WHY MORE ANTITRUST IMMUNITY FOR THE MEDIA IS A BAD IDEA

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INTRODUCTION

The U.S. newspaper industry specifically and traditional media industries generally are in transition.1 In response to declining audiences and advertising revenue, many traditional media firms have laid off journalists and cut back on news.2 With their financial difficulties, some traditional media firms have called for greater leniency under the federal antitrust laws.3 Newspaper owners and journalists have called for greater antitrust immunity for joint advertising, joint fees for readership and accessing content online, and joint reporting.4 Others have called on the Federal

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2 Id.
4 Then-newspaper owner Brian Tierney, for example, testified before Congress that “[n]ewspaper publishers will need the flexibility to explore new approaches and innovative business models without the delay, burdens and uncertainty created by the competition laws” and that “[t]he enforcement of the antitrust laws has not yet caught up to current market realities.” Laurie Kellman, More Antitrust Relief Rebuffed for Newspapers, SEATTLE TIMES, Apr. 22, 2009, http://www.allbusiness.com/government/government-bodies-offices/12409374-1.html (link). Tierney later lost his two Philadelphia newspapers to his creditors. Christopher K. Hepp & Harold Brubaker, Creditors Buy Papers at Auction, PHILLY.COM, Apr. 29, 2010, http://www.philly.com/inquirer/front_page/20100429_Creditors_buy_papers_at_auction.html. Others in the industry have also called for exemptions. See The Future of Journalism: Communications, Technology, and the Internet; Hearing Before the H. Comm. on Commerce, Science, and Transportation, Subcommittee on Communications, Technology, and the Internet, 111th Cong 7 (2009) (testimony of James M. Moroney III, Publisher/CEO of The Dallas Morning News, available at http://commerce.senate.gov/public/?a=Files.Serve&File_id=3f4f6957a-35f9-407b-872c-2ae4a89f877c (“Congress should provide critical assistance to newspapers by acting quickly on legislation that would provide newspapers with a limited antitrust exemption to experiment with innovative content distribution and cost savings arrangements.”) (link); Editorial: Save The News: We’re Not Looking For A Bai-
Communications Commission ("FCC") to loosen further its Cross-Ownership Rules.\(^5\) Some politicians have suggested that the federal antitrust agencies give these traditional media firms "more leeway to merge or consolidate."\(^6\) The Federal Trade Commission (FTC) in recent hearings inquired as to whether antitrust immunity is necessary for newspapers’ collaboration and under what circumstances, if any, antitrust immunity for certain joint conduct could be justified.\(^7\)

The plea for antitrust immunity is rooted in our democracy’s need for a healthy marketplace of ideas. After all, the First Amendment is predicated on the theory that truth emerges from the widest possible dissemination of information from diverse and antagonistic sources. Consequently, a vibrant marketplace of ideas and our democracy’s health require competing, independent voices.\(^8\) The plea for antitrust immunity also stems from the important role that newspapers and broadcast media have played and continue to play in that vibrant marketplace of ideas. Although the Internet is widely touted as a news source, to date it has not replaced the role of daily newspapers, and to a lesser extent broadcast television, in gathering international, national, and local news, and tying that news to issues in the local community.\(^9\) Consequently, given traditional media’s continuing importance to a

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\(^1\) http://www.chron.com/CDA/archives/archive.mpl?id=2009_4737621 (Hearst newspaper arguing that Congress should “[g]ive newspapers a limited antitrust exemption that would allow them to share ideas and investigate collaborative new business models”) (link); Tim Rutten, Setting The Price For A Free Press, LATIMES.COM, Aug. 22, 2009, http://articles.latimes.com/2009/aug/22/opinion/oe-rutten22 (“Congress needs to move quickly to grant the newspaper industry at least a temporary exemption from antitrust and price-fixing laws so that publishers and proprietors can, in essence, collude for survival.”) (link).

\(^2\) See, e.g., Future of Media & Information Needs of Communities: Serving the Public Interest in the Digital Era Workshop: Before the Fed. Comm’n (2010) (testimony of Jane E. Mago, Exec. Vice President & General Counsel, Nat’l Ass’n of Broadcasters), available at http://reboot.fcc.gov/document_library/get_file?uuid=fe470672-cbc5-4727-9240-742a3074dc78&groupID=101236 (“On balance, the broadcast industry believes that the FCC’s structural ownership rules are too restrictive and fail to take account that competition for consumers’ attention and for ad revenues has increased dramatically. In other words, the FCC’s regulatory thumb is too heavy for the competitive marketplace to work fairly and efficiently.”) (link).

\(^3\) Zachary Coile, Pelosi Goes To Bat To Keep Bay Area Papers Alive, S.F. CHRON., Mar. 17, 2009, http://articles.sfgate.com/2009-03-17/news/17215730_1_hearst-bay-area-news-group-chronicle (reporting that “House Speaker Nancy Pelosi, worried about the fate of The Chronicle and other financially struggling newspapers, urged the Justice Department Monday to consider giving Bay Area papers more leeway to merge or consolidate business operations to stay afloat”) (link).


\(^5\) We discuss in greater detail antitrust’s role in preserving the marketplace of ideas in Stucke & Grunes, supra note 1, at 105–07, and Maurice E. Stucke & Allen P. Grunes, Antitrust and the Marketplace of Ideas, 69 ANTITRUST L.J. 249 (2001).

