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ABSTRACT

The FTC began intensive enforcement of the Robinson-Patman Act regulations dealing with discriminatory advertising allowances for the first time in 1963. Previous enforcement efforts had been mild by comparison and the literature clearly marks a turning point in FTC efforts in 1963.

One target of the FTC's effort was cooperative advertising and "double billing" which allowed some retailers to gain an edge over competitors.

As the FTC's enforcement efforts tended to modify business and advertising media behavior, with respect to double billing, the newspaper rate differential was reduced. This outcome was not intended by the FTC.

The newspaper rate differential, reflecting the difference between the national and local advertising rates charged by newspapers, is a long standing institution in this country and its existence merely reflects advertising media pricing in two distinct markets. The unexpected outcome from the FTC's action demonstrates again that regulation sometimes causes unintended results, as argued in several previous studies.

THE NEWSPAPER RATE DIFFERENTIAL AND FEDERAL TRADE COMMISSION ENFORCEMENT OF THE ROBINSON-PATMAN ACT

By Walter J. Primeaux, Jr.*

INTRODUCTION

The higher rates charged by newspapers for national advertising than for retail (local) advertising have been the subject of several previous studies. Ferguson was the first to make a systematic analysis. After carefully examining seven facts or conditions as possible causes of the newspaper rate differential, he finally rejected all but the joint product hypothesis which was found to be the only explanation of the difference.[1]

Simon found strong evidence that the demand for retail advertising was higher than the demand for national advertising. His study argued that the price discrimination explanation, previously dismissed as unimportant by Ferguson, is at least a partial explanation of the difference between retail and national newspaper rates. Simon's research identified a number of potential problems with Ferguson's earlier work.[2]

Although Ferguson and Simon's contributions to our understanding of the newspaper rate differential are extremely important, they have not completely explained either its source or characteristics. This additional study was undertaken to expand generally our understanding of

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[1] James M. Ferguson, <u>The Advertising Rate Structure in the Daily Newspaper Industry</u> (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1963).

[2] Julian L. Simon, "The Cause of the Newspaper Rate Differential: A Subjective Demand Curve Analysis," <u>Journal of Political Economy</u> 73, No. 5 (October 1965): 536.

this phenomenon. More specifically, this additional research has three purposes. First, to examine the impact of competition among advertising media on the newspaper rate differential. Second, to explain the nature of "double billing" and to examine its impact on the newspaper rate differential. Third, to examine the effects of the FTC's 1963 intensified action against "double billing" and its effect on the newspaper rate differential.[3]

THE NATURE OF DOUBLE BILLING AND COOPERATIVE ADVERTISING

The Procedure

Double billing depends upon cooperative advertising for its existence. Cooperative advertising is partly paid for by the retailer and partly paid for by the manufacturer or wholesaler of a product. Essentially, the ad promotes both the local establishment and a national product it sells; the advertising actually combines a local establishment's ad with a manufacturers' ad. The joint nature of the advertising brings into play some form of cost sharing by the local retailer and the manufacturer or wholesaler. The cost sharing arrangement has caused a practice to develop which is known as "double billing" where the medium renders two bills to the local retailer who originally negotiated for the advertising. Essential to the discussion is the fact that the medium is actually willing to contract for advertising with the retailer at a local rate which is lower than the national

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[3]A recent study of other aspects of government regulation in the newspaper industry is: Michael O. Wirt and Bruce T. Allen, "Crossmedia Ownership, Regulatory Scrutiny, and Pricing Behavior," Journal of Economics and Business, 33, (1980-1981): 28-42.

rate. So, the medium engaging in the double billing practice issues two bills: one for the advertising charge at the higher national rate and another bill at the lower retail rate. The retailer then submits the higher bill at the national rate to the manufacturer or wholesaler as a basis for claiming reimbursement of some previously agreed to share of the total advertising bill; he actually pays only the lower (local) bill.[4]

Such an arrangement causes the retailer to pay something less than the percentage specified by the cooperative advertising plan. This outcome occurs because the retailer pays the total bill owed the medium at the local rate and is reimbursed by the manufacturer at the national rate. Since the national rate is higher than the retail rate, the retailer reaps the benefit from double billing. The double billing practice is explained in more detail in the following discussion.

Cooperative advertising plans vary but one common arrangement is that the retailer agrees to pay 50 percent of the cost of an ad and the manufacturer agrees to pay the remaining 50 percent. From the previous discussion, it is clear that whenever double billing is used, the

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[4] Double billing and the cooperative advertising arrangements are discussed in a number of references including Vertical Cooperative Advertising Report of the Committee on Cooperative Advertising (New York: Association of the National Advertisers, n.d.). This publication is not dated but the text shows that it was published sometime immediately after the end of WWII. Cooperative advertising allowances are also discussed in Leverette S. Lyon, Advertising Allowances (Washington, D.C.: Brookings Institution, 1932). The dates on the above sources show that use of double billing with cooperative advertising is a rather long standing practice. For a more up-to-date discussion see: "Lawyer's Advice: Co-op Linage Hurt by Double Billing," Editor and Publisher (March 30, 1963), p. 123.

retailer pays less than the agreed portion of the advertising charge, according to the cooperative advertising plan. Moreover, large firms with monopsony power may get much better than a 50-50 plan; so these firms may even make profits from cooperative advertising and double billing. This outcome occurs because they collect more in "reimbursement" than they actually pay for the advertising.[5]

It is impossible to assess accurately the total dollar amount of this joint or cooperative advertising within the economy; however, there are estimates that it accounts for as much as 25-35 percent of store advertising expenditures.[6] Obviously, any change which dramatically affects cooperative advertising practices would have a significant impact on both the advertising industry and the rates charged within the industry; the FTC's 1963 action to curb double billing practices was such a change. This impact will be examined later in this paper.

