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Mixed feelings on the big Comcast deal

 By Mark Zandi, February 23, 2014

As a Philadelphia native, I can't help but take pride in Philly-based Comcast's $45 billion bid to purchase Time Warner Cable. As an economist, I wonder whether the acquisition is in our collective best interest.

Comcast is an important engine of growth for the Philadelphia economy. It employs thousands of well-educated and skilled workers, and is steadily adding to its payrolls. Comcast's headquarters dominates the city's skyline, and it is set to build another skyscraper soon. As a telecommunications giant, it promises to give a much-needed boost to the region's technology sector.

If the deal with Time Warner Cable is consummated, Comcast will be far and away the nation's largest cable operator, with about 30 million customers coast to coast. This comes just a few years after its purchase of NBC Universal, which owns the NBC broadcast system, cable channels CNBC (my favorite), and MSNBC, and other media properties. The company is on track to reach annual revenues of $100 billion before long.

The Time Warner transaction will thus receive a very close look by the Federal Communications Commission, which must approve the deal for it to go through. The FCC is supposed to look out for the public interest, and as such it must ensure that the merger doesn't stifle competition, leading to higher consumer prices, poorer customer service, and less innovation.

To be sure, big doesn't necessarily mean bad for competition. Industries that are globally competitive tend to be dominated by big companies. The auto industry is a good example: GM and Ford are behemoths, but there is no doubt the U.S. auto market is highly competitive, with formidable foreign-owned companies such as Toyota and Volkswagen as major players. The automakers vie with each other on price and quickly adopt new technologies.

However, one can't argue that the U.S. cable industry faces global competition. Philadelphia families can't purchase telecommunication services from British or Brazilian broadband firms - a least not yet.

Size also need not be anti-competitive in industries where it's relatively easy for new firms to enter the market. Retailing is a good example. Walmart has close to $500 billion in annual revenues, but it has to stay on its toes, because niche retailers can quickly set up shop and pick off customers. If Walmart doesn't consistently offer good choices and prices, it could go the way of legendary but defunct retailers such as Philadelphia's Wanamakers.

Yet few would argue this applies to cable TV companies. Most U.S. markets have only one, since the investment needed to build out a cable network is enormous. Comcast needn't worry that another cable operator will hang an "open for business" sign in any of its markets.

Of course, technology can change rapidly, introducing competition almost overnight. As recently as 15 years ago, most American cities were dominated by one or, at most, two daily newspapers. Their owners practically printed money: No industry had fatter profit margins.

Today, the newspaper industry is hemorrhaging cash. The Internet explosion brought free online classified services such as Craigslist, which crushed many newspapers' advertising revenues. Digital media continue to create financial havoc for legacy publications, including this one.

Comcast has grounds to claim that it faces similar competitive challenges from technology. Satellite providers and phone companies such as Verizon continue to peck at the cable market. With access to the Internet and an Xbox or Apple TV setup, one can easily stream shows, movies, and games from other providers. And who knows when a new breakthrough might do to Comcast's competitive advantages what the Internet did to newspapers'.

Cable and satellite companies price their services as if there were significant competition, raising consumer costs over the last decade roughly in line with those of other goods and services.

But to ensure that technology remains a source of competition, it is critical that Comcast not be permitted to control access to the Internet, clearly a vital source of innovation. The FCC should thus approve Comcast's purchase of Time Warner Cable only if Comcast agrees to follow the FCC's Open Internet rules.

Also known as net neutrality rules, these bar Internet providers such as Comcast from charging premiums for fast delivery, which would give an advantage to content providers with deep pockets over start-up Internet firms. The rules also bar providers from blocking or slowing Internet traffic to favor their own content over competitors'.

Comcast agreed to follow the FCC's net neutrality rules through 2018 when the agency approved its purchase of NBC Universal. Comcast should agree to a lengthy extension of the rules as a condition of its Time Warner Cable purchase.

As a Philadelphian, my heart says yes to Comcast's bid to become one of the nation's preeminent media companies. My economist mind will agree if Comcast allows open Internet access to all comers.

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