent changes in the economic integrity of the product. This will be different for different media, and will depend on the "rules" surrounding the right. For instance, a right to buy newspaper space in units not smaller than one page, or TV time in units not smaller than one hour, may have significantly different effects than when smaller units are involved; similarly, much depends on the extent to which editors retain control of placement or scheduling.

Freedom of access must mean a general right to put before the public (not force on the public) messages which can only be delivered effectively via the mass media. Such a right exists with respect to the postal service for magazines, although it is not entirely unrestricted. Because it does exist, and because the transmission stage of this medium is not vertically integrated, there is great competition in the magazine

industry. Note that freedom of access in this context clearly means the right to publish and mail a periodical (or book), not the right to insert messages in any already existing publication. Happily, this freedom of access for "speakers" seems to result in a significant degree of freedom of access by the audience to a range of independent sources of information and opinion.

Freedom of access in this sense is restricted, in the newspaper industry, by the economies of scale of publication, and by the peculiar editorial characteristics of a newspaper. While one can conceive of a common carrier newspaper* which provided this right for message creators, one can also imagine significant economic harm being visited on newspaper readers as a result, depending on the rules and on the equilibrium size and content of the newspaper which results. This trade-off may nevertheless be worth making, and we will discuss it further in Chapter 2.

Freedom of access in television might be satisfied by the establishment of a private market in spectrum, so that "anyone" could buy enough to start a new station. It might also be satisfied by a right of paid access to existing channels, or by some modification of the present structure of concentrated control. These issues will be discussed in Chapter 3.

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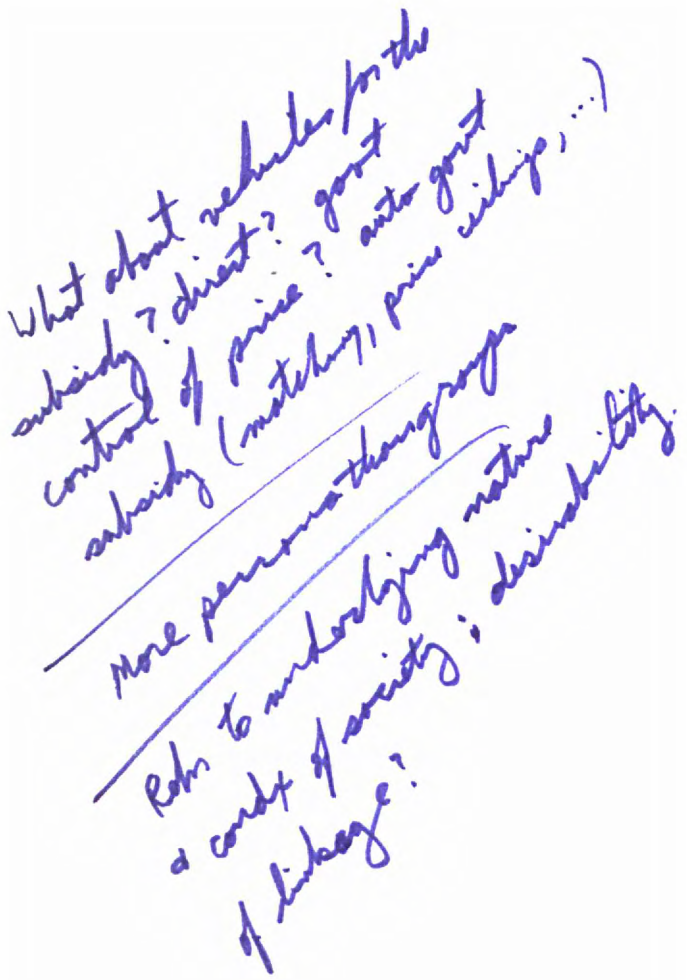
*"Shopper" newspapers consisting entirely of commercial and classified ads are close to this.


What about vehicles for the subsidy ? direct ? govt control of price ? govt subsidy (metering, price ceiling, ...)
More permanent changes
Refer to underlying nature of society ; desirability of linkage ?

There remains a fundamental difficulty with our concept of freedom of access, and that is that the price of access need not (should not) be zero. At a non-zero price, some messages will be excluded. What kind of messages will be excluded from the marketplace by a non-zero access price? The first kind are messages which are valued by consumers at less than their cost of creation and transmission, and which no person or group is willing or able to subsidize. The second kind are messages which consumers would value (and pay to receive) more than their cost, but which creators cannot produce because of the biases of monopolistic competition in product space.

The first sort of message ought not to be produced at all, from an economic point of view, but might conceivably be desirable from the political standpoint. The second sort represents a real market failure, and the cost of this failure may fall heavily on persons and groups at the lower end of the income distribution scale. A great deal of the activity of eleemosynary institutions can be regarded as an effort to remedy this problem, and it is conceivable that some government subsidy programs, properly structured and administered, could also alleviate it. To the extent that the

problem results not merely in inefficiencies, but also in inequities,* we can regard it as a reflection of the underlying inequities of wealth and income distribution.

Messages excluded due to the non-optimality of monopolistic competition in product (as well as price) space are likely to be associated with demands from relatively small groups of consumers with rather intensely felt wants. The market failure is due to the inability of competitors to fully respond to the consumer's valuation of such products. On the other hand, if the groups involved are sufficiently small or identifiable, their members may be able to form coalitions for the purpose of satisfying these unmet demands. This may explain the existence of many special interest groups whose primary purpose is the publication of some specialized organ, such as an academic journal, under not-for-profit conditions.

Finally, it should be noted that the "price of access" as a barrier to freedom of expression may be of significance even if the media are free from concentrations of power leading to monopoly prices. That is, it may simply be "too" expensive to create and transmit messages even if the media themselves are competitive and efficient. This would mean that the socially correct production of messages (taking account of political considerations) was greater than the economically correct level of production. It is difficult to tell whether this would be the case, and still harder to say what to do about it.

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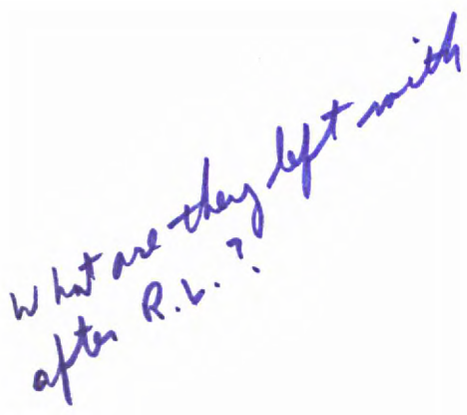
*These being, of course, a subjective and ethical matter.


What are they left with
after R.L.?

The Right to Hear vs. The Right to be Heard

Supreme Court interpretations of the First Amendment in the context of the mass media are not frequent. In recent years only in Tornillo and Red Lion has the Supreme Court dealt in any depth with the issues we are discussing. The Red Lion decision was remarkable for its theory of the "right to hear" via the broadcast media, a "right" which the court did not choose to extend to the print media five years later in Tornillo. We will discuss the Red Lion decision below in the chapter on television, but the concept of a right to hear is worth a word or two at this point.

In Red Lion, the court said that the public has a right to hear, or be informed, on certain issues (those which are "controversal" and of "public importance"). The court saw the mechanism of this right being exercised through government intervention in the behavior of private broadcast licensees. Broadcast licensees have highly circumscribed, if any, First Amendment rights themselves.

The Red Lion decision says, in effect, that the government has an obligation to promote conditions which would have the same effect as as freedom of expression (that is, an informed public), and that this obligation must be exercised through direct regulation of the content of the electronic media. (The result is, in effect, to make licensees instrumentalities of the state; in CBS v. DNC the Court seemed to consider actions by broadcasters which allegedly infringed the First Amendment rights of others in the same light as action by the government itself.) This is the essence of the wrongheadedness of Red Lion: The same principle could have been served by structual remedies. More on this in Chapter 3.

1. R. to learn
2. R. to be heard
   a. by those who seek out
   b. by those the speaker wants to listen.

The new right "to hear" is clearly distinct from the right to be heard, which I shall take to be synonymous with a reasonable interpretation of a right of access. Arguably, freedom of expression, reasonably defined, might not result in the fulfillment of the public's passive right "to be informed." This raises certain rather dangerous questions about the responsibilities and powers of the state.

A great deal of the substance of this controversy is attributable to the peculiarities of institutional conventions surrounding economic transactions. A simple example is postal service. In the eighteenth century, and well into the nineteenth, it was conventional for the recipient to pay postage on letters and other mail. Indeed, it was not until the 1880's that prepayment of postage on newspapers became effectively mandatory, although rates were higher on C.O.D. mail long before that date. Under such an institutional arrangement, the locus of choice is shifted in large part from the sender to the receiver of the message. Institutional changes of this sort can have a profound effect on media content and on choice. When the sender pays the cost of transmission, the recipient is passive with respect to the whole range of messages he is ignorant of, and therefore has not "ordered." When the recipient pays, senders have a greater incentive to lay before the consumer a wide range of content, some or all of which can be consciously rejected.

It is doubtful that the First Amendment really contains an implied "right to hear" which is distinct from freedom of expression.

The whole concept of such a right, and its exercise, runs counter to the most basic notions of freedom of expression, precisely because the institutional arrangements implied by the first "right" requires subjugation of the second. To be sure, the First Amendment must be taken to mean the absence of government control of the content of information or messages which the consumer receives, and this is a "right to hear" or a freedom from censorship, which affects recipients. But the "right" to be "informed" by instrumentalities of the state, particularly when the implementation of this right restricts freedom of expression, is not reconcilable with the constitutional doctrine. It is possible that alterations in the institutional structure of transactions (such as the postage question, or in another context, the pay TV question), can shift the balance of choice between producers and recipients of messages, and thus require trade-offs between the right to hear and the right to speak. It is doubtful, however, that such issues can be treated in general terms.

Key issue must be: to alter,
How much do we want to alter,
limit, structurally, freedom of expression
system to accommodate, allow for,
differences of socio-economic condition of society?
features of socio-economic undesirable
e.g.: some of us think price a "neutral"
mech; imprisoning "freedom"; but that's
not true for low-income groups whose
political standing exceeds monetary standing.