For double billing to "work", a rate differential _must_ exist between the national and local rate. Local media compete with one another and if one medium accommodates retail stores and uses double billing and

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[5] "Big Stores, Chains Are Chief Culprits in Co-op Ad Abuses Senate Unit Told," _Advertising Age_ (August 17, 1964), p. 75.

[6] Harold H. Bennett, "Newspapers Have a Stake: The Retailer's Case for Co-op Ad Funds," _Editor and Publisher_ (August 11, 1962), p. 15. In this article, the author points out that it is doubtful whether anyone really knows the total dollar amount of cooperative advertising. See also "Cooperative Ad Plan Benefits Described," _Editor and Publisher_ (September 21, 1963), p. 22. Numerous telephone calls to various trade associations, as well as another thorough review of trade and scholarly literature, failed to uncover the amount of cooperative advertising within the economy. Thus, Bennett's statement is upheld.

another does not, the one providing that option will gain an edge over its competitors.[7] Newspapers, as well as other media, can obviously sell more local advertising if retailers are actually relieved of most of the cost of paying for ads because double billing is used.[8] Consequently, advertising media have a real stake in having a national and local advertising rate to facilitate the double billing practice; moreover, they also have a stake in being willing to facilitate the practice by furnishing a double bill. One billing being for the real charge to the retailer at the local rate net of quantity discounts earned by his advertising volume through the year. A second billing being at the national rate which is always higher.

As mentioned earlier, the retailer pays the bill for the lower local charge and sends the higher bill with the national charge in to the manufacturer to claim his share of the cooperative advertising refund. If the local rate is 50 percent of the national rate, and if the dealer has a 50-50 sharing agreement with the manufacturer, he would receive advertising without cost; this would occur because his claim would be for 50 percent of the national rate which is twice as high as the local rate, so his proceeds would equal the amount of the real bill he received for advertising.

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[7] This competition is discussed in Edward C. Crimmins, A Management Guide to Co-operative Advertising, New York: Association of National Advertisers, 1970, p. 16.

[8] The focus of attention here is upon double billing by newspapers; it is important to mention, however, that it also occurs in the other media.

Why Manufacturers Tolerate Double Billing

The following discussion relates more to the environment in which double billing took place prior to 1963. Yet, the information also applies whenever double billing exists today.

One should not infer from the double billing process that manufacturers do not demonstrate profit maximizing behavior whenever that practice is employed. Indeed, this is far from the case. Moreover, one cannot conclude that the double billing practice necessarily leads to exploitation of manufacturers. These statements are based upon the three main propositions presented in the following paragraphs.

First, large, successful retailers are in a position to switch product lines if a manufacturer enforces the cooperative advertising agreement too judiciously. That is, some manufacturers have significant incentives to not police cooperative advertising very carefully. Indeed, many large retailers sell several brands and their switching costs to discontinue a brand are relatively low. Indeed, it was the discriminatory allowances for cooperative advertising, and the alleged anticompetitive effects caused by some firms receiving "favored treatment" with respect to cooperative advertising and double billing, which triggered the FTC's 1963 enforcement efforts. So one must not conclude that manufacturers are all unaware of double billing or that its existence reflects nonprofit maximization behavior by the manufacturer. In fact, the opposite argument could be made.[9]

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[9] Vertical Cooperative Advertising Report... op. cit. This source indicates that although manufacturers do not generally approve of this practice, they probably would not object in the case of powerful retailers.

A second important reason why double billing actually can occur is that it is extremely difficult to guard against the practice. In the first place, printed rate cards (showing both the national and local rates) clearly provide "evidence" to any inquiring manufacturer suspecting double billing that the billed rate conforms to the legitimate price of the medium. However, discounts given to retailers because of their volume purchases of advertising through the year cannot be ascertained by the manufacturer. Moreover, the medium's willingness to settle for the lower local rate, instead of the higher national rate to acquire the retailer's advertising business in competition with other media, is a necessary ingredient in the double billing procedure.[10] This condition does not provide any visible signs which the conscientious manufacturer can rely upon as evidence of a violation of the cooperative advertising agreements by the retailer employing double billing. Consequently, again, one must not conclude that the existence of double billing reflects non profit maximizing behavior by the manufacturer.[11]

A third explanation of why the double billing practice is accepted and not totally eliminated by manufacturers must include the fact that some suppliers are actually unsuspecting and do not realize that double billing is being practiced.[12] This is not to say that the manufacturers

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[10] The intense competitive nature of double billing is explained in "Can the F.T.C. Cleanup Co-op?" Sales Management (April 15, 1960), p. 40.

