

September 16, 2005

Just What the Professor Ordered

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New Haven

IN time for the new school year, the Government Accountability Office has released a sobering report on the soaring price of textbooks. Over the past two decades, the report tells us, "college textbook prices have risen at double the rate of inflation."

We're used to paying \$25 for a hardcover novel, but my casebook on contracts now sells to students for \$103, and the best-selling general chemistry textbook (co-authored by my father-in-law) costs \$148. At state universities, textbooks and supplies account for 26 percent of all student fees, including tuition. At junior colleges, they are a whopping 72 percent.

The G.A.O. report falls short, however, by attributing this run-up in prices to the development of "CD-ROM's and other instructional supplements." The real problem is the lack of price competition. A series of mergers has ensured that although there are hundreds of textbooks to choose from, the five largest publishers control 80 percent of the market.

It's easy for prices to drift upward when the person choosing the product doesn't really care how much it costs. Instead of competing on price, publishers compete for professors' attention with an excess of computerized bells and whistles.

Indeed, the pricing problems with textbooks are eerily analogous to those affecting prescription drugs. In both cases you have doctors (Ph.D.'s or M.D.'s) prescribing products. In neither case does the doctor pay for the product prescribed - in many cases, he or she doesn't even know what it costs. And the clincher is that in both cases, the manufacturers sell the same product at substantially reduced prices abroad.

The analogy to prescription drugs suggests a possible solution. Perhaps universities can take a lesson from managed health care. Health maintenance organizations are often criticized for being too stingy, but let's not forget that they've played an important role in containing health care costs.

So just imagine what would happen if universities started to provide textbooks to their students as part of the tuition package. Of course tuition would have to rise, but for the first time universities would start caring about whether their professors were too extravagant in the selection of class materials.

This "textbook maintenance organization" wouldn't require a huge centralized bureaucracy. Universities would probably give professors a textbook budget per student. Those who exceeded the budget would have to seek their deans' approval. Some enlightened colleges might even give a share of the savings to professors who don't use up all of their budgets.

Even publishers might not do so badly under this new system. Under the current arrangement, many students protest exorbitant prices by simply refusing to buy textbooks. They make do with slightly older editions, read library copies or share with other students.

Not only do publishers lose these sales, but teachers are irritated because students cannot read along in class or look up information that is relevant to the discussion. Under textbook maintenance organizations, we'd return to the old days where everyone was on the same page.

Still think a system where schools provide free textbooks would never work? Well, we already have one at the elementary and secondary levels. Unlike Hogwarts, which requires Harry Potter to buy books each year, most American public schools own their assigned books and buy new editions only when it's absolutely necessary.

Such a system at the university level would also do away with some conflicts of interest. Because at the moment, professors' incentives in choosing textbooks are in some ways more distorted than doctors' incentives in choosing drugs. You see, I earn a \$10.30 royalty on every copy of my textbook that a student buys. Instead of just trying to get the best book for my class (and to do so I should weigh both quality and price), I might also consider assigning my own book and increasing my profit.

This is a self-dealing transaction, which would be presumptively illegal if professors owed a fiduciary duty to students. Some professors realize this and donate to charity the royalties they earn when they assign students their own books.

So this year, I am going to do something different. I will give \$11 to each of my contracts students who buys my book. That way, we will all know that I assigned the book for the right reason. The textbook isn't included with my students' tuition, but at least in my contracts class the royalty will be.

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