Economic Freedom

Economic freedom* for consumers can only mean the degree to which they are constrained from achieving satiation of their wants.** A number of such constraints exist. Wealth and income constraints are present for nearly all consumers, and these can be traced to much more general and basic conditions in the economic order. Economic freedom is also constrained by the existence and tastes of other consumers, given economies of scale, fixed costs, or other non-convexities in the production process. A consumer with "unconventional" tastes will be more constrained in his choices than one with "conventional" tastes, because the production process in general discriminates against him.

On the other hand, the competitive private enterprise system is ideally suited to maximize consumer freedom, since it responds only to consumer wants. Absent the many imperfections which in fact exist, a competitive private enterprise system would give consumers greater economic freedom (qua consumers) than any other system of resource allocation. The story may be quite different for consumers qua factor inputs, however.

Economic efficiency - making consumers as well off as they can be given available resources and the distribution of their ownership -

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*I have been and will continue to use the word "freedom" without strictly defining it. Whatever it is, it is clearly a matter of degree, and not an all or nothing condition.

**Satiation occurs when additional consumption would not add to one's subjective well-being. The concept is relativistic and personal.

is consistent with a competitive system of private enterprise. The proof of this proposition* has been one of the greatest achievements of economics, and its political implications are worth a moment's reflection. What it means is that decentralized individual decision-making, involving only the calculus of personal gain, results in an overall state which is the best that can be achieved for everyone. Moreover, there exists such a state for every conceivable distribution of the ownership rights in resources, or wealth, so that there is no necessaary "inequity" attached to the efficiency of decentralized decision-making. Personal economic freedom in the conventional sense is not constrained by the system of allocation. Of course, there remain those "imperfections" which can and do make the system work at less than its theoretical efficiency.**

Against this freedom for consumers, we can contrast the utter lack of freedom for competitive producers. To be sure, producers are free to enter or leave the market at will, and to produce "what they like." But the mechanism of an efficient, competitive private enterprise system (to the extent it really works) will reward the firm or producer with economic survival only in highly constrained circumstances.

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*Adam Smith, Koopmans.

**Leaving aside what are essentially confusions about the relationship between capitalism and inequity of wealth and income distribution, the "socialism vs. capitalism" controversy boils down to the question of whether the private enterprise system can be patched up well enough to work tolerably, or whether it should be scrapped. In this debate it is common, but irrelevant, to compare ideals.

Any deviation by the firm from efficient prices or outputs or locations or product choices or speed of reaction to innovation or changes in consumer tastes will result in its instant economic nonviability. There is no real freedom for producers in a private enterprise system which is competitive in the sense required to maximize consumer freedom. Producers achieve freedom from this survival mechanism only at the expense of consumers, and they achieve it by acquiring in one way or another some degree of monopoly power.

How can there be "freedom of expression" in such a system? A message can be created and produced only if it "survives" in the economic sense. Producers have only the freedom to try to survive. The market guaranteeS that after the dust has settled all economic messages will be produced, and that all "uneconomic" ones will fail to survive. But this very freedom to enter the market, to test consumer response, which is guaranteed by the competitive mechanism, may be all that is essential to freedom of expression, from the constitutional viewpoint, provided consumers demand the right information about political matters. Surely the framers of the constitution did not have in mind an absolute right to survival in the marketplace for all potential purveyors of ideas.

An immediate difficulty is that messages by their very nature do not fit the assumptions of the competitive model. Messages are in-

But so often in public policy affecting institutions, it is the structure we look at last almost as if we are blind to it.

But cf p 54: surely pure competition model is unrealistic in complex economy where R&D, capital, stability etc are important. And esp in media where "good" ideas or messages require time & investment of resources & stability.

herently differentiated, not homogeneous,* and competition in their production must be imperfect or "monopolistic." And we know that monopolistic competition in product space does not result in the "right" mix and number messages because of the fixed costs of production and non-homogeneity of tastes.** More serious, it may well be precisely those messages which are of critical importance in the political sense which are squeezed out by imperfect competition. Monopoly is no remedy for this, luckily, and government intervention would be of little help to the economic issue because of its information requirements. A first-best solution may not be available. On the other hand, there are many areas in which we have not achieved even a second-best solution, so there remains room for improvement over the present system, provided we accept the structure of the producing industry as a valid and practical policy instrument.

Improvement must generally take the form of reducing monopoly power. Here, the political and economic goals coincide. For monopoly denies both political and economic freedom to consumers in the marketplace of ideas, just as in the marketplace of goods. The acquisition and maintenance of monopoly power denies freedom to other producers as well, and thus directly impinges on freedom of expression in message

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*Perfect competition, whose virtues were outlined above, requires inter alia that there be many producers of each good, and the output of one producer be indistinguishable from that of another.

**Spence.

production. When private firms join with government to establish and maintain such power, as they do in broadcasting, there is ample room for improvement in the system of freedom of expression and economic freedom as well.

The critical point about monopoly power in the media is that it gives the media owner the power to decide what people shall and what they shall not see and hear. The diversity of sources of informa- is constricted, and there is no source of marketplace relief, such as entry of new firms, for egregious behavior. If the owners of the media are then drawn from a class with similar backgrounds or similar economic interests, there will be a systematic tendency to bias media content in certain predictable ways. This may even be possible without economic loss, since such subtle (or potentially subtle) factors as "political slant" in content may not affect the economic value of messages to consumers.* This is particularly likely to be true of entertainment programming. Even if this is not the case, the monopoly media owner has power in the discretionary use of his excess profits, and he can afford to "spend" these profits in ways which further the economic, political, or social interests of his class. He can simply exclude even those who can "afford" to pay for access. He can choose to behave "uneconomically" to the extent

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*Consumers can and do place an "economic" value on political content in general; this is subsumed in the proposition.

Well:

1. We know some monop power will accrue, per your discussion of monop comp.
2. More may accrue by virtue of media institution building trust, expectations, etc in what of ideas
3. Even one econ system has room for morality.

But d. 56, some line must be drawn: where & how seems the issue.

permitted by the barriers to entry in his market and by the structure of control of his firm. He can defy the discipline of the market system, which works hand in hand with the system of freedom of expression. That he often fears and respects his power and seeks to act responsibly is of little moment. Why should we be content with a "responsible" monopolist? Competitive media owners, whatever their class, do not have this power if they are to survive in the marketplace.

The Role of Advertising

Advertisements are simply a special class of messages which convey non-price signals about products or services. They deserve special attention because of their role in the economic process of resource allocation and because of their prominent place in the functioning of the media. (See Table 1-1.)

In many important respects advertisements are indistinguishable from other media messages. They are valued by consumers (many people read newspaper ads more regularly than editorial content). They are sometimes entertaining, sometimes informative. They are sometimes exaggerated and untruthful, but so is much non-advertising content. They are distinguishable mainly by virtue of their role in allocating other goods and services, rather than being end-products in themselves. To the extent that they are not valued by consumers, such messages must be accompanied by other material which is, or there will be no audience. Thus, "popular" (economically viable) editorial content is sometimes produced in order to facilitate the consumption of advertising, as in sugar coating a pill. This is an accurate description of commercial broadcasting. It is just as often the case, however, that advertising enhances or complements the value of editorial content.

Why do advertisements appear in some media and not in others? Books and motion pictures seldom carry advertising. On the other hand, broadcasting depends entirely on advertising revenue, and such revenue is very important for newspapers and magazines. The answer lies partly in timeliness - books are read over an extended period

TABLE 1-1
VOLUME OF ADVERTISING 1867-1970
(millions of dollars)

Year	Total	News-papers	Magazines	Radio	Television	Direct Mail
1867	50					
1900	546					
1909	1,142					
1920	2,935					
1930	2,607					
1935	1,690	762	136	113	0	282
1940	2,088	815	198	216	0	334
1945	2,875	921	365	424	0	290
1950	5,710	2,076	515	605	171	803
1955	9,194	3,088	729	545	1,025	1,299
1960	11,932	3,703	941	692	1,590	1,830
1965	15,255	4,457	1,199	917	2,515	2,324
1970	19,600	5,745	1,323	1,308	3,596	2,766

Source: Historical Statistics of the U. S. p. 526; Stat. Abs. 1973, p. 759.

As business feels its message isn't being heard in media in spite of ads.

Moreover, problem is not limited to econ influence

after publication, and most advertisers change product types or styles sufficiently often to make the book medium unsuitable for this reason. A more important answer lies in the superiority of some media over others as advertising vehicles. Compared to movies and books, other media are simply better vehicles, with larger audiences, faster response times, and/or lower transactions costs. The appearance of advertising matter - particularly cigarette advertising, after its ban from television - in paperback books is simply one example of how difficult it is to use these media. Why don't pop phonograph records have ads? The question is intriguing and I don't have a very plausible answer.

Without advertising revenue most of the mass media would be unable to survive. Advertising revenue accounts for 100% of broadcast revenue, and more than 50% of newspaper and magazine revenue. (See Table 1-2.) This is the principal reason that this class of messages is worthy of special consideration.

As to the influence of advertisers on freedom of expression, there is a great deal to say, but little concrete evidence to cite. It has often been alleged by program and news personnel in broadcasting, and by their counterparts in the print media, that advertisers have a good deal to say about editorial content which affects their interests. The counter culture would presumably suggest an inherent establishment bias in the media for similar reasons. If true, such allegations suggest systematic discrimination against a certain class of ideas, and this is antithetical to the First Amendment principle. Actual evidence of such influence is however scarce. More likely, media owners and employees practice self-censorship in the sense that ideas likely to

TABLE 1-2

SOURCES OF REVENUE FOR MASS MEDIA-1967

(millions of dollars)

	Revenues		
Medium	Consumers	Advertisers	% Adv.
Television	0	2275	100
Radio	0	907	100
Newspapers	1654	3896	70
Magazines	1121	1547	58
Motion Pictures	3476	0*	0*
Books	2255	0*	0*

*Negligible.

