



Crisis and Transition

The Economics of Scholarly Communication

John Houghton

John.Houghton@pobox.com

Centre for Strategic Economic Studies

Victoria University

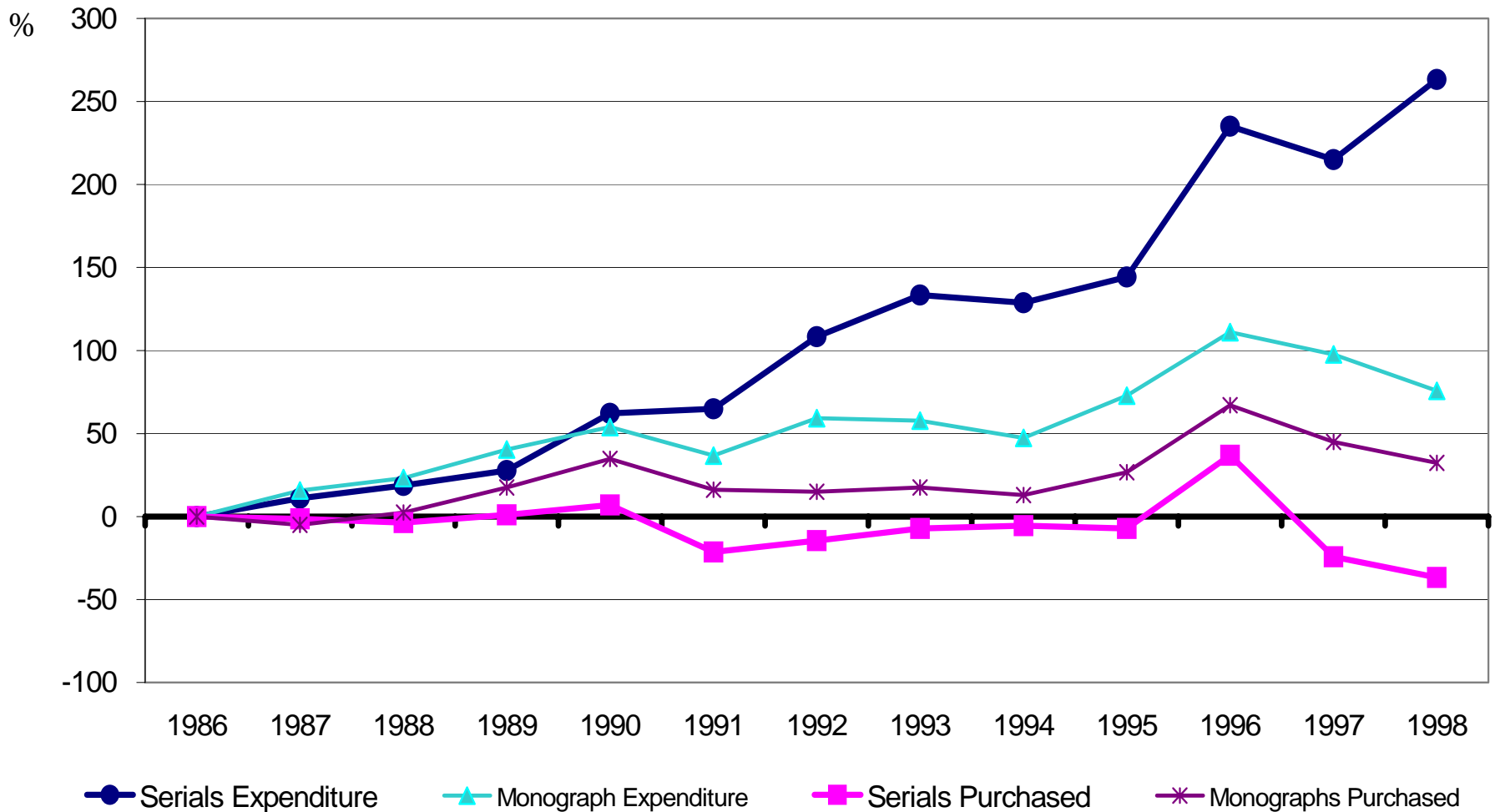
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Context of the 'Crisis'



- National Innovation Systems:
 - Prosperity depends as much, if not more, on the knowledge distribution power of the system as it does on its knowledge production power
- Dynamics of the context:
 - Funding pressures & accountability
 - Increased publication incentive & output
 - IT revolution - transforming production, distribution & consumption of content
 - Price increases (decline of AUD)

Australian Research Libraries



Economics of Information



- Information is the product of the codification of knowledge - knowledge is a 'public good', but information is not
- Information is 'non-rivalrous in consumption' - social returns are maximised through expansion of access & dissemination
- Information is an 'experience good' - value in authorship & branding, as well as content

Economics of Content Creation (1)



- Dysfunctional institutional incentives:
 - Promotion, tenure & funding linked to publication
 - Encouraging more published output
 - Multiplying titles & raising aggregate fixed costs

Economics of Content Creation (2)

- Payments by authors (submission/publication fees):
 - Disincentive to publish & reduced dissemination
 - Publication by means not merit
 - High transaction costs, not worth the effort
 - Incentive for publishers to lower the bar
- Payments to authors (pay for content):
 - Demand & supply would keep payments low
 - High transaction costs
 - Simply raises publisher costs