[11] "Big Stores, chains..., op. cit.

[12] Vertical Cooperative Advertising Report... op. cit., pp. 29-30.

are exactly duped by the retailers because of their lack of intelligence. Instead, this means that since the advertising media "collude" with the retailer, when double billing exists, there are absolutely no signals to suggest to a "trusting" manufacturer that double billing is being used.

The above three factors explain why manufacturers "tolerated" double billing prior to the widespread increased effort to curtail illegal advertising and promotional allowances in fiscal 1963.[13] The discussion also explains why the practice still exists today.

The Need for a National Rate

The above discussion does not explain why linage is booked at the national rate and why national advertisers do not induce local firms to front for them so they can gain the lower local rate for national advertising. This outcome is really not difficult to explain. National advertisers are generally sealed off from obtaining the lower local rate on their own; they may negotiate, but certainly they cannot force a newspaper to sell them a National add at the local rate. So linage is actually booked at the national rate by those manufacturing firms who are unable to force from the media the lower local rate for their national advertising. Of course, some media are even willing to sell advertising to national advertisers at local rates.

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[13] The increased enforcement activity is documented in: Annual Report of the Federal Trade Commission (Washington, D.C.: Federal Trade Commission, June 30, 1963, p. 2.

> ...[Some] radio and television stations charge national advertisers who submit advertising directly to the station a local rate because commissions need not be paid to agencies.[14]

The above discussion shows that the national rate continues to serve a useful function even though double billing exists. First, because national advertisers cannot always induce media to grant them the lower local rate and retailers have no incentive to enter into such negotiations on behalf of manufacturers. Since the media control content of the advertising, it is impossible for a manufacturer to deceive the media by arguing that an ad is really a combined ad for a local retailer and a manufacturer. Consequently, these difficulties force manufacturers to continue to buy national advertising at the higher national rate. For these reasons, the national rate continues to exist.

Moreover, all media do not engage in double billing. Consequently, in situations where it is not used, the national rate actually represents a transactions price which the media actually intend to collect for advertising; so in those cases, the national rate is necessary because it represents a true price.

Even for firms practicing double billing, the national rate serves a very worthwhile purpose. For these firms, the value of the national rate originates from two sources. First, these media have the power to charge national advertisers the national rate for reasons mentioned above. At the same time, they also have the power to negotiate price concessions with local advertisers, who insist on receiving the lower

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[14] Ferguson, op. cit., p. 20.

local rate because of advertising availability on double billing bases from competitive media.[15]

Interdependence of Cooperative Advertising and Double Billing

In fact, the double billing and cooperative advertising practices described above have existed over a long period of time.[16] From the previous discussion, one would expect the following to be true. First, double billing and cooperative advertising work together. Double billing cannot exist without cooperative advertising. Second, media which employ double billing largely view the national rate as fictitious because they are actually willing to sell advertising to retailers at the local rate. From these propositions, one would expect that any significant external pressure on the practice of double billing would affect the newspaper rate differential.

The Intensified Efforts of F.T.C.

During the early 1960's there began an intense effort by the Federal Trade Commission to enforce the discriminatory allowance provisions of the Robinson-Patman Act which affected both the degree of utilization of cooperative advertising and the mechanical procedures involved in

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[15] It was the power of large retailers to negotiate discriminatory advertising allowances from manufactures, and their power to evoke double billing from the media, which intensified FTC enforcement of the Robinson-Patman Act in 1963: "Lawyer's Advice: Co-op Linage Hurt by Double Billing," op. cit., p. 123 and "Big Stores, Chains... op. cit., p. 75.

[16] Lyon, op. cit.

its use. Prior to that time, efforts to enforce this provision of the Robinson-Patman Act were very weak but the events in 1960 clearly generated a set of circumstances which created a trauma never before experienced in the advertising industry. The fact that the FTC did not seriously enforce the discriminatory allowance provisions of the Robinson-Patman Act prior to the 1960's, as well as the necessity of changes in cooperative procedures because of its intensified efforts, is reported in a number of business publications.[17] The background surrounding this situation and its effect on the advertising media as well as business is well documented in the business literature. The obvious turning point with respect to enforcement occurred in 1963, when the FTC required 248 apparel makers to sign consent decrees or face litigation; from then on, cooperative advertising programs would never be the same. The year 1963 must be designated as a year of significant change in cooperative advertising.[18]

The record number of cases in fiscal 1963 also reflect meaningful enforcement of the Robinson-Patman Act. "A new all time record was set

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[17] These facts are confirmed in "F.T.C. Co-op Blast May Cut Ad Revenue," Editor and Publisher (June 30, 1962), p. 16 and Cameron Day, "Why Co-op Advertising Will Surge Ahead," Sales Management (October 4, 1963), p. 49.