\(^6\) Stucke & Grunes, supra note 1, at 115.

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competitive marketplace of ideas, the current debate centers on whether the federal antitrust laws should be relaxed for the struggling traditional media.

This Essay explores why relaxing the federal antitrust laws for traditional media will not help consumers or the marketplace of ideas. Part I discusses the past problems with antitrust immunity generally and for the media industries specifically. Part II discusses why antitrust immunity is not a solution going forward. It concludes that, because our democracy’s health depends on competition among traditional media, the cost of allowing already dominant firms to acquire the assets of their remaining competitors outweighs the benefits of looser antitrust laws.

I. WHY ANTITRUST IMMUNITY IS A BAD IDEA

A. Problems with Antitrust Immunity Generally

The federal antitrust laws apply across a broad range of industries and to nearly all forms of business organizations. A number of statutory exemptions exist, however, including immunity for agriculture, export activities, insurance, labor, fishing, defense preparedness, professional

10 See, e.g., Co-operative Marketing Associations (Capper-Volstead) Act, 7 U.S.C. §§ 291-92 (2006) (allowing persons engaged in the production of agricultural products to act together for the purpose of “collectively processing, preparing for market, handling, and marketing” their products and permitting cooperatives to have “marketing agencies in common”) (link); Cooperative Marketing Act, 7 U.S.C. § 455 (2006) (authorizing agricultural producers and associations to acquire and exchange “past, present, and prospective” pricing, production, and marketing data) (link).


13 See, e.g., 15 U.S.C. § 17 (2006) (providing that the “labor of a human being is not a commodity or article of commerce” and that the Act permits labor organizations to carry out their legitimate objectives) (link); 29 U.S.C. § 52 (2006) (prohibiting the prevention of collective activity by employees relating to disputes concerning terms or conditions of employment) (link); Norris-LaGuardia Act of 1932, 29 U.S.C. §§ 101–10, 113–15 (2006) (providing that U.S. courts do not have jurisdiction to issue restraining orders or injunctions against certain union activities on the basis that such activities constitute unlawful combination or conspiracy under antitrust laws) (link).

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sports,\textsuperscript{16} small business joint ventures,\textsuperscript{17} and local governments.\textsuperscript{18} Such antitrust immunity departs from Congress’s longstanding commitment to free markets and open competition.\textsuperscript{19}

The broad consensus among the legal and academic antitrust community is that antitrust exemptions are rarely a good thing.\textsuperscript{20} Exemptions aid their beneficiaries, but reduced competition can hinder the economy and often harms consumers. For this reason, the bipartisan Antitrust Modernization Commission\textsuperscript{21} concluded that statutory exemptions from the antitrust laws should be disfavored. It commented that “[w]hile the beneficiaries of an exemption likely appreciate reduced market pressures, consumers (as well as non-exempted firms) and the U.S. economy generally bear the harm from the loss of competitive forces.”\textsuperscript{22} The U.S. Department of Justice (DOJ) expressed the same sentiment in a letter to Congress:

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\textsuperscript{17} Defense Production Act of 1950, 50 App. U.S.C. § 2158 (2006) (providing that the President or his delegate, in conjunction with the Attorney General, may approve voluntary agreements among various industry groups for development of “preparedness programs” to meet potential national emergencies) (link). The Act further provides that persons participating in such an agreement are immunized from the operation of antitrust laws with respect to good faith activities undertaken to fulfill their responsibilities under the agreement. Id.

\textsuperscript{18} Sports Broadcasting Act, 15 U.S.C. §§ 1291–95 (2006) (exempting, with some limitations, agreements among professional football, baseball, basketball, and hockey teams to negotiate jointly, through their leagues, for the sale of television rights) (link).

\textsuperscript{19} Small Business Act, 15 U.S.C. §§ 631–57 (2006) (granting the Small Business Administration authority to, “after consultation with the Attorney General and the” Chair of the FTC, and with the Attorney General’s prior written approval, “approve any agreement between small-business firms providing for a joint program of research and development, if the Administrator finds that the joint program proposed will maintain and strengthen the free enterprise system and the economy of the Nation.”) (link). To the extent the President has delegated his authority under section 640, the DOJ may also be asked to approve—on the Attorney General’s behalf—proposed voluntary agreements or programs among small business concerns to further objectives of the Small Business Act found to be in the public interest as contributing to national defense. Id. § 638(d)(2).


\textsuperscript{21} Antitrust Modernization Commission (“AMC”) was created pursuant to the Antitrust Modernization Commission Act of 2002, Pub. L. No. 107-273, §§ 11051–60, 116 Stat. 1856 (link). The President, leadership of the Senate, and leadership of the House of Representatives each appointed four of the AMC’s twelve Commissioners. Id. § 11054(a).

