ARE COLLEGE TEXTBOOKS PRICED FAIRLY?

HEARING

BEFORE THE

SUBCOMMITTEE ON 21ST CENTURY COMPETITIVENESS

OF THE

COMMITTEE ON EDUCATION AND THE WORKFORCE
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

SECOND SESSION

July 20, 2004

Serial No. 108-70

Printed for the use of the Committee on Education and the Workforce

Available via the World Wide Web: http://www.access.gpo.gov/congress/house
or
Committee address: http://edworkforce.house.gov

U.S. GOVERNMENT PRINTING OFFICE

94-936 PDF WASHINGTON : 2004

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2250 Mail: Stop SSOP, Washington, DC 20402–0001

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C O N T E N T S

ARE COLLEGE TEXTBOOKS PRICED FAIRLY?

Tuesday, July 20, 2004

U.S. House of Representatives

Subcommittee on 21st Century Competitiveness

Committee on Education and the Workforce

Washington, DC

The Subcommittee met, pursuant to notice, at 1:58 p.m., in Room 2175, Rayburn House Office Building, Hon. Howard P."Buck" McKeon [Chairman of the Subcommittee] presiding.

Present: Representatives McKeon, Ehlers, Osborne, Carter, Gingrey, Burns, Kildee, Kind, Wu, Holt, McCollum, Van Hollen, Ryan, Payne, and Andrews.

Staff present: Kevin Frank, Professional Staff Member; Alexa Marrero, Press Secretary; Catharine Meyer, Legislative Assistant; Deborah L. Samantar, Committee Clerk/Intern Coordinator; Kathleen Smith, Professional Staff Member; Linda Stevens, Chief Clerk/Assistant to the General Counsel; Ellynne Bannon, Minority Legislative Associate; Ricardo Martinez, Minority Legislative Associate; Alex Nock, Minority Legislative Associate/Education; and Joe Novotny, Minority Legislative Assistant/Education.

Chairman McKEON. Good morning. The Subcommittee on 21st Century Competitiveness of the Committee on Education and the Workforce will come to order.

We're holding this hearing today to hear testimony addressing the question, are college textbooks priced fairly?

I am happy to announce that we have a couple of former Members in the audience, and I would like to recognize them. Pat Schroeder from Colorado, and Bill Latchford from Connecticut. Thank you both for being here.

Under Committee rule 12(b), opening statements are limited to the Chairman and the Ranking Minority Member of the Committee. Therefore, if other Members have statements they will be included in the record. With that, I ask unanimous consent for the hearing record to remain open 14 days to allow Members statements and other extraneous materials, referenced during the hearing, to be submitted to the official hearing record.

Without objection, so ordered.

STATEMENT OF HON. HOWARD P. "BUCK" McKEON, CHAIRMAN, SUBCOMMITTEE ON 21st CENTURY COMPETITIVENESS, COMMITTEE ON EDUCATION AND THE WORKFORCE

Good afternoon, and happy to welcome you here. I mentioned to the witnesses that we are expecting votes to be called momentarily, but we're going to try to get in our opening statements, and then go over and vote.

This is a continuation in the series of hearings that we have held over the last year or so to examine rapidly rising college costs and seek solutions to help increase college affordability for students.

I want to start today by welcoming our witnesses and thinking them for joining us here today.

In 1965, Congress enacted the Higher Education Act to ensure that every American student, striving for college education, regardless of financial status, had the opportunity to pursue his or her educational goals. Because of this commitment, millions of eligible students have attended, and are continuing to attend, the college or university of their choice. However, thousands of highly qualified students are being priced out of a higher education because colleges, universities and states are increasing their tuition and fees beyond the reach of students. We are attempting to address this issue by empowering parents and students, and shining a spotlight on excessive tuition hikes. However, it is important that we don't ignore the staggering costs of textbooks in the college cost equation, and the effect they have on a student's overall costs of higher education.

In January of this year, the California Student Public Interest Research Group, or CALPIRG, released the report, "RIPOFF 101—How the Current Practices of the Textbook Industry Drive Up the Cost of College Textbooks." The report presented an analysis of a survey of the most widely assigned textbooks, in the fall of 2003, at 10 public colleges and universities in California and Oregon. In brief, the report indicates that textbooks are expensive and are getting more so each year; textbook publishers add "bells and whistles" that drive up the cost of textbooks; new additions are flooding the market (but contain minimal, if any, substantive changes); and online textbooks hold promise in reducing the cost of textbooks.

[The report may be found at http://www.pirg.org/highered/ripoff101.pdf.]

Also, in a recent article, according to the National Association of College Stores, the wholesale price of college textbooks has increased 32.8 percent since 1998. The Association found that, of the 75.9 cents of every dollar that students pay for new textbooks that go to the publishers, 11.5 cents is sent to the authors of the textbooks. This leaves 64.4 cents—

[Interruption to proceedings.]

[Laughter.]

Chairman MCKEON.—we live with that—out of every dollar that is retained by the publishers. Now, I come from a business background and retail background, and I don't have any problem with profit. I think that if you don't have profit, businesses don't continue. But that is something we want to look into today.

During today's hearing, we hope to find out what expenses make up the publisher's costs and whether college bookstores and universities are justified in keeping almost 25 percent of the cost of a particular textbook. Again, I come from a retail background, and 25 percent is less than most retailers charge. But when you get down to the final bottom number it is a lot less. I would like to go into those costs a little bit, too.

There is also a growing concern about the discrepancy in textbook costs overseas. Identical textbooks are reported to have dramatically lower prices when sold outside the United States, as compared to the price charged to American students. Is important to learn what effect these practices have on the overall cost of College.