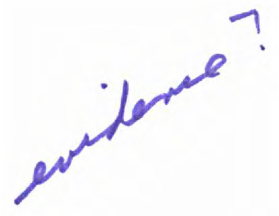
Statistical Abstract, 1973, p. 500, 502, 506, 755.

seriously offend important advertisers simply are never seriously proposed for publication and broadcast. This process is insidious precisely because it is invisible. It is, however, merely a reflection of underlying imperfections in the structure of the media, since a competitive media would not have the power not to offend advertisers.*

From a purely economic point of view, advertising is a mixed blessing. It is a blessing because its presence permits the production and transmission of certain messages, and the existence of certain media, which for various reasons could not exist on the basis of subscriber or consumer revenue. Certainly it would have been more difficult to develop TV and radio if advertising were not available, because of the substantially greater transactions costs involved in collecting money from consumers.** But advertising is also a bane, especially in broadcasting, because it requires the media to respond to incentives which have little to do with consumer interests. This point will be made in more detail in our discussion of program-bias effects in Chapter 3. The basic problem is that the advertiser buys audiences while the con-

*This is a delicate point. A firm on the margin of existence may, by alienating an advertiser, go out of existence. But unless the advertiser is important to all media, some other medium will convey the harmful information anyway. So the advertiser finds no advantage in ceasing to patronize a medium which carries unfavorable information about him, except to the extent that it may be awkward to juxtapose the two messages. So, in the competitive case it may be true that an advertiser can "discipline" a media firm. But this does not restrict the flow of information.

**Even though consumers pay for TV programs indirectly through their purchases of advertised products, they pay less than they would have to pay if they purchased the same programs directly in the present system.


evidence?

sumer buys content. Generally, the consumer's value of content exceeds the advertiser's valuation of the consumer. This leads to decisions about the type and quality of content which are inefficient, at least, and possibly non-neutral from the First Amendment standpoint.

Inter-Media Competition

While newspapers compete with each other, they also compete with television; intermedia competition for audiences and for advertisers is a matter of some consequence in certain parts of the media marketplace. Historically, of course, the electronic media have eclipsed the print media in many respects either because of their superior audience appeal or because of their advertising productivity, or both. Meanwhile, one electronic medium (radio) has been eclipsed by another (television) which in turn seems threatened by a third (cable televition). These Schumpeterian [ ] processes* have accelerated in recent years, despite the efforts of the media themselves to seek government protection from the march of technology. The protection thus afforded is, in historical perspective, a short respite.** We will discuss intermedia competition and cross-media ownership more fully in the chapter on television below. But it is essential not to lose sight of the fact that the overall degree of freedom of expression has to be examined in the context of all media, and not just one at a time. The declining number of daily newspapers in the twentieth century is of little economic or constitutional interest out of the context of the changing structures of complementary and competing media. Since this monograph is organized in a manner which deals with individual media seriatim, an overall assessment must wait until the end.

** Since many or most politically important events are 'short-lived' phenomena, this long-run optimism is hardly grounds for complacency.

CHAPTER 2

NEWSPAPERS

CHAPTER 2

NEWSPAPERS

Introduction [1]

This chapter is concerned with the economic structure and the economic history of the newspaper industry, and with the relationship between these things and issues of public policy affecting freedom of expression through the press. Newspapers are our most important historical media link with the framers of the bill of rights. In tracing the economic history of newspapers from colonial times to the present day, we will want to ask whether there have been changes in structure or role which should lead us to question the applicability of the First Amendment to present-day newspapers.

It is probably wise to say again here that the description of the changing structure of the newspaper medium which follows, though it necessarily traces the causes and consequences of declining numbers and increasing scarcity of newspaper voices in the present century, should not be taken to imply an overall decline in freedom of expression. As we shall see, monopoly papers may be more tolerant of ideas than competitive ones, and in any event one must consider all media taken together before reaching such a conclusion.

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[1] The material in this chapter owes an enormous debt to Professor James N. Rosse, whose research into the economics of newspapers has proved essential to the author's understanding of this fascinating industry. Some of this research is unpublished, but see Rosse [ ], [ ], [ ].

Newspaper Economics

Newspapers supply not one but many different services. They are a source of news, opinion and entertainment to their readers, and a source of audience exposure to their advertisers. The demand and supply relationships among these many different outputs are not simple or obvious, and they all interact to determine the structure of the newspaper firm.

Newspaper readers demand news, opinion, and entertainment of many different kinds. The newspaper firm is able to supply different services because the newspaper as a unit lends itself to joint production. Most newspapers have sections or pages devoted to relatively specialized subject matter: national news, local news, editorials, sports, women's, and comic sections are not unusual. In addition, readers have a demand for advertising which may be as important or more important than their demand for editorial content. Indeed, advertising may be the most important single variable in explaining newspaper structure. A great deal of newspaper space advertising supplies information - on products available, sales, prices, etc. - which is highly valuable to consumers. This is perhaps most obvious in the case of classified advertisements.

Similarly, advertisers' demand for newspaper space is a function of the number, location, and kind of readers, as well as the price charged for the space by the newspaper. Thus, the "demand for newspapers" is jointly determined by the interaction of readers' and advertisers' demands. The more advertising there is, other things equal, the higher will be the demand by readers; the more readers, other things equal, the higher the demand by advertisers.

On the supply side, the technology of production is of greatest interest. The cost of publishing a newspaper is comprised of several elements. These are: (1) Editorial costs, or the cost of acquiring or generating the non-advertising content of the newspaper; (2) other first copy costs, such as typesetting; (3) printing costs, which vary directly with circulation; (4) distribution costs, associated with the process of getting the newspapers from the printing plant to the reader; and (5) other miscellaneous costs, such as overhead, the advertising sales departments, and the subscription promotion department.

Each of the costs of publishing a newspaper varies with certain qualitative or quantitative dimension of the newspaper and its audience: circulation, number of pages, population density, geographical extent of the market, editorial "quality," frequency of publication, etc. Table 2-1 provides an overview of the relative magnitude of these costs, and revenues, for a "typical" newspaper of 100,000 circulation in 1966. (Actually, a newspaper of 100,000 circulation is very large.) The numbers in Table 2-1 were derived from a simultaneous equation regression analysis of combined cross-section and time series data. Thus, the "elasticity with respect to circulation" data reported in the last column of the table take account of all the interactions described above, rather than "partial" effects. (Editor and Publisher magazine also publish annual financial profits of newspapers of various sizes.)

Newspapers, of course, compete with each other and with other media both for readers and for advertisers. To understand the structure of the newspaper industry, one must examine all of these interactions along with the technology and cost of production. It is worth remarking at the outset that advertising is critically important to this understanding. (Note that the "typical" newspaper in Table 2-1 gets 76% of its revenues from advertising, and devotes a commensurate quantity of space to it.) Geography is also essential - both because of the important role of distribution costs (and timing) and because the demands of advertisers and subscribers are geographically specialized. That is, there is a demand by readers for local news, and by advertisers for local

TABLE 2-1

A "TYPICAL" NEWSPAPER - 1966

(Based on a morning-evening-Sunday newspaper of 100,000 circulation)
(dollar figures in thousands)

			e*
Advertising Revenue	$5,315	76%	1.16
Subscription Revenue	1,640	24%	1.09
Total Revenue	6,955	100	1.14
Expenses			
Administration and Depreciation	1,157	20	.97
Advertising Department	453	8	1.03
Circulation and Mailing Department	772	13	1.13
Editorial costs	932	16	1.12
Composing and Engineering	868	14	1.03
Press and Steno typing	381	6	1.14
Newsprint and Ink	1,302	22	1.53
Total Expense	$5,864	100%	1.10
Total Profit (before tax)**	$1,091	-	1.46
Advertising inches published, annual	2,283,630	58%	.75
Non-advertising inches published, annual	1,672,538	42	.48
Total pages published, annual	22,992	-	.60

Source: Based on unpublished research by James N. Rosse

* Elasticity with respect to circulation

** This figure is not meaningful except as a percentage return in investment; data on investment are not readily available, but see .

audiences, specific to the regions from which their own customers are drawn. These factors trade off against economies of scale in certain dimensions of the publication process to produce the particular locational and competitive structure of newspaper firms existing at any given time.

A stylized example may help to explain how this mechanism works. Suppose that the higher the circulation the lower the cost of producing a newspaper, per copy. This means that in a given area competition between two or more newspapers will either drive one out of business or lead to a merger, other things equal.* But the resulting monopoly cannot extend itself geographically without limit, because as it does so distribution costs may rise, marginal advertising revenue may fall, and subscriber interest (demand) will decline, as the newspaper increasingly reaches readers who are not "local." The result will be a pattern of regional monopoly newspapers. (Of course, the real world is more complicated than this; we will describe these complications in later sections.) The point is that there is a tension between economies of scale in some dimensions of the process of producing a newspaper, and various geography-related effects on both the demand and cost side which limit expansion. Together, these effects determine the actual structure of the industry. (See the Appendix to Chapter 3 for a theoretical model applicable to these considerations.)

That there are economies of scale in producing a newspaper goes without saying. "First copy" costs are the best example. The cost of producing the non-advertising or editorial content of a newspaper is

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*Provided, of course, there is not a kind of audience segmentation by taste which is impossible to satisfy within a single newspaper. A city which seems to violate this assumption is New York, where the Times and the Daily News appeal to rather different readers. Similar examples are available - for instance, Chicago's Defender.

not directly related to the number of copies sold; neither are composing room costs and similar items. Hence, the average cost per copy attributable to these items falls as circulation increases. On the other hand, it must be remembered that these costs are not totally independent of circulation; for instance, reducing editorial costs will reduce the quantity and quality of the editorial content, and hence the demand by readers. Thus, we find that editorial costs are greater in larger newspapers than in smaller ones - even more than proportionally higher. Another dimension in which there are economies of scale is the number of pages - it costs less to go from 34 pages to 36 than from 32 to 34, other things equal. This means that "general" newspapers can drive "specialized" newspapers out of business, by incorporating the specialized content and specialized advertising as a supplemental part of the general newspaper, at least under certain conditions.

