

## The Parable of the Anarchists Annual Meeting

(Excerpted from "Free Labor for Costly Journals?" by Ted Bergstrom *Journal of Economic Perspectives*, Fall 2001)

### How can there be monopoly profits in academic journals?

There is free entry to the journal-publishing industry. Libraries are not compelled to subscribe to expensive journals and scholars are not compelled to write for them, referee for them, or edit for them. Why has competition not driven profits to zero?

To understand how a few commercial publishers are able to extract huge profits from the academic community, despite the possibility of new entrants into the industry and despite competition from nonprofit journals, it is useful to consider game theory's notion of a *coordination game*. In a coordination game, each player chooses an action from among several alternatives and each player's payoff increases with the number of other players whose strategy is the same as her own. An equilibrium is an outcome such that given the actions of others, no player could individually benefit by switching to another action. Coordination games commonly have many different equilibria, in each of which all players choose the same action. An outcome can be an equilibrium even though there is another equilibrium that would be better for everyone and which could be reached if all players were to change simultaneously to the same new action.

### The Parable

This tale is intended to illustrate the workings of a coordination game, and to help us to understand how publishers of established academic journals can collect large profits for doing almost nothing.

A large number of anarchists find it valuable to attend an annual meeting of like-minded people. The meeting is more valuable to each of them, the greater

the number of other anarchists who attend. A meeting attended by only a few is of little value to any of them. At some time in the past, the anarchists started to gather on a particular day of the year in one hotel in a certain city. Other hotels in this and other cities would have served equally well for the meeting, but since each anarchist expects the others to appear at the usual hotel, they return every year to the same hotel on the day of the meeting.

A few years after the anarchists had established their routine, the hotel that served as their meeting-place increased its prices for the day of their annual meeting. Most anarchists valued attendance at the annual meeting so highly that they continued to attend the meeting despite the price increase. A few decided that given the price increase, they would rather stay home. The hotel owner discovered that although attendance was slightly reduced, the proportionate drop in attendance was less than the proportionate price increase and thus his revenue and his profits increased. In subsequent years, after some experimentation, the hotel owner learned that he could maximize his annual profit by setting a price on the anarchists meeting day that was much higher than that of other hotels. After setting his price at this level, the hotel owner proclaimed that he was offering a uniquely valuable service to the anarchists.

The anarchists were annoyed at having to pay tribute to the hotel owner for services no better than other hotels offer more cheaply. Since all of the anarchists prefer larger attendance to smaller, they also were all made worse off because the high price caused some of their number to stay home. But what else could they do? Each anarchist was aware that he or she would be better off if they could all meet at one of the many other hotels offering equal physical facilities at a lower price. Given their beliefs and temperaments, the anarchists were highly resistant to making and obeying centralized decisions. Lacking central direction, the anarchists were unable to coordinate a move to another hotel. No individual, nor even any small group of anarchists could improve their lot by moving to another hotel because small meetings, however cheap, are not worth

much to any of them.

Pessimists among the anarchists speculate that even if they were somehow able to re-coordinate at a cheaper hotel, that hotel would soon raise its prices to take advantage of the anarchists' disorderly ways. Others suggest that the problem of organizing a meeting at a new hotel is not insurmountable, even for anarchists, and that once hotel owners see that this is the case, they will realize that the degree to which the anarchists can be exploited is limited by the possibility of mass defection.

### **Like Unto ...**

Like the Anarchists' Annual Meeting, academic publishing can be understood as a coordination game, where scholars in their roles as authors, referees, editors, and readers coordinate at journals. Journals that regularly attract the most able authors, editors, and referees gain prestige and are more frequently read and cited than less prestigious journals. The most able authors prefer to publish their papers in prestigious journals where their work is more likely to be read. At any given price, more libraries will subscribe to a journal, the more frequently it is read and cited, and conversely, more scholars will read from and write for a journal the more widely it is available in libraries.

There is nothing intrinsically valuable in the title of a prestigious commercial journal, nor are the services rendered by its publisher of higher quality than those offered much more cheaply by nonprofit publishers. Other firms can and do sell the same printing, mailing, copy-editing, and advertising services at prices close to average cost. (For example, Blackwell provides these services relatively cheaply for such low-priced journals as *Econometrica*, *Review of Economic Studies* and *Economic Journal*.) A journal has prestige simply because in the past it has served as a meeting place where able scholars have coordinated their efforts and libraries their purchases.

Much as the hotel owner in the parable found it profitable to raise his prices

above prices charged by other hotels, the commercial publishers of successful academic journals have discovered that they can set their prices far above their average costs. These high prices reduce their number of subscribers, but increase their profits, since the proportionate effect on quantity is less than the proportionate price increase. The profits collected by commercial journals are not payments for any input that the publisher provides, but are simply rents that they can collect because of their position as a focal point in a game of coordination.

Just as the anarchists were annoyed by the high prices at their hotel, many scholars and librarians are distressed at the way that overpriced journals drain university budgets and by the fact that since small libraries are excluded by high prices, access to scholarly work in journals is artificially restricted. It remains to be seen whether, like the anarchists, the academic community is stuck in an equilibrium where it will continue to pay huge rents to owners of commercial journals on which libraries and scholars happened to coordinate in the past.