

Comments on Flath 2010

David Flath builds an estimator for the welfare loss due to tacit price fixing of newspaper prices for a bit more than half of the newspapers sold in Japan. These three leading daily papers and thirteen regional or local papers have had the same circulation prices since 2003, about 4,000 yen or approximately \$50 per month at today's exchange rate. The average subscription price for non-cartel papers is approximately \$35 at today's rate.

Flath argues that by keeping the subscription price higher than it otherwise would be without collusion by about 15% this reduces circulation of the papers and therefore reduces demand for advertisements in the papers. Then because the elasticities of demand for the papers are reduced only slightly due to the collusion the producer surplus for the colluders is relatively small compared to the welfare loss of the advertizers. The colluding newspapers gain rents of 15 billion yen whereas the consumer surplus of advertizers loses 285 billion, a net loss of 270 billion yen, or, about 3.3 billion \$ at today's exchange rate.

Flath places his work within the field of applied industrial organization, especially the burgeoning field of two-sided (or many-sided) markets, where there are more than one platform in which a good or service is available. In our present case this relates to the fact that newspapers are available through subscription and through retailers or "newsdealers". Newspapers in Japan are required to have the same price everywhere in the country and Flath makes the argument that the collusionist papers exploit this regulation by requiring non-discounting, or, "price maintenance" by the newsdealers. By keeping the price higher than it would otherwise be monopolistic pricing is maintained, and, because the papers require that the newsdealers meet a minimum required sales volume, the retail sales are greater than they would be without a sales minimum.

This issue raises my first point of question or need point clarification in the paper. It is unclear how this retail pricing maintenance effects the costs functions and thusly the calculation of monopolistic pricing. It seems that the only use of this

price maintenance in the paper is that it acts as signal for the cartel to determine if someone is cheating the cartel and lowering prices. Am I correct here that this is the only use of the notion of two-sided markets? Am I missing something? You state on page 12 that your method is a “Comparison of the predicted prices and the actual ones measures the effect of the resale price maintenance collusion” but I don’t see where that comes in given you are calculating subscriptions not retail.

Also, on page 13 you do some calculations concerning the costs of the actual physical distribution of the papers. This section is a bit confusing. The revenue of the newsdealers is around 1.7 trillion yen and of this 1.1 trillion is passed on to the newspaper companies leaving approximately 600 billion as the cost of distributing the papers. My question is and which needs to be made clear in the paper is do the newsdealers distribute the subscription papers as well as sell the papers retail? And, then, would not this 600 billion also be profit to the newsdealers? This seems to be a crucial point in the logical chain of cost determination in that you use it to determine how much it costs to distribute the papers in your calculation of newspaper monopoly rents. Plus this data is from 2007 and you state on page 9 that you are using 2003 circulation data in your rents calculations.

Another thing I found interesting but you didn’t use it in your analysis, is that the circulation of the alleged price-fixing cartel actually increased from 2003 to 2007 a period for which the price a subscription held constant at approximately 4,000 yen, whereas for the other papers, all of which except the Nikkei had lower subscription prices, the circulation went down in aggregate.

There is something going on perhaps too that you have found. You find that in the cartel papers the ration of advertizing revenue to subscriptions is .39. This implies that approx. 28% of a colluding paper’s revenue is advertizing. One of the papers you cite states that approximately 75% of the revenues for papers in the US is advertizing. Just as a back of envelope comparison it does seem that the Japanese papers are trading off advertizing revenues for rents on subscriptions. It

would be interesting to know what the revenue percentages are for the papers without the alleged price-fixing.

A couple other things and you mention these in your paper. You are assuming that the papers are homogenous or perfectly substitutable goods. Is this a valid assumption? Isn't there differing editorial tones differentiating the papers? And, is it safe to assume that these papers have the same cost functions? They seem to vary quite a bit in circulation size.

Lastly you state that you are unsatisfied with the regression outcomes yet use them anyway in your calculation of monopoly pricing power...did you really mean to say this in your paper or am I missing something.

All in all I enjoyed very much reading the paper and learned quite a bit, thank you.