Newspapers, nowadays, tend to have a certain geographical structure. For reasons to be explored below, there is almost never more than one newspaper firm in a given city. But cities vary in size, and large cities have newspapers which have considerable suburban and regional circulations. Even smaller cities often have areas in which they overlap with a neighboring daily. It is not uncommon to find local suburban dailies co-existing "under the umbrella" of a large metropolitan daily. The extent of competition among these firms of overlapping circulation is sometimes considerable. The large metropolitan daily is at a disadvantage because of transportation costs and the presence in the newspaper of community-specific news; this can be overcome at a cost by suburban printing plants, by special suburban editions and by the presence in the larger paper of features unavailable to the local daily. The large

daily in this situation is also most subject to competition from TV and radio stations. On the other hand, the metropolitan daily with larger circulation is likely to have some cost advantages over the suburban papers. The equilibrium effect of these factors determines sizes and locations of newspapers; this trade-off seems to have been moving more and more against the metropolitan daily.

Equilibrium forces in the newspaper industry are probably attentuated by the tendency of newspapers to be family-owned enterprises. This tradition has perhaps kept many papers alive longer than would otherwise have been the case, and may also have killed off some newspapers before their time.

The next three sections explore the economic history of the newspaper industry from 1690 to the present day. The Appendix to this chapter provides background data for these sections.

Newspapers in the Eighteenth Century*

The fact that the publishing industry is the only private business to receive mention in the Bill of Rights is some indication of the industry's importance at the time of the Bill of Rights' adoption (1791). Assuming that the press was valued for its role as a forum for discussion of public issues, why did the framers of the First Amendment choose the legal policy which they did? Was the Colonial press characterized by intense competition and easy entry? Were these features responsible for its importance as a political institution?

In answering these questions, an economic history of the Colonial press has importance both as a basis for understanding the evolution of the communications media, and as a "case study" of the relationship between press structure and the character of mass political debate.

The first part of this section outlines the major factors influencing the development and structure of the American publishing industry up to the time of the adoption of the First Amendment. We will then focus on the ability of the press to act as a forum for public debate, which is the most interesting aspect of the performance of the industry. In particular, we shall try to generalize about the ability of the individual citizen to have his views printed, and how it was affected by the economic conditions of the industry. "Ease of access" to the

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*This section is co-authored by Abbott B. Lipsky.

press, has several dimensions: (1) How costly was it, economically and otherwise, for an individual to have his views printed and distributed? (2) What chance was there for an individual to have his views printed in publications, newspapers in particular, having established readerships? (3) What were the conditions of entry in the publishing industry?

Tracing the economic history of the Colonial publishing industry is simplified by the fact that printing technology appears to have remained constant over the entire period. It has been said that Johann Gutenberg would have been quite at home in the American print shop of 1800 (Lee [ ], p. 20). Since his time, the press had been improved only by the substitution of some metal for wooden parts, and a few minor changes in construction. Achievement of the maximum output of 2400 impressions in a ten-hour day was " . . . attained by the skill of the workman set to overcome the deficiencies of the tool. . . . [S]cientific motion study, one of our modern fetishes, was an old story in the seventeenth century printing shops. To produce a single impression of type on paper, there were required thirteen distinct processes involving a bewildering number and variety of set and coordinated movements on the part of the two workmen serving the press." (Worth [ ], p. 58.)

The printer's other fixed input, his type, was often as costly as his press. A minimally equipped one-press shop of the period had three or four type fonts, each of which needed replacement after several years of normal use. (The largest of the Colonial printing houses in-

cluded three presses and perhaps a dozen fonts.) Estimates of the total value of press, type, and other equipment (excluding the real estate necessary to house the shop) are few, but they indicate that the fixed cost for a one-press shop was about £85 sterling. This figure was approximately equal to a journeyman's wages for one year.* Worth, who has compiled the few figures available, concludes, "There is little difference found in the value of the printing houses of the entire colonial period if the condition and length of service of the presses and fonts are given consideration in the calculations." (Worth [ ], p. 66.) All presses and type were imported until the year 1769, when each began to be manufactured domestically.

Operation of the Colonial press did require two men, thus setting the minimum labor requirements of the shop. The master printer's four main sources of labor were the immigrant journeyman, the apprentice, members of the printer's household, and unskilled laborers.

Many journeymen came to the Colonies under indentures which were purchased by the printer. Occasionally, the printer would procure an unskilled indentured servant and instruct him in the trade. There were some early labor problems; newspapers of the 18th century frequently contain advertisements requesting the return of runaway journeymen, often accompanied by the offer of a reward. Journeymen were paid according to

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* The implied capital/labor ratio is very small compared to that of present printing establishments, especially newspapers.

the type of work performed. Presswork was compensated at one rate, type composition at rates varying inversely with the size of type and the size of the page to be printed. Journeymen were compensated at roughly four times the rate for day laborers. Worth surmises, on the basis of wage rates quoted in Benjamin Franklin's records for the year 1754, and the wage rates prescribed by one of the first journeymen's associations in 1799, that the journeyman's real wage was approximately constant during the entire 18th century.

There is no evidence that journeymen made any attempts to organize or bargain collectively with master printers until the 1790's, although a journeyman's strike in New York in 1778 met with some success, and a similar strike among Philadelphia journeymen in 1786 appears to have thwarted the announced intention of the master printers of that city to lower wages.

Perhaps the most important source of labor to the printer was the apprentice, who worked subject to an indenture entered into at an early age (in the case of Isaiah Thomas, six years!). The indenture was an agreement between the master printer and apprentice which legally bound the latter to "avoid drunkenness and the pursuit of carnal enjoyment and to serve his master truly until he should attain the status of manhood," usually at the age of twenty-one. The printer was bound to instruct the apprentice in his trade, and to provide accommodation and nourishment. Runaway apprentices were common; Benjamin Franklin and Isaiah Thomas are among the more famous examples.

Most Colonial print shops were part of the printer's home, and other members of his household were often employed in the trade. Female relatives assisted with the "lighter work," though instances can be found of women laboring at the press. The printer's wife would sometimes assist in the management of the enterprise, and in many cases, the good will of the business existing at the time of the printer's death provided sufficient incentive for his widow to continue the business.

Next to labor, the printer's most important variable factor was paper. Most paper was imported until the 1760's. Imports were generally cheaper than paper of domestic manufacture, but American mills became increasingly important because fluctuating demand and the long voyage from England and Europe frequently strained inventories in the Colonies. A paper shortage could be especially hard on newspapers and other publications relying on a steady supply. The domestic industry showed marked progress over the Colonial period. Printers before 1690 had to rely exclusively on imports, but by 1791, Alexander Hamilton was able to report, in his Report on Manufactures, that "Manufacturies of paper are among those which are arrived at the greatest maturity in the United States, and are most adequate to national supply."

Paper was made from linen rags, which were mixed with water and hammered into a pulp which was then poured into wire molds. Several thin layers of this pulp were interleaved with felting cloth, and squeezed to remove as much moisture as possible. Each sheet was then taken from the mold and hung to dry. There was little technical improvement in this process over the period, although a Dutch beating machine

invented in 1750 slowly found its way into the mills of the Colonies (see Weeks [ ]).

Two important constraints existed on paper manufacturing in the Colonies; official British attitudes toward Colonial industry, and the rag supply. Although paper shortages were frequent, it does not appear that paper prices were ever so high that new flax fibers were used directly in paper-making, indicating that their value was much greater when used to make clothing. Manufacturers were forced to rely solely on the collection of scraps of worn-out linen, offering a certain price per pound for rags brought to them. Printers often acted as agents to receive these rags, and published appeals encouraging rag-collecting efforts. Rewards in addition to the normal offering price were sometimes given to the most successful rag-collectors in times of extreme shortage.

The experience of William Bradford, the first printer of both Philadelphia, in 1687, and New York, in 1693, is illustrative of official attitudes toward domestic manufactures of paper. Shortly after Bradford established his press at Philadelphia, he entered a partnership which constructed the first paper mill in the Colonies. He soon became involved in a bitter factional dispute among the Quakers, and after a period of imprisonment left for New York, where he established another press. He retained the right of first refusal to the output of the mill, and when his son Andrew assumed the management of the press which his father had left in Philadelphia, both printers were supplied from

that mill. Andrew began publication of Philadelphia's first newspaper, the American Weekly Mercury, in 1719, which must have further taxed the capacity of the mill, and another mill constructed in 1710 in Philadelphia. In 1724, William Bradford petitioned the New York Assembly for permission to build a paper mill, but, "the Governor was not inclined to encourage any new colonial manufacturing if he could avoid it " (Weeks [ ], p. 16), and his petition was denied. Things were not bad enough to prevent William Bradford from beginning publication of the first New York newspaper, the New York Gazette, in 1725. In 1728, Bradford was finally able to establish another mill at Elizabethtown, New Jersey, about midway between the two Bradford shops.

Although Boston was by far the leading city in press output during the entire Colonial period, the first paper mill in Massachusetts was not built until 1728, ninety years after the arrival in Cambridge of the first press in the Colonies. In that year, the general court was persuaded to grant a monopoly to a partnership of local merchants, including a wealthy publisher and bookseller, Daniel Henchman. That colony was without a competing mill for forty years.

The situation of the paper-making industry began to change radically after the passage of the Stamp Act in 1765. This measure met with such unified resistance in the Colonies that it could not be enforced, and it was soon repealed. It was followed, however, by the Townsend Act of 1767, which imposed import duties on paper and other important commodities. The colonies responded to this measure with the

non-importation agreements, and imports of paper were soon completely cut off. Imported paper later began to trickle in, but the supply was again cut off in 1775 when the Revolutionary War began. The effect of these events was to encourage the domestic manufacture of paper. Connecticut's first mill was built in 1766, and the legislature subsidized the enterprise by making a payment on every ream produced. A New York newspaper publisher was allowed to construct that colony's first mill in 1768. North and South Carolina both subsidized construction of mills in 1775, and the legislature of Maryland made an interest free loan for construction of the first mill there in 1776.

During the Revolutionary War, paper was needed for several new uses; as cartridge paper in ammunition and for military communications. This increased demand, together with the confiscation of paper-making equipment by the British and the disruption of coastal and interior travel, contributed to a severe paper shortage. Several colonial legislatures exempted paper-makers from military duty so that they could practice their trade, and where possible, paper-making equipment was evacuated from settlements threatened with British occupation. Elaborate measures were taken to conserve existing supplies. Newspapers which managed to continue publication utilized any available stock, and the use of margins disappeared. Torn sheets were carefully patched, and smaller type was used. Military commanders used the margins of books to write orders, and, as Weeks puts it, ". . . a great deal of hot shot was poured into the ranks of the enemy wrapped in equally hot sermons, tracts and political addresses printed."