\textsuperscript{22} Antitrust Modernization Comm’n, Report and Recommendations 335 (2007) (link). The Report continues: “Typically, antitrust exemptions create economic benefits that flow to small, concentrated interest groups, while the costs of the exemption are widely dispersed, usually passed on to a
The antitrust laws are the chief legal protector of the free-market principles on which the American economy is based. Companies free from competitive pressures have incentives to raise prices, reduce output, and limit investments in expansion and innovation to the detriment of the American consumer. Accordingly, the Department has historically opposed efforts to create sector-specific exemptions from the antitrust laws.23

The FTC,24 the American Bar Association Section of Antitrust Law,25 and the American Antitrust Institute have made similar comments.26 Proponents of antitrust exemptions for a particular industry often argue that the industry has special characteristics that prevent it from performing well under normal market competition.27 Yet scholars who have analyzed pre- and post-large population of consumers through higher prices, reduced output, lower quality, and reduced innovation.” Id.


24 See, e.g., The Importance of Competition and Antitrust Enforcement to Lower-Cost, Higher-Quality Health Care: Before the S. Subcomm. on Consumer Protection, Product Safety, and Insurance, Comm. on Commerce, Science & Transportation, 111th Cong. 4 (2009) (statement of the FTC), available at http://www.ftc.gov/os/2009/07/090716healthcaretestimony.pdf (“Not surprisingly, some health care providers have long sought antitrust exemptions that would protect them against competitive pressures to lower costs and improve quality. The Commission consistently has opposed legislative proposals to exempt certain types of conduct, such as price fixing, from antitrust scrutiny, because such conduct will increase health care costs without benefitting consumers.”) (citation omitted); Jeremy W. Peters, Government Takes On Journalism’s Next Chapter, NYTIMES.COM, June 13, 2010, http://www.nytimes.com/2010/06/14/business/media/14ftc.html?_r=2 (quoting FTC chair’s testimony of his agency’s “very strong allergy” toward antitrust law exemptions) (link).

25 See, e.g., ABA SECTION OF ANTITRUST LAW, COMMENTS ON THE RAILROAD ANTITRUST ENFORCEMENT ACT 1 (2008), available at http://www.abanet.org/antitrust/at-comments/2008/12-08/comments-HR1650_S772.pdf (“The Antitrust Section has frequently noted its opposition to industry-specific exemptions from the antitrust laws based on claims that such immunity is necessary given unique market conditions, believing that the antitrust laws are sufficiently flexible to account for particular market circumstances.”) (link).


27 For example, the Webb-Pomerene Act exempted U.S. export cartels from the antitrust laws so they could better compete with powerful foreign cartels; the Capper-Volstead Act exempted agricultural cooperatives on the theory that farmers needed enhanced bargaining power in their dealings with large buyers; and the Miller-Tydings Act was a “fair trade” law aimed preventing price-cutting by large retail chains to the detriment of smaller retailers. See ABA SECTION OF ANTITRUST LAW, supra note 20, at 11–12, 91.

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exemption industry dynamics question the accuracy of these claims.\textsuperscript{28} The Antitrust Modernization Commission similarly reported that it “heard no compelling justification for any of the exemptions on which it held hearings.”\textsuperscript{29}

Once an antitrust exemption is on the books, it is rarely revisited or repealed, even though the exemption may not provide the expected benefit and may have unintended, negative consequences.\textsuperscript{30} Moreover, courts interpret and apply federal antitrust laws much differently today than they did forty years ago. Much conduct that once would have been prohibited (especially involving competitor collaborations) is viewed as benign or even pro-competitive today.\textsuperscript{31} Thus, the surviving exemptions may be irrelevant, if not harmful, under today’s marketplace reality and current antitrust theory.

All of the above has led courts to view exemptions with a high degree of skepticism. In speaking of the Sports Broadcasting Act of 1961,\textsuperscript{32} Judge Easterbrook put it this way: “The Sports Broadcasting Act is special interest legislation, a single-industry exception to a law designed for the protection of the public . . . Recognition that special interest legislation enshrines results rather than principles is why courts read exceptions to the antitrust laws narrowly, with beady eyes and green eyeshades.”\textsuperscript{33}

\section*{B. Problems Specifically with Antitrust Immunity for the Media}

\subsection*{1. NPA: special interest legislation for newspaper publishers}

The Newspaper Preservation Act (NPA)\textsuperscript{34} is illustrative of why antitrust immunity for the media is a bad idea. In 1965, the Hearst Corporation’s San Francisco newspaper, \textit{The Examiner}, entered into a joint

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\item \textsuperscript{28} Id. at 4 ("[T]he available data and subsequent experience in most of the industries studied for this book suggest that these claims often lack substantial documented empirical support.").
\item \textsuperscript{29} \textit{ANTITRUST MODERNIZATION COMM’N}, supra note 22, at 353.
\item \textsuperscript{30} \textit{See ABA SECTION OF ANTITRUST LAW}, supra note 20, at 301–02.
\item \textsuperscript{32} 15 U.S.C. §§ 1291–95 (2006). The Sports Broadcasting Act (“SBA”), which is largely obsolete today, permitted the NFL to enter into a league-wide television contract similar to that of its new rival, the AFL, despite an existing DOJ consent decree. The SBA was later amended to allow the NFL and the AFL to merge without antitrust review and so avoid “excessive competition.” Finally, the SBA preserved a market division between professional football and high school and college football with respect to the days on which games were played. For a full discussion, \textit{see ABA SECTION OF ANTITRUST LAW}, supra note 20, at 217–40.
\item \textsuperscript{33} Chi. Prof’l Sports Ltd. v. Nat’l Basketball Ass’n, 961 F.2d 667, 671–72 (7th Cir. 1992) (link).
\end{itemize}
operating arrangement (JOA) with its primary competitor, *The San Francisco Chronicle*. Under their JOA, Hearst’s *Examiner* and the *Chronicle*, through their San Francisco Newspaper Agency, collectively fixed the prices for their newspapers’ subscription and advertising rates and jointly managed the newspapers’ circulation, sales, printing, distribution, and personnel (the news and editorial departments of both newspapers, however, remained separate and were independently operated).

