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ON THE CULTURAL BLESSINGS OF FIXED BOOK PRICES
Facts or fiction?

Vidar Ringstad

The system of fixed book prices whereby publishers set the price customers pay at the bookstore is very common in Europe and, according to the European Parliament, it is a means of unique cultural importance. For this reason, it is considered to more than outweigh any negative effects on the economic efficiency of such regulations. The main conclusion of this article, however, is that it is quite hard to find convincing evidence, either theoretical or empirical, that fixed book pricing is better, even as a cultural means, than free book pricing.

KEYWORDS book economics; cultural economics; fixed book price; cultural policy

Introduction

In several European countries, the book trade is the most heavily regulated industry next to agriculture. The main regulating element is the system of fixed book pricing whereby publishers set the price consumers pay at the bookstores and other outlets for books, thus eliminating price competition at the retail level. This system has its roots in the German *Börsenverein des Deutschen Buchhandels* established early in the nineteenth century. Later it was cloned by a number of other European countries.[1] In Britain, it was introduced at the end of the nineteenth century as the "Net Book Agreement" (NBA) where the system of fixed book prices was denoted "Resale Price Maintenance" (RPM).

While this system is controversial for several reasons both among economists and in the book trade, this is not so, to put it mildly, for the European Parliament. In a resolution of 16 December 1999, the following statement was made:

> [The European Parliament] believes that the fixing of book prices, in which a number of Member States engage, safeguards the existence of numerous independent publishing houses, helps to preserve and promote varied literary production, freedom of opinion and independence of research, science and teaching and – in common cross-border linguistic areas – to promote the European idea and ensures, without direct or indirect government aid, a dense network of bookshops, giving the reader an extensive, high-quality and easily accessible supply of books. (European Parliament, 2002, p. 6)

According to this, the system of fixed book pricing is an extremely important cultural means. The resolution does also suggest explicitly that it is superior to other means in common use today in several countries, like subsidies to production of culturally valuable titles and

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reduced value-added tax for books, which are actually superfluous when the system of fixed book pricing is applied. If this were true, any adverse effects on the resource allocation of missing competition at the retail level – a common objection to fixed pricing among economists – must be very strong to outweigh the positive cultural effects of fixed book pricing.

But what is the evidence? Let us start with the main conclusion of this article: It is hard to find any convincing support for the contention that fixed book pricing is superior to a free-pricing system, *even as a means of cultural policy*. Thus the resolution of the European Parliament is cultural rhetoric, probably adopted from certain interest groups of the European book trade, who, for some reason or other, prefer fixed pricing. This conclusion corresponds quite well to what Oliver Overstreet found more generally in his study for the United States Federal Trade Commission about 20 years ago: "[N]either the economic theories nor the existing empirical evidence offer overwhelming support to any single view concerning RPM. A single view is simply not tenable on the basis of current theory. Neither is it well supported by available empirical evidence" (Overstreet 1983, p. 1).

In contrast to rhetoric and poorly founded opinions about the book trade and how it works, there is little systematic research on issues belonging to what could be called "book economics" (or, alternatively, "book trade economics" or "literature economics"). Actually it is almost non-existent compared to the large amount of economic research carried out during the last decades in other sub-areas of cultural economics like performing arts, creative arts and cultural heritage. Nevertheless, among the few studies carried out in this sub-area, the effects of fixed versus free book pricing have been one of the main issues. Recent contributions are Rürup (1997), Utton (2000) and Appelman (2003). There is also a substantial literature about this issue for other goods and about fixed versus free pricing more generally, such as Overstreet (1983) and, more recently, Deneckere *et al*. (1996, 1997) and Mathewson and Winter (1998) to mention but a few. Apart from Overstreet (1983), none of these studies contain any substantive empirical elements, however. For books, the only serious attempts I know to find out how the two pricing systems actually perform are mainly due to the British economist, Francis Fishwick (1985, 1989, 1997, 2001; Fishwick *et al*. 1997; Fishwick & Fizimons 1998). Most of these reports are not easily obtained, however, and the same is true for Oliver Overstreet's (1983) comprehensive evaluation. Therefore, the findings of these authors are poorly known, which could be one of the main reasons why rhetoric still dominates the discussion of fixed versus free book pricing.

