

Peer-review Report on
“Minority and Female Ownership in Media Enterprises”
by Beresteanu and Ellickson

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At the outset, it should be noted that a review of the authors’ curricula vitae indicates that they certainly have the ability to do the sophisticated analysis that this reviewer would prefer to have seen, rather than the simple analysis that they actually did. The obvious reason for this discrepancy between what should have been done and what was done is that the authors were not paid enough to do sophisticated analyses. The FCC should have contracted with the authors to do a full-blown study of the problem, rather than simply conduct a small and perfunctory analysis. The FCC got what it paid for, and if the results are not very good the fault does not lie with the authors.

The authors conclude that “minorities and females are clearly underrepresented” in the radio, tv, and newspaper markets as if race and sex are the only determining factors. It is entirely possible that, conditioning on relevant variables, *e.g.* education, industry experience, etc., there is very little disparity, but we wouldn’t know it from reading this report. To illustrate this point an example from the women’s earnings debate is useful. Very often we hear that “a woman earn 77 cents for every dollar a man makes”, but this is just a marginal result. A direct quote from “Women at Work: A Progress Report” by W. Michael Cox and Richard Alm of the Dallas Federal Reserve Bank [*Economic Letter -Insights from the Federal Reserve Bank of Dallas* 2(5) May 2007] is relevant:

Much of the discussion of women in the workplace fixates on pay ratios between men and women. The wage gap has been a rallying cry since the 1960s, when women on average earned less than 60 cents for every \$1 men did. Over the next 40 years, that 60 cents rose to 81 cents. But more sophisticated analyses which account for such variables as education, work experience, occupation and family factors show even greater progress in reducing the wage gap. Economist June O’Neill’s most comprehensive model, for example, concludes that women ages 35 to 43 earn 97.5 percent of what men do.

The point here is that simplistic marginal calculations can make things look much worse than they are. A young woman who hears only the “77 cents” refrain might well imagine that her job prospects are not good. Another young woman who

hears of the better analysis that takes into account relevant variables might well conclude that if she graduates from college with a marketable degree and stays in the labor force, she'll earn just as much as a man. Which is the message better communicated to young women: "77 cents" or "97.5 cents"? This example is only used as an illustrative example of the different types of analyses that can be conducted, because it is an example with which many are familiar, and should not be construed as the final word on the women's earnings debate.

So there are two types of analyses that can be done, the "77 cents" analysis and the "97.5 cents" analysis. Both of them tell different parts of the story, but both of them have to be told to form a sound basis for policy. The authors of the present study have done a "77 cents" analysis of the situation in radio, tv and newspapers. Before policy is made on this basis, the "97.5 cents" analysis should be done. Maybe it will sustain the authors' conclusion, maybe it won't. But the more thorough economic analysis of the situation is what should have been done if this analysis is to be used as a basis for policy. Since the more thorough analysis was not done, this report cannot be used as a sound basis for policy. The FCC should have requested – and paid for – the "97.5 cents" study of this problem.

Additionally, economists should know better than to lump different groups together to form a larger group, for this invites Simpson's Paradox. At the very least, if such data are given to the economist he should warn of this possibility. For example, the authors report that "Hispanics" are under-represented. Solely on the putative basis of language, this lumps together Puerto-Ricans, Mexicans, and Cubans, despite overwhelming evidence that these groups are remarkably dissimilar in terms of mean education, income, health, etc. (see, .e.g, "The impact of ethnicity, family income, and parental education on children's health and use of health services," *Am J Public Health* 1999 **89**(7): 1066-1071). How do we know that this aggregate result is not a manifestation of Simpson's Paradox? To answer this problem would have required a great deal of work, more than the authors were paid to do.

It is one thing to provide a descriptive analysis of a dataset, to provide means, medians and percentages. To claim to have found the reasons for these means, medians and percentages is something else altogether. The authors claim that lack of access to capital is "a primary cause of under-representation for minorities" on the basis of an analysis that does not include education, work experience, or any of a host of other variables. Again, the "77 cents" analysis problem occurs. While the authors make a prima facie case that lack of access to capital is important, the actual assertion of such a link between race and access to capital would require a more careful and detailed analysis. It is certainly worth considering that access

to capital is not a function of race, but of education, personal net worth, etc., and that these relevant variables are only correlated with race. Until the “97.5 cents” version of this study is done, it is not safe to conclude that lack of access to capital (instead of other variables that happen to be correlated with access to capital) is a primary cause of minority under-representation. Again, this would have been a full study in itself, something the authors doubtless were not paid to do.

The authors make four bulleted recommendations:

- “The FCC should take steps to improve their data collection process.” It is hard to argue with this.
- “[I]nformation on minority and female ownership should be carefully tracked and integrated into the main firm database in a coherent fashion.” The authors should have offered their considered opinion on how to define the variables they want collected. For example, how will the FCC define minority status? For a person to qualify as a minority, must he have two minority parents, or is three out of four grandparents being minority sufficient? Shall only “minority status” be flagged? Shall “Hispanic” be left as an aggregate, susceptible to Simpson’s Paradox? Shall “Hispanic” be broken down into Puerto Rican, Cuban and Mexican, and shall Spaniards, Central and South Americans be lumped into the catchall category “other”? Too many questions remain unanswered for this recommendation to be considered as workable.
- Firms should be classified according to whether “the company is publicly traded or privately owned.” It is hard to argue with this.
- More broadly, the FCC should further examine the rationale behind this exercise...” The points made are well-taken.

While the data analysis portion of this report leaves much to be desired – remembering that the FCC got what it paid for – it does not bear on the recommendations of the report. Three of the four recommendations are sustained by this reviewer.