Alternative Publication Mechanisms

- Key elements for success (not just communication)
- Value in selection & filtering (eg. peer review)
- Dangers in alternative article filtering strategies
- Differences between humanities & natural sciences
- Dangers where authors & readers are not the same
- Dangers in applied fields (eg. medicine)
- Must meet the needs of authors and readers

Economics of Production



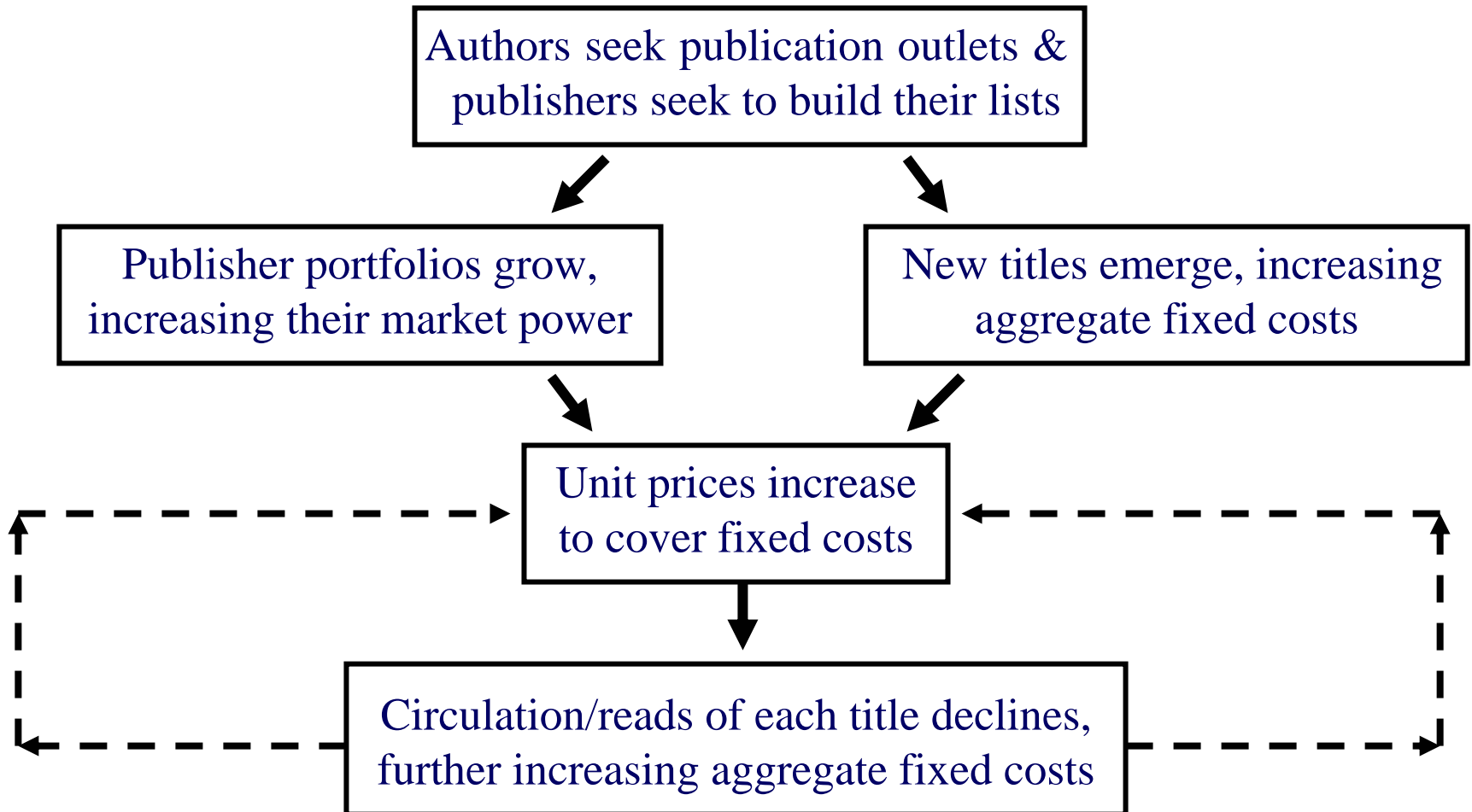
- Increasing returns & concentration
- Knowledge economy will create a proliferation of materials, firms & activities
- Ease of access via internet will drive down rents at the delivery level
- Rents will migrate up the value chain to those with genuinely scarce factors & competitive advantages
- Is that authors or publishers?

Economics of Distribution



- A library costs crisis?
- Must consider whole of system costs
- Acquisitions practices reinforce publisher business models & contribute to the crisis
- Price signals have rarely reach consumers
- Very low price elasticity of demand

A Vicious Circle



What Can Be Done?



- Reduce costs, ensure prices reflect value in use or change what the market will bear
- Market distorting approaches:
 - National site license
 - Consortial purchasing
- Market conforming approaches:
 - Transmit price signals to consumers
 - Trial alternative mechanisms & encourage new entrants (but beware of fixed costs)
 - Create an effective structure of incentives

In Summary...



- System dysfunction & technological change
- Resolving the crisis:
 - Reform system of incentives
 - Establish alternative publishing models
 - Counter publisher market power
- Foci for attention:
 - Tackle the basic problems
 - Think through the design of alternatives
 - Find out what users actually needed