During the 1950s and 1960s, fixed prices were very common and applied on a wide range of goods such as tobacco, sugar, audio equipment, toothpaste, pharmaceutical goods, wine and goldsmith goods. Later it was forbidden for most goods by the anti-trust authorities since it was assumed to prohibit efficient resource allocation due to lack of price competition among the retailers.[2] In 1985, fixed pricing was applied in Britain to books and patent medicines only (Fishwick 1985, p. 1). The system was abolished for books in 1995 (formally, two years later) and finally in 2001 for pharmaceuticals as well.[3]

It is not easy to find a good strategy to explore the merits and demerits of fixed book prices as compared to free prices. There seems to be three main strategies. The first concerns *theoretical studies*. Most of the studies carried out about the issue (those carried out for goods other than books included) are mainly of this kind. They are based on economic theory and include the effects a pricing system has on the cultural aspects of books in addition to its economic impact, in particular concerning the efficiency of the allocation of resources. The main problem with this strategy (like theoretical discussions in general) is that you can never be sure how well the model applied fits real life. Moreover, there may be conflicting effects and empirical information is needed about them to be able to say something about the net effect. Usually such information is not available, or is very incomplete.

The second strategy is *comparative studies*. While most of the countries in Europe have fixed book prices, there are some with free prices as well. By comparing the cultural and economic performance of the book market in countries with different systems, it is possible in principle at least to find out which of the two systems is the superior one. In Scandinavia, for instance, Sweden and Finland have free prices, while Norway and Denmark have not.[4] An obvious objection to comparative analyses of this kind is the fact that even the Nordic countries, if related in many ways, are also different in potentially important respects. Thus one cannot be sure that any observed difference in cultural and economic performance of the book market is due to different pricing systems or other factors. Nevertheless, if there are *substantive* differences in performance between the two pricing systems, one should expect *some of them* at least to show up in a comparative analysis.

Finally, there are *ex ante/ex post studies*. This strategy implies a comparison of the cultural and economic effects of a change of system. In this context as well, Sweden and Finland are of special interest since they abolished their fixed book price system in 1970 and 1971, respectively. More recently, Great Britain did the same, formally in 1997 and in actuality about two years earlier. Francis Fishwick has carried out extensive evaluations of this change of system. The main problem with this strategy is the change in "other factors" taking place during the period preceding and following the change of system. The effects of these factors are not easily separated from any effects of the change of system. The effects of business cycles are particularly difficult to handle in this respect, but again, if there are *substantive* differences between the two pricing systems, some of them should show up in the development of the book market.

It is obvious that none of these strategies is particularly powerful. When we combine them, however, as we will do here, the evaluation could be more convincing, at least if all of them provide more or less the same answer, as they actually turn out to do in our case.

In the next section, we briefly explain the main characteristics of books as a mixed good with several public utility components. This forms the basis for the criteria we will use in the evaluation of the pricing systems. In the following sections, we explain the attempts made to explore the main issue of this article by means of the three strategies. In a concluding section, we summarise the outcome of our explorations.

What to Look For

To compare the performance of fixed and free book pricing, we need a set of criteria. The point of departure in this context is the fact that books can be considered a mixed good since they provide both private and public (or social) utility. The existence of markets for books is due to private benefits like their entertainment value and their position as a source of information. The public utility is due to several properties, among which the following deserve to be pointed out explicitly:

- Books are still the most important way of storing information of cultural and historical value. Books several hundred years old tell us about the contemporary conditions in literature, politics, science, arts and so on. Correspondingly, books produced today will be an important source of information about our time for future generations.
- Books form an important part of the foundation of a lingual, cultural and national community. This is a main component of the glue that keeps a nation like Norway together.

- Literature is still the most important way to disseminate knowledge. Most of this function is of a private good nature, but there are also public utility elements connected to this property. Learned people imply positive external effects to their surroundings (i.e., people less learned benefit by a sort of social osmosis).
- Literature is a form of communication, and at the same time it improves communication among people. In this context, the effects of improved lingual competence in a population are related to those of improved technical quality of telecommunications systems.

It is easily demonstrated that in a market for a good with public utility components, the volume of the good is generally less than the social optimal one, implying a social loss. This is the basis for public policy means to stimulate production and demand of books in various ways.