[18] The following selected references reflect both the increased intensity of the F.T.C.'s effort and the buildup to a peak in 1963: Advertising Age (September 14, 1959), p. 1; "FTC Issues Guides on Promotional Allowances," Advertising Age (June 6, 1960), p. 1; "F.T.C. Cleanup Is on: Can Manufacturers Regain Control of Co-op Advertising Dollars?" Sales Management (April 7, 1961), pp. 75-76; "F.T.C. Co-op Blast May Cut Ad Revenue," op. cit., p. 16; "Can Co-op Ads Survive F.T.C.'s Broadside?" Business Week (February 23, 1963), pp. 86-88; Cameron Day, op. cit., p. 49.

with issuance of 454 cease and desist orders, including 261 in the anti-monopoly field. The previous high was 407 orders in fiscal 1962."[19] This statement, too, reflects the new level of attention and enforcement by the Federal Trade Commission. Of course, this citation refers to all areas of FTC activity and its reference is not restricted only to the advertising allowance problem which is of primary concern to this paper. The FTC clarified in its report, however, that the commission was indeed engaged in widespread increased effort to curtail illegal advertising and promotional allowances in fiscal 1963.[20]

The statistical analysis presented later was seriously in need of validating the point where the FTC enforcement efforts against discriminatory advertising allowances were intensified, so indices of periodical literature were reviewed to determine if there was, in fact, more FTC activity concerning advertising allowances in 1963; the increased activity, if it did actually exist, would be reflect in a larger number of listings of articles dealing with that question in that year.

The turning point in 1963 in FTC interest with price discrimination problems associated with promotional allowances is substantiated in the count of listings from the indices of periodical literature. A tabulation of the number of acticles appearing in indices during the years 1938-1974 which were concerned with the legality of promotional

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[19] Annual Report of the Federal Trade Commission, op. cit., p. 2.

[20] Ibid, pp. 2-4.

allowances is presented in Table 1. Data from the table show that 34 percent of the total number of articles appeared in the 24 year period 1938-1961; 30 percent were listed in the 2 year period 1962-1963; 36 percent were published in the 11 year period 1964-1974. These numbers reveal that the 2 year period 1962-1963 accounted for almost as large a precentage of articles as the earlier 24 year period. Moreover, the 1964-1974 11 year time period accounted for a slightly larger percentage of published articles than the earlie 24 year period. These data not only illustrate the strong change in trend in 1962-1963 but they also show the continued higher interest in this problem after the turning point in 1963.

One may roughly divide the impact of the intensified government attention in cooperative advertising into six categories: (1) the intensified effort frightened advertisers;[21] (2) advertisers were confused by terms used in the commission's rulings;[22] (3) the commission's effort provided a good excuse to firms who did not want to use promotional allwances to discontinue using them[23] (they had felt compelled

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[21]This effect is discussed in "Can Co-op Ads Survive F.T.C.'s Broadside?," op. cit., p. 88; Crimmins, op. cit., p. 16.

[22]This confusion is discussed in "Confusion on F.T.C. Discriminatory Ad Rule Hurts Us, Retailers Say: Ask Clarification," Advertising Age (February 25, 1963), p. 26; "F.T.C. Co-op Blast May Cut Ad Revenue," op. cit., p. 16.

[23]This behavior was discussed in "Can Co-op Ads survive F.T.C.'s Broadside?" op. cit., p. 86; "Confusion on F.T.C. Discriminatory Ad Rule Hurts Us, Retailers Say: Ask Clarification," Ibid.

TABLE 1

NUMBER OF ARTICLES IN INDEXES DEALING WITH DISCRIMINATORY PROMOTIONAL ALLOWANCES IN COOPERATIVE ADVERTISING (1938-1974)

Year	Number of Articles	Year	Number of Articles
1938	1	1957	6
1939	0	1958	5
1940	2	1959	4
1941	1	1960	7
1942	0	1961	9
1943	0	1962	28
1944	0	1963	32
1945	5	1964	13
1946	0	1965	8
1947	0	1966	4
1948	2	1967	4
1949	0	1968	14
1950	2	1969	8
1951	1	1970	7
1952	10	1971	4
1953	2	1972	7
1954	2	1973	2
1955	1	1974	0
1956	8		

Sources: 1939-57 Computations from Roberta Purdy, ed., Industrial Arts Index (New York: H. W. Wilson Co., various); 1958-1974 computations from Lucille V. Craumer, ed., Business Periodicals Index (New York: H. W. Wilson Co., various). Business periodicals were originally indexed in Industrial Arts Index; however, in 1958 H. W. Wilson Co., discontinued that index and issued the first Business Periodicals Index.

to use them because of competitive pressure); (4) the commission's ruling encouraged those who continued to use cooperative advertising to be very careful to avoid discrimination practices;[24] (5) because of manufacturers' reaction to the rulings, advertisers had less cooperative advertising money to spend;[25] (6) the enforcement made manufacturers install plans which avoided past problems and eliminated opportunities for continued abuse of cooperative advertising.[26]

The commission was interested in discriminatory advertising allowances, particularly cooperative advertising which may have given one retail firm a larger allowance than another firm under identical conditions. Manufacturers were required to offer similar plans to all dealers operating under substantially similar conditions; however, they were not required to offer identical plans to all dealers. The mere nature of cooperative advertising presented a problem to manufacturers sharing cost of advertising with retailers; to avoid charges of price discrimination, firms could no longer make allowances which favored one customer over another. Moreover, the double-billing practice which had developed through the years actually intensified this problem; whenever double billing is employed, both the manufacturer and the retailer are

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[24] This effect was explained in Crimmins, op. cit., p. 118 and "Can Co-op ads Survive F.T.C.'s Broadside? op. cit., pp. 86-88.