Hearst was not alone. Over twenty other cities had JOAs, some of which were formed during the 1930s.

In mid-1960s, the DOJ began cracking down on price-fixing between JOA newspapers. Fearing antitrust liability, Hearst CEO Richard E. Berlin and the leaders of other large media companies lobbied Congress and the Nixon Administration to enact the NPA. The NPA allows competing newspapers to legally engage in anticompetitive behavior, such as fixing subscription prices and advertising rates as well as allocating markets. In exchange for antitrust immunity for such behavior, the NPA requires JOA newspapers to maintain their independent and competitive newsrooms. Additionally, the NPA immunized JOAs that pre-dated its enactment, in-

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36 *Id.*


40 To grant approval of a new JOA, the Attorney General, under the NPA, must first find that one newspaper is “failing,” which means that the newspaper publication, “regardless of its ownership or affiliations, is in probable danger of financial failure.” 15 U.S.C. § 1802(5) (2006). This is an easier standard than antitrust law’s failing-firm defense. Mich. Citizens for an Indep. Press v. Thornburgh, 868 F.2d 1285, 1288 (D.C. Cir. 1989); Comm. for an Indep. P-I v. Hearst Corp., 704 F.2d 467, 473–74 (9th Cir. 1983). Second, the Attorney General must find that approval of the JOA would effectuate the NPA’s policy and purpose. 15 U.S.C. § 1803(b) (2006). The NPA does not limit the number of newspapers in one community that can be part of a JOA. 15 U.S.C. § 1802(2) (2006) (defining term “joint newspaper operating arrangement” to mean arrangements entered into by “two or more newspaper owners for the publication of two or more newspaper publications”). But all but one of the newspapers in the JOA must be “failing.” 15 U.S.C. § 1803(a) (2006). Consequently, JOAs typically involve only two newspaper publications, one of which is either (i) not “failing” for JOAs formed after the NPA’s enactment or (ii) likely to remain or become a financially sound publication for JOAs formed before after the NPA’s enactment.

41 The NPA requires that there be “no merger, combination, or amalgamation of editorial or reportorial staffs, and that editorial policies be independently determined” between the newspapers in the joint operating arrangement. 15 U.S.C. § 1802(2) (2006).
including the one between The San Francisco Chronicle and Hearst’s Examiner. 

Yet the NPA had its opponents. The most insightful critique of antitrust immunity for newspapers came from Richard McLaren, the head of the DOJ’s Antitrust Division at the time of the NPA’s passage. Although the Nixon Administration and Department of Commerce supported the NPA, the DOJ, he noted, was “very much opposed” to the proposed media antitrust exemption. He warned that “if competition is not to be the regulating force in the newspaper industry, then Government regulation is the logical alternative and certainly not an acceptable one to the publishing industry.”

Testifying before Congress, the Assistant Attorney General for the Antitrust Division argued that antitrust immunity for newspapers was unnecessary for several reasons. First, antitrust immunity removes newspapers from the judgment of the marketplace. Second, less anticompetitive alternatives existed to antitrust immunity. An economically distressed publisher could improve its newspaper to attain greater acceptance. It could achieve efficiencies through a joint venture with its competitor (or other publishers) for joint printing and distribution, which would be evaluated under the more permissive antitrust legal standard—namely, the rule of reason. Or the newspaper could seek an acquisition by an outsider, “who will bring to the market the talent and other resources necessary to financial success.” Third, antitrust immunity, he warned, would introduce a slippery slope under which other media industries, such as magazines and television broadcasters, would also seek antitrust immunity. Fourth, JOAs create a shared monopoly that increases market-entry barriers. Fifth, the NPA creates a “soft landing” that inhibits competition. If the two daily newspapers compete fiercely, their potential reward is immunized price-fixing.

The NPA immunizes “any joint newspaper operating arrangement entered into prior to July 24, 1970, if at the time at which such arrangement was first entered into, regardless of ownership or affiliations, not more than one of the newspaper publications involved in the performance of such arrangement was likely to remain or become a financially sound publication.” 15 U.S.C. § 1803(a) (2006).

Newspaper Preservation Act: Hearings on S. 1520 before the Antitrust Subcomm. of the H.R. Comm. on the Judiciary, 91st Cong. 380 (1969) (testimony of Richard W. McLaren, Asst. Atty. Gen., Antitrust Div., Dep’t of Justice). The Committee Chair Emanuel Celler could not recall in his 47 years in Congress other instances where senior administration officials took such opposing position. Id. at 294.

Id. at 298.

Id. at 359.

Id. at 358–60; see also Broad. Music, Inc. v. Columbia Broad. Sys., Inc., 441 U.S. 1, 8–16 (1979) (rule of reason standard to evaluate blanket license).


Id. at 357.

Id. at 363.

