

# The Consequences of a Fixed Book Price

by Vincent Geloso and Youri Chassin



For a number of years, several players in the book industry have called for the establishment of a fixed book price. In October 2012, the Quebec government decided to set up a parliamentary commission to study the possibility of moving forward on such a measure. Those who promote this idea want to prevent retailers from offering discounts of more than 10% off the publisher's suggested price during the nine months following the release of a new title.<sup>1</sup>

The alleged goal of groups advocating this policy is to protect independent bookstores from competition from big-box stores like Costco and Wal-Mart. These stores offer significant discounts as high as 30% off the suggested price on a limited selection of books, mostly bestsellers. The establishment of this kind of price control, according to its promoters, would ensure the diversity of titles offered by allowing small bookstores, which account for around 34% of the market, to survive (see Figure 1).

Will we succeed in stopping the decline of small bookstores by limiting the discounts offered to Quebec readers by big stores? What consequences would such a policy entail? We can glean some answers to these questions from both the history of the book and the economic literature. Examples of fixed book price laws elsewhere in the world also allow us to draw precious lessons in order to avoid repeating the errors of the past.

## A historical trend toward greater competition

For a very long time, books were rare and expensive items, primarily a prerogative of the wealthy. It is only in the 19<sup>th</sup> century,

thanks to the mechanization of production and the introduction of new methods of producing paper, that printing books became less expensive.<sup>2</sup> At the same time, innovations in distribution allowed for the emergence of new players who competed with independent bookstores, such as book clubs, which offered discounts as high as 25% off suggested prices.<sup>3</sup> The combination of all of these trends made books affordable to a wider audience.

Several countries instituted price controls on book at the request of retailers faced with this increased competition. Germany enacted a fixed book price law in 1887, while England introduced one in 1900 before progressively abolishing it in the late 1990s.<sup>4</sup> As for France, it had long had an informal "suggested price" system run by publishers, before formally equipping itself with a fixed price mechanism in 1981. Canada had an informal suggested price system similar to France's up until 1951, when it banned the practice.<sup>5</sup>

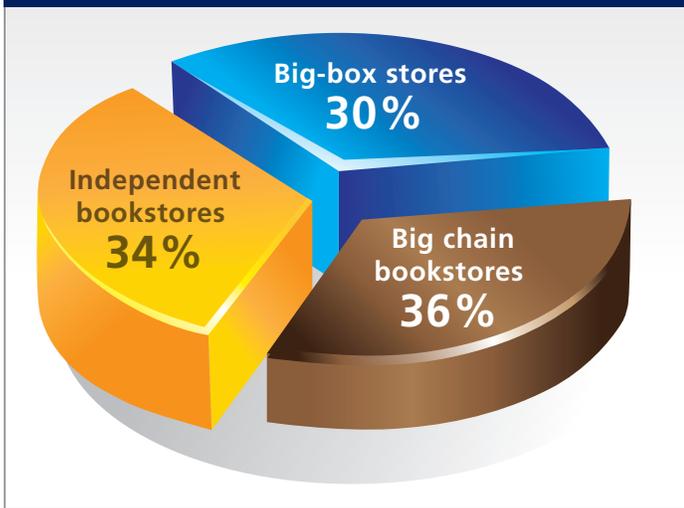
These measures have not slowed the widely noted decline of small bookstores in Western countries, however. In France, after the adoption of the fixed price law, traditional bookstores only enjoyed a two-year respite



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**Figure 1**  
Estimate of book sales by type  
of retailer in Quebec



Sources: Édinova, *The Diffusion and Distribution of French-Language Books in Canada*, published by the Department of Canadian Heritage, August 2008, p. 33; Quebec Institute of Statistics, *New book sales by bookstores by accreditation and chain affiliation*.

Note: This figure combines two sources of data covering different years. The most recent available data for market shares of bookstores are from 2012, while those for the market shares of big-box stores are from 2004-2005.

in the downward trend of their market share.<sup>6</sup> Subsequently, the decline of French bookstores resumed.

Today, the situation has become even more competitive. Quebec readers have benefited from the proliferation of large bookstore chains like Renaud-Bray, Archambault and Indigo- Chapters, from increasing shelf space at big-box stores, and from the emergence of the online wholesaler. The advent of the digital book, of online reading platforms and of self-publishing have reinforced this trend. The innovation stimulated by this competition reduces prices for readers and increases the number of titles published.

### The consequences of a price increase

Year in, year out, Quebecers allocate between 5% and 6% of their budgets to cultural expenses.<sup>7</sup> Specifically for “books and booklets,” Quebec households spend an average of \$81 a year.<sup>8</sup>

However, these figures obscure the fact that a small proportion of the population buys a considerable number of books, while a large proportion buys very few or none at all. According to data from the Department of Culture and Communications, 16% of Quebecers aged 15 and older report not having read any books in the past year. Among those who have read some, 32% report having read four or fewer books.<sup>9</sup> Regular readers

make up a minority of the Quebec population, which is itself less disposed to read than the populations of the other provinces.<sup>10</sup>

How would readers react to a price increase? Economic studies show that each 1% increase in the price of books leads to a drop in sales of between 1.47% and 3%.<sup>11</sup> Despite the absence of data allowing us to make estimates by type of reader, it is reasonable to assume that individuals for whom reading is a less important pastime and who buy books only occasionally would react more strongly to price changes. In all likelihood, it is therefore those who are less disposed to read who would reduce their book purchases the most.