After the Revolution, imported paper faced a high tariff, and domestic production expanded rapidly. There were between 90 and 100 mills in the United States when Hamilton made his assessment in 1791.

The character of the Colonial publishing industry was determined in part by the nature of demand for its output, and by governmental and ecclesiastical control of the press. In the first Colonial settlements, the common background of the inhabitants, common observance of religious occasions and other social events, and the proximity of the few settlers to each other provided maximum opportunity for face-to-face communication. Information that was not in the direct experience of the colonists, originating within the settlement or elsewhere, was easily transmitted to all inhabitants without the need for the written word, let alone the printed word.

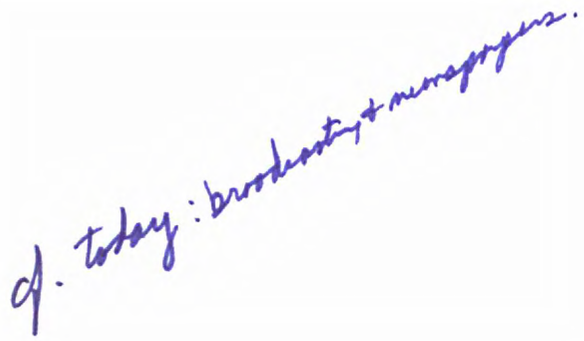
The first press in the American colonies was employed mainly in the production of religious books and pamphlets, and the printing of edicts of the colonial authorities. Publication of the first American newspaper was still more than a half-century away, although the first English language news sheets had appeared in Great Britain in the 1630's. Massachusetts was the only colony to have the services of a press until 1687, when William Bradford established his print shop in Philadelphia. "Harvard supervised the Cambridge press; and when, after repeated petitioning for several years, the government allowed a press to be set up in the growing commercial town of Boston, the General Court continued a censorship which, though lax at times, was an ever-present threat against free expression" (Mott [ ], p. 7).

Increases in the size and heterogeneity of the colonial population decreased the ease with which news propogated through the settlements, and a specialized written news source appeared, the newsletter. "This letter was prepared either by a writer who wandered from one coffee house to another to pick up the news, or by the postmaster who handled the few copies of newspapers which came from abroad, and who had contact with the captain and passengers of incoming ships. As soon as the requests for this paid letter service became too numerous to be handled by pen, the writer was forced to employ a printing press" (Shaw [ ], p. 410).

The last sentence of the passage just quoted may be misleading, for one significant fact about the Colonial newspaper is that it was rarely published by someone other than its printer, and, with one exception to be noted below, no printer made the publication of a newspaper his exclusive business. The explanation is not hard to find. The acquisition of a print shop left the printer with excess capacity in several dimensions. First, once the printer had incurred the fixed cost of the shop, he was equally well equipped to produce all types of press output; pamphlets, broadsides, or newspapers. (A notation made in Benjamin Franklin's accounts, mentioned above, indicates that the erratic demand for the printer's services often left his journeyman idle, thus requiring piecework compensation to be slightly higher than would be warranted if there were steady employment to be had.) Second, operation of the press required two workers, and as Franklin's accounts indicate, it was not always possible to keep both steadily employed. Third, the printing apparatus

was not large, and most colonial printers had room to trade other goods in their shops. Many were booksellers, many sold writing paper and other household items, some of which they also advertised in their newspapers, and several printers sold goods which they had accepted as payment in kind for newspaper subscriptions. (Some evidence of the bulk of the press and other apparatus can be obtained from the experience of several printers during the Revolutionary War. The publishers of two Boston newspapers of Patriot sympathy, when threatened with Tory reprisals, packed up the contents of their shops and transported them up the Charles River to Watertown, all under cover of a single night's darkness. The publisher of the Newport Mercury buried his press and type when that city was threatened with British occupation, then exhumed them and resumed publication when the British troops departed.)

Entry of the type described in the quotation from Shaw was restricted to the first newspapers of Boston. The first continuously published American newspaper appeared in Boston in 1704, published by the postmaster, John Campbell. Seven successive Boston postmasters published newspapers, two of them, John Campbell and John Boydell, continuing to publish competing newspapers after leaving office. In 1722, the management of Campbell's paper had passed to its printer; in 1741, Boydell's paper was given to its printer, and in 1754, the last in the line of Boston's publisher-postmasters, Elias Huske, turned over his newspaper to its printer. In 1727, another Boston newspaper was begun by a non-printer, described by Isaiah Thomas only as a "young gentleman,"


q. today: broadcasting + newspapers.

but it too was given to its printer in 1733 (see Thomas [ ], p. 256). At least until the Revolutionary War, every other newspaper in Boston, Philadelphia, and New York was published by a printer.

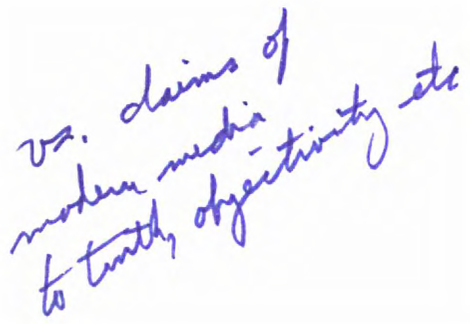
An individual wishing to enter the publishing industry might do so in one of several ways. First, he could go through an apprenticeship and become a master printer himself. This type of entry never occurred during the Colonial period (with one possible exception noted below) except in the regular course of a printing career begun at an early age. Second, he could hire a printer and furnish him with a shop. Instances of this type of entry were also rare. Third, an individual who desired to print his views could induce the publisher of a newspaper with established readership to include his views.

One South Carolina newspaper provides an exception to two of our generalizations; in Charlestown, South Carolina, Charles Crouch was persuaded to begin publication of a newspaper in opposition to the Stamp Act in 1765. The paper continued for ten years, and during that time was virtually the only output of Crouch's shop. Thomas' account of this paper does not mention whether he was already a skilled printer when he began publication.

Only one example can be found of entry by a non-printer by means of acquiring a printing establishment for the purpose of publishing individual views. The printer William Goddard entered into a partnership with Thomas Wharton and Joseph Galloway, men of "large property and great influence," in order to publish the Pennsylvania Chronicle and Universal Advertiser, in 1766. The contents of the newspaper were undoubtedly under the control of Wharton and Galloway. There was a fall-

ing out among the printer and his partners sometime after 1770, and in 1773, Goddard left for Baltimore. Another printer had been brought into the enterprise, and after that partnership was dissolved, he continued another paper devoted in large part to attacking his former associates. (The latter paper was the Pennsylvania Evening Post, and the printer, Benjamin Towne. Towne changed his sympathies from Patriot to Tory when the British occupied Philadeophia in 1777, thus enabling him to continue the Post. With remarkable flexibility he switched sympathies again, from Tory to Patriot, when the British left that city in 1778, again enabling him to continue the Post.)

One other example of entry by acquisition is worthy of mention. When Benjamin Franklin was in the employ of Samuel Keimer, the eccentric publisher of the Pennsylvania Gazette, his co-worker Hugh Meredith proposed a partnership, purchase of a shop to be financed by Meredith's father. The Gazette was not prosperous, Franklin was able to acquire it for a small sum, and the partnership was formed. It does not appear that the elder Meredith wished to have any influence over the content of the Gazette; to the contrary, he thought that Hugh's association with Franklin would soften his son's affinity for rum. In any case, it is not likely that he saw much room for improvement in Franklin's management of the enterprise. Within a short time, the elder Meredith was unable to make good the debt he had incurred to establish the shop, and Franklin assumed the debt and the shop's ownership. Hugh Meredith quit the trade soon thereafter.


vs. claims of
modern media
to truth, objectivity etc

Perhaps the most famous example of the third type of entry, "entry by influence," was the publication of the New York Weekly Journal by John Peter Zenger. This paper was, according to Isaiah Thomas, ". . . established for a political purpose. For three years it was in a state of warfare with the administration of governor Cosby, and his successor, Lieutenant-Governor Clarke. It was supposed to be published under the patronage of the Honorable Rip Van Dam, who had been president of the council, and opposed the governor and his successor. The New York Gazette, printed by [William] Bradford, was then under the control of the governor " (Thomas [ ], v. 2, p. 100). Mott's interpretation is slightly different: "(O)n November 5, 1733, relying on promises of literary and other aid from leaders of the popular party, Zenger founded the New York Weekly Journal to support that faction. James Alexander, a young lawyer, became de facto editor" (Mott [ ], p. 32).

The Zenger case is also a famous illustration of the constraints on content imposed by local authority, but other examples abound. The only issue of the first American newspaper, Publick Occurrences, appeared in Boston in 1690 and was immediately suppressed by the Boston authorities for containing material which they considered offensive. More or less rigid control over the press was exercised in all the Colonies. William Bradford had used his press to publicize the views of his faction in the dispute already mentioned, and for this, among other reasons, he was imprisoned. The passage from Thomas indicating why his New York Gazette could not serve as a forum for criticism of

Cosby's administration demonstrates the effect which this type of experience usually had on the behavior of printers.

Control of the press had an effect which ran deeper than the editorial policy of colonial newspapers. Success in publishing a newspaper, from the time that newspapers first appeared in the Colonies, depended on advertising revenue, and advertising revenue depended upon wide readership. Yet those topics of most interest to readers were also most likely to offend authority. John Campbell's Boston News-Letter was composed mostly of reprints from foreign newspapers to which he subscribed. It contained a very few advertisements, mostly of the lost-and-found variety. The News-Letter's circulation in 1719 was only 300 in a town of about 12,000.

Andrew Bradford apparently recognized both the danger of controversy and the relationship between circulation and success. After assuming management of the press which his father William Bradford had left behind in Philadelphia, he began publication of the American Weekly Mercury in 1719. He printed innocuous local news and solicited advertisements which themselves had value to readers: commodity prices and shipping news from Boston, New York, and Philadelphia. He also included the first "classified" advertising, and gave all his advertisements a more prominent position in the paper's layout. His paper enjoyed the greatest success of any published to that date.

