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DEPARTMENT STORES ON SALE:
AN ANTITRUST QUANDARY

Mark D. Bauer *

INTRODUCTION

Department stores occupy a unique role in American society. With memories of trips to see Santa Claus, Christmas window displays, holiday parades or Fourth of July fireworks, department stores—particularly the old downtown stores—are often more likely to engender civic pride than a city hall building or a courthouse.¹ Department store companies have traditionally been among the strongest contributors to local civic charities, such as museums or symphonies. In many towns, the department store is the primary downtown activity generator and an important focus of urban renewal plans. The closing of a department store is generally considered a devastating blow to a downtown, or even to a suburban shopping mall.

Many people feel connected to and vested in their hometown department store.² In 2005, Macy’s,³ already the largest department

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3. In 2005, Macy’s was an operating arm of Federated Department Stores (FDS). On February 27, 2007, FDS announced that it would seek shareholder approval to change its corporate name to Macy’s.
store group in the United States, acquired May Department Stores, its largest competitor, for $17 billion. The merger was closely examined by federal antitrust authorities, but the regulators took no action. Although this industry was no stranger to mergers, name changes, or reorganizations, nothing came close to Macy’s dramatic decision in 2005 to rename—and indeed, drastically alter—hundreds of former May department stores to Macy’s. Although each Marshall Field’s, Filene’s, Hecht’s, Strawbridge’s, and Foley’s store, among others, had long since become part of a distant holding company, shoppers in each separate city were able to participate in an unbroken chain of tradition and memories that hearkened back to each stores’ local founder.

According to the doctrine of law and economics, however, none of this really matters. To a devotee of law and economics, antitrust is a study of elasticity of demand, market power, and a concept called “consumer welfare” that has little to do with lay definitions of the

Inc., recognizing that 90% of its sales come from Macy’s (the other 10% coming from its other department store chain, Bloomingdale’s). Press Release, Federated Department Stores, Inc., Federated Plans Corporate Name Change, Feb. 27, 2007, http://phx.corporate-ir.net/phoenix.zhtml?c=84477&p=irol-newsArticle&ID=967632&highlight. That name change was approved by stockholders and became effective June 1, 2007. Sandra Jones, Macy’s: State St. Store ‘Doing Badly’: Official Says Greater Effort Needed to Get Traffic into Flagship, CHI. TRIB, May 19, 2007, at Cl. The mixed lineage and nomenclature of the various entities discussed in this article can be confusing because FDS and Macy’s both had long independent histories before finally merging in 1993. Although many of the events discussed occurred while Macy’s was part of FDS, this article will only refer to FDS when necessary for historical clarity, particularly relating to the period before 1994 when FDS bought Macy’s.


7. Law and economics—often referred to as “the Chicago School”—boiled down to its most simplistic description, would argue that “[a]ntitrust concerns should kick in only when a firm had a dominant market share in a market protected by entry barriers, and entry itself could be relied upon to solve most competitive problems, except when government action protected incumbents.” Jonathan Baker, A Preface to Post-Chicago Antitrust, in POST-CHICAGO DEVELOPMENTS IN ANTITRUST ANALYSIS 60, 66 (2002).
words “consumer” or “welfare.\textsuperscript{8} To these scholars, department stores are analogous to a basket of goods, or simply a retail channel distributing products made by others and offering nothing substantive of value to purchasers.\textsuperscript{9} Were a department store to raise prices, law and economics informs us that shoppers would make rational economic decisions by flocking to less expensive sellers of similar wares.

At odds with the predictions of the law and economics crew, however, was the reaction of consumers to Macy’s acquisition of May, particularly in Chicago. Upon hearing of Macy’s plan to change the name of Marshall Field's, Chicago’s iconic downtown anchor, hundreds of Chicagoans took to the streets in protest.\textsuperscript{10} These shoppers were not content to purchase similar or even identical goods elsewhere. Even now, several years after the merger, fans of Marshall Field’s continue to protest at Macy’s annual shareholders meeting.\textsuperscript{11}

\textsuperscript{8} The term “consumer welfare” is confusing to some because it does not mean that the welfare of the majority of consumers is maximized. \textit{Stephen F. Ross, Principles of Antitrust Law} 3–4 (The Foundation Press, Inc. 1993). Consumer welfare means maximization of societal wealth, not that of individuals, which can simply mean there is more wealth, but it is concentrated among the already wealthy. \textit{Id.} Similarly, “allocative efficiency” does not mean “competition.” \textit{Id.} at 4. The Chicago School usually focuses on short-term rather than long-term efficiencies. \textit{Id.}


\textsuperscript{11} Sandra M. Jones, Field’s Backers Take Beef to Macy’s Annual Meeting, CHI. TRIB., May 24, 2008, at C1.
There is something important about department stores and antitrust that is not captured in a conventional law and economics analysis. Economic science does not lie, but law and economics may be focusing on the wrong data. There may be a reason even within conventional antitrust analysis to explain the cries of outraged consumers.  

Part I of this article will review the history of department stores and examine their importance to American culture, particularly to the development of the urban fabric. The literature and scholarship focusing on this period amply chronicle the importance of department stores to the development of cities, civic identity, and popular culture. Indeed, antitrust arose in the same populist era as department stores, and both share common origins and ideals of consumerism and democracy.  

Part II of this article will provide the background and necessary context for the antitrust laws. Part III of this article will review the United States Federal Trade Commission’s (FTC) decision to permit Macy’s to acquire May. The conclusion of this article offers a suggestion for remedial action.

I. HISTORY AND GROWTH OF DEPARTMENT STORES

A. The Relevance of Department Store History

Law and economics generally ignores retail. "The most extreme form of neglect is to act as though retailers do not even exist—as


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though manufacturers sell directly to consumers."15 But this segment of the economy is just too big to ignore. In recent years, more than 20 million people worked in the distributive trades: 1.5 workers for every worker in manufacturing.16 Wal-Mart is not only a retailer employing more than one million Americans—Wal-Mart is also one of the two largest corporations in the world.17

Law and economics generally predicts that in the event of a manufacturer-imposed price increase, retailers will pass through 100% of the increase to consumers.18 This presumes that retail can be "modeled as a perfectly competitive industry with constant marginal costs."19 Because retailers face imperfect competition from their counterparts, they "often are able to exercise a degree of market power."20 Furthermore, retail giants like Macy’s are no longer just retailers; Macy’s is a vertically integrated giant that produces nineteen percent of its sales from store brands that it designs, manufactures, and sells.21

The importance of department stores, however, is more than just numbers reflecting industrial might. To fully appreciate the ramifications of the Macy’s/May merger, it is necessary to consider department stores in context, including their historical development and their role in the national fabric.
B. The Beginnings

From small peddler outposts to ubiquitous suburban mall landmarks, department stores have grown with America and at the same time changed America. Indeed, the pervasiveness and success of department stores today belies a remarkable history. Department stores radically changed the rules that governed shopping for hundreds of years.22 Peddlers of modest means, often Jewish immigrants,23 became shopkeepers, and many built enormous institutions over a few decades. The institutions they built were so well received that, within a generation, these former peddlers and members of ethnic and religious minorities were frequently accepted into the upper crust of society.24

Department stores made urban cores a focal point for city life, rather than a dreary and austere collection of offices.25 And department store buildings became symbols of urbanity and a central fixture of community identity.26

23. The founders of America’s largest department stores were invariably of British ancestry, Jewish émigrés escaping oppression in Germany and Eastern Europe, or descendants of Quaker families that settled in New England in the 1600s. Id. at 23–24; see also JAN WHITAKER, SERVICE AND STYLE: HOW THE AMERICAN DEPARTMENT STORE FASHIONED THE MIDDLE CLASS 184 (St. Martin’s Press 2006).
26. THOMAS J. SCHLERETH, VICTORIAN AMERICA 146 (HarperPerennial 1992). Although there is some dispute as to which department store was founded first (and some gradually transitioned from small dry goods stores), many credit Bon Marché in Paris founded in 1852 by Aristide Boucicaut. FERRY, supra note 22, at 2; ROBERT HENDRICKSON, THE GRAND EMPORIUMS: THE ILLUSTRATED HISTORY OF AMERICA’S GREAT DEPARTMENT STORES 25–27 (Stein and Day 1979). Boucicaut’s department store was a revolutionary change in retail: customers were encouraged to browse without any obligation to make a purchase; a money-back guarantee allowed shoppers to feel more secure in their purchases; the merchandise was sold with a small mark-up, requiring rapid turnover to yield profit; and goods were clearly marked with fixed prices and clerks were forbidden to haggle over the price. HENDRICKSON, at 25–27. Other retailers made similar innovations around the same time and it is difficult to determine who invented what first. Id. at 28. For example, Adam Gimbel introduced fixed prices to his Vincennes, Indiana trading post in 1840; Potter Palmer (the original partner of Marshall Field), R.H. Macy, and the founders of Strawbridge & Clothier in Philadelphia introduced cash discounts long before their stores became department stores. Id.
Most American department stores were founded between 1860 and 1910, and were a product of the industrial revolution. Americans shifted from rural areas to urban centers and millions of immigrants came to the United States. The increased density of population in cities as well as advances in industrial production allowed department stores to be created and flourish. Department stores gave textile manufacturers a dependable outlet for their wares, and their heavy advertising allowed city daily newspapers to grow and prosper.

Department stores in the United States democratized luxury. All women were “ladies” to department store staff and the principal of first-come-first-served allowed a servant to be waited upon before an heiress. Women aspiring to middle class comfort could find it temporarily in this new downtown center of life, creating an illusion of shared luxury between shoppers. Obsequious acts, such as greeting shoppers, accepting returns, and treating all equally, regardless of position in society, were elevated to the level of public service, something highly regarded in a democratic society.

The principal cause of the stores’ success is that their founders understood that they were creating democratic and almost public institutions for a newly industrialized society by satisfying consumer hunger in the cheapest possible way, while at the same time providing a taste for elegance and comfort unknown to previous generations. Thorstein Veblen called this democratic phenomenon “pecuniary cannons of taste,” meaning that all people were equal if they had the money to acquire certain goods.

27. HENDRICKSON, supra note 26, at 30–31; WHITAKER, supra note 23, at 1; LEACH, supra note 24, at 16.
29. BARTH, supra note 25, at 113; HENDRICKSON, supra note 26, at 31.
30. WHITAKER, supra note 23, at 137.
31. BARTH, supra note 25, at 115.
32. Id. at 123.
33. Id. at 130; see also JONATHAN RABAN, HUNTING MISTER HEARTBREAK: A DISCOVERY OF AMERICA 51 (Harpercollins Publishers 1991); LEACH, supra note 24, at 20.
34. BARTH, supra note 25, at 133.
35. SCHLERETH, supra note 26, at 149.
36. Id.; BARTH, supra note 25, at 133.
Department stores became "meccas of consumerism and materialism," pioneering the art of commercial displays and taking advantage of new technology for larger, stronger, and clearer windows, allowing pedestrians to shop without even entering a store. Like World's Fairs, another popular phenomenon of this era, department stores used exciting interior designs, fashion shows, holiday events, parades, fairs, and carnivals to sell merchandise. Urban department stores even learned to commercialize Christmas and persuaded the federal government to move Thanksgiving one week earlier in order to increase the time available for Christmas shopping.

By the late 1800s, a new world of retailing was created as department stores created a new market position as universal providers of substantially all goods. The most prominent department stores emerged from small peddler shops and became some of America's largest businesses. Department stores required new building materials because of their enormous size, glass technology for giant display windows, and innovations in heating and cooling systems for the comfort of customers, among other architectural advancements. The store layouts made shopping easier for consumers and allowed persons of different social and economic backgrounds to mix. The department store also offered new customer services never before seen such as restaurants, restrooms, reading rooms, home delivery, wrapping services, late and dependable store hours, new types of merchandise displays, and other improvements.

While owing a creative debt to the early pioneers of dry goods stores, John Wanamaker in Philadelphia, Marshall Field in Chicago,

37. SCHLERETH, supra note 26, at 148.
38. Id.
39. See id. at 144. To promote shopping, department stores resurrected dormant holidays and invented new ones. Id. at 161.
41. See LEACH, supra note 24, at 23–24.
42. The term "dry goods" has long been associated with the items carried by department stores. See HENDRICKSON, supra note 26, at 30. Dry goods stores take their name from the practice of early New England merchants to sell "wet goods" or rum on one side of the store, and "dry goods" or bolts of
and Rowland Hussey Macy in New York were the originators of the American department store, creating enduring legacies that continue to this day.43

C. Growth of the Early Department Stores

John Wanamaker opened his first store in Philadelphia in 1861.44 What started as a small thirty-by-eighty foot shop became the largest men’s store in the city within seven years.45 As Wanamaker’s expanded over the years, its founder instituted some of the policies for which he would be famous, including a complete satisfaction guarantee on all items sold.46 Wanamaker’s was not the first store to institute a no-haggle pricing system, but it was the first to adopt the system on such a large scale.47

In 1876, Wanamaker opened his flagship store, portions of which still stand today, albeit as a Macy’s.48 On opening day, more than seventy thousand people entered the store, which contained more than three acres of retail space, 129 counters, 1,400 stools “for the convenience of shoppers,” stained glass skylights, and great gas chandeliers.49 This early store contained a version of the racetrack, or circular pathway, design still used by most department stores today.50

calico on the other side of store. Id. The term wet goods appears to have slipped from usage, but some department stores and department store literature still refers to the items carried therein as dry goods. See id.

43. Id. at 38, 61; SCHLERETH, supra note 26, at 147; Jane M. Von Bergen, Retail Revolution of His Own: John Wanamaker’s Stores Are Long Gone. But His Influence on American Shoppers Is Incalculable, PHILADELPHIA INQUIRER, Nov. 21, 1999. A.T. Stewart’s “Cast-Iron Palace” opened in New York City in 1862 and introduced to American shoppers the practices found at Paris’ Bon Marché, including special attention to female customers, a fixed price policy with no haggling, departmentalized stock, centralized management, an impressive physical structure, shopping amenities such as organ music, and basement sales. John Wanamaker bought the Cast-Iron Palace from Stewart’s beneficiary, Judge Henry Hilton, in 1896. See generally FERRY, supra note 22; BARTH, supra note 25.