See Mich. Citizens for an Indep. Press v. Thornburgh, 868 F.2d 1300, 1304 (D.C. Cir. 1989) (Wald, C.J., dissenting from denial of rehearing en banc) (writing that in approving the Detroit JOA, the
newspaper really thought its competitor would exit the market, it is unlikely the newspapers would enter into a JOA.\textsuperscript{52} \textit{Sixth}, the NPA vests in the U.S. Attorney General regulatory authority over the press.\textsuperscript{53}

It is hard to characterize the NPA as a success in terms of aiding smaller newspapers, preventing abuse, or significantly improving newspaper quality. In fact, the beneficiaries of the NPA were often the very opposite of those it intended to help. JOAs have generally aided large newspaper chains,\textsuperscript{54} such as Hearst, E.W. Scripps, Gannett Co., and MNG Group (MNG)\textsuperscript{55}—the very newspapers that did not need antitrust immunity to succeed. Indeed, one of the few family-owned and local newspapers involved in a JOA is among the statute’s greatest critics. The \textit{Seattle Times} noted

\textquote{Attorney General accepted the [administrative law judge’s] basic finding that Detroit, the fifth-largest newspaper market in the country, can support \textit{two profitable newspapers} if, in the words of Free Press management, ‘competitive pricing becomes rational and consistent with other markets around the country,’ ALJ Report at 85, \textit{i.e.}, if these two competitors do not continue to engage in deliberately unprofitable pricing strategies with the predatory objective on the part of one paper to drive the other into failure so as to secure a JOA.”}; Conrad M. Shumadine & Michael R. Katchmark, \textit{Antitrust and the Media}, 917 PLI/Pat 393, 628, 635 (2007) (noting criticism that the Newspaper Preservation Act allows papers to generate losses to qualify for JOAs).

\textit{Newspaper Preservation Act, supra note} 43, at 300–01. The criticism is that if one newspaper were indeed failing, the stronger newspaper would simply let the weaker newspaper deteriorate and exit the market. Thus, the surviving newspaper, as the sole daily newspaper, would collect any available monopoly profits. The fact that the competitors decided to enter into a JOA revealed that the newspaper owners were unsure which competitor would eventually survive, or when the supposedly weaker competitor would actually exit the market. Faced with this uncertainty, the JOA affords the newspaper owners the opportunity to share in the supra-competitive profits, to negotiate the date to close the second newspaper, and to agree upon the percentage of the projected monopoly rents in exchange for closing the second newspaper. Such an agreement between competing newspapers outside the JOA is per se illegal under the Sherman Act, and could potentially subject the newspaper owners to criminal liability. \textit{See United States v. Vill. Voice Media LLC, No. 1:03CV0164, 2003 WL 23991059 (N.D. Ohio 2003)} (civil complaint). Although an agreement among JOA partners to close one newspaper is not immunized under the NPA, practically the parties can use the NPA as a stepping stone to achieve a one newspaper town. \textit{See Paul Farhi, The Death of the JOA: City by city, paper by paper, an experiment aimed at saving newspapers is withering away}, AM. JOURNALISM REV. (Sept. 1999), available at http://www.ajr.org/article.asp?id=317 (link).

\textit{Newspaper Preservation Act, supra note} 43, at 297.


\textit{For example, E.W. Scripps, and Gannett each were in six JOAs; Hearst was in two JOAs. JOHN C. BUSTERNA & ROBERT G. PICARD, JOINT OPERATING AGREEMENTS: THE NEWSPAPER PRESERVATION ACT AND ITS APPLICATION} 13 (1993). MNG was in five JOAs: Denver, Colorado; York, Pennsylvania; Salt Lake City, Utah; Detroit, Michigan; and Charleston, West Virginia. \textit{See Catherine Tsai, JOAs Are a Dying Breed Amid Changing Markets}, ASSOCIATED PRESS, Feb. 27, 2009 (link).

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how its JOA “didn’t work and was a drain of resources.” The NPA also failed to prevent the abusive tactics of those newspapers in a JOA. As the DOJ’s prosecution of the Charleston, West Virginia JOA shows, JOAs are open to abuse by their partners. The DOJ alleged that the Daily Gazette Company, which published The Charleston Gazette, bought its JOA partner’s newspaper, the Daily Mail, with the purpose and intent of shutting it down, making Charleston a single newspaper town:

At the end of 2003, MediaNews arranged to sell the Daily Mail and its 50% interest in [the JOA] Charleston Newspapers to an experienced newspaper operator for $55 million. At the time, Charleston Newspapers was earning substantial profits, and the Daily Mail was financially healthy and stable. The joint operating arrangement between MediaNews and Gazette Company allowed each partner the right of first refusal to match any third-party offer to buy one of the newspapers. Rather than allow the new buyer to take over the Daily Mail and continue the competition that had prevailed for decades, Gazette Company decided to exercise its right of first refusal and gain control of both newspapers. . . . [D]uring this time Gazette Company developed a plan to shut down the Daily Mail and become the publisher of the sole remaining newspaper in Charleston. Gazette Company created a series of business plans, financial projections, and other documents showing that it would cease publishing the Daily Mail by no later than the end of 2007. The plans called for the rapid reduction of the Daily Mail’s circulation and its newsroom staff and budget until, in 2007, the newspaper would no longer be economically viable. At that point, Gazette Company believed it would be able to justify the closure of the Daily Mail under the NPA to the Department of Justice. In short, Gazette Company planned to deliberately transform a financially healthy and stable Daily Mail into a failing newspaper and close it far earlier than the market would otherwise have dictated.