Benjamin Franklin's management of the Pennsylvania Gazette was also aimed at increasing readership. Franklin applied his considerable talents to improving the readability and appearance of the paper.

The Gazette's usual four pages were sometimes half-filled with advertising, and its circulation was several times what Keimer had been able to achieve.

The character of the American press changed considerably after 1765. The Stamp Act and the Townsend Act, because they had a direct effect on one of the publishing industry's most important inputs, paper, was bound to arouse the printers' enmity. The result of the Townsend Act was "the concerted publication of full accounts of the proceedings of all the colonial legislatures, town meetings, and other bodies which protested against the Act, with their 'grievances' and of letters to the editor condemning the tax" (Mott [ ], p. 72).

Contributed articles supporting and opposing British authority came to be of some importance in the newspapers of the day, although according to Mott, "(t) he publication of news from abroad continued to be regarded generally as the chief business of a newspaper; but as the struggle against England developed, American political affairs took on more and more importance." Circulation, which had remained in the range of several hundred to a thousand copies per issue, reached as high as 3,500 for some issues. The printer himself continued mainly as a conduit for other sources of news and opinion, but it was impossible for him to remain neutral in the struggle, though some honestly tried. By the time of the outbreak of hostilities, almost every newspaper in the colonies could be clearly identified as either Patriot or Tory.

The question occurs, if there was such strict control of the press by Colonial authorities, how could anti-British views be published? The short answer is that repression of these views was not politically feasible, just as the Stamp Act could not be enforced in the Colonies. In addition, no grand jury of that time would indict Patriot printers. Even as early as 1734, an indictment of John Peter Zenger could not be obtained from the grand jury sitting in New York, although he was nevertheless imprisoned.

Mott calculates that there were thirty-seven newspapers published in the Colonies on the day of the battles of Lexington and Concord. In 1781, there were thirty-five, but in the meantime, seventeen of the original thirty-seven had ceased publication, and another thirty-three had appeared, of which only fifteen survived. The decade following saw an extraordinary growth in the number of newspapers. About sixty papers appeared during the mid-1780's, many of which soon stopped publication. Nevertheless, in 1790 there were ninety-two newspapers in the United States. This total included ten semi-weeklies, of which only three had existed in 1780, and eight dailies, the first of which made its appearance in Philadelphia in 1783 (published by Benjamin Towne, already noted for his protean politics).

Mott describes another important change in the function of the press in the period 1783-1791:

> Whereas nearly all newspapers heretofore had been set up as auxiliaries to printing establishments and had been looked upon merely as means which

> enterprising printers used to make a living, now they were more and more often founded as spokesmen of political parties. . . . Up to this time, conducting a newspaper had been chiefly a matter of selecting, without much initiative, the conventional items of newspaper content, and printing and distributing them. Newspaper conductors were, in the main, mere printers and publishers, and they so regarded themselves. But now we have one newspaper after another coming forward as the expression of the personality of an 'able editor' who may or may not be a printer himself; . . . (Mott [ ], pp. 113-4).

Thus entry into the newspaper business as a way of gaining access to the marketplace of ideas came into its own during the years just preceeding adoption of the First Amendment. Growth in the number of newspapers was even more dramatic in the decade 1790-1800; from 92 to 235. In all, 450 newspapers were started in the period 1783-1801.

It is reasonable to suppose that this rapid increase in the absolute number of newspapers and printing establishments can be explained by printing technology, improved conditions in the paper industry, and changes in demand. Recall that the technology of the print shop was constant over this period, and that the total cost of a one-process shop was also constant. The absolute value of the shop was modest; a steadily-employed and frugal journeyman could save the necessary capital to start his own business in several years. Increases in the size, heterogeneity, and literacy of the population, rising real income per capita, improvements in transportation, and increasing volume and variety of trade all contributed to rising demand for press output, and to an increasing supply

of news. There may also have been a shift in tastes which contributed to demand, occasioned by wide interest in American political issues such as the Jay Treaty and the adoption of the Federal Constitution.

From a strictly economic standpoint, the number of firms in the industry is not a quantity of prime interest, provided that the number is not small enough to be a significant determinant of firm behavior. There is little evidence that collusion occurred among Colonial printers; one exception is the abortive attempt by the master printers of Philadelphia to lower journeyman's wages in 1786, mentioned above. Isaiah Thomas (, v.1, p. 238) mentions that, "In 1788, a number of printers and booksellers met together in Philadelphia to form some regulations for the benefit of the trade." One may suppose that the subjects of discussion were prices, wages, and territories, but, again according to Thomas, "Several attempts have been made to establish rules and regulations for the benefit of the trade, but they have generally not proved successful."

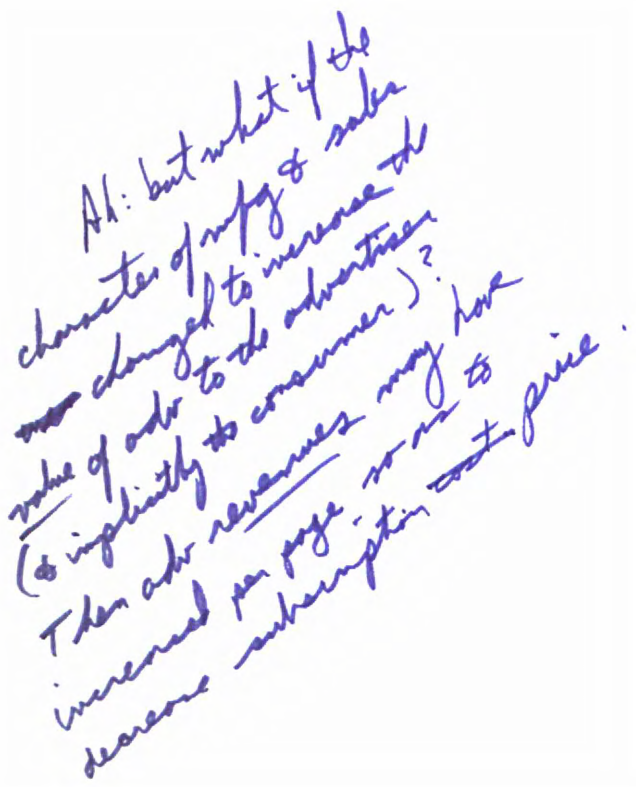
There were competing print shops in all the larger Colonial settlements after about 1730, and in Boston much earlier, but there are not enough data available to determine whether printers behaved collusively on an informal basis.

To the student of the First Amendment, the number of firms in the publishing industry and the number of newspapers have an independent significance. If the press is to perform its function as a forum for public debate, the effectiveness of that performance depends on the

diversity of views expressed. We have already mentioned that, even while the newspaper publisher behaved only as a "conduit" for news and opinion during the Revolutionary period, the overwhelming majority of newspapers identified strongly with one political group or another. This trend continued into the era of Federalists and Republicans, and the press continued to be highly partisan until the end of the nineteenth century.

If we accept the idea that each newspaper expressed one point of view to the virtual exclusion of all others, the diversity of opinion in the early American press was related to the absolute number of news sources. Thus the relatively small minimum efficient scale of the 18th century print shop had much to do with the character of the press in the period just before the adoption of the First Amendment. Whether the First Amendment was actually adopted with the idea of preserving the press as it then existed is more debatable; one Constitutional scholar argues that this implicit theory ofthe First Amendment was a later fabrication of Federalist judges responding to Republican pressure applied to Federalist printers and editors.

Communications technologies dominated by economies of scale at all levels of production were unknown to the framers of the first amendment. In the experience of the framers economic competition was consistent with the political function of the press because of the small scale technology of printing, and because they had experienced the rapid growth of entry in the industry in the decade preceeding 1791. It is


Al: but what if the
character of mfg & sales
was changed to increase the
value of ads to the advertiser
(& implicitly to consumer)?
Then adv revenues may have
increased per page so as to
decrease subscription cost price.

thus impossible to answer the question, whether these men would have acted differently if they had been faced with a media structure such as we have today. One can say, however, that they had not the slightest notion of a "responsible" or balanced press. Their experience was with a highly partisan press, but one in which there was great ease of access to the means of reaching the public with new ideas. No one thought of legislating a "right of access" to newspapers, at least in part because of the relative ease of access directly to presses.

Newspapers in the Nineteenth Century

The period from 1790 to 1850 is remarkable for the rise of the daily newspaper, which in this period became an important if not the principal source of news in the larger cities, and for the application of mechanical power to presses, and the invention of the faster rotary press. The rise of the "penny press" phenomenon after about 1840 has been linked by many observers with the sudden discovery of advertising as a source of revenue. This is unlikely. Advertising, on the little evidence available, seems all along to have been of some importance to newspapers. No doubt this importance gradually increased over the period, but there is no reason to suppose anything "sudden" happened in the 1840's. More likely, the penny press was simply a marketing innovation, presaging the more massive efforts of Hearst and Pulitzer fifty years later.

In 1810 there were only 19 copies of daily newspapers for every 10,000 people; by 1880 there were 718--still not a remarkably large number when compared to the present 3,000. In 1810 there was one daily newspaper firm for every 278,000 people; by 1880 newspapers had increased so that the ratio was 52,000. This was a period in which the newspaper was still basically individualistic and political--the creature of an individual editor/publisher, reflected his personal views and those of his friends. Technology did change, but it was only a quantitative change. Presses became bigger and faster--the rotary press of the 1840's was certainly a breakthrough--but the largest daily newspaper in 1880 had a circulation of only 150,000.

The invention of a process for making cheap wood-pulp newsprint spread this new and cheaper paper rapidly through the industry after 1870. In interpreting the falling price of newsprint, it is well to remember that prices fell generally in the thirty years after the civil war; however, newsprint prices seem to have fallen more rapidly than the general price level.

After 1880, and continuing for about forty years, truly revolutionary changes took place not merely in the structure and technology of the daily newspaper, but in its social and political role.

In this remarkable period, a number of things seem to have happened simultaneously. The effects were dramatic: individual newspaper circulation became very large, and the number of newspapers in each city began to decline; yellow journalism and muckraking

were born, and the era of the editor began to die (See Hofstedter[ ],pp); chains and mergers / became important, and newspapers began to grow rapidly in physical size; aggregate circulation began to approach saturation of the potential audience. These changes dwarf those later effects, thought to be so serious, from the advent of television.