44. HENDRICKSON, supra note 26, at 76.

45. Id.

46. Id. at 77.


48. HENDRICKSON, supra note 26, at 78. Though the store was rebuilt in 1911, portions of the original store remain, and the rebuilt store occupies the same location as the 1876 store. Id. at 79.

49. Id. at 78.

50. See id. at 78; see also generally Sway, RoxAnna, The Department Store: Headed for the Dustbin or Ready to Re-Energize?, DISPLAY & DESIGN IDEAS, June 1, 2003, at 1.
Grand openings like this became celebrated national events; when Wanamaker rebuilt the store in 1911, President William Howard Taft dedicated the store.\(^{51}\)

Wanamaker's innovations extended to employees as well. He made cash payments to employees upon completion of their work; hired women; gave half of Saturday off; instituted bonuses, insurance, pensions, health and recreational facilities; and paid competitive wages.\(^{52}\)

One of Wanamaker's peers was Marshall Field in Chicago.\(^{53}\) While Field created the world's first bargain-basement department store, the downtown Chicago store was known as the "grandest of the grand emporiums."\(^{54}\) The store's south atrium, one of three in the store, was designed and built by Louis Comfort Tiffany and includes a glass mosaic covering 6,000 square feet.\(^{55}\)

Business was good for Marshall Field; when he died in 1906, he left an estate worth more than $120 million—more than $2.6 billion in today's dollars.\(^{56}\) He endowed Chicago's natural history museum,

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51. SCHLERETH, supra note 26, at 148.
52. HENDRICKSON, supra note 26, at 80. Wanamaker was later appointed Postmaster General of the United States. Id.; LEACH, supra note 24, at 116. One of his most important acts, which benefited millions of Americans, as well as department stores, was to institute direct and free delivery of mail to all homes in the United States in 1896. HENDRICKSON, supra note 26, at 80, 210.
53. Unlike most of the merchant princes, Field did not start with a small cramped shop of his own. HENDRICKSON, supra note 26, at 82; LLOYD WENDT & HERMAN KOGAN, GIVE THE LADY WHAT SHE WANTS! 47-55, 62-64 (Rand McNally & Co. 1952). Potter Palmer, known as "The A.T. Stewart of the West," sold his store to Field and a junior partner in 1868. HENDRICKSON, supra note 26, at 83. Field bought out his partner, Levi Leiter, in 1881. Id. at 86. The store grew bigger and stronger, despite the brief setback of burning to the ground in Chicago's Great Fire of 1871. Id. at 85. Field earned the loyalty of his employees by posting a sign in the ruins of his store telling the staff where they could pick up their pay. Id.
54. HENDRICKSON, supra note 26, at 82. See also LEACH, supra note 24, at 27-28.
55. HENDRICKSON, supra note 26, at 82. Some consider it the most architecturally significant department store in the United States. David Moin, Vicki M. Young, Meredith Derby & Joanna Ramey, Macy's Coast-to-Coast: Federated-May Deal Forges New Retail Giant, WOMEN'S WEAR DAILY, Mar. 1, 2005, at 1. Field's also amassed an art collection, including Norman Rockwell's "The Clock Mender." William Mullen, Times Heals Rift Over a Rockwell: Tiff Between 2 Retail Chains Comes to an End with the Donation of the Painting 'The Clock Mender' to the Chicago History Museum, CHI. TRIB., Sept. 27, 2006, Metro, at 3. When Macy's bought Marshall Field's it found that the famous painting was missing and began a public argument with Target, the former owner, to get the painting back. Id. Target finally donated the painting to the Chicago History Museum. Id. See also LEACH, supra note 24, at 136-37.
which was renamed the Field Museum of Natural History, and also donated the land that comprises the central core of the University of Chicago campus.  

Rowland Hussey ("R.H.") Macy was born on Nantucket Island to a Quaker family in 1822. He left on a whaling ship at age fifteen and returned with a red star tattooed on his hand—the red star that now serves as the trademarked logo of Macy’s, Inc. After whaling, Macy tried careers in retail, the stock market, and real estate before opening a store in Manhattan in 1858.

R.H. Macy’s small store was sixty feet deep with a twenty-foot front and located on Sixth Avenue near Fourteenth Street. With no money, he financed the store with loans of $20,000 and instituted the basic policies Macy became known for: selling at fixed, marked prices; selling at lower prices than other stores; buying and selling for cash only; and advertising vigorously. The store was a success and soon grew to occupy eleven storefronts.

Macy had little confidence in his son’s business skills; instead, two years after opening his store, Macy hired and came to depend on one of the first women in American department stores, a distant relative named Margaret Gretchell. When Macy died suddenly in 1877,
Gretchell’s husband and one of Macy’s nephews acquired the store. Over the next few years, the store changed hands several times, each time being purchased by another one of R.H. Macy’s relatives.

The last of these Macy’s family owners, Charles Webster, became the sole owner of Macy’s within a short period of time, but Webster lacked experience and retailing knowledge. A few years before his death, R.H. Macy leased the 2,500 square foot china department to Lazarus Straus, a Jewish peddler who emigrated to the United States from Germany in 1852. It became Macy’s most profitable department, with sales reaching twenty percent of the store’s total. Webster offered Straus a partnership in 1887, and in 1896, Lazarus’s two sons, Isidore and Nathan, bought Webster out. Although the store still carries Macy’s name today, Macy’s was owned by the Straus family for decades—far longer than it was owned by the Macy family. The Straus family achieved national prominence in that era. At the same time they were consolidating their control over Macy’s, Isidore and Nathan were also taking over Brooklyn’s grand department store, Wechsler & Abraham, later renamed Abraham & Straus (or as Brooklynites knew it, A&S).

65. FERRY, supra note 22, at 57-58.
66. Id. at 58.
67. BARMASH, supra note 24, at 24. See generally HENDRICKSON, supra note 26, at 66.
68. BARMASH, supra note 24, at 24; FERRY, supra note 22, at 59.
69. BARMASH, supra note 24, at 25-26. See generally HENDRICKSON, supra note 26, at 66.
70. Id.; FERRY, supra note 22, at 59. Lazarus Straus died in 1888. BARMASH, supra note 24, at 27.
71. See generally BARMASH, supra note 24. Some have theorized that as long as the Straus family’s name was immortalized in one department store—Abraham & Straus—the family did not feel it necessary to change the name of Macy’s. Id. Abraham & Straus, however, was acquired by and renamed Macy’s in 1995. http://www.macysinc.com/AboutUs/History/MacysAHistory.aspx (last visited Feb. 15, 2010).
72. LEACH, supra note 24, at 25-26. Abraham Abraham was born in New York City in 1843 into a Jewish family, and the son of a man who had emigrated from Germany. FERRY, supra note 22, at 64. He left school at age fifteen to work in a Newark dry goods store along with Benjamin Altman (who founded B. Altman’s department store) and Lyman Bloomingdale (co-founder of Bloomingdale’s). Id. Wechsler sold his interest in Wechsler & Abraham in 1893 to the three Macy’s partners, Isidore and Nathan Straus, and Charles Webster, changing the name of the store to Abraham & Straus. Id. at 65. The Strauses, separately, took over the A&S china department, as they had done at Macy’s. Id.; see BARMASH, supra note 24, at 26-27. Other department store founders unofficially apprenticed at these great stores; William Dillard worked at Wanamaker’s in New York City while earning his MBA at Columbia—that job, as well as visits to Macy’s and Gimbel’s, provided him with examples of how prosperous stores operated. LEON JOSEPH ROSENBERG, DILLARDS 7 (Univ. of Arkansas Press 1988).
Isidore died in 1912 while sailing on the maiden voyage of *Titanic*, and Nathan continued to run the business. Although Macy's went public in 1922, the Straus family continued to be involved as investors, corporate officers, and directors until Macy's was taken private in 1985.

Macy's flourished under Straus family control. In 1902, Macy's moved uptown to Manhattan's Herald Square into a new nine-story store featuring thirty-three elevators and four escalators. The Herald Square store cost $4.5 million, which was a huge sum at the time, but the Straus family was considered such a good credit risk that neither Macy's nor A&S had to be used as collateral for the loan. Additions were made to Macy's so that by the early 1930s it occupied the entire block from Broadway to Seventh Avenue, and from Thirty-Fourth Street to Thirty-Third Street, making it the largest store in the world.

Macy's opened branches in Brooklyn and in the New York City suburbs, and also acquired other department store chains in Toledo, Ohio (1923); Atlanta (1924); New Jersey (1929); San Francisco (1945); and Missouri (1947).

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Oscar Straus, Lazarus' youngest son, graduated from law school and was appointed ambassador to Turkey by President Grover Cleveland—a controversial move because Oscar was Jewish. BARMASH, supra note 24, at 29–30. In 1906, President Theodore Roosevelt appointed Oscar as Secretary of Commerce and Labor; Oscar was the first Jew to be appointed to a cabinet position. BARMASH, supra note 24, at 30.

73. Id. Isidore died along with his wife Ida. Id. Isidore refused to enter a lifeboat because there was not enough room for women and children; Ida refused to go because she had been married to Isidore for forty years and saw no reason to end it at that moment. Id. A plaque on the 13th floor of Macy's flagship store in Manhattan commemorates their courage, and Straus Hall at Harvard memorializes them. Id. Actors Lew Raven and Elsa Palter play Isidore and Ida in James Cameron's blockbuster film, *Titanic* (Paramount Pictures 1997). The Internet Movie Database, *Titanic*, http://www.imdb.com/title/tt0120338/fullcredits#cast (last visited Aug 17, 2008).

74. See BARMASH, supra note 24, at 19, 126, 132.

75. HENDRICKSON, supra note 26, at 66.

76. BARMASH, supra note 24, at 28.

77. HENDRICKSON, supra note 26, at 66–67. Macy's even won an antitrust lawsuit during this period. Charging twenty to twenty-five percent less than publishers' advertised prices on books, Macy's was accused by a book publishers' association of devaluing the copyright on the books it sold. Straus and Straus v. Am. Publishers' Assoc., 231 U.S. 222, 229 (1913). Macy's prevailed in the Supreme Court, but the struggle may have contributed to Macy's singular decision to develop private labels for merchandise to give it greater pricing independence. See generally BARMASH, supra note 24, at 32.

78. Id.; HENDRICKSON, supra note 26, at 69.
Wanamaker’s, Field’s, and Macy’s were remarkable for their success, growth, and longevity, but they were not alone. David May, the founder of May Department Stores, emigrated to the United States in 1863 with less than one dollar to his name. By 1914, May owned department stores in Denver; Cleveland; Pittsburgh; Akron, Ohio; and St. Louis.

Adam Gimbel, who founded the store across the street from Macy’s, was a German immigrant peddler who first opened a trading post in Vincennes, Indiana. His success led to stores in Milwaukee, Philadelphia, and finally, in 1910, New York City. Gimbels was sold to British American Tobacco in 1982, which shuttered the chain in 1986. Many of the former Gimbels stores that remain standing are now Macy’s.

Morris Rich, a Jewish immigrant from Hungary, opened his first store in Atlanta in 1867, just three years after General Sherman had burned the city to the ground. At a time when caveat emptor ruled, Rich’s guaranteed customer satisfaction and treated customers with southern hospitality. Among many other contributions, the Rich family endowed Emory University’s business school. Although Rich’s had faced Macy’s as a competitor from 1924 on, the Rich family sold out to FDS in the 1970s, which, in 2003, combined the Rich’s and Macy’s stores in Atlanta.

Almost every city in America had a local department store that contributed to its development and character. And some institutions begun by department stores outlived the department stores themselves. Dayton’s department store of Minneapolis turned its
basement into the “Downstairs Store,” which set out to be a “quality discounter.” The “Downstairs Store” was eventually turned into a separate and freestanding store that Dayton’s called “Target.” Similarly, Filene’s of Boston created the “Automatic Bargain Basement” where prices were automatically reduced the longer items remained in stock.

Membership stores, well-represented today by Costco, B.J.’s Wholesale Club, and Sam’s Club, have their roots in the antitrust laws enacted in part to combat the rising popularity of department stores. In 1936, with a populist intent to punish all large department stores because of their enormous power, Congress passed the Miller-Tydings Act. Miller-Tydings allowed states to enact “fair trade” legislation, effectively allowing individual states to overrule the Supreme Court’s decision in Dr. Miles Medical Co. v. John D. Park & Sons Co., and allowing manufacturers to fix prices with retail outlets.

88. Id. at 117–18. See also MARVIN TRAUB & TOM TEICHOLZ, LIKE NO OTHER STORE . . . : THE BLOOMINGDALE’S LEGEND AND THE REVOLUTION IN AMERICAN MARKETING 266 (Times Book/Random House 1993). Dayton’s continued in the department store business for many years, acquiring Hudson’s of Detroit and Marshall Field’s, but the company eventually decided it had better growth prospects with Target, changing the name of the corporation to “Target” and selling its department stores to May. ROWLEY, supra note 87, at 117. Dayton Hudson was not the only store to create a discount chain, although it may have been the most successful. Rich’s created Richway, Associated Dry Goods acquired Caldor, FDS created Gold Circle, and May created Venture. Id. See also TRAUB, supra note 88, at 266–67. Richway, Caldor, and Gold Circle were liquidated during the Campeau debacle and Venture ceased operations in the late 1990s in the face of heavy competition from Target and Wal-Mart. Id.
Miller-Tydings provided an exemption whereby stores that were open only to members could in fact sell at a discount to the manufacturer’s suggested list price. E.J. Korvette’s, the first of many predecessors to today’s Costco, opened in New York City in 1948. Membership was not selective or even pricey: Korvette’s founder gave out free membership cards to anyone who asked.