Some JOAs exist today in name only: the junior newspaper agrees to close for a percentage of the surviving newspaper’s profits. In Tucson, for

59 Farhi, supra note 52.
example, the JOA was profitable, but Gannett—owner of one of the newspapers in that JOA—closed its newspaper in 2009, but will continue to share any profits from the JOA.60

Finally, although the NPA ostensibly aimed to improve newspaper quality by increasing editorial competition, the NPA does not appear to have yielded better quality newspapers in San Francisco or in many other cities. If anything, Hearst’s history in the San Francisco area cautions against further relaxation of the federal antitrust laws. After Congress passed the NPA, the Chronicle and Hearst’s Examiner continued to fix advertising and circulation prices over the next couple of decades, yet the San Francisco newspapers were criticized for their poor quality.61

After benefiting from antitrust immunity for decades, Hearst in 1999 made a preemptive bid to acquire The San Francisco Chronicle when its owners decided to sell.62 Hearst assured the public that acquiring its primary editorial rival “is both an affirmation of its belief in the City of San Francisco and a continuing opportunity to be of service to the Bay Area community.”63 But the merger also showed the fragility of the marketplace of ideas. As revealed in the DOJ’s antitrust investigation, which came to light only during a private lawsuit, Hearst sought to suppress critical news stories about the transaction.64 And the district court found that Hearst offered “to ‘horse trade’ favorable editorial coverage of [Mayor Brown] in return for [his] support” of Hearst’s acquisition of its rival.65

60 Arthur H. Rotstein, Judge: Tucson Citizen Closing OK, ASSOCIATED PRESS, May 19, 2009, http://www.huffingtonpost.com/2009/05/19/judge-tucson-citizen-clos_n_205500.html (link). Nancy Bonnell, chief of the state attorney general’s antitrust unit, argued in court that the newspaper owners determined that they “would make more money if they closed one of the papers” within their JOA “and operated only the profitable Star. ‘Even in recession last year, the parties made $16 million but that wasn’t enough,’ Bonnell said at the hearing.” A purchaser apparently “offered to buy the Citizen for $250,000 immediately or $400,000 over time for Citizen assets”, which according to Gannett, was below the assessed value of $760,000, and its asking price of $800,000. The trial court determined that the state attorney general did not “prove there was a buyer ready to pay a fair market value for the Citizen’s assets,” and allowed Gannett to close its paper in exchange for a percentage of the other newspaper’s profit. Id.


65 Reilly, 107 F. Supp. 2d at 1207.
The San Francisco JOA came to an end in 2000 when Hearst acquired the Chronicle after agreeing to sell its Examiner to a third party.\textsuperscript{66} Hearst’s new newspaper proceeded to lose money every year thereafter.\textsuperscript{67} Then in 2006, Hearst sought to finance MNG, which was acquiring most of the remaining daily newspapers in the Bay Area.\textsuperscript{68} Hearst acquired a 30\% equity stake in MNG’s newspaper businesses outside the San Francisco Bay Area,\textsuperscript{69} but assured the public that it would continue to aggressively compete against the MNG newspapers in the Bay Area.\textsuperscript{70} That questionable deal (why was Hearst helping its primary competitor become stronger?) also triggered an investigation by the DOJ and a private lawsuit.\textsuperscript{71} As the DOJ noted, “Hearst’s investment in MNG—its principal newspaper rival in the Bay Area—raised potential competitive concerns warranting investigation despite the parties’ assertions that they had structured Hearst’s proposed investment to give Hearst no equity interest in or influence over MNG’s Bay Area businesses.”\textsuperscript{72} During the private lawsuit, the district court also expressed concern. The court originally “accepted defendants’ representations that Hearst’s involvement in the transactions was solely that of a passive equity investor.”\textsuperscript{73} The court did so even though “defendants offered no explanation why Hearst was willing to help finance an acquisi-


\textsuperscript{71} See, e.g., *MediaNews Group*, supra note 68, at *2–3.


tion that would only make its competition stronger.”74 This is because the district court believed that Hearst did not expect, or would not later receive, “any quid pro quo” for financing its competitor. However, the plaintiff brought before the court a letter from Hearst to MNG that suggested, “at the very least, that Hearst’s investment was specifically tied to an agreement by MediaNews to limit its competition with Hearst in certain ways.”75 Thereafter Hearst and MNG modified their proposed transaction “in an effort to mitigate” the DOJ’s antitrust concerns.76 MNG later declared bankruptcy.77 According to press reports, Hearst maintained roughly half its original ownership stake.78 MNG’s top two executives, who were responsible for amassing the company’s debt, continued to be handsomely compensated.79 And despite decades of antitrust immunity, the quality of the San Francisco Chronicle has not actually improved.80

It is for these reasons that the JOAs the NPA envisioned have, generally speaking, failed. By 1969, before the NPA was enacted, there were twenty-two JOAs.81 By 2003, only twelve JOAs remained,82 and today only six JOAs exist.83 This is a much sharper decline than the number of daily newspapers, which fell by 18% between 1970 and 2006.84 Hearst may again press for antitrust immunity and promise that, in exchange for greater antitrust immunity, it will finally provide San Francisco residents with a quality newspaper. But despite decades of receiving anti-
trust immunity, this promise of both Hearst and the NPA has not come to fruition.