[25] "Confusion on F.T.C. Discriminatory Ad Rule..." op. cit., p. 20; "Can Co-op Ads Survive... op. cit., pp. 86-88.

[26] This corrective measure was discussed in Bennett, op. cit., p. 15 and Crimmins, op. cit., pp. 23-24n.

in a position of being charged with discriminatory allowances because all firms do not receive the same allowance. This disciminatory practice is particularly difficult for manufacturers to guard against because they are frequently unaware that double billing is being employed.[27]

The previous list of effects of intensified FTC action concerning advertising leads to the logical conclusion that cooperative advertising practices were changed significantly by the FTC's enforcement efforts. The intense enforcement effort seemed to reduce the amount of cooperative advertising; moreover, manufacturing firms were forced to modify existing plans to avoid discriminatory practices and to take steps to avoid abuses by retailers (particularly double billing) which could cause legal difficulties. The net effect was to change substantially existing cooperative advertising plans; plans which were instituted later were also affected.

The impact of the FTC's changed attitude toward advertising regulations may be more fully emphasized by acknowledging that one authority has asserted that the Robinson-Patman Act and the legal problems surrounding every co-op program now constitute the largest single disadvantage of instituting or continuing a cooperative advertising program.[28]

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[27] As mentioned elsewhere in this paper, manufacturers do not generally approve of this practice, but probably would not object in the case of powerful retailers. This point is made in Vertical Cooperative Advertising Report op. cit., pp. 29-30.

[28] Crimmins, op. cit., p. 60.

Up to this point, it has been explained that in 1963 a turning point occurred which seriously changed advertising plans and cooperative advertising.[29] This change also had a significant effect on double billing, which at one time was common practice but which was explicitly ruled to be illegal by the FTC in their action of the 1960's. Moreover, the impact of these changes fell most heavily upon newspapers.[30] Therefore, it is entirely plausible that such occurrences should affect the newspaper rate differential, because cooperative advertising and double billing were dramatically affected and both were widely used in the newspaper industry.

The previous discussion leads to the following conclusions: First, double billing is dependent upon cooperative advertising for its existence. Without cooperative advertising, double billing could not exist. Second, newspaper are "forced" to participate in double billing because of competitive pressures. Third, the existence of double billing causes newspapers to receive only a rate equivalent to the local rate, even though the manufacturer actually reimburses the dealer at the national rate. Fourth, the fact that the newspaper receives only the local rate really reflects that it charges the national rate on the double bill only to accommodate customers. Fifth, since newspapers using double billing must have a difference between local and national rates, cooperative advertising and double billing help to explain why the newspaper rate differential exists.

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[29] This impact was acknowledged in "Can Co-op Ads Survive..." op. cit., p. 86.

[30] Ibid; "Co-op Advertising Dead?" Broadcasting (October 3, 1962), p.51.

The above discussion of cooperative advertising and double billing reveals that these practices would tend to cause the national rate and the retail rate for advertising to be different. This assertion does not seem to be unreasonable because a priori one would expect newspapers which extensively engage in this practice to gravitate toward a single rate if for some reason cooperative advertising and double billing were discontinued. Indeed, this is probably what actually occurred after the 1963 turning point.

If the hypothesis presented at the beginning of this paper is true, one would expect the data showing the variance between national and retail advertising rates to reflect the intensified FTC activity, the impact on cooperative advertising, and the ensuing decline in the newspaper rate differential.

The turning point in FTC activity in 1963 and the downward trend in the rate variance thereafter are identical with the movements reflected in Table 2. Table 2 presents a history of the rate differential since 1938. The data show that from 1938 through 1963 the trend of the rate variance was generally upward, increasing from a low of 43.4 present in 1938 to a high of 61.7 percent in 1963.

After the turning point in 1963, the variance began a downward trend; and in 1979, the variance of 52.9 percent was slightly lower than that existing in 1947. These data are certainly consistent with the institutional changes discussed earlier and reflect support of the hypothesis that the newspaper rate differential was affected by FTC action on cooperative advertising practices. A more rigorous test of this hypothesis is presented in a later section of this paper.

TABLE 2

PERCENTAGE BY WHICH GENERAL (NATIONAL) RATE EXCEEDS RETAIL (LOCAL) RATE

Year (Beginning January 1)	Dailies (General vs. Retail)	Year (Beginning January 1)	Dailies (General vs. Retail)
1938	43.4	1959	59.4
1939	44.7	1960	59.5
1940	46.3	1963*	61.7
1941	46.8	1964	58.1
1942	47.6	1965	55.7
1943	48.6	1966	55.2
1944	49.8	1967	†
1945	†	1968	49.4
1946	50.0	1969	†
1947	53.6	1970+	50.4
1948	51.8	1970	40.7
1949	53.9	1971	50.0
1950	55.7	1972	48.3
1951§	53.4	1973	48.2
1952	53.6	1974	49.5
1953	54.5	1975	50.3
1954	55.6	1976	50.5
1955	55.9	1977	50.6
1956	56.5	1978	51.1
1957	57.7	1979	52.9
1958	59.5		

SOURCES--American Association of Advertising Agencies and Newspaper Advertising Bureau.

