Ted Bergstrom, UCSB’s Aaron and Cherie Raznick Professor of Economics, and colleagues examined big deal agreements between public universities and both commercial and nonprofit journal publishers. The findings appear today in the Proceedings of the National Academy of Science’s Early Edition.

We wanted to call this paper “Secrets of the Big Deal”, but PNAS insisted that we choose a more serious-sounding title.

Librarians and scholars often complain that large commercial publishers exploit their monopoly positions by charging inflated prices for academic journals. Journal publishers pay nothing to the authors or to the scholars who spend hours reviewing articles for possible publication. Roughly 2/3 of scholarly articles are published by for-profit publishers and 1/3 by non-profit professional societies. Publicly available statistics show that for-profit publishers list subscription prices that are three or four times as much per article as prices charged by non-profits in the same disciplines.

Some have maintained that this comparison is misleading because large commercial publishers allow universities to subscribe to a publisher’s entire list of journals for single lump sum price at a significant discount from the sum of individual prices. These bargains are known by librarians as “Big Deals”.

No public information has been available about Big Deal prices, because publishers have insisted on including ``confidentiality clauses’’ in their contracts. Most state universities, however, are required by Freedom of Information Acts to reveal information about state-funded contracts, regardless of confidentiality agreements.

We decided to probe the ``secrets of the Big Deal’’ by sending Freedom of Information requests to a large number of university libraries. Librarians were usually very cooperative and supplied us with a total of about 360 bundled subscription contracts.

We compared the prices charged by large commercial publishers to those charged by large non-profit publishers. Prices per citation charged to large Ph.D.-granting universities by major commercial publishers are much higher than those charged by major nonprofit publishers. Among the commercial publishers in the study, Elsevier’s prices per citation are about 3 times those charged by the nonprofits, while Taylor & Francis, Emerald and SAGE have prices per citation that are roughly 10 times those of the nonprofits.

For smaller Ph.D.-granting institutions, the price per citation from Elsevier’s big deal bundle are roughly similar to those charged by the average nonprofit publisher, while price per citation from the other nonprofits remain 2 to 4 times as high as those of the nonprofits.

The commercial publishers have discovered that it is not profitable to charge such

high prices to smaller, less research-intensive institutions.

Elsevier’s price per citation for the average master’s-degree institution is actually lower than that charged by most nonprofit publishers. Springer and Wiley charge prices similar to those of the nonprofits, and Emerald and SAGE charge prices per citation that are a bit more than twice those of the nonprofits.

We found a great deal of variation in the prices paid by similar universities for their Big Deal contracts. Some universities have clearly been more successful at bargaining than others. The high prices charged to large research universities have also deterred many from signing Big Deal contracts. According to a recent study of four major commercial publishers, the fraction of research libraries purchasing Big Deal contracts in 2012 ranged from 14-30% and has fallen since 2006.

We find this to be consistent with economic theory that suggests that when neither side has full knowledge of how much the other values a contract, bargaining efforts will frequently fail to reach efficient outcomes. In this case, many institutions make do with less than full access to commercial publishers’ bundles, and publishers lose revenue that they might have gained by offering more moderate prices.

So what are the “Secrets of the Big Deal” that the commercial publishers wanted to hide with their confidentiality clauses? The wide variation in prices paid by similar universities suggests that publishers don’t want librarians and university budget officers to know that others have bargained harder and gotten better deals than they did. Who knows where that would lead?

Study co-authors include Paul N. Courant an economist and former head librarisan at the University of Michigan, R. Preston McAfee, now chief economist at Microsoft, and Michael A. Williams of Competition Economics LLC.

**Note to editors**: Ted Bergstrom is available at  tedb@econ.ucsb.edu or (805) 893-3744. A downloadable images is available at

(Please note that in the earlier draft my email address was typed incorrectly)