Are Copyrights A Textbook Scam?

Alternatives to Financing Textbook Production in the 21st Century

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Executive Summary

Textbooks are only expensive because they are subject to copyright protection, a relic of the medieval guild system.

Textbooks are a large and rapidly growing expense for college students. According to the Government Accountability Office (GAO), the cost of textbooks and supplies came to $898 for an average first year, full-time student at a four-year public university in the 2003/2004 academic year.[1] This represents approximately 170 hours of work at a minimum wage job. The high cost of college textbooks is one of the factors leading students to take on ever higher levels of debt to cover their college expenses.[2]

This paper examines whether it possible to design policies that would make textbooks less expensive for students. It points out that:

- Textbooks are only expensive because they are subject to copyright protection, a relic of the medieval guild system. In the absence of government imposed copyright monopolies, paper copies of textbooks could be made at a very low cost, and electronic versions could be made available at zero cost over the Internet.
- Copyright protection in textbooks leads to enormous inefficiencies, just like any other government intervention in the market. However, while other forms of intervention create relatively small gaps between the price and the actual cost of production (for example, trade barriers rarely raise the price of imported goods by more than 15 to 20 percent), copyright monopolies lead to enormous gaps. As economists would predict, the large gap between price and the cost of production resulting from copyrights leads to substantial economic distortions.

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- In addition to the losses that result directly from the gap between price and production costs, textbook publishers engage in a variety of economically wasteful rent-seeking activities to maximize their profit, such as increasing the length of textbooks or the frequency of new editions.
- In the absence of copyright protection it would be necessary to have an alternative mechanism for financing the production of textbooks. If the government were to appropriate an amount equal to 0.01 percent of the federal budget ($300 million annually), it would be sufficient to finance the production of 5000 textbook titles a year, assuming an average cost of production of $60,000 a piece.
- If textbooks were produced without copyright protection, then professors would have far more flexibility in designing their courses. They could freely choose chapters from the texts that they felt best covered specific topics, rather than being bound by a single text for an entire course.
- A system of publicly funded textbook production could exist side by side with a system of copyright monopoly financed textbook production. This would allow for the market to determine which form of government subsidy is more efficient.

Introduction

Textbook costs have consistently outpaced the overall rate of inflation, presenting a large and rapidly growing burden to millions of college students. According to the Government Accountability Office (GAO), textbook prices have been rising about 6 percent annually, or twice as fast as the overall rate of inflation, since the 1987/1988 academic year. The GAO estimates that the average first-year student at a four-year public university spent $898 on textbooks and supplies in the 2003/2004 academic year.[1] This means that a student working at a minimum wage job would have to put in nearly 170 hours of work each year, just to pay for her textbooks. High textbook costs, along with rapidly rising tuition, are imposing a substantial financial burden on college students. The debt accumulated by a new graduate now averages more than $15,000.[2]

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In the Internet Age, when vast amounts of information can be transferred at zero cost over the web, there is no reason that students should have to work so hard just to get the reading material for their classes. In principle, this material could be obtained at no cost – although many students may want hard copies of some or all of the items in a text, which would entail some printing expense. Still, the costs involved in the physical reproduction of texts are a tiny fraction of what students currently pay.

The reason that textbooks are costly is that the government grants textbook publishers copyright monopolies. Copyright monopolies allow the publishers to prevent anyone from competing with them in the market. They are the only ones that can sell a copyrighted textbook in whole or in part. This prevents individuals from freely reproducing a textbook or making it available over the Internet.

Of course there is a rationale for copyright monopolies: the monopoly allows the publisher to recoup the expenses of producing the book, the fees paid to the author(s), editors, illustrators and other upfront costs associated with putting together the textbook. However, copyrights are only one way to cover these costs and not necessarily the best way. Copyrights are a relic of the medieval guild system. While they may have been an efficient mechanism to support creative work in that era, it does not follow that they are the most efficient mechanism for supporting creative work in the Internet Age.

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The Inefficiencies of Copyright Protection

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Economists view copyright monopolies as inefficient because they create a large gap between the price of a textbook and the marginal cost - the cost to the publisher of creating an additional copy. This cost can effectively be zero, when the option exists to transfer material over the Internet. This gap between price and marginal cost is the exact same issue that leads economist to view trade barriers as inefficient. Tariffs or quotas on imports cause consumers to pay prices that are higher than the production costs. However, trade barriers in the United States rarely raise the price of protected goods by more than 15 or 20 percent. By contrast, copyright protection can allow a textbook publisher to sell a book that would be available at zero cost over the Internet without copyright monopolies for as much as $100 to $150. The inefficiencies that result from such large gaps between price and marginal cost are of course much larger than the inefficiencies that result from 15-20 percent tariff on a short or pair of shoes.[1]

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Setting prices above marginal cost also leads to other forms of inefficiency. Textbook publishers respond to the incentive created by copyright monopolies by trying to maximize the economic rents they earn on their textbooks. Most obviously, this means substantial advertising and marketing expenditures, in order to get their textbooks as widely adopted as possible. While these expenditures are not entirely wasteful from an economic standpoint – they do provide information to the professors choosing textbooks – publishers carry through the amount of marketing that maximizes their private profit, not economic efficiency. In this sense, the granting of copyright monopolies ensures that more marketing will take place than is optimal from an economic standpoint.