D. Merger and Consolidation

While Wanamaker’s and Gimbels operated in (respectively) two or three cities, and Macy’s and May acquired a few other department store groups early on, most department stores remained local operations. But from the beginning, the entrepreneurial merchant princes recognized certain economies of scale could be achieved by working cooperatively.

In 1916, A&S, Filene’s, Dayton’s, Emporium, Bullock’s, Lazarus, Hudson’s, Strawbridge & Clothier, and eighteen other family-owned, non-competitive department stores in different cities formed the Retail Research Association, which was later renamed Associated Merchandising Corporation. These organizations conducted joint market research and pooled buying. Additionally, A&S and Macy’s shared a buying office in Paris and made joint arrangements with factories.

94. ROWLEY, supra note 87, at 115.
95. Id. The chain stores, such as Sears and Montgomery Ward, also did well in this period, but followed a business model substantially different than the department stores. WHITAKER, supra note 23, at 2–3. See MARK STEVENS, LIKE NO OTHER STORE IN THE WORLD: THE INSIDE STORY OF BLOOMINGDALE’S 164 (Thomas Y. Crowell, Publishers 1979); see also generally HENDRICKSON, supra note 26, at 205–50. Until World War I, Sears and Wards were solely catalog businesses, selling mostly to customers in rural areas. Id. Even after opening retail stores, the chains rarely chose downtown locations, had inventory managed centrally without any discretion given to store managers for local tastes, and specialized in mass-produced goods rather than fashion or style. Id. It is unclear whether J.C. Penney is part of the chain store group, the discount store group, or even the department store group; Penney’s has changed its marketing strategies many times.
96. FERRY, supra note 22, at 66, 140; ROWLEY, supra note 87, at 113; JOHN M. BURNHAM, A VENTURE IN RETAILING, FEDERATED’S “FOLEY’S OF HOUSTON” BY MAX LEVINE, RETIRED CHAIRMAN OF THE BOARD, FOLEY’S OF HOUSTON 29–30 (The University of Texas at Austin College of Business Administration Foundation Oral Business History Project 1969).
97. Id.
98. FERRY, supra note 22, at 65.
The department stores cherished local control and family ownership, but also recognized that risks could be spread by affiliating with other stores so the businesses were not entirely dependent on the economy of a single city. Sharing ownership responsibilities also reduced dependency on family succession where a future generation might not have the talent or interest to run the company.

In 1929, FDS was formed by the merger of Lazarus of Ohio, A&S, and Filene's; Bloomingdale's was asked to join a few months later. FDS was originally created as "a loosely knit federation of largely autonomous and quasi-independent retail entities." The original holding company controlled less than one hundred percent of the stock of its constituent entities, and its purpose was not to control, but to unify. Over time, FDS centralized operations and acquired all of the stock of the member department stores. Headquarters was moved from New York to Cincinnati—where it remains today—and the company began expansion in the 1940s. FDS allowed critical decisions to be made locally, such as choosing fashions, but centralized accounting and encouraged competition between the divisions in different cities to produce the greatest revenue.

Joining together, each FDS department store could create buying strength, but by operating independently, each retained its distinct character, so customer loyalty was to the store and not the chain. An FDS stockholder publication stated the following:

Because the company founders felt that Federated should not become a chain of identical stores with a common name and common merchandise trying to appeal to a mythical common

99. BURNHAM, supra note 95, at 24–25.
100. Id. at 25.
101. TRAUB, supra note 88, at 41, 264.
102. STEVENS, supra note 95, at 163–65; FERRY, supra note 22, at 4, 66; TRAUB, supra note 88, at 41, 264; BURNHAM, supra note 96, at 31–33.
103. BURNHAM, supra note 96, at 29–30.
104. Id. at 33.
105. Id. at 33, 45–46.
106. Id. at 33–34, 37–38, 45–46. See STEVENS, supra note 95, at 168–69.
107. TRAUB, supra note 88, at 41, 264.
customer, new merchandising concepts have been developed and tailored to the changing needs of the American consumer. Operating control has remained at the local level where management can closely relate to the needs of customers and community. Federated believes that a corporation, like an individual, has a duty to be an involved citizen in the community. This is even more important for department stores. By the very nature of their presenting total services, department stores are involved with most of the major elements of society.¹⁰⁸

The FDS business structure was highly successful and copied by other groups of department stores—each generally continuing some local control, extending the founding family’s involvement, and making many merchandising decisions separately.

Allied Stores included many of the department stores not invited to join FDS; the most significant of which was Jordan Marsh in Boston.¹⁰⁹ May continued to acquire department stores but allowed their local character to continue. Carter Hawley Hale (CHH) grew out of a combination of stores in California; it later acquired Neiman Marcus of Dallas, Wanamaker’s, and other stores. Similarly, Mercantile Stores (later acquired by Dillard’s), Associated Dry Goods (later acquired by May), and on a smaller scale, Boscov’s, Bon-Ton, Belk, and Proffitt’s, followed the FDS model combining a hodgepodge of family-owned department stores, creating economies of scale, but decentralizing important management decisions. With each holding company except Dillard’s, department stores kept their local name and much of their local character.

From the end of World War II until the 1980s, department stores continued as they were, dealing with the rise of suburbs and malls (and often the decline of downtowns), but almost invariably profitable and locally focused. By the end of the nineteenth century, there were 1,000 department stores; by 1950, there were 4,000 stores;

¹⁰⁸. STEVENS, supra note 95, at 169.
¹⁰⁹. BURNHAM, supra note 96, at 32–33.
and in 2002, there were 9,355 stores.\textsuperscript{110} Conservative operations in most department stores meant there was little debt, and the often incredibly valuable downtown real estate was not leveraged. That led directly to the most tragic event in the entire history of American department stores.

E. Robert Campeau

A perfect storm of greed, lust for power, and a liberal Wall Street regulatory scheme almost led to the end of the American department store in the 1980s. Starting in 1985, one man, a Canadian named Robert Campeau, with less than $200 million in assets, was able to borrow $11 billion to purchase the majority of department stores in the United States, plunging them into bankruptcy a short time thereafter. In his wake, Campeau left these department stores—stores with which he was unfamiliar until shortly before buying them—with thousands of layoffs; a required bail-out and foreign ownership by investment bank First Boston;\textsuperscript{111} the collapse of the junk bond market, which depressed profits for all department stores (forced to compete with near fire sale prices on merchandise sold by the bankrupt Campeau department stores\textsuperscript{112}); and a big drop in print and broadcast advertising (hurting newspapers and broadcast outlets). The mess continued for years, resulting in the merger between FDS and Macy’s, as well as the permanent shuttering of flagship downtown department stores in cities across the country, including: Atlanta,\textsuperscript{113}

\begin{itemize}
  \item \textsuperscript{110} Jean Palmieri, Retailing’s Seismic Shifts: From the Wal-Mart Rollout to the Nationalization of Macy’s, Retailing Has Undergone Dramatic Changes, NEWS REC (Los Angeles, CA), Apr. 24, 2006, at 98.
  \item \textsuperscript{111} Sarah Bartlett, Reassurance by First Boston That It Is Financially Sound, N.Y. TIMES, Feb. 24, 1990, at 35; CS First Boston: As Many Names As a Russian Novel, THE ECONOMIST, Nov. 3, 1990, at 90; Steven Greenhouse, Reviving a Humbled First Boston, N.Y. TIMES, Mar. 11, 1991, at D1. First Boston was acquired by Credit Suisse and is now known as CS First Boston. Id.
  \item \textsuperscript{112} Carol J. Loomis, The Biggest Looniest Deal Ever, FORTUNE, June 18, 1990, at 48.
  \item \textsuperscript{113} John Rothchild, Going for Broke: How Robert Campeau Bankrupted the Retail Industry, Jolted the Junk Bond Market, and Brought the Booming Eighties to a Crashing Halt 264–65 (Simon & Schuster 1991); Melissa Levy, Who Exactly Is Federated Department Stores, Inc.?, MINNEAPOLIS STAR TRIB., May 31, 2004, at 1D.
\end{itemize}
Boston,\textsuperscript{114} Columbus,\textsuperscript{115} Hartford,\textsuperscript{116} Newark,\textsuperscript{117} Los Angeles,\textsuperscript{118} Memphis,\textsuperscript{119} Philadelphia,\textsuperscript{120} Pittsburgh,\textsuperscript{121} San Francisco,\textsuperscript{122} St. Petersburg,\textsuperscript{123} Tampa,\textsuperscript{124} and Washington, D.C.\textsuperscript{125} 

\textit{Fortune Magazine} called it “The Biggest Looniest Deal Ever.”\textsuperscript{126}
Three unrelated events began this debacle. First, as interest rates dropped in the early 1980s, insurance and pension funds invested in high-yield junk bonds, making it easier for corporate raiders to raise capital to conquer new companies.\(^{127}\) The old staid department stores, with valuable real estate, steady profits, and intangibles like century old household brand names, were very valuable, but unprepared for the onslaught.\(^{128}\) Second, an inside group of executives and directors at Macy’s took the store private. And third, Campeau, a successful real estate developer, sought to expand his business holdings. Although Campeau first considered purchasing a savings and loan or an insurance company, he decided that “since he was in the mall building business, it made sense to own retail companies whose stores could rent space in his centers.”\(^{129}\)

\section*{F. Macy’s Goes Private}

Ed Finkelstein was a retail legend. After heading Macy’s divisions in New Jersey, California, and New York, he was named chairman and chief executive officer of the entire company. Only twelve years after Macy’s ended a century long chain of Straus family leadership,

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headquarters, open. \textit{Contra Tucker} & \textit{Alltucker}, \textit{supra} note 121. This suggests that there is at least some value to local ownership of department stores.

126. Loomis, \textit{supra} note 112, at 48.


128. At least one author who has studied this era would argue that the merger, bankruptcies, and consolidation of the national department stores began in 1984 when Limited Brands, owner of The Limited, Victoria’s Secret, Express, and other popular brands, attempted a hostile takeover of CHH stores, owner of Neiman-Marcus, The Broadway, John Wanamaker’s, and other major department stores. \textit{See id.} 26–27. The takeover bid failed but ended with the bankruptcy of CHH, the sale of John Wanamaker’s to Alfred Taubman, and the sale of The Broadway to Chicago billionaire Sam Zell. Taubman combined Wanamaker’s with Washington, D.C.’s Woodward & Lothrop, later putting both into bankruptcy and shuttering the chains. Zell sold The Broadway to Federated, and Federated converted them to Macy’s and Bloomingdale’s. Another larger merger occurred in 1986 when May acquired Associated Dry Goods, which included Lord & Taylor, L.S. Ayre (Indiana), Joseph Horne (Pittsburgh), Hahne & Co. (New Jersey), and Robinson’s (Los Angeles and St. Petersburg, FL). \textit{See generally} Eric Schmitt, \textit{May Stores Seek Associated Chain}, \textit{N.Y. TIMES}, June 23, 1986, at A1; Martha Groves, \textit{May Discloses Sweetened Bid for Associated}, \textit{L.A. TIMES}, July 11, 1986, Part 4, at 1; \textit{Associated, May Merger Talks Confirmed}, \textit{Chi. Trib.}, July 11, 1986, at C3; Martha Groves & Greg Braxton, \textit{Merger of May, Associated Faces Grass-Roots Opposition}, \textit{L.A. TIMES}, Aug. 25, 1986, Part 4, at 1.

129. TRACHTENBERG, \textit{supra} note 127, at 97.
Finkelstein repositioned Macy's to appeal to affluent consumers wanting high fashion, not bargains. The changes led to record sales and earnings.

Department stores were stable businesses with consistent—although perhaps not earth-shattering—profits. But department store companies, particularly in the older urban markets, owned incredibly valuable real estate “often valued on their books at only a fraction of true worth,” and had little or no debt.

In 1985, Herbert and Robert Haft of the Dart Group separately greenmailed both May and FDS, making millions in profit. Other targets of the Hafts, including Eckerd Drugs, Safeway, and Stop & Shop supermarket chains, were forced to sell parts of their companies to pay the enormous debt incurred in leveraged buyouts designed to save the companies from the Hafts. “Safeway sold or closed 300 stores and laid off 8,000 employees. Stop & Shop sold or closed [thirty-seven] of its Bradlee’s stores and laid off 5,000 jobs.”

In April of 1985, Business Week predicted that Macy’s would be a target for a corporate raider or greenmailer. Macy’s was in a dangerous situation and Finkelstein decided it was time to take the company private. “Using the company’s own cash flow and assets as collateral,” insiders invested a mere $17.5 million, and borrowed almost $4 billion to buy Macy’s, taking the company private.