NOTE--James M. Ferguson, The Advertising Rate Structure in the Daily Newspaper Industry (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1963) p. 64, explains that some data prior to 1938 were not reliable. His comment is the basis for using 1938 as the beginning year in this table.

*in 1963, method of computing was simplified so that study could be made more current; hence the omission of 1961 and 1962.

† Study not compiled.

+ Rates effective September 1969.

§ Beginning 1951, percentage differntial rates are shown by ABC City Zone Population 50,000 and over.

A STATISTICAL TEST OF DOUBLE BILLING AS A FACTOR AFFECTING THE NEWSPAPER RATE DIFFERENTIAL

The Theory

The newspaper rate differential is affected by four different types of factors. The first type reflects competition with other advertising media; the second type reflects the individual newspaper's market power in selling newspaper advertising; the third type reflects the individual newspaper's market power in selling newspaper to consumer; the fourth is more rigorous enforcement of the Robinson-Patman Act concerning cooperative advertising and double billing practices. The rationale for these expectations follows.

Radio and television advertising are substitute for newspaper advertising and provide alternatives to advertisers. As the ratio of radio advertising to total advertising increases, the newspaper rate differential could tend to decline. The same result could occur as the ratio of television advertising to total advertising increased. These are the competitive effects which are caused by the newspaper's share loss to other media, as the newspaper adjusts the rates it charges for advertising. If the national market is threatened, however, the newspaper will lower national rates, relative to local rates, causing the newspaper rate differential to decline. If, instead, the local market is threatened, the newspaper will lower local rates, relative to national rates, causing the differential to increase. Consequently, the nature of the price adjustment by the newspaper depends upon the market which is affected.

If newspapers as a group experienced an increase in their share of total advertising, because of a relative increase in volume of their local advertising, they would be inclined to reduce the newspaper rate differential. That is, they would be more inclined to raise local rates relative to their national rates, thus causing the rate differential to decline. Although they would be reacting to market forces, their behavior would tend to reduce the rate differential. In contrast, if the increase in their share of total advertising came from a relative increase in their volume of national advertising, newspapers would tend to increase the newspaper rate differential. This result would occur because the increase demand for national advertising would tend to raise national rates with respect to local rates.

The rate differential would also be affected by the market power of a given newspaper in selling advertising. This market power would be refelcted in a decline in the number of newspapers, which would tend to increase the monopoly power of the remaining newspapers. The decline in newspapers, of course, largely comes from the withdrawal of one of the newspapers within a given city, and, the absence of direct competition, increases the control of newspaper advertising rates by the remaining firm. The newspaper has gained a local monopoly for local newspaper advertising within its city but it is still subject to a high level of competition from other newspapers for national newspaper advertising in other markets; consequently, the increase in market power will probably be reflected in increases in local rates because of the newly gained monopoly position, but national rates will probably remain unchanged because of the large number of remaining newspaper alternatives available to national advertisers. From the above discussion, it follows that a decline in the number of newspaper would cause a decrease in the newspaper rate differential.

An increase in circulation for newspaper would cause the rate differential to fall. This change, of course, indicates, an increase in the market power of the newspaper in selling to newspaper consumers. To the extent that advertisers are interested in attracting more potential buyers through their ads, this change would affect advertising prices. More circulation for a given newspaper would make a given newspaper more attractive for advertisers. To the extent that this market power would accrue more to local than to national advertising, it would tend to give the newspaper power to raise local rates more than national rates. This situation, of course, would tend to reduce the rate differential, because local rates would move upward toward the higher national rates. This market power could occur from a decline in the number of newspapers, instead of an increase in circulation. As in the earlier discussion, the monopoly power of the newspaper is more perfect in selling to advertisers at the local level instead of the national level; consequently, it would probably raise local rates more than national rates, tending to reduce the rate differential.

A substantial discussion of the reasons why the existence of double billing and cooperative advertising would affect the newspaper rate differential was presented earlier. That discussion also provided detailed explanations of why the FTC's intensified action against double billing and cooperative advertising in 1963 would be expected to cause the rate differential to decline, so that discussion will not be repeated here. Nevertheless, it must be considered in any analysis of the rate differential.

In summary, then, the newspaper rate differential is affected by several forces; the relative market shares of competing advertising media, the proportion of total advertising which is placed in newspapers, the market power of a newspaper in selling advertising in competition with other newspapers, the monopoly power of newspapers in selling newspapers to consumers and the Federal Trade Commission enforcement of the Robinson-Patman Act.

The next section discusses the model used to examine the impact of intensified F.T.C. enforcement of the Robinson-Patman act upon the newspaper rate differential.