When it comes to specific criteria of evaluation of pricing systems, several more or less closely connected to the public utility components of books and the corresponding market failure have been applied. Three of them can be considered the main ones since they are more directly related to the public utility. The first criterion is the view that if a pricing system leads to *lower prices* than another one, it is *ceteris paribus* the superior one. This has to do with the fact that lower prices imply a larger volume of books demanded, sold and consumed, bringing the market solution closer to the social optimum. It also implies a bigger consumer surplus and thus bigger private utility of books. The second criterion concerns *varied literature production*. Literature is not a homogeneous good. It is actually as varied as humanity itself. This reflects the differences in the tastes for various books among the consumers, as well as the fact that various types cover different purposes with a different mix of both private and public utility components.

Due to big fixed costs in the production of books, average costs are decreasing with scale. Thus there are substantial economies of scale for each book title. This also implies that titles with small market demand may be unprofitable even when the publisher uses the monopoly power he has for a title. Such books may nevertheless be socially profitable, since the consumer surplus and the public utility components may be big enough to outweigh the producer's loss by publishing the book. This is therefore an argument for economic support of small titles, in particular those considered to be the more culturally valuable ones (i.e., those that contain more public utility). Alternatively, if a pricing system provides better stimulation than another one of more varied literature production of such books, it is the superior one in this respect.

The final criterion concerns *accessibility*. The availability in a local area of a wide range of titles depends on the presence of a local bookstore. A narrower supply of books has long been available through other local outlets and book clubs. The size of the market, and thus both consumer surplus and the public utility, depend on the number and location of bookstores. If one pricing system makes more bookstores profitable, it is the superior one in this respect. This argument is about to lose some of its relevance, however, due to Internet and online bookstores.

Theoretical Considerations[5]

Let us start the theoretical discussion with a fact of splendid irony. When fixed book prices were introduced in Great Britain in 1890, the bible of neo-classical economics for most of the twentieth century, Alfred Marshall's *Principles of Economics* (Marshall 1962[1890]) became the spearhead for the new pricing system. The publisher, Frederick Macmillan, was strongly in support of this price regulation. The author, as one could guess, was sceptical (cf. Guillebaud 1965, p. 518): "Marshall reveals himself (for rather special reasons of his own) as decidedly critical of certain aspects of the net book system, especially when applied to works of scholarship, such as his own *Principles of Economics*." Macmillan's main argument for fixed book pricing was that by eliminating price competition among the outlets, it was possible to make more of them profitable by increasing their gross margin. He believed this could be done without raising prices to the customer since he argued fixed prices reduced distribution and other transaction costs. Yet even if the prices were raised, there could be a positive net effect. Then there are two opposing effects of fixed prices on the volume of books sold: more expensive books would reduce the sale from the existing outlets, and more outlets would be established, which increases demand since it gives more consumers access to books. The net effect obviously depends on the price elasticity of books, on the one hand, and the effect higher prices have on the number of new outlets, on the other.[6] Macmillan argued that the total effect was positive anyway. The fact that books could be more expensive is not so serious in this case – provided Macmillan is right. This has to do with the fact that consumer surplus (as well as social surplus) is larger in the fixed price case. There is also a gain due to bigger public utility of books.

More recently, demand uncertainty and the effect fixed prices have on economic risk has been in focus both for books and for goods with uncertain demand in general. This is the case in Deneckere *et al.* (1996), for instance, who develop and apply a model with the following central elements: uncertainty over the demand for the manufacturer's product; the manufacturer has a need for the product to be on the retailer shelves before that uncertainty is resolved; and retailers must incur some costs of unsold inventory. In the case of free pricing, there are likely to be discounters at the retail level making the economic risk of inventories higher for ordinary retailers. This could undermine their existence and there will be fewer outlets to contribute to resolving the uncertainty of demand. Under the assumptions made, their model implies that price competition at the retail level lowers manufacturers' profits and can lower equilibrium inventories and even consumer surplus. Thus fixed pricing could improve economic efficiency, but just like the conclusions based on the Macmillan model in case the retailers' gross margin is increased by higher prices, the latter effect is critically dependent on how price-elastic demand is and how seriously impaired distribution is by price competition (Deneckere *et al.* 1996, pp. 902, 911–912).

Their study deals with goods with uncertain demand generally, where adequate retailer inventory holdings are critical to the product's success, and where restocking dealers from the manufacturers inventory is at best an imperfect substitute for substantial initial stocks on the dealers' shelves. Demand uncertainty is an obvious feature of books, as for cultural goods more in general: it is the "nobody knows" characteristic of such goods, as Richard Caves calls it (Caves 2000, p. 3). Retailer inventory holdings could still be important to resolve demand uncertainty, but less so now than before due to improved media information about books, and improved distribution technology making restocking easier.