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130. Id. at 24.
131. Id.
132. Id. at 28; TRAUB, supra note 88, at 271. See also BARMASH, supra note 24, at 17.
134. TRACHTENBERG, supra note 127, at 27; Caroline E. Mayer, Hafts Turn Failure into Large Profits, WASH. POST, July 12, 1987, at A1. In 1987, the Hafts made a run on Dayton Hudson stock, eventually mounting a takeover bid. ROWLEY, supra note 87, at 162. The state of Minnesota passed a law to make hostile takeovers of Minnesota companies more difficult, but the 1987 stock market crash dissuaded the Hafts from their bid. Id. at 163–65.
136. Gene G. Marcial, Why Retailing Is Ripe for the Raiders, BUS. WK., Apr. 29, 1985, at 101. In 1985, there was $24 billion of leveraged buyouts, five times as much as two years earlier. BARMASH, supra note 24, at 102.
137. TRACHTENBERG, supra note 127, at 28. See BARMASH, supra note 24, at 3–4.
private for the first time since 1922. 138 The financing was complicated with different instruments and collateral connected to Citibank, Manufacturers Hanover Trust, Goldman Sachs, and Prudential, among others. 139 It would not be obvious until 1993 that Prudential's one billion dollar investment secured by mortgages on the department store's valuable urban real estate was the most pivotal. 140

G. Campeau Buys Allied Stores

In March of 1986, Campeau began secretly buying shares of Allied Stores through a dummy corporation. 141 Though the Campeau Corporation was "quite profitable," 142 only the leveraged-buyout craze of the 1980s could have allowed Campeau Corporation, a real estate firm with a market value of $200 million and fewer than one thousand employees, to take on Allied. 143 Allied Stores had a market value of two billion dollars; twenty-four divisions, including Brooks Brothers, Jordan Marsh, Bonwit Teller, Bon Marche, and Stern's; 670 separate stores; and 70,000 employees. 144

By 1986, it was apparent that Campeau's raid on Allied required an unrealistic rate of return that doomed it from the start. 145 But the fees were too large to caution more prudent behavior. First Boston, for example, stood to earn more than approximately $60 million in fees for various services, not including interest and additional fees if Allied had to be chopped up to pay off debt. 146 Eleven law firms and sixteen banks were involved, each generating enormous fees. 147

138. Id. at vii, 19.
139. TRACHTENBERG, supra note 127, at 88–89.
140. Id. at 226.
141. ROTHCHILD, supra note 113, at 43.
142. Id. at 33.
143. Id. at 14, 28–29, 36–42.
144. Id. at 29. This entire series of events may have been caused simply by Campeau's desire to bring a Brooks Brothers store into one of his Canadian shopping malls. See id. at 29, 93.
145. ROTHCHILD, supra note 113, at 115.
146. Id. at 99.
147. See id. at 105.
Making the Campeau/Allied deal work, however, required a return on investment of twelve percent. The best any division of Allied had ever done was nine to 9.5 percent and the company average was six to seven percent. Campeau was forced to raise one billion dollars almost immediately by selling sixteen of Allied’s twenty-four divisions, including Block’s in Indianapolis, Donaldson’s in Minnesota, Joske’s in Texas, and Bonwit Teller in New York.

H. Campeau Buys FDS

Although it was still unclear whether Campeau’s purchase of Allied would ever be profitable—and while various Allied divisions were still on the market—Campeau decided it was time for another major acquisition. He was interested in acquiring May, but decided to buy FDS. Some at First Boston questioned the wisdom of being involved in such a risky transaction, but Campeau was responsible for half of the firm’s 1986 and 1987 profits. Though the other banks that financed Campeau’s acquisition of Allied were unwilling...
at first to extend themselves further, Security Pacific decided to take the risk.\textsuperscript{154}

FDS's board immediately turned down Campeau's tender offer,\textsuperscript{155} but the company was now in play with multiple suitors.\textsuperscript{156} Ohio, the home of FDS, hastily passed an antitakeover bill,\textsuperscript{157} but the bill was quickly declared unconstitutional by a federal judge.\textsuperscript{158} Campeau raised his bid higher than the others interested in FDS, including Kohlberg Kravis Roberts & Co., the Pritzker family of Chicago and Dillard's Department Stores.\textsuperscript{159}

FDS instead tentatively agreed to sell itself to Macy's.\textsuperscript{160} Macy's had taken on considerable debt to go private, but some of that was paid off, and a properly structured acquisition of FDS would have resulted in considerable profit for Macy's executive and institutional owners.\textsuperscript{161}

Macy's and Campeau began a bidding war; as the price went higher and higher,\textsuperscript{162} Campeau's backers consoled themselves upon reviewing the higher bids with the assumption that Macy's certainly must have known what it was doing in offering to pay so much.\textsuperscript{163}

\textsuperscript{154} Id. at 140–41, 162–63. Although Security Pacific was later largely cut out of the deal in favor of Citicorp, the terms included Security Pacific's paying Citibank and Manufacturers Hanover Trust the entire balance of their Allied loans—each bank made more than $20 million in profits, its largest profit on this type of loan ever. Id. at 142, 181. A sense of urgency was also created by the chance of an antitakeover statute under consideration in Federated's home jurisdiction of Delaware, and Donald Trump's announcement to the Securities and Exchanges Commission that he intended to purchase up to $15 million of Federated shares, perhaps to be used as greenmail. See id. at 147.

\textsuperscript{155} Id. at 153. See also TRAUB, supra note 88, at 270, 272. One reason that First Boston enthusiastically went ahead with the hostile takeover attempt was because its star banker, Bruce Wasserstein, left the firm in a disagreement over policies and opened his own shop. ROTHCHILD, supra note 113, at 158. Unless First Boston could prove that it could do billion dollar deals without Wasserstein, its future was questionable—and the only billion dollar deal on the horizon was working with Campeau to acquire Federated. Id. at 159–60.

\textsuperscript{156} Id. at 165–66.

\textsuperscript{157} OHIO REV. CODE ANN. § 1701.01 (1986), amended by Act of Nov. 22, 1986 (codified as amended at Ohio Rev. Code § 1701.01 (2006)).


\textsuperscript{159} ROTHCHILD, supra note 113, at 168; see TRAUB, supra note 88, at 275–76. An inside group at Federated was also unsuccessful at putting together a management buyout. Id. at 274–75.

\textsuperscript{160} ROTHCHILD, supra note 113, at 179; see TRAUB, supra note 88, at 279–82.

\textsuperscript{161} ROTHCHILD, supra note 113, at 182.

\textsuperscript{162} TRAUB, supra note 88, at 282–84.

\textsuperscript{163} ROTHCHILD, supra note 113, at 183.
The final compromise allowed Campeau to acquire FDS, with Macy’s acquiring three FDS divisions (Bullock’s, Bullocks/Wilshire, and I. Magnin—all West Coast stores) for just over one billion dollars, with Macy’s also receiving a $60 million dollar cash settlement to pay its bankers and lawyers. Campeau also agreed to lower debt and raise cash by selling two FDS department stores, Foley’s (founded in Houston) and Filene’s (founded in Boston), to May. Campeau borrowed more than $6.5 billion dollars to pay for Federated, in addition to the $3.6 billion he had borrowed to purchase Allied. Advisors and bankers on all sides earned $350 million.

I. Allied/FDS and Macy’s Declare Bankruptcy

Because of the enormous debt incurred, Campeau’s acquisition of FDS was doomed from the start. Campeau paid more than $200 million for fees and charges to acquire FDS, which was more than the entire chain earned in a year. In an industry traditionally focused on outstanding customer service, 3,400 jobs were eliminated almost immediately. At first, the financial situation of the combined Allied/FDS was blurred by layoffs and consolidation of certain functions, but by 1989, it was clear the companies were doing terribly. In order to service the debt, the bankers had projected profits at $740 million for the year, but reached only $372 million; at the same time, interest on the debt incurred by Campeau was $516 million.
By early 1990, the Campeau Corporation board of directors stripped Robert Campeau of all authority and put FDS, Allied, and sixty-five subsidiaries into Chapter 11 bankruptcy, after seventy-five years of continuously solvent operations. Vendors for the most part continued shipping goods to Allied/FDS because they had essentially no other purchasers for their goods.

Meanwhile, Macy’s had trouble digesting the Bullock’s, Bullocks/Wilshire and I. Magnin acquisitions and began to struggle under its debt as well. Many executives resigned in the turmoil and in 1988, Macy’s began to lose money. Finally, in 1992, as a consequence of Robert Campeau’s buying spree, Macy’s filed for bankruptcy and Finkelstein was fired.

J. FDS Buys Macy’s

Although Macy’s made progress in its bankruptcy proceedings, an unexpected event changed everything in 1993. Prudential, which held one billion dollars in mortgages on Macy’s real estate, sold half of its claim to FDS, which had emerged from bankruptcy a year earlier. FDS also received an option to purchase Prudential’s

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173. Id.; see also, e.g., In re Federated Department Stores, Inc., 1990 Bankr. LEXIS 2075 (S.D. OH 1990); In re Campeau Corp. Cal., 1990 Bankr. LEXIS 1778 (N.D. Calif. 1990). Just before filing bankruptcy, Campeau said to Marvin Traub, CEO and Chairman of Bloomingdale’s, “Chapter Eleven is a good thing because you can lay off all the people you want, pay reduced salaries with greater incentives, and stop paying pensions.” TRAUB, supra note 88, at 332. Today, Robert Campeau is in his mid-80s and living on his savings in a rented townhouse in Ottawa, Ontario. Paul Waldie, Fallen Titan Campeau in Bitter Divorce Spat, CANADA GLOBE AND MAIL, Nov. 24, 2006, at 37; Paul Waldie, Fallen Titan Campeau in Bitter Divorce Spat, CANADA GLOBE AND MAIL, Nov. 18, 2006, at A1. He is involved in a highly public lawsuit demanding $25,000 (Canadian) per month from his former wife in spousal support. Id. Ilsa Campeau, his ex-wife, maintains a website giving her side of the story, http://www.ilsa.atl/ (last visited Aug. 17, 2008).

174. See Loomis, supra note 112, at 48; ROTHCHILD, supra note 113, at 255; see generally TRAUB, supra note 88, at 333.

175. TRACHTENBERG, supra note 127, at 127–28; see Kara Swisher, I. Magnin at White Flint Mall to Close, WASH. POST, Mar. 6, 1992, at D10.

176. See, e.g., TRACHTENBERG, supra note 127, at 135. Terry Lundgren, who resigned from Bullocks Wilshire after it was acquired by Macy’s, later became CEO of Federated after it acquired Macy’s.

177. See, e.g., id. at 138.

178. Id. at 207, 213–16; TRAUB, supra note 88, at 338.

179. TRACHTENBERG, supra note 127, at 226. FDS had at this point consolidated all Allied operations that it still owned into FDS. See American Retailing, ECONOMIST, Jan. 8, 1994, at 65.

remaining share at a later date—giving FDS ownership or control of one billion dollars of Macy’s, which had been valued by its board at the time of its bankruptcy at two billion dollars.\textsuperscript{181}

FDS was in a no-lose position. Even if a merger did not occur, FDS would end up owning a substantial part of Macy’s.\textsuperscript{182} Finally, in July of 1993, Macy’s agreed to be acquired by FDS, just five years after Macy’s had almost purchased FDS.\textsuperscript{183} The New York Attorney General raised concerns that FDS/Macy’s would own thirty-nine department stores in the New York City metropolitan area and consumer groups expressed fears about higher prices.\textsuperscript{184} But FDS agreed to “attempt” to sell six department stores and that resolved the state’s antitrust concerns.\textsuperscript{185}

K. The Industry Regroups; Macy’s Buys May

In some respects, the department store industry never recovered from the Campeau-related bankruptcies, cuts in service, and store closures.\textsuperscript{186} The “stores were boring, the service nonexistent and the merchandise ubiquitous without being interesting.”\textsuperscript{187} The mainstream department stores lost sight of their customer: affluent customers turned to luxury purveyors like Neiman Marcus, Nordstrom, Saks Fifth Avenue, and Bloomingdale’s, while bargain hunters found what they were looking for at Wal-Mart and Target.\textsuperscript{188}

\begin{flushleft}
\textsuperscript{181} TRACHTENBERG, supra note 127, at 207.
\textsuperscript{182} TRACHTENBERG, supra note 127, at 228.
\textsuperscript{183} Id. at 231–32; Edward R. Silverman, \textit{Federated, Macy’s Merger OK’D}, NEWSDAY, Dec. 9, 1994, at A63; see also Patrick M. Reilly & Laura Jereski, \textit{Macy, Federated Reach Accord in Merger Talks}, WALL ST. J., July 15, 1994, at A3.
\textsuperscript{184} TRACHTENBERG, supra note 127, at 232.
\textsuperscript{186} See, e.g., TRAUB, supra note 88, at 290. Deep cuts in operations at Jordan Marsh turned it from a profitable department store into a money loser. \textit{id}.
\textsuperscript{187} Dody Tsiantar, \textit{Department-Store Superstar}, T\textsc{ime}, Feb. 6, 2006. See also Loomis, supra note 112, at 48.
\textsuperscript{188} Tsiantar, supra note 187.
\end{flushleft}
Macy's, for example, no longer had "its own feisty identity. Instead, a new culture [was created], one that emphasized cost-cutting, controls, and uniformity." Departments unique to Macy's were closed or reduced in size and the store began to sell clothing that could be found in dozens of chains across the country.

The Campeau-related bankruptcies may even be responsible, at least in part, for the ascendancy of Wal-Mart and Target. It was only after the these bankruptcies and consolidation of department stores that "discount stores first made inroads in winning many popular department store brand accounts, to which they would not have ordinarily had access. This helped stoke the fires at Wal-Mart and Target and helped catapult both retailers to their current leadership positions."

A tension existed between cost-cutting and business rationalization, and making department stores desirable places to shop. After Campeau, department stores stopped innovating and launching new concepts. Department stores historically had the foresight, entrepreneurial spirit, and nerve to experiment and remain relevant; Campeau sucked the "lifeblood" out of department stores, forcing them to focus only on "better efficiencies and financial streamlining." In recent years, department stores have become imitators, not innovators, borrowing coffee shops from Starbucks; cosmetics marketing from Sephora; store layouts, shopping carts, and central checkout from Kohl's; and designer shops from Ralph Lauren. In fact, the current trend of department stores to turn over considerable space to brands like Ralph Lauren makes it "a street filled with boutiques," which resembles—and fails to distinguish itself from—the mall itself.

189. TRACHTENBERG, supra note 127, at 236.
190. Id.
191. Sway, supra note 50, at 1.
192. Id.
193. Id.
194. Id.
Retail Forward, an industry consulting group, compiled a list of consumers’ complaints about department stores, which included look-alike stores; inconvenient mall locations; time-consuming and difficult to shop stores; shoddy service; no pricing credibility; and loss of one-stop-shopping appeal. Stores have discontinued management training programs and terminated many layers of executives, which may be contributing to a perceived decrease in customer service—the area that distinguished department stores for more than one hundred years.