To understand what happened in this period, it is necessary to understand how journalists and publishers rode the bandwagon of the progressive era into giant circulation, and how they in turn influenced the politics of that era. But it's perhaps more important to seek out those technological and economic forces which allowed publishers to behave in this way. A careful, systematic analysis of this subject could and should occupy another book; here we can only outline an impression of what seems to have happened.

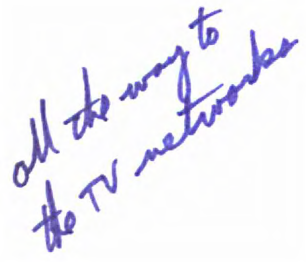
If we define "market penetration" of newspapers in the following objectionable way, some interesting results emerge. Suppose every copy of a newspaper is read by two people and that 50% of the population for various reasons cannot read a newspaper (for instance, because they are children). Further suppose that circulation numbers are reduced by 1/4 to account for some readers subscribing to more than one newspaper. Then we can calculate "market penetration" by multiplying aggregate daily circulation by 3 and dividing by population. If we do this for 1860, the result is a market penetration of 14%; for 1880 the figure is 22%. But by 1920, the penetration rate had reached 79%, from which it gradually rose, by 1940, to 99%. (By 1970 it had fallen back

to 92%.) The assumptions, of course, are without serious foundation, but they are not whlly implausible. Alternatively, consider Table 2-6, wherein it is shown that newspaper circulation per household increased from .36 in 1880 to 1.16 in 1920. The crucial point is that in the forty year period beginning in 1880, penetration of the newspaper market approached saturation. In the large cities this happened much faster than in the country as a whole. Newspaper publishing in this period began to be a zero-sum game in circulation, as readers had to be increasingly enticed from other papers, rather than from the population of non-readers. This fact alone may explain why it was possible before this period to have more than one competing newspaper in a city, but not afterward. In the earlier period, the opportunity to take advantage of economies of scale in publishing a newspaper was demand-limited; more than one newspaper survived because they need not compete for the same, or at least exactly the same audience.

> There are in this city [New York] at least 150,000 persons who glance over one or more newspapers every day and only 42,000 daily sheets are issued to supply them. We have plenty of room, therefore, without jostling neighbors, rivals or friends, to pick up at least 20,000 or 30,000 for the Herald, and leave something for those who come after us.
>
> -- From the first issue in 1835 of Bennett's New York Herald, quoted in Tebbel [ ], p.97.

But this changed; new subscription starts had to come increasingly from the subscriber lists of other newspapers, and this meant that economies of scale were no longer limited by the extent of the market for a specialized editorial product. Put another way, newspaper publishers before this period found it much more profitable to seek specialized audiences by publishing relatively specialized content and to try to attract non-readers, than to be more general and to try to attract readers of other newspapers. But as the population of non-readers declined, publishers came into direct competition for each other's readers, forcing changes in their content. Similar effects may have been taking place with respect to advertisers as business became less localized and national consumer markets grew in importance. There are no good data on subscription prices, but casual evidence suggests that prices stayed about constant while the size of newspapers increased drastically. (Big city newspapers in 1880 had 4 pages; by 1900 they had 8, and this had probably doubled again by 1920.) All of this must be taken in the context of economies of scale in printing and distributing newspapers, and the steadily increasing capital costs of entry.

This change was reflected in the nature of the newspaper itself. Editors could no longer afford to put the stamp of their personal biases on the entire range of editorial content; they had increasingly to include content of appeal to diverse groups. The editor as an institution receded into the background. The publishers' success formula was to take advantage of scale economies with respect to the physical size of the newspaper by including content which was


all the way to
the TV networks

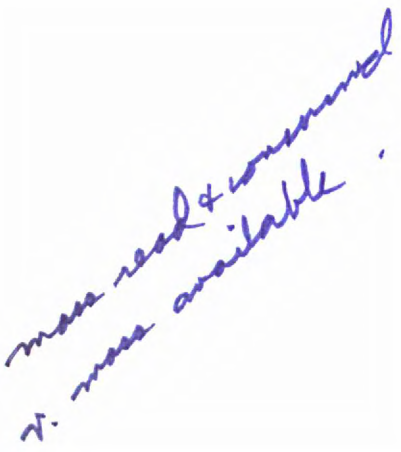
specialized to serve sub-groups of the population, and at the same time to generate demand for circulation by broadening (and perhaps lowering) the appeal of the basic news content of the newspaper. The newspapers in their search for mass audiences interacted directly with the political environment of the day: muckraking, progressivism, yellow journalism, even a war started by a newspaper publisher to increase circulation. Newspaper publishers scrambled for huge circulation because that was the key to profit and survival, and the newspaper ceased to be the instrument of an individualistic editor or his political cronies.

The forces on the demand side which contributed to this phenomenon are difficult to isolate. Literacy and urbanization were of course increasing, the first less dramatically than the second. Educational levels in the population were increasing. But underlying this seems to have been a deeper force. Perhaps publishers began to emulate the men who populated their advertising columns, and created their own demand for the newspaper product. (Certainly Hearst acted as if this ~~was~~ were his goal.) Perhaps there was simply an exogenous shift in consumer behavior, toward the notion that newspaper reading was a desirable thing. (If newspaper reading as a consumption good has value in part because of its creation of a community of knowledge among social groups, then the passing of a critical point in readership may accelerate the trend toward saturation. Once a certain critical proportion of one's friends and acquaintances are known to obtain their conversational gambits from a given newspaper, it may

become "necessary" to subscribe one's self.) In any event, newspaper reading rather suddenly became a majority rather than a minority pastime.

Before the rise of Hearst, Pulitzer, Scripps, and the like, newspapers existed to incite passion in their readers, and they did just that; newspapers were almost by definition controversial. Hearst and Pulitzer were in a sense working in this tradition, but they turned the moral crusades of the earlier generation of editors from the path of eccentricity to the path of profit. After the success of their excesses, personal journalism was no longer possible in the daily field. It is very difficult to say to what extent the vast changes in the structure of the industry in this period were due to the invention of what was in effect a new marketing strategy.

There were contributing factors on the supply side. Press technology did not run into any roadblocks, and the presses kept getting bigger and faster as the demands put upon them grew. The linotype machine increased the speed and decreased the cost of composition, probably allowing an increase in the number of pages per edition, while raising the capital costs of entry. But these things had a cost and that cost was increasing specialization of the printing departments in newspaper production, and a decreased ability to use temporarily idle or excess capacity for job printing. The effect was to put even more pressure on newspapers to reach for circulation, and to remove a source of subsidy which helped to preserve competing newspapers; morning and evening newspapers began to merge in order to gain the economies of joint use of a single mechanical department. Newspaper publishers since colonial times had depended to some degree on job printing and still do. This period simply reduced the extent of that dependence.


mass read & consumed
v. mass available

Improved local transportation and communication facilities also contributed to the growth of circulation. Telephonic and telegraphic communication made it possible to gather suburban news for inclusion in the metropolitan dailies, making them potentially regional. Improved local transport systems, such as the electric inter-urban trolleys, made it possible to distribute the metro paper in the suburbs and in satellite cities; it was even possible in this period to establish printing facilities in areas remote from the editorial offices in order to take advantage of transportation connections.

All of these forces came together in a way which doomed the multi-newspaper city and simultaneously set up the modern structure of the newspaper industry. It probably happened most rapidly in the smaller cities, where segmentation of the audience by specialized political tastes was least viable. It did not happen anywhere overnight. But the effects were profound, and the first true mass media were born.

Newspapers in the Twentieth Century

This history of newspapers in the present century is a story of economic adjustment to the structural forces generated in the period 1880-1920, and of reaction to the inroads of the new electronic media. The equilibrium structure of the newspaper industry after about 1900 is described below as an "umbrella model." Briefly put, we have been undergoing a transition from multi-newspaper cities to one-newspaper cities, whilst simultaneously the major dailies of the largest cities have been hardest hit by competition from the new media.

Although the decline in direct newspaper competition and in the number of firms is quite dramatic, it is easily exaggerated. In 1973 only 5.4% of newspaper firms had direct competition in the same city, but these firms produced 32% of total U.S. newspaper circulation. (By contrast, in 1923, 60% of the firms had direct competition, and they accounted for 89% of total circulation.)

The size distribution of firms in the industry has changed remarkably little over the last 50 years. The distribution is highly skewed, and probably always has been. The largest 25% of all firms have been producing about 80% of U.S. total daily circulation at least since 1923, but the median firm size has grown from 4,000 copies per day in 1923 to 12,000 in 1973. The entire size distribution has simply shifted gradually toward larger circulations. In 1923, 68% of all firms had evening-only publication schedules. Although this proportion declined over the ensuing 50 years, evening-only newspapers still account for 56% of all firms. But evening papers are much smaller, on average, than morning

issues. The reason for this is fairly clear: evening newspapers face much tighter time constraints in terms of transportation and delivery than do morning papers. As a result, the geographical area they can feasibly serve is smaller.

Since 1953 newspapers have been under serious pressure from television. This pressure has been most evident in the significant declines in circulation of papers in the largest cities, but is reflected in the overall statistics by an absolute decline in national circulation per household. Still, newspapers receive greater total advertising revenue than do TV stations (newspapers accounted for 45% of all advertising expenditure in 1935; by 1970 they accounted for 29%, and TV for 18%.) Smaller newspapers do not receive such direct competition from the electronic media, and have also been the recent beneficiary of new cost-saving technology not readily available to the larger dailies.

Table 2-1 above presented some financial data for a "typical" newspaper of 100,000 circulation. It will be seen that while such a newspaper may be "typical" of large city newspapers, and therefore of most of the total circulation of newspapers in the U. S., it is by no means typical of the daily newspaper firm. The "typical" newspaper publishes only an evening edition, and half of all newspapers had, in 1973, circulation under 12,000 copies per day; even the mean evening newspaper has a circulation of only 26,000. In terms of sources of news, one must not be misled by the large number of firms which still exist. Sixty-six percent of total daily circulation is now, and for the last

50 years at least, has been produced by the largest 10% of all newspapers -- in 1973 by the 157 newspapers with daily circulation over 76,000, or in 1923 by the 198 firms with circulations over 32,000.