There is one reason why many economists, as well as the competition authorities, are not likely to be convinced by the efficiency arguments of Macmillan and Derneckere *et al.* This is the improved possibilities in the case of fixed prices for collusive behaviour and cartelisation of the industry concerned, the book trade in our case. Fixed prices (like other vertical restraint) may facilitate retailer and publishers collusion. Publishers with market power may use price fixing to reduce the costs of controlling price fixing agreements with their competitors. And retailers with market power could get publishers to introduce fixed prices to facilitate retailer collusion. Retailers with monopolies may coerce publishers into setting retail prices above the costs of the retailers. This allows the retailers to monitor the prices of competing retailers, and reduces the quantity sold to something less than desired by the publishers (cf. Calvani & Langenfeld 1985, p. 2). This could be the reason why German publishers initially resisted fixed book prices for nearly a century (Bittlingmayer 1988, p. 790). Obviously, German booksellers had a very strong market position at the time, with several examples of adverse effects, both economically and culturally (cf. Bittlingmayer 1988, pp. 802–803). This was noted even by Alfred Marshall in his discussions with Frederick Macmillan (Guillebaud 1965, p. 531).

The free price supporters also argue that since fixed prices eliminate price competition among retailers, their production efficiency will suffer, which *cet par* implies higher costs *and* higher prices. In contrast to the Macmillan or Deneckere *et al*. case, there is no positive shift in demand to offset the negative effect of higher prices on the volume of books sold in this case. The following citation is typical of this point of view (Yamey 1954, cited in Fishwick 1985, p. 9; cf. also Yamey 1966, Chapter 1):

> The prevention of price competition between retailers protects inefficient outlets and hinders the expansion of more efficient methods of retailing. Specialisation with consequent economies of scale is hindered because its advantages cannot be exploited. The protection afforded to small-scale, high-cost traditional forms of supply tends to breed homogeneity in business psychology and skills and a resistance to experiment and change from within.

There is a dynamic element in this argument. The supporters of free prices argue that this price system stimulates more innovation and creativity. Improvement of efficiency does not come free. To be profitable, the costs of improved efficiency require more sales. Since the outlets are not permitted to increase their sales by price competition, they are less likely to carry out such efficiency improvement (cf., e.g., Allan & Curwen 1991, p. 23): "Innovation is also likely to be stifled by RPM since any savings which arise as a direct result cannot be passed on in the form of lower prices to consumers. Hence a bookseller with innovative ideas has little opportunity to gain market share at the expense of his stodgier rivals, and retailing techniques lag behind those in sectors not subject to RPM." The welfare effects of changing the system from fixed to free prices are – according to the free price supporters – exactly the same as the effects of switching the other way around – according to the hardcore fixed price supporters. The prices will be lower, more books will be sold, and the consumer and social surpluses as well as public utility of books will be larger. Naturally, both cannot be right, but that is a different story.

There is another important economic issue related to the cultural effects of price competition in the book market. It is based on the following main characteristics of the production and marketing of books. First, the book market consists of several segments, some of which are quite small while others are mass-market segments. Second, there are large fixed costs in the production of a title. This implies decreasing average costs and scale economies. And, finally, books are substitutes. With a free price system, so the argument goes from its opponents, price competition among the retailers is likely to be concentrated on mass-market titles. That is where the big money is – if one succeeds. Yet due to fiercer price competition, prices of mass-market titles will be reduced with a negative effect on the demand for small titles.

What happens next actually comes in two versions. In a mark-up world, which used to be assumed for the book trade, the reduced demand for small titles would imply higher prices due to higher average costs since fewer copies are sold. Assuming a market-clearing model, at least for expected sales *ex ante*, prices of small titles would rather go down making some of them unprofitable. Even small adverse effects on the demand for small titles could have big effects on the number of titles published since they are likely to have smaller profit margin at the outset. In both cases, there is a crowding out effect on such titles. This argument carries some cultural merit provided that the titles crowded out are more culturally valuable than the mass-market books as is usually assumed by the opponents of free pricing (see the previous section). In the other camp one tends to focus more on the blessings of lower pricing of popular titles for economic less privileged groups. For them, the price of books counts more than for others and they generally read less than the average. Since improved communication are among the important public utility effects of books, lower prices in mass-market segments could be as culturally important as the availability of titles for small subsections of the book market.