Consolidation, however, continued. Dayton Hudson bought Marshall Field’s in 1990 and renamed all the Dayton stores in Minnesota and Hudson stores in Michigan to Marshall Field’s. In 1998, Dillard’s acquired Mercantile Stores, which had operated under approximately thirteen local names. In 2004, May bought Marshall Field’s from Target (the former Dayton Hudson) for $3.24 billion. In 2005, Bon-Ton acquired Carson Pirie Scott, Younkers, Herberger’s, Bergner’s, and Boston Store from Saks Fifth Avenue (which soon afterwards sold off Proffitts, McRae’s, and the Parisian stores not already sold to Bon-Ton, to Belk’s).

May’s 2004 purchase of Marshall Field’s for $3.24 billion received considerable attention. Target had announced three months

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197. Sway, supra note 50, at 1.
198. See id.
200. Dina Bunn, Dillard’s Extends Offer to Purchase Joslin’s Stores, ROCKY MOUNTAIN NEWS, Aug. 7, 1998, at 2B; Dillard’s Acquisition of Mercantile OK’D, ROCKY MOUNTAIN NEWS, Aug. 12, 1998, at 2B. A complicated swap was arranged with the FTC to satisfy antitrust concerns that included selling twenty-six stores to May and Proffitt’s (which later became Saks Fifth Avenue, and sold these stores to Belk’s).
203. Bess, supra note 201. The transactions also included a “handful of Mervyn’s stores.” Id. Mervyn’s is a discount soft goods store with a format similar to J.C. Penney and Kohl’s.
earlier that its department stores were on the auction block, leading to a bidding war between Macy’s and May.\textsuperscript{204}

Some found the transaction “bewildering,” suggesting that May overpaid by as much as $1.5 billion.\textsuperscript{205} A year earlier, May had announced the closing of thirty-two Lord & Taylor stores, many operating in direct competition to Bloomingdale’s and other Macy’s stores.\textsuperscript{206} It is possible that May’s closing of so many Lord & Taylor stores was an effort to groom May for eventual sale to Macy’s: May made itself more enticing by buying Marshall Field’s, which spoke to Macy’s geographic gap in the Midwest, and growing so large that it was too big for Macy’s to ignore.\textsuperscript{207} May’s closing of Lord & Taylor stores in many markets where Macy’s operated stores might have been a reaction to declining business prospects, or could have been an attempt to resolve potential FTC antitrust concerns before May put itself up for sale.

Regardless of whether May intended to put itself up for sale when it bought Marshall Field’s, in 2005—just one year later—Macy’s acquired May for $17 billion.\textsuperscript{208}

After a six month investigation, the FTC allowed the merger to proceed as planned.\textsuperscript{209} Several state attorneys general, however, determined that the merger between Macy’s and May would hurt competition and consumers through diminished choices and higher prices.\textsuperscript{210} The Attorneys General of California, Maryland,
Massachusetts, New York, and Pennsylvania mandated that Macy’s divest twenty-six duplicate stores in malls, and further required that the stores could only be sold to traditional department store companies, even if Macy’s received higher offers from other parties.

New York’s then Attorney General Eliot Spitzer said that the divestiture agreement was necessary because otherwise Macy’s acquisition of May would end department store competition for some consumers: “[w]ith the divestitures, consumers will benefit from lower prices, greater choice, and increased services that will result from the competition generated by placing the divested department stores under new ownership.” At least publicly, Macy’s indicated acquiescence to the divestiture; James Sluzewski, a spokesman for Macy’s, said that “the agreement with state antitrust regulators was expected, given the large number of Macy’s and Bloomingdale’s stores that overlap in malls with May stores.”

In addition to ordered divestitures, Macy’s chose to sell off an additional eighty stores, or approximately twenty percent of the entire May purchase. To increase geographic concentration, Macy’s sold to, or swapped locations with, other department stores, including


211. The traditional department stores acceptable to the attorneys general included Nordstrom, Dillard’s, Gottschalk’s, Neiman Marcus, Saks Fifth Avenue, Sak’s Department Store Group (which included Parisian), Bon-Ton, Elder-Beerman, Boscov’s, Belk and Von Maur. O’Hara, supra note 210.


214. Id.

215. O’Hara, supra note 210. Though Mr. Sluzewski’s comment is interesting, it does not explain why the FTC reached such a different conclusion after its own investigation.

Boscov's and Belk.217 Macy's converted a few former May stores into its upscale department store, Bloomingdales.218 But the majority of the closed department stores were sold to Target or back to the mall owners.219 Mall owners recognize that new department store entry is unlikely and many of these former department stores were turned into multi-tenant space, restaurants, food courts, movie theaters, or sporting goods stores, perhaps permanently eliminating the possibility of future department store entry and competition.220

Macy's also sold what remained of the Lord & Taylor chain to NRDC, a private equity group, for just over one billion dollars.221 Lord & Taylor's flagship store in New York City by itself was valued at $384 million dollars.222

L. Department Stores Today

In the past few years, there have been many attempts to label department stores, particularly middle-market department stores such


220. Id.


222. Sharon Edelson, With Federated-May Merger, Developers Eye L&T Flagship, WOMEN'S WEAR DAILY, June 17, 2005. The same Wall Street analyst who valued Lord & Taylor's flagship at $384 million said "[t]here is no way the FTC will allow Federated to keep Macy's, Bloomingdale's and Lord & Taylor . . . . Federated would become too dominant a presence." Id.
as Macy’s, as a dying breed.223 Some economists have suggested that the under-one-roof convenience, the bailiwick of department stores, is now pushing consumers desiring an easier and quicker shopping experience towards specialty stores such as Gap and Limited.224

In 2008 and 2009, the American economy slowed and entered into recession in substantially all sectors, largely related to difficulties in the real estate market and related financial institution shake-outs. The year 2007, after the Macy’s/May merger but before the economy slowed, may give a better indication of the strengths of retail and department stores.

In 2007, department stores were alive and well, and doing better than specialty stores.225 In fact, it is the specialty stores that may be the most endangered.226 “The great advantage the department store has is the ability to quickly move from one brand to another to keep itself fresh,” said Stephen I. Sadove, chief executive of Saks; “[t]he specialty store does not have that luxury.”227

During the past few years, Limited Brands, Inc. has sold off Lane Bryant, Lerner New York, Abercrombie & Fitch, and Tween Brands, and consolidated Structure and Express into one chain.228 In May of 2007, Limited announced that it would sell a majority interest in its underperforming Express stores, and is considering options for its Limited stores.229 The goal of all these divestitures is to allow


224. Id.


229. Id.
Limited Brands to focus on “intimate apparel, and personal care and beauty.”

In May of 2007, Gap, Inc., owner of Gap, Banana Republic, and Old Navy, reported its seventh consecutive quarterly decline in profits. Gap’s chief executive was fired in January 2007 after a third year of dismal holiday sales, and the chain is considering selling itself.

During the past two years there has been a cooling of the retail market, and that has included a decline in sales in most clothing outlets. Some of this can be attributed to rising fuel prices and other inflationary pressures, as well as a decrease in consumer discretionary spending. Specialty retailers such as Gap, Abercrombie & Fitch, and Limited have had a significant drop in same-store sales. Upscale department stores, however, such as Saks Fifth Avenue and Nordstrom, posted substantial gains. Although many department stores and specialty stores showed slower growth or losses in 2007 as compared to 2006, the department stores as a whole are doing no better or worse than specialty stores. In fact, Macy’s did better than many of the most famous specialty stores.

For example, Liz Claiborne, which operates retail stores under several brand names and also sells to department stores, experienced a sixty-five percent drop in profits from 2006 to 2007. During the same period, Gap, which is planning on laying off as many as 3,000 employees, had a drop in same-store sales of sixteen percent, and

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230. Id.
234. Id.
235. Id.
237. D’Innocenzio, supra note 225.
238. Dodes, supra note 233.
Abercrombie & Fitch had a fifteen percent drop in same-store sales.239

Fears of competition from Wal-Mart may have been exaggerated, at least for now. Wal-Mart’s attempt to sell better fashions and more upscale clothing has been unsuccessful:240 “[o]ne of Wal-Mart’s main problems is that its strategy to broaden its appeal to higher-income shoppers with upscale merchandise was poorly executed. It filled its fall clothing racks with too many trendy items like skinny jeans that shoppers just didn’t want.”241

Meanwhile, Macy’s stock rose for most of 2007, with as much as a forty-three percent increase in its share price from the time it announced its merger with May in February 2005.242 “The merger is not just going well,” said Terry Lundgren, Macy’s chief executive. “It’s going extremely well.”243 Such an outcome was in fact predicted by two FTC economists, who studied May’s earlier acquisition of Associated Dry Goods and found that May experienced “positive abnormal returns,” suggesting the merger had lessened competition and led to higher prices for consumers.244

Same-store sales, for Macy’s stores open at least one year and that had not been part of May, were up more than seven percent for the first part of 2007.245 In 2006, same-stores sales were up more than three-and-one-half percent.246 Macy’s has experienced difficulties digesting the former May stores, but even with the May stores,
Macy’s experienced an overall increase in same-store sales of almost one-half-of-one percent during the first part of 2007.247

In 2007, Macy’s operating income as a percentage of net revenues jumped sixty-four percent, up to more than four percent from two-and-one-half percent in 2006.248 Some analysts suggested that Macy’s profitability took a hit from the inevitable difficulties of an enormous corporate merger and consolidation, and predicted a three-to-four percent increase in same-store sales, at least before the economy slowed in all sectors.249

Other department stores did well, too: Saks had same-store sales increases of almost twelve percent and Nordstrom had an increase of over three percent.250 Sales rose almost seven percent at Neiman Marcus and almost nine percent at Saks in the first three months of 2007.251 According to the chief executive of J.C. Penney, after four decades of decline, “[t]he department store has become a destination again.”252

II. ANTITRUST FRAMEWORK

A. Background

For decades, courts and commentators have cited the Supreme Court’s admonition that the antitrust laws were enacted to protect “competition, not competitors.”253 But according to Judge Robert Bork—a major contributor to the doctrine of law and economics—though “preservation of competition was often cited as the aim of the

247. Id.
250. D’Innocenzio, supra note 225.
251. Barbaro, supra note 225.
252. Id. After losing more than $900 million in 2003, J.C. Penney earned more than $1 billion in 2006. Id. It planned to open 28 new stores in 2007. Id.
law, there seemed no agreed definition of what, for the purposes of antitrust, competition is.\footnote{254}

Law and economics\footnote{255} offers a pro-market and largely anti-government view of antitrust policy,\footnote{256} firmly rooted in neoclassical price theory and with a Coasian\footnote{257} assumption that minimizing transaction costs will promote perfect (or near perfect) competition.\footnote{258} Law and economics informs that at least in the long run, markets tend to correct their own imperfections. In fact, government interference tends only to prolong the distortion or create new imperfections.\footnote{259} And “court-ordered antitrust fixes actually make markets less rather than more competitive, or injure consumers for the benefit of competitors.”\footnote{260}

Markets dynamics aside, the concept of competition itself is less clear. Some would argue that competition is about keeping prices low for consumers,\footnote{261} others suggest it is about consumer welfare, or societal wealth maximization through allocative efficiency.\footnote{262} Some antitrust regimes support the notion of competition as a means of protecting small businesses.\footnote{263} Others debunk the entire field, arguing that law and economics—if not all of antitrust—is based on an unrealistic economic model that compares the structure of existing

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254. Id.
255. Law and economics is often referred to as the “Chicago School,” because of its association with the University of Chicago. See discussion supra note 7. According to Judge Bork, the books and articles that transformed and infused antitrust with economics began at the University of Chicago Law School and to a lesser extent, the Department of Economics and Graduate School of Business. ROBERT H. BORK, THE ANTITRUST PARADOX: A POLICY AT WAR WITH ITSELF 427 (Basic Books 1993). But see Herbert Hovenkamp, Post-Chicago Antitrust: A Review and Critique, 2001 COLUM. BUS. L. REV. 257, 259 (2001) (noting that “[c]ontrary to common perception, the Chicago School was hardly the first time that United States antitrust law confronted economic theory”).
256. See generally id.
261. Id.
262. Id.

The question of whether department store mergers are (or can be) anticompetitive raises these threshold questions and more. Most schools of antitrust are fearful of coordination between businesses, but differ on the odds of success for potential cartels. According to law and economics, two or three firms can make a market dynamically competitive; if that is insufficient, supra-competitive pricing will be undermined by new entrants into the market.\footnote{265}{Hovenkamp, supra note 256, at 257, 266.} Post-Chicago antitrust—an alternative, or perhaps complement to law and economics\footnote{266}{GAVIL, KOVACIC & BAKER, supra note 263, at 68. See Hovenkamp, supra note 256, at 257, 258–59.}—believes that markets are “somewhat messier” than law and economics claims, and that law and economics is less robust in explaining all behavior that arises through competition, or lack thereof.\footnote{267}{Hovenkamp, supra note 256, at 257, 258. See also Barry Wright Corp. v. ITT Grinnell Corp., 724 F.2d 227, 234 (1983) (“Nonetheless, while technical economic discussion helps to inform the antitrust laws, those laws cannot precisely replicate the economists’ (sometimes conflicting) views. For, unlike economics, law is an administrative system the effects of which depend upon the content of rules and precedents only as they are applied by judges and juries in courts and by lawyers advising their clients. Rules that seek to embody every economic complexity and qualification may well, through the vagaries of administration, prove counter-productive, undercutting the very economic ends they seek to serve.”).} Post-Chicago antitrust is “fearful of strategic anticompetitive behavior by dominant firms,” and also believes that government intervention can be successful.\footnote{268}{Hovenkamp, supra note 256, at 257, 267.}

Although Macy’s acquisition of May does not present the opportunity to definitively resolve this long debate, the question of whether the FTC correctly applied the relevant antitrust merger law remains.
B. Clayton § 7

Clayton § 7 empowers the government\(^\text{269}\) to enjoin mergers whose effect "may be substantially to lessens competition, or to tend to create a monopoly."\(^\text{270}\) This allows the government to challenge mergers before they are consummated and lead to actual anticompetitive effects, arresting mergers at a time when the trend towards a lessening of competition in a line of commerce was still in its incipiency.

