

“Duplication of Public Goods: An Evaluation of the Welfare Gains from the proposed Echostar - DirecTV Merger”

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Abstract

Echostar and DirecTV, the two primary Direct Broadcast Satellite (DBS) companies serving the US, claim that efficiencies from their proposed merger would result from the redeployment of transmission capacity to avoid signal duplication. Currently, both companies use transmission capacity to deliver most of same television channels to many US cities. In particular, they both transmit the local programming for about 40 cities, requiring the capacity of about 300 television channels. Since it is technically feasible for customers in a city to receive signals from either system without degradation to any other customer, transmission is non-rivalrous and is made excludable only through signal scrambling technology. With these public good properties, economic theory indicates that competition, while possibly allocatively efficient, is productively inefficient.

The merging parties claim that freed-up capacity from the duplication avoidance would then be available for new services, such as high speed Internet service, additional premium channels, and local programming to more markets. Enhancement of any makes DBS more attractive to potential subscribers, and therefore a better substitutable for DSL or cable TV. If so, competition would likely be enhanced among high speed Internet providers and between DBS and cable TV. Thus the productive efficiency could lead to an allocative efficiency.

We investigate this claim by examining the effect of the DBS providers carrying local programming on the attractiveness of DBS to consumers. We take advantage of cross-sectional variation in the markets for which local programming is available to measure its effect on consumer subscription decisions between DBS versus cable TV. Preliminary investigation of several measures of market outcomes (DBS and cable TV market share, pricing and quality) based on a large national sample of over a quarter million households' telecommunications decisions indicate that the provision of local programming significantly increases consumer valuation of DBS, and thereby constrains cable TV systems' market power. A complete merger evaluation would require balancing these gains to consumer welfare against possible harm from decreased competition from the reduction in the number of consumer choices.

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