Crisis and Transition
The Economics of Scholarly Communication

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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

Serials Expenditure
Monograph Expenditure
Serials Purchased
Monographs Purchased

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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

Authors seek publication outlets & publishers seek to build their lists

- Publisher portfolios grow, increasing their market power
- New titles emerge, increasing aggregate fixed costs

Unit prices increase to cover fixed costs

Circulation/reads of each title declines, further increasing aggregate fixed costs
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