Clayton § 7A, the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (HSR), requires parties to large mergers to notify the FTC and United States Department of Justice (DOJ) (and supply substantial amounts of information) before consummating the transaction.\(^\text{271}\) The adoption of HSR reflected a Congressional intent to more aggressively block anticompetitive mergers through the Clayton Act.\(^\text{272}\)

Horizontal combinations raise antitrust concerns when the merging parties produce the same (or substitutable) products while competing in the same geographic market.\(^\text{273}\) Both the FTC and DOJ dedicated

\(^{269}\) Private parties also may sue to enjoin a merger. 15 U.S.C. § 15 (2000). Private parties would, however, have a difficult time bringing a claim under Clayton § 7 before a merger, because only the government is given access to confidential transaction materials and a waiting period before consummation of the merger. See generally 15 U.S.C. § 18a(b) (2000) (amending 15 U.S.C. § 7A). Retrospective merger reviews may present few choices for an appropriate remedy because it would require a court to "unscramble integrated business assets and activities." GAVIL, KOVACIC & BAKER, supra note 263, at 420. See also Hovenkamp, supra note 256, at 492–93.


\(^{272}\) ROSS, supra note 8, at 324–25.

substantial resources to examining horizontal mergers because it can be a path to an oligopoly or monopoly. 274

In order to determine whether a merger raises horizontal concerns, the government must determine the relevant product market, 275 although that may be the single most difficult task in all of antitrust. “One reason is that the concept, even in the pristine formation of economists, is deliberately an attempt to oversimplify—for working purposes—the very complex interactions between a number of differently situated buyers and sellers, each of whom in reality has different costs, needs, and substitutes.” 276

1. Product Markets and Submarkets

A relevant antitrust market under Clayton § 7 is one that includes all firms making goods or services that consumers would consider identical—or reasonable substitutes (considering the cross-elasticity of demand)—sold within the trade area where consumers might reasonably purchase the goods or services. This analysis, made by studying industry dynamics, corporate documents, and customer needs, leads to an estimate of the market share for each firm in the relevant market. The market share data is then used to discern market power and potential anticompetitive effects. 277

In Brown Shoe Co. v. United States, 278 the Supreme Court stated that “[t]he outer boundaries of a market are determined by the reasonable interchangeability of use or the cross-elasticity of demand between the product itself and substitutes for it.” 279

The Court also held that within a broad product market, “well-defined submarkets may exist which, in themselves, constitute

275. Id. at 575–76.
277. Id.
279. Brown Shoe, 370 U.S. at 325.
product markets for antitrust purposes.” Because Clayton § 7 created no single standard for defining a product market, the Court directed that “practical indicia” be used, including industry or public recognition of the submarket as a separate economic entity, the product’s peculiar characteristics and uses, unique product facilities, distinct customers, distinct prices, sensitivity to price changes, and specialized vendors. Examining the “practical indicia” in Brown Shoe, the Court held that there were distinct submarkets for men’s, women’s, and children’s shoes, rather than just a broader market for all shoes.

It is possible that department stores are a submarket of a greater clothing market, or home products market. Many goods sold in department stores can be purchased elsewhere, but for more than one hundred years, many consumers still continue to show a preference to buy these products in department stores. This suggests at least some consumer inelasticity of demand, or refusal to substitute products (and distribution channels) that law and economics scholars might find fungible. Indeed, many courts have found antitrust products markets limited by the product’s distribution channel.

280. Id. (citing United States v. E. I. du Pont de Nemours & Co., 353 U.S. 586, 593–95 (1957) (there are two du Pont antitrust cases in the mid-1950s, this case is usually referred to as “General Motors”)).

281. Id.

282. Id. at 325–26. Since Brown Shoe, however, the concept of “practical indicia” has often been used by courts erroneously, leading many commentators and other courts to be hostile to the concept of submarkets. Baker, supra note 273, at 74. At least one Court of Appeals has asked litigants to avoid the term submarket because of its misuse and complexity. Satellite Television & Associated Res., Inc. v. Continental Cablevision of Va., Inc., 714 F.2d 351, 355, n.5 (4th Cir. 1983), cert. denied, 465 U.S. 1027 (1984).


2. Cluster Markets

In United States v. Philadelphia National Bank ("PNB"), the Supreme Court—just one year after the Brown Shoe decision—endorsed the concept of a cluster market: a market comprised of a cluster of goods or services that could be purchased separately, save for a consumer preference to buy them together.

In PNB, which concerned the merger of two banks, the Court found that banks offered a cluster of services. For example, banks often offer mortgages, personal loans, checking accounts, savings accounts, safe deposit boxes, and notary services. Consumers may purchase each of these services separately, seeking out the cheapest or best provider of each service. But most consumers turn to one provider to bundle these separate services, even if better rates or lower fees are available elsewhere. The Court quoted a trial witness who said:

There are four banks on the corner of Broad and Chestnut. Three of them are commercial banks all offering 3 percent, and one is a mutual savings bank offering 3 1/2. As far as I have been able to discover, there isn’t anybody in Philadelphia who will take the trouble to walk across Broad Street to get 1/2 of 1 percent more interest. If you ask me why, I will say I do not know. Habit, custom, personal relationships, convenience, doing all your banking under one roof appear to be factors superior to changes in the interest rate level.

Though law and economics informs us that consumers will rationally maximize wealth, the Coase theorem itself notes that people will act to minimize transaction costs. In PNB, a "settled

286. Id. at 357.
287. See id. at 326–27.
288. Id. at 357. When this case was decided, only commercial banks were permitted to offer checking accounts. See id. at 326.
289. Id. at 357 n.34.
consumer preference” insulated individual commercial banking products from competition offering a better rate of return.\footnote{291}

Consumers see certain goods and services as complementary to one another and seek to buy them together. In justifying them as a separate antitrust product market, lower courts have applied this concept to several industries, including department stores.\footnote{292}

3. Price Discrimination Markets

The U.S. Government Horizontal Merger Guidelines (“Guidelines”), jointly issued by the FTC and DOJ, disclose the government’s standards for evaluating mergers under Clayton § 7.\footnote{293} Although an administrative guidance document, the Guidelines are influential and routinely cited by courts considering mergers.\footnote{294}

The Guidelines recognize “price discrimination,” in which businesses charge different prices to different buyers of the same product.\footnote{295} “The term price discrimination is applied when a [seller can] raise price profitably to a class of targeted buyers, notwithstanding the incentive of buyers to substitute to other products

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\item \textsuperscript{291} 374 U.S. at 357.
\item \textsuperscript{292} ABA Section of Antitrust Law, Mergers and Acquisitions: Understanding the Antitrust Issues 61–62 (2d ed. 2004). Cluster markets have also been used to challenge mergers involving supermarkets, beauty products, office supplies, ammunition, rotary drills, marine engines, industrial gases and a variety of medical services. \textit{Id.} at 62. \textit{See also} Keyte, \textit{supra} note 276, at 727; Gregory J. Werden, \textit{The History of Antitrust Market Delineation}, 76 MARQ. L. REV. 123, 166 (1992); but see generally Baker, \textit{supra} note 273, at 157–58 (“[C]luster market approach inappropriate for market definition because clusters include products and services that are no demand (or supply substitutes).”).
\item \textsuperscript{295} Baker, \textit{supra} note 273, at 151.
\end{itemize}
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and more distant sellers . . . .”296 The sale of airline tickets is a commonplace example of price discrimination. When buying airline tickets, even passengers sitting adjacent to one another may pay vastly different prices to fly on the same plane.297

Hypothetically, department stores may find it possible to engage in price discrimination. For example, as is common today, Macy’s or Dillard’s may be the only middle-market department store in a mall, city or other geographic market.298 Such a middle market department may revise its strategies to: a) price clothing for older, non-computer savvy customers, at a supra-competitive level, if the only alternative is making purchases on the internet; b) price business attire for busy executives at supra-competitive levels, if the only alternative would be to shop at one or more specialty stores (as opposed to the one stop shopping available at a department store); c) price tailored clothing, often difficult to find outside department stores, at supra-competitive prices; and d) price gift items (such as those registered for weddings and baby showers) at supra-competitive prices under the theory that gift registries need to be accessible to friends and family across the nation.299

4. Anticompetitive Effects

Macy’s and May merged in 2005 and at this time it is less important to look at the antitrust theory behind the market definition than to examine the anticompetitive effects that might have resulted. An empirical study conducted as a companion to this article found that Macy’s customers are in fact paying more and receiving less.300

297. This alone is not an antitrust violation, because airlines are reacting to supply and demand.
298. This hypothesis would also be appropriate if there were more than one middle-market department store and oligopolistic behavior, conscious parallelism, or collusion.
299. The challenge is charging a high price (and selling only to consumers who do not search other stores), versus charging a low price (and potentially also selling to consumers that bargain hunt). See Daniel S. Hosken & David Reiffen, Pricing Behavior of Multiproduct Retailers (June 2007), F.T.C. Bureau of Economics Working Papers, Working Paper No. 225.
300. Mark D. Bauer, Give the Lady What She Wants – As Long As It’s Macy’s, 80 Temple L. Rev. 949, 1006 (Winter 2007); Michael Barbaro, Given Fewer Coupons to Clip, Bargain Hunters Snub Macy’s, N.Y. TIMES, Sept. 29, 2007, at 1. See also Statement of the Commission Concerning Federated...
Before the merger, the FTC "conducted an exhaustive six-month investigation,"\textsuperscript{301} and subsequently permitted Macy's to acquire May without modification of the deal the parties suggested. Particularly after considering the history of this industry, some of the FTC's reasoning must be reconsidered.

III. FTC STATEMENT ON THE MACY'S/MAY MERGER

Although acknowledging that the Macy's/May merger would "create by far the largest chain of so-called 'traditional' or 'conventional' department stores in the country," and that the merger would create "high levels of concentration among conventional department stores in many areas of the country," the FTC cleared Macy's to acquire May.\textsuperscript{302}

The FTC issued its Statement in accord with its policy "to help provide transparency for decisions in high-visibility matters."\textsuperscript{303} The FTC recognized that "consumers mourn the gradual disappearance of department stores in their hometowns," and that traditional department stores "stock[ed] the kinds of merchandise best suited [to] their personal tastes" as well as "provided a particular ambiance that


\textsuperscript{302} Statement of the Commission Concerning Federated Department Stores, Inc./The May Department Stores Company, FTC File No. 051-0111 at 3 (FTC 2005).

AN ANTITRUST QUANDARY
they found congenial,” but in the end the FTC concluded the merger
would not have “any adverse effect on consumers.”304
An analysis of the FTC’s more salient points follows below.

A. Suburban Malls Replaced Downtown Shopping

According to the FTC, “[f]ifty years ago, many individual
department stores were freestanding in cities, rather than suburban
malls, and they offered consumers the convenience of one-stop
shopping, particularly for home furnishings or clothing.”305 Today the
“overwhelming majority of department stores are located in some
one-thousand-two hundred enclosed suburban shopping malls” and
“malls have largely replaced flagship downtown department stores as
shopping destinations.”306 Because of this, the FTC said, the merger
of Macy’s and May would not substantially reduce competition.307
The FTC’s statement is correct as far as it goes—the majority of
department stores are located today in suburban malls. The problem
is that metropolitan areas, which often include a plethora of shopping
malls, are not the relevant geographic market for all shoppers.
Approximately thirty million Americans live within the confines of
the country’s twenty largest cities—not in the suburbs.308
Approximately nine percent of American households—or thirty
million people—have no car.309 Seventeen percent of elderly
American households have no car.310

Presumably most car-less Americans are dependent upon public
transportation, which, if it exists at all, is designed to carry
commuters from far-off suburban locations and bring them into

304. Statement of the Commission Concerning Federated Department Stores, Inc./The May
Department Stores Company, FTC File No. 051-0111 at 5 (FTC 2005).
305. Id. at 2.
306. Id.
307. Id.
308. See Information Please Almanac, Top 50 Cities in the U.S. by Population and Rank (2005),
309. U.S. Census Bureau, Population and Housing Narrative Profile: 2004,
http://factfinder.census.gov/servlet/Table?_bm=y&-geo_id=01000US&qg_name=ACS_2004_EST_G00&np01&-ds_name=&-redoLog=false (last visited Aug. 17, 2008).
310. Chapter 7: The Places People Live: Housing, 1999, U.S Census Bureau,
employment centers in urban cores, not to take city dwellers to suburban shopping malls.\textsuperscript{311} In at least two cities, perhaps perceiving a risk of crime or as an attempt to keep inner-city minorities out, suburban shopping malls have refused to allow buses from the city to drop off passengers.\textsuperscript{312}

In Cincinnati, the corporate headquarters of Macy's, approximately twenty-five percent of households have no car and are dependent\textsuperscript{313} on the city's rudimentary bus system.\textsuperscript{314} While car-less Cincinnati residents can enjoy the convenient downtown Macy's store, "[i]t's true, we would not have built the store unless our headquarters were here," said Carol Sanger, a Macy's spokesperson.\textsuperscript{315} According to a former Macy's chief executive:

I refer to the downtown . . . store as enlightened philanthropy . . . . It wasn't intended to be only philanthropic. But would we have built it if our corporate headquarters had been somewhere else? Probably not. We had a store here, we had a history here and we thought we had a chance to do our part to help in the development of downtown.\textsuperscript{316}