The Model

The analytical framework suggests the following functional form:

Newspaper Rate Differential = f (Radio advertising's share of total advertising, television advertising's share of total advertising, newspaper advertising's share of total advertising, the market power of newspaper in selling advertising, the market power of newspapers in selling newspapers, double billing practices).

The procedure involved the use of ordinary least squares multiple regression analysis to examine the variables thought to be important in affecting the newspaper rate differential.

The ordinary least squares regression equation is in the form:

$$RDIF = A_1 + B_1 LNEW + B_2 LRAD + B_3 LTV + B_4 LCIR/LNPR + B_5 LNADV/LNPR + B_6 DBILL$$

where:

RDIF = The dependent variable. The newspaper advertising rate differential (a percent difference between the national and local rates. Reflects how much more the national advertiser pays above the local rate).

LNEW = Log total newspaper advertising expenditures as a ratio of the log of total advertising expenditures

LRAD = Log total radio advertising expenditures as a ratio of the log of total advertising expenditures

LTV = Log total television advertising expenditures as a ratio of the log of total advertising expenditures

LCIR/LNPR = Log total circulation of per daily newspaper (in thousand of issues)

LNADV/LNPR = Log real newspaper advertising per newspaper (in millions of dollars)

DBILL = A dummy variable taking a value of 0 before 1964 and a value of 1 thereafter

From the earlier discussion, the expected relationships between the newspaper rate differential and the explanation variables are as follows: $\partial LNEW < 0$, $\partial RAD < 0$, $\partial LTV < 0$, $\partial LCIR/\partial LNPR < 0$, $\partial LNADV/\partial LNPR < 0$, and $DBILL < 0$.

The sign on the coefficient of the double billing variable (DBILL) is the crucial one for testing the effect of double billing on the newspaper rate differential; a negative sign would indicate that the double billing practice does decrease the newspaper rate differential. This outcome, therefore, would support the fundamental hypothesis of this study, while a positive sign would reject it.

Data sources are discussed in the appendix. Most monetary values are expressed as ratios, so it was only necessary to deflate the data for the LNADV/LNPR variable to remove the effects of inflation. The GNP implicit price deflator was used for this purpose.

The data consists of time series observations for 1950 through 1979 (thirty years).

Empirical Results

Table 3 presents the equation developed from the model; statistics indicate that the equation explains 89 percent of the movement in the newspaper rate differential, when the coefficient of multiple determination is adjusted for degrees of freedom (and over 91 percent before that adjustment). The results are quite robust with all regression coefficients, except LNADV/LNPR, significant at the one level or better. The Durbin-Watson test reveals that autocorrelation did not affect the results.

The insignificant t statistic on the LNADV/LNPR variable were unexpected from the earlier theoretical discussion. Yet, they support the earlier work of Simon and are in conflict with the findings of Ferguson.[31] The findings reported here tend to show that the monopoly power gained by the elimination of a newspaper in a market seems to be more beneficial to pricing of national advertising than to local advertising. This means that the newly gained monopoly power permits or induces the firm to raise national rates more than local rates, thus causing the newspaper rate differential to increase. Although the coefficient is not statistically significant, it is positive.

The most important results from the equation is that the DBILL variable is, indeed, important in explaining an important part of changes in the newspaper rate differential. The results show that

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[31]Simon, op. cit., p. 537; Ferguson, op. cit., p. 27.

TABLE 3

REGRESSION EQUATION

Variables	Partial Regression Coefficient	Standard Error	Standardized Estimate
DEPENDENT VARIABLE			
RDIF			
INDEPENDENT VARIABLES			
LNEW	-234.795	32.077[a]	-1.607
LRAD	-46.046	9.650[a]	-0.731
LTV	-32.146	6.799[a]	-1.514
LCIR/LNPR	-372.816	129.045[a]	-0.677
LNADV/LNPR	42.666	28.865	-0.302
DBILL	-5.290	1.254[a]	-0.653

Summary Statistic

N (degrees of freedom plus number of variables) 30

R^2 .9151

$\bar{R}^2$ .8929

D.W. 1.915

Constant 353.858[b]

F Statistic 41.312[a]

[a]Significant at 1 percent level.

[b]Significant at 5 percent level.

rigorous enforcement of the Robins-Patman Act provisions against double billing and discriminatory advertising practices caused the newspaper rate differential to decline. The coefficient on the DBILL variable indicates that the differential (the percentage by which the national rate exceeds the local rate) declined by over five and one quarter percent (5.290). This is not a trivial reduction, and it does indicate that double billing is actually another important element in the explanation of why the newspaper rate differential exists. As reflected in the standardized regression coefficients, however, other factors were actually more important than the DBILL variable.

The standardized regression coefficients are presented in Table 3 and they indicate the relative importance of each variable used in the regression equation in explaining the newspaper rate differential. These coefficients show that, in the equation specified here, the share of newspaper advertising as a ratio of total advertising is the most important factor affecting the rate differential; the second most important variable is the share of television advertising as a ratio to total advertising; the third most important factor is the share of radio advertising as a ratio of total advertising. These three variables represent the important competitive effects in selling advertising.

The fourth most important variable is circulation per newspaper, representing market power in selling newspapers to consumers; and the fifth most important factor is the DBILL variable.