Using data from Canadian Heritage and the Quebec Institute of Statistics, it is possible to estimate the likely effect of the kind of fixed book price law favoured by promoters of this idea. If the discounts offered on new releases were limited to 10% off the suggested price, the total number of books sold in Quebec would fall by 14.2%.<sup>12</sup> As for Quebec titles specifically, for which there is a higher proportion of new releases compared to foreign books, sales would fall 17.6% below their current level (see Figure 2).

### If the discounts offered on new releases were limited to 10% off the suggested price, the total number of books sold in Quebec would fall by 14.2%.

For example, since the introduction of a fixed book price in France, the real price of books has risen rapidly. The total amounts households dedicate to the purchase of books began to stagnate at that point in time, which implies a reduction in the number of copies purchased. While money dedicated to books made up 0.46% of household budgets in the early 1980s, this figure had fallen to 0.38% by the early 2000s.<sup>13</sup>

The adoption of a fixed book price policy in Quebec would occur in the worst possible technological context, when inexpensive or even entirely free cultural products are readily available online. This would only exacerbate a known phenomenon, which is the displacement of consumer spending toward other cultural goods that are seen as book substitutes. This is what happened in France, where the proportion of household spending dedicated to recorded music rose while the proportion dedicated to books fell.<sup>14</sup> With the recent emergence of online platforms like iTunes that offer films, musical compositions and audio books at low prices, the increasing price of books relative to other cultural goods is all the greater.

**Figure 2**  
Estimate of the impact of a fixed price policy  
on the sales of books in Quebec



Source: See the technical annex to this *Economic Note*, available at [iedm.org](http://iedm.org), for detailed calculations of the reduction of book sales.

Moreover, this conservative estimate does not take into account the possibility that certain distributors might leave the market altogether. Wal-Mart or Costco could decide simply to stop selling books. This would probably have the effect of reducing book sales even further by restricting the number of points of sale and therefore limiting access to books for a certain category of consumers.

In sum, the adoption of a fixed book price policy would only discourage reading, especially among those Quebecers who are least likely to read. As for regular readers, they would have every reason to switch to platforms not affected by the new regulation, like electronic books and online purchases, which would not improve the situation of independent bookstores. Considering that Quebecers read less than other Canadians, a fixed book price law would only exacerbate an already unfavourable situation.

### The diversity and the prices of titles published

According to supporters of a fixed price policy, establishing this kind of control would ultimately serve to preserve the diversity of books on offer. The additional profits earned on popular new releases in the absence of excessive competition from big-box stores would allow independent bookstores also to provide works that are more specialized or that satisfy

less popular tastes. Popular books would finance less popular books, in a way.

The available data, however, show the contrary. Since the abolition of a fixed price policy in Britain, publishers in that country have released a growing number of titles, while in Germany, where there is still a fixed price policy, the number of new titles has remained constant.<sup>15</sup> A study also confirms that, where they exist, fixed book price laws entail a reduction in the supply of new literary titles.<sup>16</sup>

Promoters of a fixed price policy often point out that the prices of books have risen more rapidly than inflation in England since the abolition of the policy.<sup>17</sup> But we must look beyond average prices and distinguish the effect that abolishing the fixed price law has had on different types of books.

The comparison of book prices in time is a perilous exercise because the available price indexes are not weighted as a function of sales volume. A book that sells a few copies counts for as much as a bestseller that sells 100,000 copies. However, it was observed in England that discounts offered by retailers off the publisher's suggested price have risen steadily. Prices of popular new releases have fallen very rapidly throughout the 2000s,<sup>18</sup> after having risen faster than inflation when the fixed price policy was in effect.<sup>19</sup>

A plausible explanation can be drawn from the available data that would reconcile an increase in the average price of books with ever larger discounts. British publishers have agreed to publish a growing number of very specialized books aimed at a very limited audience. In the past, these books would have required prices that were prohibitively high for consumers, so much so that they never reached bookstore shelves. In spite of the continued need to charge relatively high prices, these are reasonable enough to reach a market that justifies their publication. These books are therefore at least available today.<sup>20</sup>

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In other words, even if the average price of all titles has gone up, the price of books for a general audience has gone down. Furthermore, many books that would not have been published before are now available at prices that are admittedly high, but nonetheless acceptable for readers with those specialized interests. There is therefore both greater

access to books and greater literary diversity in the absence of a fixed book price.

## Conclusion

The imposition of a fixed price would reduce the number of books sold. This would in all likelihood also entail a reduction in the number of titles available and potentially a reduction in the number of points of sale. Lower demand for books on the part of big-box stores would prevent publishers from enjoying the benefits they offer. As a result, innovation in distribution would no longer have an influence on the supply of books.

### Where they exist, fixed book price laws entail a reduction in the supply of new literary titles.

The vitality of the book industry is an essential condition to the dynamism of Quebec culture. By imposing an increase in the price of books, we would be swimming against the tide of history. It is those individuals who are least disposed to purchase books who would most change their consumption habits. Moreover, this measure would not protect independent bookstores from technological changes in the industry, and would therefore fail to achieve its stated goal.

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