Of course department stores are in the business to make a profit and do not ordinarily keep stores open unless it makes business sense. And having closed downtown stores in numerous cities, Macy's apparently does not feel this obligation outside Cincinnati. But in

\begin{enumerate}
\item See generally Robert Byrd, Bias Seen in Opposition to Expanding South's 1st Rapid-Transit Lines, L.A. TIMES, Oct. 15, 1989, at A34 (racism may be behind decision not to expand Atlanta's subway lines); Kevin Collison, State Aid to Help NFTA Expand Suburban Mall Service, BUFFALO NEWS, Aug. 16, 1996, at 1B (state aid to help city residents reach shopping); Jean Grossman & Beth Palubinsky, 'Bridges to Work' Can Change the Geography of Opportunity, DENV. POST, Aug. 27, 1995, at H5 (difficult for urban residents to get to suburbs on bus); Stephen J. Lynton, Commuting Tough for D.C. Poor, WASH. POST, Dec. 9, 1985, at A25 (transit accessibility to suburbs poor).
\item Tucker & Alltucker, supra note 121.
\item Randy Tucker, Better Than It Was, CIN. ENQUIRER, Apr. 6, 2003, at 1D.
\end{enumerate}
many cities, downtown stores are in fact profitable.317 In other cities, downtown stores were either close to profitable, or inconsistently profitable, but the Campeau-related bankruptcies—which still haunt many department stores because of deferred maintenance and upkeep or the transfer of a local headquarters to a distant city—heralded the closing of the downtown store.318

The field of behavioral economics suggests that not all consumer purchasing decisions are based on allocative efficiency and wealth maximization.319 A "consumer's willingness to pay in the real world is skewed by a variety of biases and predictable misperceptions that are also well understood by the seller."320 The typical consumer does "not approach the marketplace with a series of predetermined preferences, precisely and numerically weighted, seeking like a computer algorithm the package of goods and services that maximizes the fulfillment of their preferences at the lowest cost."321 A department store appeals to a consumer sense of place, history, ambience, service, support, tradition, and convenience. Even the FTC agreed that at least some consumers are swayed by these factors.322

In another departure from law and economics, not even all business decisions are rational with the goal of maximizing profits. For example, some businesses seem to fear the inner city and do not wish to do business there, even though a substantial profit could be made.323 Some department store chains just do not care to understand

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321. Id. at 18.
322. Statement of the Commission Concerning Federated Department Stores, Inc./The May Department Stores Company, FTC File No. 051-0111 at 5 (FTC 2005). The question remains as to whether these consumer preferences serve to restrain prices for all consumers.
323. See James T. Madore, Urban Markets III Served, NEWSDAY, Jan. 20, 1999, at A8. See also May Edwards & Bill Ryan, Challenges Facing Shopping Malls: Opportunities for Downtowns and
the inner city and have no interest in doing business there. 324 Dillard's, for example, does not operate a full service downtown store in any city in the United States. 325

Inner cities, however, represent a retail market larger than that of Mexico—between eighty-five and one hundred billion a year. 326 In Cleveland alone, where Dillard's closed its historic but dilapidated downtown store, hundreds of millions of dollars in retail spending flows from the city to the suburbs every year. 327 Shoppers might have been more interested in spending money in downtown Cleveland's last department store had the landmark building, which opened in 1931, been well-maintained: one year before it closed, the store had red duct tape holding down the stained carpet, peeling paint, unlit chandeliers, and a Santa Claus with "a busted eye, held together with tape." 328

Businesses are apparently held back by the perception that inner cities are unprofitable and unsafe places to do business. 329 But because of population density, inner cities can have more buying power than an affluent suburb. 330 Target and Wal-Mart, which the traditional department stores sometimes claim are their competitors,
have identified inner cities as areas for growth.331 Cities are often willing to offer department stores substantial subsidies to open downtown stores as activity generators.332 But with mergers resulting in fewer department store companies, and some of the remaining stores making a decision to avoid downtowns, there may be no takers. Even without subsidies, "the cost to operate a store [downtown] is much higher than in a suburban mall, [but] the payoff can be far greater."333

Department store companies, accustomed to the safety and ease of operations at a greenfield suburban mall, may fundamentally misjudge cities. For example, in downtown Washington, D.C., the local May store, Hecht's, was profitable enough to justify $15 million in improvements and renovations in 2004.334 Nonetheless, May headquarters originally resisted when customers asked for higher-end merchandise.335 Apparently May executives relied on demographic data for the relatively small downtown residential population, rather than taking into account the large number of people who work, but do not live, in downtown Washington.336 "The way demographic data is compiled, [the May executives at headquarters] could not appreciate what was happening downtown," said a former Hecht's president and chief executive.337

331. See, e.g., Robert Manor, Wal-Mart Targeting Inner City for Buildup, CHI. TRIB., Apr. 5, 2006, at C1; Lorraine Mirabella, Inner-City Centers a Good Investment; Rundown Retail Areas Draw Investors; Money: The High Density of Inner-City Neighborhoods Is Making Them Good Targets for Retail Development, BALTIMORE SUN, Jan. 13, 2005, at 1D.
332. See, e.g., Barbaro, supra note 317 (Washington, D.C. offering up to $30 million); Jackie Crosby, St. Paul Store Likely to Stay Open Until 2011, MINNEAPOLIS STAR TRIB., June 11, 2004, at 12A (St. Paul gave $7.8 million in subsidies); Frazier, supra note 324 (Cincinnati gave $26 million in subsidies).
335. Barbaro, supra note 317.
336. Id.
337. Id.
Despite the improvements to Hecht's (now Macy's) in downtown Washington, $1.1 billion is spent annually by D.C. residents in the suburbs. According to a recent study, the city's population and income could support two additional department stores downtown—a place that is easily accessible by public transportation for the thirty-seven percent of D.C. residents that have no car and cannot necessarily visit a suburban mall.

B. Merger Will Not Affect Non-Price Competition

The FTC recognized that "many of the products now sold in department stores—most particularly, women's apparel—have non-price attributes that are also important to consumers." FTC staff reviewed documents obtained in its investigation to look for potential effects in non-price competition, e.g., reductions in merchandise assortment or new product introductions, reductions in store service and assistance, or reductions in store improvement and innovations. The FTC concluded that it "found no reason to believe that [FDS] is likely to be able to reduce non-price competition [as a result of its merger with May]."

Of course, precisely what the FTC found in its investigation will remain a secret protected by the confidentiality requirements of Clayton § 7A. But in reviewing the FTC's statement that there will be no reduction in non-price competition, several important issues are of concern.

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339. Id.
341. U.S. Department of Transportation, CTPP 2000 Status Report, http://www.fhwa.dot.gov/ctpp/sr0103.htm (last visited Aug. 17, 2008). Several Washington area suburban shopping malls are near Metro subway stops, including Pentagon City, Wheaton Plaza, and Ballston Commons. These malls, however, may be quite far from where the least affluent D.C. residents live.
343. Id.
344. Id.
1. Less Service

Customer satisfaction must be very important for a successful retailer.346 If Macy's faces as much competition as both Macy's and the FTC claim, then, logically, it should have excellent customer service to win over customers and keep them coming back. But according to one widely reported metric, Macy's does not make the list; in fact in recent years, Macy's only made the list in 2006, and then perhaps only because it knocked Marshall Field's off the list by buying it.347

The National Retail Federation and American Express in 2005 developed a survey to determine who provided the best customer service in a variety of areas.348 In order to keep the comparison fair, the index was weighted by each company's 2004 sales, in order to compensate for retailers' varying sizes or geographic market coverage.349 According to the 2004 survey, Nordstrom was rated number one for customer service among all retailers, and Marshall Field's was rated number three.350 The public results only reported the top ten, so it is not known where Macy's fell on this list. In the 2006 survey, Macy's was ranked number ten and has not appeared on the list again.351

348. Id.
349. Id. A total of 8,648 consumers were surveyed by BIGresearch; the methodology and results were reviewed by Professor Martin P. Block, Ph.D of Northwestern University. Id.
350. Id. Nordstrom was noted for its long commitment to customer service; Marshall Field's was cited for "fashion leadership, superb guest service and a commitment to community involvement." Id.
351. Id. Amazon.com was ranked number one in the 2006 survey; Nordstrom was ranked number two. Id. Macy's has not been ranked since 2006. Other organizations conducting such surveys include Business Week magazine (Nordstrom and Neiman Marcus were the only two department stores ranked in the top fifty of all companies) and Corporate Research International (Nordstrom, Saks Fifth Avenue, and Bloomingdale's ranked as top three department stores. See The Customer Service Elite, http://bwnt.businessweek.com/interactive_reports/customer_service (last visited Aug. 17, 2008); Corporate Research International Reveals Best Customer Service, Market Wire, July 23, 2008, http://www.reuters.com/article/pressRelease/idUS1353334+23-Jul-2008+MW20080723.
Macy's may not even consider a high level of customer service to be an attainable or desirable metric. Terry Lundgren, chief executive officer of Macy's, apparently believes that top-notch customer service is only appropriate at higher-end stores. He "bristles when Macy's is compared with Nordstrom and its renowned customer service."352 "We're going to be known for affordable luxury," says Lundgren. "That's something Nordstrom's could never say."353

Lundgren's statements suggest that Macy's does not believe excellent customer service is possible for a mid-priced store. This, however, is at odds with the fact that Boscov, another middle-market department store competing against Macy's in several mid-Atlantic markets, was ranked sixth in 2006 and fifth in 2005, and Kohl's, a discount clothing and housewares store similar to J.C. Penney, was ranked seventh in 2008 and 2006, and fourth in 2005.354

Macy's has had customer service problems for many years and has acknowledged—Lundgren's recent remark notwithstanding—a need to improve.355 In Chicago, where there was at least a perception of better customer service in the past (when Marshall Field's existed as a separate brand), according to National Retail Federation/American Express survey, customers "are increasingly bitter at what they see as lower levels of merchandise and customer service at Macy's compared with Field's."356

Despite a pledge by Macy's to make it easier to reach an operator at its customer service number, customers now face "a confusing

352. Jayne O'Donnell, Beloved Stores Get a Lot More Than a New Name; Macy's Swoops in with Big Changes to Field's, Hecht's, Others but a Few Old Touches Will Stay, USA TODAY, June 8, 2006, at 1B.
353. Id.
356. Sandra Guy, Macy's Faces the Music: Shoppers Tuning out Since Name Change; Sears Outlook Better, CHI. SUN-TIMES, Dec. 12, 2006, at 50.
array of menu options," and must enter their Social Security number to speak to a live operator.\textsuperscript{357} According to Macy's, it is trying to strike a balance between customer service and minimizing costs.\textsuperscript{358}

After acquiring May, Macy's cut at least 6,200 jobs, including regional buyers.\textsuperscript{359} Regional headquarters were eliminated in Boston, Los Angeles, Houston, and Arlington, Virginia, for a total loss of 1,900 jobs.\textsuperscript{360} One-thousand-seven hundred jobs were eliminated in St. Louis, May's former headquarters.\textsuperscript{361} In contrast, Chicago, whose residents may have complained more vigorously than the residents of any other city, lost only 250 jobs; in addition, Macy's tentatively agreed to bring Frango Mint production back to the Chicago area with a test kitchen in the flagship downtown store.\textsuperscript{362}

In addition to services directly related to customer purchases—including store hours, the number of employees available for assistance, and brand selection—department stores have long been known for community service. Specifically, department stores have typically been large contributors to local philanthropy, sponsors of community events and the host of a variety of in-store services not conveniently found—if at all—elsewhere.\textsuperscript{363} It remains to be seen whether a corporation headquartered in a distant city with little local management or control will be as charitable to local organizations.

From the first display windows that created the phenomenon of window shopping,\textsuperscript{364} department stores have been a nexus of community events that promote shopping, but also create value for communities by hosting cherished local traditions. A full catalog of these long-time practices would fill a book, but they include Jordan

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\textsuperscript{357} Jolayne Houtz, \textit{Navigating the Phone Maze; Our New List of Automated-Phone-System Tricks Just Might Get You to a Human Before You Hit the Wall}, \textit{Seattle Times}, Nov. 12, 2006, at M1.
\textsuperscript{358} Id.
\textsuperscript{361} Id. St. Louis retained other jobs because it was designated headquarters of Macy's Midwest. \textit{Id.}
\textsuperscript{362} Id. Target had outsourced Frango Mint production to a company in Pennsylvania. \textit{Id.}
\textsuperscript{363} See generally Jeffrey Sheban, \textit{For Many, It Was the Heart of the City}, \textit{Columbus Dispatch}, Aug. 8, 2004, at 1F.
\textsuperscript{364} SCHLERETH, \textit{supra} note 26, at 148.
\end{flushleft}
Marsh’s enchanted village in Boston; Rich’s pink pig train and the lighting of the tree on the crystal bridge in Atlanta; Burdine’s Circus in the Sky in Miami; Foley’s Thanksgiving Day Parade in Houston; local fireworks, Thanksgiving and Christmas parades, and of course visits by Santa Claus. Most local traditions have now been replaced by one Thanksgiving parade and one Fourth of July fireworks display, sponsored by Macy’s in New York City, but broadcast on national television. This cost-cutting is surely a rationalization of services, but it suggests a decrease in service or output, and an increase in price—paying the same or more but getting less.

365. Matt Viser, Enchanted Village Is a Broken Spell, BOSTON GLOBE, Nov. 29, 2006, at 1B.
368. Robert Trigaux, Burdines Not Alone in Retail Boneyard, ST. PETERSBURG TIMES, Feb. 14, 2005, at 1D.
370. Thanksgiving was moved to the third Thursday in November from the fourth Thursday by President Franklin Roosevelt at the behest of chief executive of FDS, so the stores would have an extra week of pre-Christmas shopping. Feran, supra note 40; Saitz, supra note 40.
2. Fewer Choices

The FTC "carefully reviewed the voluminous investigative record" for indications that Macy's would "[reduce the] merchandise assortment" and found none.374 Again, despite the FTC's best efforts, Macy's has defied predictions.