2. Telecommunications Act of 1996

Commercial radio provides another example of the perils of loose antitrust scrutiny. One frequent complaint is that the deregulation that followed the Telecommunications Act of 1996 (1996 Act), which weakened ownership limits on radio stations nationally and locally, allowed for unprecedented consolidation in commercial radio, which has resulted in a homogeneity that is often out-of-step with artists, entrepreneurs, media professionals and educators—not to mention listeners.86

In analyzing radio mergers under the Clayton Act, the DOJ considered their economic impact solely with respect to advertisers and the rates they paid, even though many possible product markets exist—listener choice, or the likely impact of these mergers on the marketplace of ideas.88 Nothing in the Clayton Act restricts the DOJ to consider solely advertising competition.89

After the 1996 Act, radio ownership became significantly more concentrated. Between March 1996 and March 2007, the number of commercial radio stations increased 6.8%, but the number of radio owners declined


by 39%.

This trend was already apparent in 2001, by which time the number of radio owners had already declined 25% from when the 1996 Act commenced. Over the same period and until 2007, the nation’s largest radio group owners grew even bigger: “In 1996, the two largest radio group owners controlled 62 and 53 stations, respectively. By March 2007, the leading radio group, Clear Channel Communications, owned over 1,100 radio stations.” The ensuing wave of radio mergers, not surprisingly, generally had an adverse impact on non-price competition, including on programming quality and programming choices for listeners.

One complaint, reported by the Project for Excellence in Journalism, was “that Clear Channel’s domination was diminishing the quality of the AM/FM radio dial by monopolizing key markets and homogenizing content.” These critics also complained that it exerted a negative effect on American radio. Clear Channel reported its use of:

[P]opularised voice-tracking, whereby segments of speech, music and commercials were sent digitally from one Clear Channel network to another. These were then cut and pasted into the radio programmes, giving the listener the impression that, for example, a DJ was taking a live request or was doing an interview when, in fact, they were not. Clear Channel argued that this technique allows it to deliver national DJ talent to local markets that could not otherwise afford it. It also cuts costs.

93 See Stucke & Grunes, supra note 1, at 111 n.43, 123 (discussing decline in the amount of local news by radio stations and noting how increased concentration has not increased the average number of formats across markets); Michael J. Copps, Comm’r, Fed. Comm’c’n Comm’n, Remarks to the NATPE 2003 Family Programming Forum (Jan. 22, 2003), available at http://www.fcc.gov/Speeches/Copps/2003/spmjc301.pdf (discussing how “[r]espected media watchers argue that this concentration has led to far less coverage of news and public interest programming,” how one multi-year study found a homogenization of music that got air play, and how radio served more “to advertise the products of vertically integrated conglomerates than to entertain Americans with the best and most original programming”) (link).
Mel Karmazin, the former head of commercial radio for Infinity Broadcasting and CBS and the current CEO of Sirius XM, recognized that commercial radio after the 1996 Act became “totally homogenized.”\textsuperscript{96} Karmazin advocated for radio consolidation “[s]trictly for business reasons. No one asked [him] if it was good for consumers.”\textsuperscript{97}

Not only have local radio markets become more concentrated, but several radio firms now dominate local advertising. On the local level, “[t]he largest firm in each radio Metro market has, on average, 46 percent of the market’s total radio advertising revenue. The largest two firms in each radio market have, on average, 74 percent of the market’s radio advertising revenue.”\textsuperscript{98} Although radio listening declined between 1998 and 2006, radio-advertising rates nearly doubled during that time,\textsuperscript{99} suggesting that even on this dimension, the DOJ’s antitrust review may have been inadequate. As one FCC study concluded, the Consumer Price Index “increased approximately 3 percent per year” between 1998 and 2006, but radio prices increased at an annual rate of “approximately 10 percent.”\textsuperscript{100}

3. FCC Cross-Ownership Rules

Commercial radio—in terms of program quality or advertising rates—may be beyond hope. But now the FCC, as part of its 2010 review of its media ownership rules, faces pressure from financial institutions and media firms to further liberalize its cross-ownership rules and permit greater consolidation.\textsuperscript{101} Proponents argue that the FCC’s cross-ownership rules are outdated: Internet news sources have proliferated,\textsuperscript{102} and “consumers can get...
opinions everywhere—on TV, on radio, on the internet, on their phone [as] there are voices everywhere just waiting to be heard.\textsuperscript{103} We discuss elsewhere the shortfalls of this laissez-faire attitude toward the media.\textsuperscript{104} If individual bloggers and local Internet personalities are indeed formidable competitors, it does not necessarily benefit the public to allow media conglomerates to consolidate further. Nor can one blame the FCC cross-ownership rules for traditional media’s current financial problems.