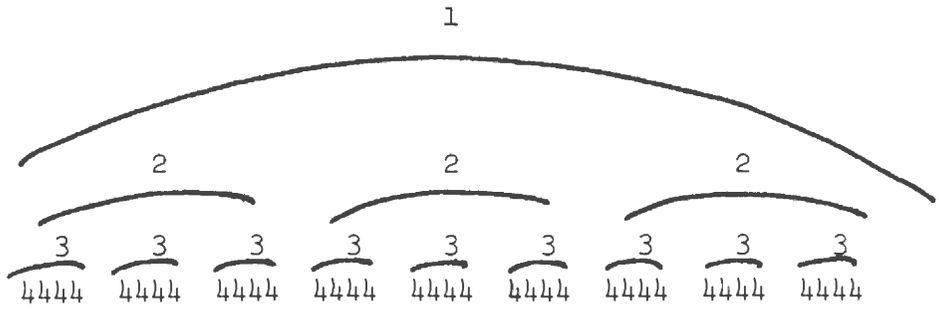
Finally, it is worth mentioning the fact that the number of cities with a local newspaper has continued to increase - from 1300 in 1923 to 1519 in 1973. This means that while electronic media have begun to drive out the regional and ~~natural~~ national news and advertising service provided by large city newspapers, local coverage has actually increased in geographical extent.

Professor J. N. Rosse has developed a model of newspaper structure and location which he calls the "umbrella" hypothesis. The essence of the model is the recognition that, while few cities have more than one daily newspaper, these newspapers nevertheless compete with each other and with other newspapers. There is generally in each region of the country a major city newspaper whose circulation market reaches out far beyond the boundaries of the central city, sometimes for hundreds of miles. These are "level 1" newspapers. Of course, circulation density falls off as distance from the major metropolitan area increases, and is particularly low in "level 2" cities. Level 2 citites may be regarded for this purpose as satellites of the major metropolitan city, and each of these will have a newspaper of its own, also with a circulation area beyond the city boundaries. (An example of a level 1 city is San Francisco. Oakland and San Jose would be level 2

satellite cities.) The daily newspapers in the level 2 cities throw up umbrellas of their own. These cover newspapers in level 3 cities, which are quite local in circulation. These in turn must contend with even more specialized and localized media, such as weeklies, shopping throwaways, and the like. Figure 2-1 illustrates the model.

Newspapers in the secondary and tertiary level cities do not compete with each other, except possibly on the fringes of their circulation areas. But each newspaper must compete with other papers in layers above and below it. Advertising revenue is the key to understanding this relationship, along with specialization of audience interest. The level 2 and 3 newspapers exist, despite economies of scale for the metro daily, because the metro daily cannot include local interest news and advertising matter for each of the cities outside of the metro center. The metro center daily gets advertising revenue from its own city and from regional and national advertisers. The more local papers depend on local advertising by stores located in their immediate area, for whom an ad in the metro daily would be wasteful.

TABLE 2-1: The Umbrella Model



1 Newspaper in large metropolitan center

2 Newspapers in satellite cities

3 Local dailies

4 Weeklies and other specialized media

Level 1 newspapers are the ones most subject to competition from electronic media, whose circulation area coincides with their own. As a result, since the advent of television, circulations of major metro newspapers have steadily declined, while the circulation of lower level papers has increased. (See Table 2-18). The metro dailies are simply pulling back to their area of natural advantage, the central city, leaving the regional market increasingly to radio and television.

All this is of course in marked contrast with the situation a hundred years ago, when newspapers competed head-on in the central cities. The implication is clear. Newspapers face a great deal more economic competition than their chracterization as "local monopolies" implies. They are indeed local monopolies, but competition at the fringes and between layers provides a degree of market discipline. There is no good evidence that the "local monopolies" enjoy monopoly profits, at least on average.

Have Things Changed?

How has the changing structure of the newspaper industry, by itself, affected freedom of expression? It is, of course, extraordinarily difficult to answer this question. Before about 1900 the daily newspaper was read by a minority of the population, but an influential minority--the "opinion leaders." In this century newspapers have become a mass medium, but they have simultaneously become fewer and less directly involved in political issues. The editor of a colonial or 19th century newspaper would never dream of allowing "access" to his paper by persons with political or philosophical views contrary to his own. The modern publisher does this all the time, in order to gain circulation. Still, the modern editor and publisher control the identities of those who are allowed to reach the public, and they have some range of discretion, particularly on matters of purely local interest. In modern times, the mass media represent the only practical link between those who would speak and the public; in earlier times the newspaper could be and was circumvented with relative ease, either by direct recourse to "speech" or by the use of pamphlets, broadsides, and the like. It is thus true that editors as "gatekeepers" are very much more powerful than they used to be, but at the same time there have evolved rather strong economic limits on the exercise of that power; some of these limits have been institutionalized in journalistic codes and notions of "press responsibility." But these institutionalizations may be in themselves harmful. The political and personal

newspapers of the 1710-1880 period had only individualistic ethics; no one except the true believer was tempted to take what was printed as gospel. The modern press pretends to a level of integrity and "responsibility" which is at least misleading, but which may well convince some readers. Thus, a population unaware of the economic incentives which condition the content of the newspaper, even if they doubt the divinity of the reporter and editor, stands a fair chance of being misled. On the other side, it is probably a lot harder today to reach everyone in a local community with a message now than it was 100 or 150 years ago, or at least there are fewer ways of doing it. Against this, it must be said that it is certainly a lot easier to reach everyone in the <u>nation</u> with a given message; no practical means of doing so existed at all in the earlier period.

Antitrust in The Newspaper Field *

For the reasons described, head-on competition among newspapers in the same town is a disequilibrium situation, one which will eventually be succeeded by merger, failure of one paper, or a joint operating agreement, tantamount to merger. Antitrust action aimed at preserving competition in this sense is simply doomed to failure. But antitrust activity can be important in preserving competition within the umbrella structure, and in preserving inter-media competition. This section briefly describes the areas in which there has been antitrust activity.

The two cases involving head-on competitionare Citizens Publishing (1968) and Times-Picayune (1953). The first involved a Justice Department attack on two newspapers in Tucson, Arizona, who had agreed to form a joint operating company to centralize production and advertising sales; editorial staffs and policy were to be kept separate. (There are about 25 such arrangements nationwide.) The Antitrust Division obtained a summary judgment in their favor, which was upheld by the Supreme Court. This led more or less directly to the so-called Newspaper Preservation Act (1970). The Act exempts such arrangements from the antitrust laws, putting newspapers for this purpose into the same category as labor unions and sports leagues who enjoy antitrust immunity. As noted above, this probably doesn't matter very much; antitrust can not in any event preserve same-city head-on competition among newspapers. But the passage

* This section draws heavily on Roberts [ ]

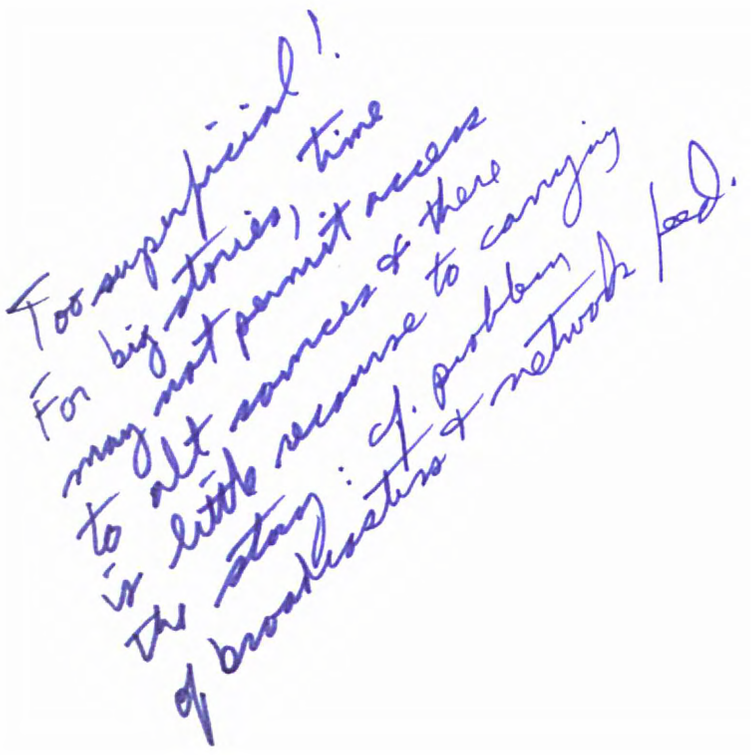
doesn't this get close to making the presses common carriers (assuming law would require others to be allowed to join); or is it that distribution is where the econ of scale really are?

of the Act attests to the political power of newspaper publishers and their representative, the ANPA. It is not a good policy precedent.

The Times-Picayune case involved combination rates. It is very common for newspapers with a morning and evening edition to charge a rate for advertisements to appear in both papers which is considerably less than the sum of the separate lineage rates, and even in some cases less than the price for one; the effect is to force "all-or-nothing" choices by advertisers, a form of price discrimination. (Of course, costs are lower for joint advertising as well.) However, when this happens in cities where one of the two editions faces competition from an independent firm, the practice is obviously disadvantageous to that firm. Such was the case in New Orleans. The Supreme Court said that the practice was legal. Again, in terms of its effects on the long term structure of the industry, this is probably not an important decision. The contrary result might have postponed the inevitable a few years longer.

The cases in the areas of wire services and syndication of feature material are more important because they affect the "intra - umbrella" effectiveness of competition.

The wire services were begun in the Civil War era, taking advantage of the telegraph. The Associated Press has always been a cooperative; member newspapers share with each other local news of national interest. UPI is owned as a profit-seeking venture by the Scripps interests, but it otherwise operates in much the same way. Both services


Too superficial!
For big stories, time
may not permit access
to alt sources & there
is little recourse to carrying
the story: cf. problems
of broadcasters + network pool.