There is another issue related to the one discussed here that has been quite controversial and the subject of much confusion – namely, so-called "cross subsidising". "True", or what one could call "*ex ante* cross subsidising", implies that the publishers publish presumed culturally valuable titles that they *know* will not (or are quite unlikely to) cover their costs. These costs are covered by the profit from more popular, but less culturally valuable titles. Or so we are told. We are also told that with less profit from mass-market titles due to fiercer price competition with free pricing, the publishers cannot afford to subsidise culturally valuable titles to the same extent as with fixed pricing. Thus this is an argument for fixed pricing, repeated as late as in Appelman (2003). There is little evidence indicating that this is true, however. There *seems* to be substantial cross subsidising in the book market due to the "nobody knows" nature of books. *Ex post* some titles turn out to sell well and cover the costs of those that do not. This is pointed out explicitly by the National Heritage Committee of the House of Commons (1995, p. 11, cited in Fishwick & Fitzsimons 1998, p. 12):

> Publishers do not generally publish works they anticipate will be unprofitable on the back of "safe risks". They hope … that every book they publish will be profitable – the problem (and here lies the risk) is in knowing which will be profitable and which (possibly the majority) will not be. What does happen is that *ex post facto*, it turns out that some books have contributed to profits, others not.

It has been argued that there is some *ex ante* cross subsidising in the Norwegian book trade. However, on closer inspection, this turns out *not* to be the case (Ringstad & Løyland 2002, p. 181). It happens that books by young but still unknown authors considered to be promising are subsidised, as well as weak books by established authors to keep them in the trade if they are likely to provide better books later. Loss-bringing books appreciated by the cultural establishment and/or politicians are also published to improve the image of publishing houses as cultural institutions – and their eligibility for economic support and other political or economic favours. However, the expected loss of publishing such titles obviously make economic sense in a wider perspective and thus it is not reasonable to call it "cross subsidising" at all.

So far we have discussed the effects of price competition only. For books, in particular, there may be several other ways of competition – for instance, keeping a store of books with limited sales, bibliographic advice without extra payment, ordering of books not in store without extra costs for the customer, and service to special customers like libraries without full coverage of the implied costs. In this way, a bookstore can manage to obtain a larger market share without lowering prices. Like price competition, these forms of competition can be used both for and against fixed prices. Let us first consider the contra-arguments. Consider, for example, the following from the debate about fixed prices in Australia (Fishwick 1985, pp. 9–10):

> Because they [the bookstores with a fixed pricing system] attempt to compete in elements other than price to increase business, retailers offer more services to win or retain customers. Only a minority of customers use these "free" services and most would be better off paying lower prices instead. A particular example of such services is the stocking of books other than fast or steady selling titles with similar profit margins. This "cross-subsidisation" of less popular titles conflicts with the fundamental principles of welfare economics that price should reflect costs (in this case, net social costs).

Actually, this suggests that it is true in the case of price competition only, non-price competition works properly from an economic point of view. This is more explicitly stated by Allan and Curwen (1991, p. 23):

> In practice non-price competition may be of value to customers, some of whom will accordingly be prepared to pay higher prices for a better quality of service. The key point is that the free market will force firms to provide their quality of service as cheaply as possible, and that the range of different types of services on offer will be determined by the preferences of consumers rather than of suppliers.

The main argument in support of fixed pricing in this context concern the information provided. The purpose of this information is to improve sales of books as well as to help the customers find the books corresponding to their wishes and needs. In case of free prices, there could be a free rider problem in the book market, however, implying too small provision of such information services. Those who provide these services cannot charge the customer directly for it. If they try to do it indirectly by higher book prices, the customers will utilise free information services and buy the books from those who are able to sell them cheaper since they do not provide this information. Thus the former have to do the same or lose money and possibly leave the market. In both cases, too little information will be provided.[7]

In addition to the two price systems we have discussed so far, there is actually a third one, a hybrid system, *allowing* but not *requiring* fixed book prices. It is conceivable that this system could be superior to the "pure" ones, but that would critically depend on the behaviour of publishers and retailers, as well as the various effects of fixed compared to free prices discussed above. Provided *ex ante* selection of the more culturally valuable books is feasible, using fixed prices on these exclusively reduces uncertainty and improves distribution of such books according to the Deneckere *et al.* (1996) model. At the same time, there would be competition at the retail level for other books, which is good according to the free price supporters, but not according to Deneckere *et al.* And any Macmillan effect of fixed book pricing would be correspondingly less. In contrast to the two "pure" price systems, the hybrid one is empirically unexplorable. Germany used to be the only country with this system and, according to Appelman (2003, p. 240), fixed pricing was used there on almost all books.[8] Recently, Denmark adopted the same system, but one would need several more years before the Danish experience could be explored.