Even before Macy's eliminated the name Marshall Field's, Prada pulled its product out of the former Marshall Field's stores.375 Though Prada refused to comment, a retail consultant suggested that "[h]igh-end brands only want to be in high-end stores, places that they think are consistent with their brand image . . . . Perhaps some of these designers don't feel that Macy's is the same level as Marshall Field's. I think most customers don't, either."376

Prada was only the first designer to jump ship. Also deciding not to sell in Macy's were Miu Miu, Dsquared, Dolce & Gabanna (for men), and Jimmy Choo.377 Elizabeth Arden pulled out of the salons.378 YSL left Marshall Field's for Neiman Marcus.379 Prada, David Yurman, and Gucci (shoes) went to Nordstrom. For the most part, Macy's in-house brands have taken their place.380

Vendors, particularly smaller ones, fear Macy's enormous size, perhaps even a monopsony in certain geographic markets. "There's a huge portion of the vendor community that feels very threatened," according to an investment banker specializing in apparel.381 Not only are vendors eliminated simply because of the consolidation of
department stores, but smaller vendors simply cannot serve the larger structure. 382

C. State Action Will Cure Possible Problems

One puzzling statement made by the FTC concerns remedial action by other antitrust authorities. Specifically, in justifying the end of its own investigation, the FTC said that “participation by state agencies, which are familiar with specific local conditions, may be particularly helpful . . . and we also note that inquiries by various individual state antitrust agencies are ongoing.”383 Effectively, the FTC was ceding its authority to the states.

Every state can in theory pursue antitrust remedies in its capacity as parens patriae under the federal antitrust law, 384 and most states can bring antitrust actions based on their respective “Little FTC Act.” 385 Many states have enacted specific antitrust laws patterned on the federal Sherman and Clayton Acts.

In the Macy’s/May merger, the Attorneys General of California, Maryland, Massachusetts, New York, and Pennsylvania conducted their own antitrust investigation and required Macy’s to divest twenty-six duplicate stores in malls, demanding that the stores could only be sold to other traditional department stores.386 But some states refuse to bring antitrust suits claiming a lack of authority to do so.387

For example, in 1998, Daryl Robinson, deputy counsel to then Georgia Attorney General Thurbert Baker said, “[w]e do not have a state antitrust law, and so don’t have statutory authority to bring such

382. Id.
But having said that, if the federal government is filing an antitrust suit, we will get the benefit of whatever relief they get. 388

In Georgia, Rich’s and Macy’s consolidated during the Campeau era (closing both downtown Atlanta stores), and the state was not affected by Macy’s acquisition of May. But states other than California, Maryland, Massachusetts, New York, and Pennsylvania were impacted by this merger, and some of them may have been relying on the FTC to take decisive action.

D. What the FTC Did Not Discuss: Entry Barriers, Monopsony And Mall Owners

In trying to determine the effect of the Macy’s/May merger on non-price competition, the FTC interviewed interested vendors and mall owners, viewing them as “particularly useful surrogates for consumers.” 389 The problem is that the interests of mall owners and consumers may be at significant variance.

At first glance, mall owners’ interests could conceivably be in line with consumers. Mall owners have an interest in “maximizing consumer traffic” 390 as well as keeping consumers happy and interested (and coming back for more). At least in theory, mall owners should prefer a large number of department-store companies and brand names in order to have the maximum number of choices for anchor stores, and even to have the maximum number of anchors physically possible within the confines of the mall’s real estate.

In fact, malls originally developed as long corridors connecting two or more department-store anchors, whose aggressive advertising brought ample traffic to the mall. 391 In turn, department stores either owned their anchor space or were given long-term leases requiring

388. Tharpe, supra note 387.
390. Id.
little or no rent, and mall owners made money renting space in between the department stores. 392

But the answer to whether mall owners and consumers have identical interests is quite complicated today, and the FTC’s reliance on the opinion of mall owners may be misplaced. Shopping malls have evolved from being relatively small or local efforts, often substantially funded or owned by a local department store, to being units in vast real-estate empires, often owned or controlled by Real Estate Investment Trusts (REIT), 393 which are often publicly owned and traded on exchanges. As malls are traded and sold, their value depends in part on the traffic, revenues, and the caliber of tenants. Mall owners, therefore, have been substantially affected by both the constant turmoil stemming from department store consolidation, as well as the bankruptcies of Macy’s, FDS, Allied, CHH, and others. 394

The financial stability and credit worthiness of a major anchor affects the value of the mall itself. 395 When a department store is owned by a venture capital firm—as is true for Lord & Taylor since its divestiture from Macy’s in 2007—there is a perception among shopping center owners that it will not be a stable long-term anchor tenant. 396 All this instability affects the value of the shopping center, and in turn the stock price or credit worthiness of the REIT. 397

For example, Macerich Co., a REIT owning several shopping malls, 398 found itself with four anchors at The Oaks Mall in Thousand Oaks, California, all owned by Macy’s. 399 Even worse, Macy’s had to divest some of these stores to comply with an agreement with the California Attorney General, and there was no guarantee Macy’s

392. Id.; see also Sandra Jones, Water Tower Gets All Dolled Up, Boosts Sales: $35 Million in Updates, Including New and Renovated Stores, Is Paying off for the Mall, Despite the Weakening Economy, CHI. TRIB., July 21, 2008, at C1.
394. See generally Comment, Regional Mall REITs, MERRILL LYNCH, Nov. 24, 2003.
396. Id.
397. Id.
would sell to any entity Macerich would want at the mall. In place of one of the Macy’s stores, Macerich will add Nordstrom; the other space will include smaller retail stores and, the REIT hopes, a movie theater.

Macerich is not alone in turning department store anchor space into something else. In Phoenix, Westcor Partners turned three stories of vacant department-store space into an MCI call center. At Westfield Shoppingtown Wheaton, outside Washington, D.C., the mall was anchored by both Hecht’s (a former May brand) and Macy’s. The mall owners will buy the Hecht’s store from Macy’s and try to remarket it to Best Buy or some other big box discounter. These are just a few examples.

It is possible that several factors are at work: 1) mall owners are loathe to continue to see the value of their properties decline overnight because department stores declare bankruptcy, consolidate or close; 2) mall owners have found that although they still cannot live without at least some department stores, converting anchor space into big box retailers (e.g. Best Buy or Barnes & Noble), movie theaters, restaurants or other traffic generators will suffice; and 3) having gradually been weaned by department stores (whether by

401. Id.
402. Id.
405. Id.
406. See also Fixmer, supra note 391; Debra Hazel, Check-in Time, SHOPPING CENTERS TODAY, Nov. 2003; Michael Sasso, Changes in Store for Malls, TAMPA TRIB., May 24, 2006, at 1.
408. Id.; Boswell, supra note 393; Dody Tsiantar, Department-Store Superstar, TIME, Feb. 13, 2006.
409. Id.
choice or circumstance), mall owners have come to enjoy the benefits of owning anchor space and generating rents from them.\textsuperscript{410}

In the end, the Horizontal Merger Guidelines standard of entry being “timely, likely, and sufficient”\textsuperscript{411} is not being facilitated by mall owners tearing down empty department stores. Though new entry remains possible—assuming there are any department store mall owners tearing down empty department stores. Though new entry remains possible—assuming there are any department store companies left to take an anchor position—expansion increasingly requires the construction of a new anchor building and potential reconfiguration of the mall.

Macy’s may be a monopsony in many geographic markets; mall owners are doing their best to reduce dependence on an organization with market power and in fact have other options for traffic-building tenants. Consumers, however, may not be as fortunate, and the FTC’s reliance on mall owners as a proxy for consumer opinion may have been misplaced.

Furthermore, when Macy’s first announced its proposed acquisition of May and antitrust concerns were raised in the media, Macy’s pointed out that the overlap between the department store groups was limited to a few states.\textsuperscript{412} This, however, discounts theories of perceived potential competition (where the threat of entry limits anticompetitive behavior by the incumbent firm)\textsuperscript{413} or actual potential competition (where the incumbent acquires a firm that would otherwise have entered the market and made it more competitive).\textsuperscript{414} The FTC did not publicly disclose whether it

\begin{thebibliography}{99}
\item 410. See Boswell, supra note 393; Fixmer, supra note 391; Jones, supra note 392; Mega-Mergers: It’s All About the Real Estate, 6 CO-STAR ADVISOR Issue 2 (on file with Georgia State University Law Review) (hereinafter Mega-Mergers); see generally Garcia, supra note 399; David Koch, Anchors Anew, RETAIL TRAFFIC, Dec. 1, 2004, http://retailtrafficmag.com/mag/retail_anchors_a new/index.html;
\item 412. Berk, supra note 207.
\item 414. Tenneco, Inc. v. FTC, 689 F.2d 346, 353–54 (2d Cir. 1982); Mercantile Texas Corp. v. Bd. of Governors, 638 F.2d 1255, 1265–66 (5th Cir. 1981); BOC Int’l Ltd. v. FTC, 557 F.2d 24 (2d Cir. 1977); In re B.A.T. Industries, 104 F.T.C. 852, 916–48 (1984). See also GAVIL, KOVACIC & BAKER, supra note
\end{thebibliography}
considered perceived potential competition or actual potential competition. Unfortunately, it is not possible for even an interested observer without the FTC’s compulsory authority to hazard a guess as to whether Macy’s or May would have entered the other’s geographic market were it not for the merger.415

CONCLUSION

The perfect markets contemplated by law and economics predict that consumers always maximize welfare by making efficient choices. Yet something important is going on with department stores that is not accurately reflected in a law and economics analysis. These factors together have created a perfect storm of sorts that has touched a nerve in many shoppers.

The experience of shoppers in Philadelphia is illustrative. In 1979, after more than one hundred years of family involvement, Wanamaker’s was sold to California-based CHH,416 which had just tried and failed to buy Marshall Field’s (which had just tried and failed to buy Wanamaker’s.)417 In 1986, after incurring considerable debt to fight two hostile take-over attempts, CHH sold Wanamaker’s to real estate developer Alfred Taubman of Detroit, who had incurred considerable debt a few years earlier acquiring Woodward & Lothrop of Washington, D.C.418 Taubman converted most of the historic Wanamaker’s building in Center City Philadelphia into offices, leaving a pared-down department store without most of its departments.419 All management and fashion buying decisions were taken out of local Philadelphia hands and consolidated in

415. It is possible that because the FTC defined the market as going far beyond traditional department stores that it did not consider theories of perceived potential competition or actual potential competition.
416. CHH eventually went bankrupt and was acquired by FDS. Diana B. Henriques & David Cay Johnston, Managers Staying Dry As Corporations Sink, N.Y. TIMES, Oct. 14, 1996, at A1.
419. Id. See also Von Bergen, supra note 43.
Washington, a city not generally known as one of the great fashion capsitols of the world. 420

Taubman put both Wanamaker’s and Woodward & Lothrop into bankruptcy in 1994 and then shuttered both chains. In 1995, May purchased thirteen Wanamaker’s stores, renaming all of them Hecht’s (a Baltimore/Washington regional department store). 421 In 1996, May acquired another Philadelphia department store, the family-owned Strawbridge and Clothier, and renamed all the recently renamed Philadelphia Hecht’s stores as Strawbridge’s, except for the original Center City Wanamaker’s store, which was recast as Lord & Taylor. 422 When Macy’s acquired May in 2005, it renamed all the Strawbridge’s stores (née Wanamaker’s and née Hecht’s) Macy’s. Then it closed the original Center City Strawbridge’s store (doing business on that site since 1868) and converted what was left of the original Wanamaker’s store from a Lord & Taylor into a Macy’s.

Are these department stores retail “dinosaurs,” as many commentators have called them, or are customers simply confused? 423 The mere fact that department stores have generally returned steady profits despite such upheavals is a testament to the overall strength of the institution.

It is certainly possible that there was an oversupply of department stores and some consolidation and rationalization of operations was necessary for efficiency. It is also possible that a lax Wall Street regulatory climate and hunger for junk bonds allowed profitable and popular enterprises with valuable intangibles and real estate to be chopped up for short-term profit and then swallowed by a sea of debt. 424

422. Id.; Gopnik, supra note 195.
423. See, e.g., Suzanne S. Brown, Meet the New Department Store, DENV. POST, Sept. 3, 2006, at L1; Sandra Guy, Changes Aim To Save Tradition, CHI. SUN-TIMES, Sept. 8, 2006, at 55; Sandra Jones, May-Federated Merger Could Add to Overstock of Space; Expected to Shut 75–100 Stores Even as Other Retailers Jettison Sites, CRAIN’S CHI. BUS., Mar. 7, 2005, at 2; Lee & Glassman, supra note 377.
424. See Mega-Mergers, supra note 410.
None of these changes, in Philadelphia and elsewhere, could possibly have been good for business. They were short-term decisions made for immediate profit, and to monetize real estate assets; they were not good for the long-term profitability of department stores and probably the reason the industry came to be thought of as outdated and dying.

Antitrust has its roots in the same populist era in which department stores arose. Department stores and the antitrust laws share common origins and ideals of consumerism and democracy. The subrogation of antitrust to the field of economics ignores its roots as a "charter of freedom."

There is another side to antitrust: not every decision by consumers is about buying the lowest-price good and maximizing allocative efficiency. And putting the department stores on sale—rather than the goods contained therein—has done nothing to improve competition, innovation, or consumer choice.

Consumers not only care about service and ambience—Macy's experience shows that consumers are also concerned by a homogenization of retail choices, a loss of civic identity and at least perceived disrespect by distant corporations that have usurped cherished local institutions. These issues demand further investigation by the FTC.


427. The FTC has authorization to issue subpoenas to corporations whose business affects commerce. 15 U.S.C. § 46(b).