This Math Formula Shows Why the Comcast—Time Warner Cable Deal Should Be Blocked

By Kevin Roose
Late last night, CNBC’s David Faber broke the news that Comcast had made a bid to acquire Time Warner Cable for $159 per share, or about $45 billion. TV watchers everywhere sighed, assuming that combining the biggest and second-biggest cable companies in America to create a single conglomerate would only make their already-bad customer experiences even worse.

But there's a silver lining for people who hate this deal: By the government's own standards, the Comcast—Time Warner deal should be blocked.

To understand why, you have to know that there's a thing in antitrust law called the Herfindahl-Hirschman Index, or HHI. In very basic terms, the HHI is a way to measure the concentration of a given market. And the HHI is the test the government's lawyers apply if they want to see whether a proposed merger would create monopoly-like conditions.

The way HHI works is that industries are ranked on a scale of 0 to 10,000, with 0 representing an industry with lots of little companies of approximately the same size, and 10,000 representing an industry with one big company that has a total monopoly. If an industry scores above 2,500, it's considered "highly concentrated." If it scores between 1,500 and 2,500, it's considered "moderately concentrated." Any merger that increases an industry's HHI by more than 200 points in a highly concentrated market, or more than 100 points in a moderately concentrated market, sounds alarm bells at the Department of Justice. The 2011 merger of AT&T and T-Mobile was blocked by the government, in part because it increased the cell-phone industry's HHI scores by amounts that were "off the charts."

So let's go to the numbers in the Comcast—Time Warner Cable deal.

From what I can tell, there are about 100 million U.S. homes with some form of paid TV service (a category that includes cable, satellite, and Internet-based services like Verizon FiOS). Comcast and TWC have about 22 million and 11 million subscribers, respectively. Using some relatively recent statistics about the top eight pay-TV providers and Andrew Chin's handy HHI calculator, we come up with a very rough pre-merger estimate of the nationwide pay-TV industry's HHI of 1,815. That means that the pay-TV industry, as it stands, is only moderately concentrated.

But if you merge Comcast and TWC, and reduce the combined company's number of subscribers by 3 million (as Comcast has promised it will do), the pay-TV industry's nationwide HHI shoots way up to 2,454 – an increase of 639 points, putting it close to the level at which it would be deemed highly concentrated.

Now, these are very rough figures. Comcast's lawyers definitely have better ones, and their calculations are probably more favorable to the proposed deal. But even if the merger only increased pay-TV's HHI by 500 points, that's still a huge, worrisome consolidation.

Basically, what all this complicated math boils down to is this: If the government evaluates the Comcast bid for Time Warner Cable using the same standards it used on the AT&T—T-Mobile deal, there's simply no way the merger should be allowed to happen.
Now, Comcast will argue that because it doesn't compete head-to-head with TWC in many cities, its HHI should be calculated differently – using city-by-city statistics instead of nationwide ones. That's the same kind of argument AT&T made when it wanted to acquire T-Mobile. And in both cases, it makes some amount of sense. (In New York City, for example, combining Comcast and TWC wouldn't change much – you'd just write your monthly check to a different near-monopoly.) But the AT&T—T-Mobile deal got shot down on antitrust grounds anyway, and so should the Comcast-TWC deal.

Why? Because cable companies compete with each other nationally as well as locally. Being a huge national conglomerate gives you advantages when you're negotiating with cable networks. And the bigger Comcast gets, the more leverage it will be able to exert on the networks who depend on it for distribution, and the less competitive the entire cable industry will be as a result. That's ultimately bad for customers, even if their monthly bills don't change all that much in the short-term.

Not all market consolidations are bad. But the Comcast-TWC tie-up would create a mega-empire in an industry that is already dominated by a few huge companies. For this reason alone – to say nothing of how long you'd have to stay on hold on a combined Comcast-TWC customer service line – the deal must be stopped.