All in all, the discussion in this section tells us, not surprisingly, that it is impossible to decide which one of the price systems is superior on a theoretical basis alone. It depends on elasticities of demand, the importance of price competition for costs, the importance of fixed book prices for the number of outlets and the total size of the market. It depends on the nature and extent of demand uncertainty, and the sensitivity of demand from one outlet to the prices of other outlets. It depends on the market power among publishers as well as at the retail level, and the extent of collusive behaviour. And it depends on the importance of information about books provided by the outlets for the total demand for books, the "match" between the contents of the books sold and the preferences, wishes and needs of the customers, as well as several other factors.

Comparative Studies

This section is mainly based on two studies: one of the Nordic countries (Fjeldstad 2001), and one where comparisons are made between Australia, Great Britain, Canada and the United States (Fishwick 1985). Even if there are important differences between them, the Nordic countries are, for several reasons, suitable for comparative studies of the performance of fixed and free pricing systems for books. They are all rather small, are closely related culturally (even if Finland belongs to a different lingual group) and they have widely different book policies. Norway has a fixed price system, while Denmark used to have one, but recently introduced the hybrid system as pointed out above. Finland and Sweden have both had free book prices for more than thirty years.

If the substance of the European Parliament resolution referred to in the first section of this article were basically true, Finland and Sweden could hardly be cultural nations at all, at least not as far as books are concerned. Or they use other, and less efficient policy means to compensate for culturally adverse effects of free book prices. This does not survive closer inspection, however. With a fixed book price in Norway, there should, according to the European Parliament resolution, be less need for economic support of books and other means to stimulate the production and demand for them than in Sweden, for instance. The opposite seems to be true, in particular due to the fact that there is no value-added tax on books in Norway, while it was 25% in Sweden until 2000 when it was reduced to 6%.[9] Both countries use various direct support arrangements. In Norway, there are comprehensive public purchases of books for public libraries, as well as various support systems for authors. Sweden, among other means, uses public support for small-scale productions of books considered to be culturally important, and support for publishers with a high-quality profile. A main conclusion in Fjeldstad (2001, p. 19; my translation) is: "The effect of the public book policy in Sweden is a supply of books that both in quality and variety can compete with the other Nordic countries. It does well in other international comparisons as well, in spite of a more commercial publishing policy."

At the end of his evaluation Fjeldstad (2001, p. 122) points out that the sale of books (in nominal value) has increased in three of the Nordic countries with different pricing systems (Finland, Norway and Sweden), while the fixed price country, Denmark, has experienced a sharp decrease. The number of copies sold has been fairly constant in the first three countries, while there has been a substantial drop in Denmark. Thus the increased nominal sales value in Finland, Norway and Sweden is due to increased prices, independent of the pricing system. In Denmark, book sales have been reduced by one-third since 1985, while the price of books has increased by one-third more than the general price level. As Fjeldstad

(2001, p. 122) concludes: "A reasonable conclusion … is that one should be careful to argue that fixed book prices lead to one development and free prices to the opposite. One system does not seem to be superior to the other."

A recent study of the causes of the fast real book price growth in Norway since 1980 (Løyland & Ringstad 2003) shows, however, that real book prices have increased even faster in Finland and Sweden than in Norway (and Denmark).[10] Only a closer comparative analysis can tell us whether or not these differences are due to different price systems or other differences between the Nordic countries. It could, for instance, be due to differences in the degree of increased concentration among the publishers, which seems to be a main explanation for increased real book prices in Norway according to this study.

