Working Paper

Title: Why you won't be buying and selling information yourself
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Abstract: A large part of the economics of electronic publishing of library materials will be based on site licensing, not on per-use fees.

Why you won't be buying and selling information yourself

Yesterday I had a chat with Steve Cousins about discussions in the econ group, and then went to a meeting attended by the head of the Stanford Libraries, the head of Stanford U. Press, and the heads of the Law and Business libraries (each of which is independent, not part of the SUL organization). The discussion was on their view of the future of electronic publishing. I had the following impression (this is not exactly what they said, so don't hold them responsible) which may be relevant to our thinking about economic models and what we want to build.

Put simply, my realization was:

- A large part of the economics of electronic publishing of library materials will be based on site licensing, not on per-use fees.

I can give lots of bits of evidence for this, but will just sketch the outlines here.

In general, when you put people on a pay-per-item basis (even if the mechanics are cheap and invisible) it has a chilling effect on use. Every single item raises the question "is it worth it?" This has been handled for print by the institution of libraries, which get their money on the basis of some kind of tax (e.g., provost's allocation from tuition and overhead), and then provide items without charge to the taxpaying community. On a smaller scale it is handled in the classrooms by having every student buy the textbook or readings packet, not decide "is it worth paying for this chapter, or can I get by without it?". By paying a single, predictable fixed fee people end up feeling happier, even if on the average it isn't cheaper.

A major advantage to this is that the problem of enforcement then shifts from a very difficult one (the

publisher trying to preserve rights in dealing with a large number of end users) to an easier one -- the publisher dealing with institutions and institutions policing use locally. This works, for example, with site licensed software which checks to see how many copies are running on the network. Of course, hackers could make copies, disable the feature, kludge the networks, etc. but a university or company isn't about to do that, and since they are the ones paying the bill (not the individual users), the motivation isn't there for individuals to do it, as long as they have enough copies.

There will always be a market for the other two major modes: Free access (subsidized by the provider, that is) and pay-per-item. The non-pay sector will continue to include the "grey literature" (working papers, departmental reports, etc.) and will grow to encroach some on the current market for scholarly journals. Of course it will also continue to include the "murky literature" of unfiltered net publication (news groups, bboards, individual web pages, etc.). Individuals with specialized materials may still find it best to provide them individually and have mechanisms to charge per use.

But the bulk of for-pay material (at least in the technical scholarly world) will be handled by large for-profit entities (we can continue to call them "publishers") who solicit materials, pay royalties (with some mixture of flat fee and per use) and license them under a number of different arrangements to institutions. For example, the license might cover all accesses to a particular collection of journals, or to all books listed by that publisher, or a particular book series. A license might be long term or limited term (e.g., for only one quarter) and limited audience (e.g., only to the students enrolled in a certain course).

The mechanisms that we need to invent are ones that make it easy for an institution to set up and enforce these kinds of restrictions. They don't need to be foolproof, just to create incentives that are in line with the legal agreements. For example, if additional material for a course is to be put on line ("electronic reserves") with per-use charges, it is in the students' interest to have one student access it and make copies for the others. If the university has paid a site license on the basis of enrollment in the course, then that motivation goes away. The university might try save money by listing it for one small course and then allowing access to other students, but if the mechanisms for access control are standardized and publically visible (e.g, the publishers can audit them), this won't happen except in rare (and litigable) cases.

A couple of final notes on this:

1. It isn't universal.

   I am thinking about users of scholarly and technical materials in educational instititions and companies. Clearly this wouldn't apply to the electronic distribution of a Stephen King thriller or the daily home newspaper. I don't think any one mechanism will cover everything (any more than one print publication and distribution mechanism does). Given the nature of our project we should be concentrating on the academic and business-technical market.

2. It isn't utopian

Many people (myself included at times) like to think of on-line technology as creating a democratizing effect on publication. This scenario implies the continued existence and power of large publishing conglomerates. The profit-seeking information producer will be faced with the choice of signing up with a publisher to get the benefits (income from generic site license arrangements, marketing, inclusion in specialized search services by that publisher, etc.) or going the self-publication pay-per-item route on his/her own. The mix will stay strongly on the side of the big guys. I'm stating this as a prediction, not a value judgment, and as stated above, it doesn't apply to the non-pay sector of on-line publishing.

If we believe the picture painted above, we may end up creating a very different collection of economic services than the ones usually thought of when people take the open market as an analogy. It actually provides a better context for things like the copyright-violation-detection server, since its use would now be localized to an institution trying to enforce its site license. Such an insititution could actually do things like monitoring net traffic, which would be impossible for a publisher to do on a widespread scale. Instead of focus on things like secure payment, we might look at mechanisms for auditing (e.g., to assure publishers that license agreements are observed, without violating privacy or proprietary information).

Comments?

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