Copyright monopolies also provide publishers with an incentive to change the publishing patterns or structure of their textbooks in ways that maximize their profit, but offer little or no benefit to students. For example, publishers may issue new editions more frequently than is justified by developments in the field, in the hope of prompting faculty to assign the new editions, thereby avoiding the possibility that many students may be relying on recycled copies of an earlier edition. If they believe that they can justify a higher price by having a longer textbook, or including supplemental materials, then publishers will have incentive to alter their textbooks to maximize their profit. Since textbooks are not generally divisible (typically students can't buy a textbook by the chapter), the incentives provided by copyright monopolies can lead to textbooks being longer than is really optimal from the standpoint of presenting the material for a course. Perhaps an even more serious downside to such practices by publishers is that it could lead professors to distort their teaching, since they may feel a need to assign most or all of a required text, if the book cost their students $100-$150, as is often the case.

A 21st Century Alternative for Supporting Textbook Production

While it is easy to identify ways in which copyright monopolies lead to market distortions and economic inefficiency, copyrights do fill the need of providing an incentive for writing, editing, and designing textbooks. Without some alternative mechanism for supporting this work, few, if any, textbooks would be written. The question is whether there are better mechanisms than copyright monopolies for supporting textbook publishing.

One obvious alternative is simply direct public financing of textbook publishing, with all supported work being placed in the public domain, where it can be freely copied or circulated over the web. This would effectively make textbooks free to students, or cost them the expense of printing out hard copies, if they chose to have them in this form. (Presumably, the availability of large amounts of text on the web available for downloads would alter technology and business practices. Stores might specialize in making bound copies of customized material downloaded from the web.)

Some basic arithmetic suggests that a relatively small commitment of public funds could go very far towards filling the need for textbook production. For example, an annual appropriation of $300 million (0.01 percent of the federal budget) would be sufficient to finance the production of 5,000 textbook titles a year, if the cost of writing, editing, and illustrating a textbook averages $60,000.

The availability of such a large amount of material in the public domain would undoubtedly change the way in which faculty and students view textbooks. Since textbooks would now be completely divisible, professors could tailor their assignments toward their specific teaching needs. For example, if a history professor believed that one text provided the best treatment of the Civil War, but a second text provided the best treatment of the reconstruction period, there would be no reason that he could not assign the Civil War chapter(s) from one text and the reconstruction chapter(s) from another text. The same would be true in all other disciplines as well. Eliminating copyright monopolies over textbooks, and placing material in the public domain, will allow professors to be far more flexible in their teaching.

Having large amounts of material in the public domain would also reduce the need for universities to play the role of law enforcement officers – ensuring that their libraries were not violating copyright rules, or preventing faculty from using unauthorized Xerox versions of copyrighted material, or even policing faculty who might try to resell promotional copies of popular texts. University administrators could instead devote more attention to providing education to their students.

If a substantial portion of textbook production were to be financed through the public sector, then it is important that it be done in an efficient manner. This would mean preserving a large role for competition. This can be done by dividing whatever amount is provided for textbook production among a number of competing textbook publishing firms. For example, if $300 million a year is appropriated, this sum could be divided among 10 firms, each given $30 million a year. The firms' performance could be evaluated at regular intervals (e.g. 10 years), with the worst two performers put out of business and replaced by new firms. This would ensure that failed firms

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do not continue to waste public funds indefinitely.

It would also be possible to have this system of publicly financed textbook production co-exist with the copyright system. Current textbook publishers could still produce their textbooks subject to copyright protection, and professors who view these books as sufficiently superior to merit the expense could still assign them to their students. This would effectively allow for a market test of the relative merits of the two systems.

It is important to note that this competition is not a case where one system gets a public subsidy and the other doesn't. Both systems get public subsidies – the subsidies just take different forms. In the proposed alternative, the subsidy takes the form of direct funding. In the copyright system, the subsidy takes the form of a government enforced monopoly. The question is which mechanism of providing subsidies leads to better outcomes.

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If the two systems existed side by side, it would be necessary to have some rule that would constrain textbook authors in the publicly financed system from benefiting from copyright monopolies once they have established a reputation for themselves. This could be accomplished simply by having a substantial period of time (e.g. 7-10 years) between when a textbook author receives support under the public system and when she can gain copyright protection for a later textbook. Such a rule would be very simple to apply since it is completely self-enforcing. If a textbook author violates this rule, and gains a copyright for a textbook before the waiting period has lapsed, then the copyright is simply invalid. Anyone can freely reproduce copies of the new work without any risk of punishment from the government or being required to pay civil damages to the author and publisher of the text.

Conclusion

Textbooks are a large and rapidly growing expense for millions of college students. This expense is completely unnecessary – it results entirely from the fact that the United States relies on copyright monopolies to finance the production of textbooks. It is easy to design alternative systems for financing textbook production, which take full advantage of the possibilities created by the Internet and digital technology. Such alternatives could make textbooks very cheap or even free for students who are satisfied reading material on the web. Having college texts in the public domain will also give professors much more freedom in selecting material, since they would be able to customize their classes, assigning chapters from a number of different texts.

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It would take a very small commitment of public funds (e.g. 0.01 percent of the federal budget) to largely replace the revenue generated for textbook production through the copyright system. A system of publicly financed textbook production could co-exist alongside the system of copyright monopolies, allowing for a market test of the relative efficiency of the two systems. Such an alternative system could offer large savings to students, more flexibility to professors, and efficiency gains to the economy as a whole.

References

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[5] The size of the economic loss due to protection (copyright or trade) will also depend on how responsive demand is to increases in price.