Instead, the radio industry’s experience since the 1996 Act suggests that significantly loosening the FCC rules to allow greater media consolidation will likely harm the public. An empirical study of the radio industry, which the FCC relied upon to loosen its cross-ownership restrictions,\textsuperscript{105} showed that cross-ownership stations consistently provided less news than their independent peers.\textsuperscript{106} In the 1990s, proponents of looser antitrust scrutiny for the radio industry argued that consolidation would allow radio


\textsuperscript{104} See Stucke & Grunes, supra note 1, at 129–36.

\textsuperscript{105} The FCC relied upon this study as evidence of how newspapers can spread their fixed costs over other media to increase news content. See Report and Order on Reconsideration at 25–26, In re 2006 Quadrennial Regulatory Review—Review of the Commission’s Broadcast Ownership Rules and Other Rules Adopted Pursuant to Section 202 of the Telecommunications Act of 1996 et al., Docket Nos. 06-121, 02-277, 01-235, 01-317, 00-244, 04-228, 99-360 (Feb. 4, 2008), available at http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-07-216A1.pdf (link). The vote was three to two along party lines. The FCC adopted a presumption, in the top 20 Designated Market Areas (“DMAs”), that it is not inconsistent with the public interest for one entity to own a daily newspaper and a radio station or, under the following limited circumstances, a daily newspaper and a television station, if (1) the television station is not ranked among the top four stations in the DMA and (2) at least eight independent ‘major media voices’ remain in the DMA. In all other instances, [the FCC] adopt[s] a presumption that a newspaper/broadcast station combination would not be in the public interest, with two limited exceptions, and therefore emphasize that the Commission is unlikely to approve such transactions. Taking into account these respective presumptions, in determining whether the grant of a transaction that would result in newspaper/broadcast cross-ownership is in the public interest, the [FCC] will consider: (1) whether the cross-ownership will increase the amount of local news disseminated through the affected media outlets in the combination; (2) whether each affected media outlet in the combination will exercise its own independent news judgment; (3) the level of concentration in the Nielsen DMA; and (4) the financial condition of the newspaper or broadcast outlet, and if the newspaper or broadcast station is in financial distress, the proposed owner’s commitment to invest significantly in newsroom operations.

\textsuperscript{106} Jeffrey Milyo, THE EFFECTS OF CROSS-OWNERSHIP ON THE LOCAL CONTENT AND POLITICAL SLANT OF LOCAL TELEVISION NEWS 21 (2007), available at http://hraunfoss.fcc.gov/edocs_public/attachmatch/DA-07-3470A7.pdf (“the average effect of radio cross-ownership on local news coverage is consistently negative”—i.e., less time is devoted to local news by television stations that are under common corporate ownership with radio stations in the same market) (link).
owners to offer a more diverse array of formats. But it is not evident that increased radio ownership concentration has led to greater program diversity.

In 2007 and 2008, FCC Commissioner Michael Copps vigorously opposed relaxing the cross-ownership rules and advocated for “tough” FCC rules “to redress our localism and diversity gaps.” He dissented when the FCC voted to relax its media cross-ownership restrictions, observing that the experts “demonstrate[d]—in the record before the FCC, using the FCC’s own data—that cross ownership leads to LESS total newsgathering in a local market. And that has large and devastating effects on the diversity and vitality of our civic dialogue.

II. WHY ANTITRUST IMMUNITY IS NOT A GOOD SOLUTION GOING FORWARD

Assistant Attorney General Richard McLaren’s warnings about the NPA resonate today. For decades, many local newspapers across the United States had minimal direct competition from other daily newspapers and enviable profit margins, but they failed to quickly recognize the Internet’s potential or adapt to the Internet economy. Newspapers, however, have other options for survival beyond antitrust immunity. The federal antitrust laws leave open pro-competitive alternatives, such as joint ventures for newspaper production and circulation. The DOJ recently issued two business review letters in which it did not oppose collaborations among newspapers. Alternatively, media mergers can occur where one party satisfies a failing firm defense, namely, if absent the merger, the assets of one firm would exit the relevant market. Finally, one can evaluate whether de-

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108 According to one FCC study, between March 1996 and March 2007, “the average number of formats appears to have declined slightly for some of the large markets, while increasing slightly for most of the smaller ones.” “Overall, the variety of radio formats available to consumers has held steady.” WILLIAMS, supra note 90, at 1–2.


110 Id. at 4 (emphasis in original).


112 The merging parties must show how:

(1) the allegedly failing firm would be unable to meet its financial obligations in the near future; (2) it would not be able to reorganize successfully under
mand-side alternatives to assist the newspaper industry, such as proposed changes in federal tax and subsidy policies, are less harmful to society than antitrust immunity.113

The federal antitrust laws did not cause the ills of the media conglomerates. For many years, they faced little direct competition in their local media markets. Now, with advertisers and readers shifting to the Internet, the antidote is not to weaken the antitrust laws further. Antitrust immunity to date has not produced the expected benefits to newspaper quality; instead, the Newspaper Preservation Act has lined the pockets of Hearst and other media conglomerates while failing to stimulate innovation. The health of the marketplace of ideas depends on the antitrust laws to preserve divergent and competing voices.

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Chapter 11 of the Bankruptcy Act; and (3) it has made unsuccessful good-faith efforts to elicit reasonable alternative offers that would keep its tangible and intangible assets in the relevant market and pose a less severe danger to competition than does the proposed merger.


http://www.law.northwestern.edu/lawreview/colloquy/2010/25/