Francis Fishwick (1985, p. 124), in his evaluation of the price systems of Australia, Great Britain, the United States and Canada, arrives at a conclusion corresponding to the one obtained by Fjeldstad cited above: "The main conclusion from this research is that the effects of resale price maintenance have been exaggerated both by its supporters and opponents." He points out several differences between the book trades in North America (with free pricing), in the United Kingdom (with fixed pricing at the time), and in Australia (which abolished fixed pricing at the beginning of the 1970s and, at the time the evaluation was carried out, was moving towards the North American model). In the free pricing countries, local price competition among retailers is limited and is merely one of a number of distinctive features that add up to greater emphasis by the book trade on the selling of books to general shoppers. This mass-marketing approach is claimed by those in the trade as one of the reasons why proportionally more people in North America buy books from shops than in the United Kingdom and, despite the greater importance of public libraries in Great Britain, why Americans read more books. He finds no evidence that the more selective reader suffers any disadvantages as a result of the mass marketing of bestsellers. The pattern of title production in the United States is similar to that in the United Kingdom; the prices of minority books in the former, though higher in relation to those of mass-market fiction, are no higher than those in the United Kingdom. Bookshops abound, often with wider title ranges than in the United Kingdom and offering special order facilities.

All in all, the comparative analyses carried out show some basic differences in the book trade between countries with different pricing systems. Some of these differences are likely to be due to the pricing system itself – for instance, unsold copies in the bookstores can be returned to the publishers in free pricing countries, while this is usually not the case in fixed pricing countries. Others are more due to cultural differences, which makes comparison of the performance of the book market in free and fixed pricing countries more complex. The only piece of information that provides some evidence in support of one system, fixed pricing at it is, is the difference in real book price growth between the Nordic free and fixed pricing countries since 1980. However, the causes of these differences have not been explored so far.

Ex Ante/Ex Post Studies

Since Sweden introduced free pricing in 1970, the book trade there is of interest in an *ex ante/ex post* study as well. The change of pricing system in Sweden was blamed for the substantial growth of book clubs after 1970, with increased commercialisation, strong growth of bestseller publication with a likely crowding-out effect on other, in some respects more culturally valuable, books. This is not very convincing, however, since it turns out that the growth of book clubs was even stronger in the fixed pricing country Norway. Neither is the lower density of bookstores in Sweden as compared to Norway due to the new pricing system in Sweden, as has been widely believed both in Sweden and Norway. According to Fjeldstad (2001, p. 29), this tendency was present even before Sweden switched to free prices. The widely dispersed net of bookstores in Norway is mainly due to exclusive rights for bookstores to sell books for primary and secondary education, which has nothing to do with pricing systems.

According to Francis Fishwick the switching from fixed to free book prices in Australia did not lead to dramatic changes (cf. the findings referred to at the end of the previous section). In his summary, he points out that the abolition of RPM in Australia and its absence in the United States have not led to a price free-for-all. Discounting in varying intensity did take place in both countries – during the two years preceding his study (i.e., 1982 to 1984) it intensified in some areas. One restraint appears to be that many book-buyers showed little inclination to "shop around" even when price differences were shown to exist. He has also carried out extensive evaluations of a corresponding change of pricing system in Britain in 1995. The more comprehensive ones are Fishwick (1997), Fishwick *et al*. (1997) and Fishwick and Fitzsimons (1998). Nevertheless, the much briefer evaluation he makes in Fishwick (2001) is more interesting since the book trade naturally needs several years to adjust to the new system, and this study is the more recent one.

Let us look at some of the main tendencies in the British book trade during the period from 1995 when the RPM was abolished according to Fishwick and the conclusions he draws about what matters here:

- Bestsellers have gained from discounting and from better exposure in non-traditional outlets. This has stimulated the demand for books, particularly among lower income groups. More people are buying books and thus this segment of the book market has expanded both in volume and even in value terms since RPM was abolished.
- The prices of non-mass-market books have risen much more than general inflation, and those sold by ordinary outlets are seldom subject to discounting. Higher-income customers buy most of these books, however, and their demand is fairly inelastic. Thus, the sales in value terms are greater than before even for this category.
- Even if most publishers and larger bookstores seem to have gained, there are some losers, mainly among smaller publishers and independent bookstores. They are relatively few and thus the net effect for the book trade is positive.
- There are also some losers among the consumers of books. Those who buy less popular titles have to pay more but, as pointed out above, most of them can afford to do so. The most significant victim is likely to be a lower-income consumer with a more developed taste in reading.
- Before the RPM was abolished, one of the main worries was that it would lead to a fall in the number of titles. However, after a brief dip in 1997, the number of titles has continued to rise steadily.

All in all, this suggests, if anything, that the abolition of the RPM has had a positive net effect both on the British book market and the cultural aspects of books. Yet as Fishwick points out, the changes taking place in the book market since 1995 could be due to the upturn of the British economy in that period. One cannot be sure that the new system will work equally well in an economic downturn. It could be, of course, that fixed prices are better in downturns, while a free pricing system is superior in upturns. It is hard to imagine, however, why this should be the case.