RESULT OF F.T.C. ACTION

The F.T.C.'s concern about discrminatory advertising practices was not directed toward the newspaper rate differential at all. The concerns in the 1963 time period were with the issues surrounding the cooperative advertising practices mentioned earlier in this study. Yet, the FTC's action had a significant unintended impact on the newspaper rate differential. Given sufficient reflection, however, the impact should have been expected. The logic for this statement follows.

The F.T.C. action against double billing more effectively separated the markets facing the advertising media. Consequently, the elasticities of demand between the two markets should have even diverged even further. Moreover, the FTC action would make the local and national markets more separable and even more capable of being sealed off to prevent national advertisers from buying advertising at the local rate.[32] Overall, these effects, at a minimum, should have maintained the newspaper rate differential at levels existing at that time and could have even caused pressure for it to widen; yet, as the above data show the FTC action caused the differential to decline.

The reduction in the newspaper rate differential was actually caused by a combination of business and media reaction to the F.T.C.'s enforcement efforts against illegal double billing practices.

Business reacted to the F.T.C.'s effort in the following ways: (1) the Commission's ruling encouraged those who continued to use cooperative advertising to be very careful to avoid discrimination practices,

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[32]As mentioned earlier, this was not a general problem; yet, to the extent that it had existed prior to the change in enforcement, it diminished in importance after the change.

particularly double billing;[33] (2) the enforcement made manufacturers install plans which avoided past problems and eliminated opportunities for continued misuse of cooperative advertising.[34] Many manufacturers who had tolerated double billing practices by retailers with monopsony power were induced to curtail those activities by the F.T.C.'s intensified enforcement efforts. Moreover, some manufacturers who had been lax in strictly enforcing terms of their cooperative advertising contracts with retailers became more diligent. This discussion shows that "opportunities" for double billing declined after 1963 because of manufacturer reaction to the F.T.C. enforcement efforts against discriminatory advertising practices.

As mentioned earlier, newspapers which engaged in double billing really quoted a fictitiously high national rate to facilitate that practice. After double billing was attacked by the F.T.C., many newspapers discontinued the practice;[35] consequently, the newspaper rate differential declined because the "need" for the differential diminished for those newspapers who had previously engaged in double billing prior to the F.T.C.'s intensified enforcement effort but discontinued the

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[33] This effect was explained in Crimmins, op. cit., p. 16 and "Can Co-op Ads Survive F.T.C.'s Broadside?" op. cit. Double billing tends to create price discrimination among the retail dealers engaging in the practice.

[34] Harold H. Bennett, op. cit., p. 15. Edward C. Crimmins, Ibid., p. 16.

[35] Double billing has declined in importance but it still exists, according to discussions with newspaper and retail dealers.

practice after the turmoil of 1963. The effect was most dramatic for those newspapers which did not actually sell very much national advertising but had maintained a wide difference between their local and national rate to facilitate the double billing process, as mentioned earlier. When double billing declined in importance, the need for such a gap between rates ceased to exist, causing the national and local rates to diminish in size.

CONCLUSIONS

Competition from other media, as well as the relative market power of newspapers significantly affect the newspaper rate differential, but they do not completely explain its existence. The need for higher national rates to facilitate the double billing process is apparently a significant factor affecting the existence of the newspaper rate differential. Rigorous enforcement of the Robinson-Patman Act helped curb double billing and this tended to decrease the need for such a wide difference between the local and national rates. This result occurred because participation by media and retailers in the double billing practice declined after the action by the FTC in 1963.

F.T.C. action against discriminatory advertising practices in 1963 tended to reduce the newspaper rate differential, although that was not intended. This result reflects "spillover" effects which sometimes occur and cause regulatory action to yield unintended results.[37]

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[37]Some studies reporting regulatory outcomes inconsistent with conventional expectations; or mentioning uncertainty of regulatory outcomes or problems with regulation include: George R. Neumann and Jon P. Nelson, "Safety Regulation and Firm Size: Effects of the Coal Mine Health and Safety Act of 1969," Journal of Law and Economics, vol. XXV(2), October 1982, pp. 183-199; George J. Stigler, "The Theory of Economic Regulation," Bell Journal of Economics, vol. 2, no. 1, Spring 1971, pp. 3-21; Thomas G. Moore, "The Purpose of Licensing," The Journal of Law and Economics, October 1961, pp. 93-117.

APPENDIX

The Data and Sources

Data for total advertising expenditures, newspaper advertising expenditures, total radio advertising, total television advertising expenditures and total daily newspaper circulation are all from The U.S. Statistical Abstract for the years 1949 through 1980. Data for the number of newspapers were taken from the Statistical Abstract, various years and Historical Statistics of the U.S., various years.

The newspaper rate differential is computed by the American Association of Advertising Agencies, Inc.

The DBILL dummy variable for double billing was established by reference to business periodicals where it was determined that a turning point occurred in 1963 with respect to enforcement of Robinson-Patman regulations. At that time, double billing was explicitly ruled to be illegal, but it continues to exist. Moreover, cooperative advertising plans and regulations were carefully modified by many firms when strict enforcement took place.