At the end of his summary Fishwick presents some timely questions:

> Does this [i.e., the positive development for most consumers, publishers and booksellers after RPM was abolished] mean that the book trade wasted a lot of time, effort and money before 1995 in trying to defend the NBA, when RPM was actually holding the market back? Is there a lesson here for other countries that have retained the RPM? (Fishwick 2001, p. 21)

Fishwick does not answer these questions. He just adds that we have to see a downturn first, but, provided the British book market does not perform worse in a downturn than the book markets in fixed price countries in a downturn, he seems to be inclined to give a positive answer on both questions. In evaluations previously carried out, he has expressed support of the RPM system (cf., e.g., Fishwick 1989, pp. 44–45). In the more recent evaluation, he takes a more neutral position.

A less positive attitude to RPM for books seems to be a general tendency in the United Kingdom. It could, however, be an effect of the structural changes that have been taking place in the British book trade the last decades, and less due to the positive, or seemingly positive effects of abandoning RPM. The more substantive and important changes are reflected in the arguments by the Restrictive Practices Court in 1997 when it decided RPM should be abolished, as compared to the arguments of the same court in 1962 when it was decided it should be retained. The court found in 1997 that there had been material changes in the book trade since 1962: in production costs, the length of economic production runs, in the structure of retailing, and so on. Thus the arguments accepted in 1962 were no longer considered to be valid (Utton 2000).

And So What?

It is obvious from our discussion that it is quite hard to find convincing evidence, theoretical or empirical, that a fixed pricing system for books is superior to free pricing. Countries that have retained the fixed pricing system obviously have a lesson to learn from the British experience. The same is true for countries that have recently introduced fixed prices by law, such as Greece and Austria. Not to speak of the European Parliament, the opinion of which on the issue concerned could be the reason why the European Union countries mentioned, as well as others, have introduced fixed prices. On the other hand, there is no convincing evidence in the theories and analyses referred to in this article that a free pricing system is generally superior to fixed pricing. Thus it is unlikely that the countries that have introduced fixed prices have experienced any substantive adverse effects. As far as I know, no evaluation of their performance has been carried out.

A common conclusion in economic studies is that more research is needed to be able to arrive at more definite conclusions. This is obviously the case here as well. The marginal utility of purely theoretical studies is close to zero, however. There are plenty already. What is needed is empirical information and evidence. We have pointed out a difference in real book price growth between the Nordic fixed and free pricing countries. A closer comparative analysis of the causes of this difference could provide new, valuable insight. And so could a broader comparative study of the performance of the book market of European states with different pricing systems, as well as a study of what has happened in the European countries that have introduced or abolished fixed pricing.

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NOTES

1. For a historical review, see Bittlingmayer (1988)
2. In 1962, 44% of total consumer expenditure in the United Kingdom was on goods with RPM. A decade later, this share was reduced to 2% (Utton 2000, p. 124).
3. Thus there is no formally permitted RPM in the United Kingdom today, but according to Francis Fishwick there is some RPM *de facto*.
4. Except for Finland (cf. Stockman *et al*. 2000), little information about the book markets of the Nordic countries is available in English.
5. Those who read German could benefit from the more comprehensive theoretical discussion in Rürup (1997).
6. Econometric analyses by Bittlingmayer (1992), Hjorth-Andersen (1996) and Ringstad and Løyland (2003) suggest that the demand for books is quite price elastic. Calculations presented in Fishwick and Fitzsimons (1998), as well as studies referred to there, suggest that books are price-inelastic or price-neutral. The effects of fixed prices on the size and number of outlets are discussed at some length in Gould and Preston (1965).
7. Telser (1963) was the first one to use this argument for fixed prices (cf. also Gould & Preston 1965; Comanor & Kirkwood 1985; Calvani & Langenfeld 1985). This issue is discussed by several of the other authors referred to previously.
8. According to Bittlingmayer (1992, p. 591), the only exceptions are the roughly 5% of new titles produced by publishers who market their books directly to end-customers and older titles that are removed from RPM and sold to special discounter wholesalers.
9. In Denmark, it is 25% as well, while it is 8% in Finland.
10. This comparison is based on consumer price data for books calculated by the various national bureaus of statistics. (These data are not generally available and were provided at the author's request.)

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