Since coming to Congress more than 10 years ago, I have been concerned about the rising cost of higher education. I believe that the cost of textbooks are too high, and are one of many factors jeopardizing our efforts to keep college affordable. I am determined to learn about what steps can be taken to ease the burden on students and families. Last year, I introduced H.R. 3311, the Affordability in Higher Education Act, which is intended to hold institutions more accountable for the ever-rising cost of a higher education, and makes substantive efforts to stem those costs. Within that Bill, and within the recently introduced H.R. 4283, the College Access and Opportunity Act, we create a College Affordability Demonstration Program. The demonstration program would allow schools to seek regulatory and statutory waivers from the Secretary of Education, in order to demonstrate how they will reduce cost to students, including the costs associated with textbooks.

In addition, our colleague, Representative David Wu, introduced H.R. 3567 to require the Government Accountability Office to conduct an investigation into the high price of college textbooks. While we're waiting on GAO to complete its report, and on Congress to reauthorize the Higher Education Act, a number of schools are holding their own conversation about the issues surrounding textbook pricing and many are looking at what can be done to address concerns over textbooks adding to the ever-increasing cost of a postsecondary education.

One innovative approach to dealing with the cost of textbooks, and other educational materials, is that taken by the University of Phoenix. Over the past three years, the university has been converting this curriculum and content to digital format. The goal of this project, called "RESOURCE," has been to provide a broader and richer variety of curriculum materials, at a lower cost to students. Instead of paying for individual textbooks, students pay a flat subscription fee that provides electronic access to all course materials for current and past courses. Materials available go far beyond simply digitizing traditional textbooks. They include sophisticated simulations, case studies, packaged e-learning content, current full-text periodical articles, virtual organizations, and an innovative new "e-Book Collection" providing searchable access to text utilized across the University's curriculum.

We are also aware of efforts by some universities to enable students to "check out" or "rent" college textbooks, rather than purchase the books. I am looking forward to hearing more about this, today, from one of our witnesses.

Both of these initiatives are examples of how innovation can help reduce the burden of high textbook costs on students and families.

It is my hope that more universities throughout the country will adopt these approaches, so that millions of low and middle-income students are not priced out of a college education because of the soaring cost of textbooks.

As Congress continues the process of renewing and reauthorizes the Higher Education Act, and build upon efforts to bridge the educational divide for America's low and middle-income students, it is important that we continue our dialogue, and continue to work towards issues that increase college affordability.

Thank you, again, for joining us here to discuss this important topic. I look forward to hearing your testimony, so that my colleagues and I can learn more about this very serious issue.

And I now yield to Congressman Kildee, Ranking Member, for his opening statement.

[The prepared statement of Chairman McKeon follows:]

Statement of Hon. Howard P. "Buck" McKeon, Chairman, Subcommittee on 21st Century Competitiveness, Committee on Education and the Workforce

Good morning and thank you for joining us today for this very important hearing on the costs of college textbooks. This is a continuation of the series of hearings that we have held over the last year or so to examine rapidly rising college costs and seek solutions to help increase college affordability for students.

I want to start by welcoming our witnesses and thanking them for joining us here today.

In 1965, Congress enacted the Higher Education Act to ensure that every American student striving for a college education, regardless of financial status, had the opportunity to pursue his or her educational goals. Because of this commitment, millions of eligible students have attended, and are continuing to attend, the college or university of their choice. However, thousands of highly qualified students are being priced out of a higher education because colleges, universities and states are increasing their tuition and fees beyond the reach of students.

We are attempting to address this issue by empowering parents and students and shining a spotlight on excessive tuition hikes; however, it is important that we don't ignore the staggering costs of textbooks in the college cost equation and the effect that they have on a student's overall cost of higher education.

In January of this year, the California Student Public Interest Research Group or CALPIRG released the report, "RIPOFF 101- How the Current Practices of the Textbook Industry Drive Up The Cost Of College Textbooks." The report presented an analysis of a survey of the most widely assigned textbooks in the fall of 2003 at 10 public colleges and universities in California and Oregon. In brief, the report indicates that textbooks are expensive and are getting more so each year; textbook publishers add "bells and whistles" that drive up the costs of textbooks; new editions are flooding the market (but contain minimal if any substantive changes); and online textbooks hold promise in reducing the costs of textbooks.

Also, in a recent article, according to the National Association of College Stores, the wholesale price of college textbooks has increased 32.8 percent since 1998. The Association found that, of the 75.9 cents of every dollar that students pay for new textbooks that go to the publishers, 11.5 cents is sent to the authors of the textbooks. This leaves 64.4 cents out of every dollar to be retained by the publishers.

During today's hearing, we hope to find out what expenses make up a publisher's costs and whether college bookstores and universities are justified in keeping almost 25 percent of the costs of a particular textbook.

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One innovative approach to dealing with the cost of textbooks and other educational materials is that taken by the University of Phoenix. Over the past three years, the University has been converting its curriculum and content to digital format. The goal of this project, called "RESOURCE" has been to provide a broader and richer variety of curriculum materials at lower cost to students. Instead of paying for individual textbooks, students pay a flat subscription fee that provides electronic access to all course materials for current and past courses. Materials available go far beyond simply digitizing traditional textbooks. They include sophisticated simulations, case studies, packaged e-learning content, current full-text periodical articles, virtual organizations and an innovative new "e–Book Collection" providing searchable access to texts utilized across the University's curriculum.

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As Congress continues the process of renewing and reauthorizing the Higher Education Act and builds on efforts to bridge the educational divide for America's low and middle-income students, it is important that we continue our dialogue and continue to work towards issues that increase college affordability.

Thank you again for joining us here to discuss this important topic. I look forward to hearing your testimony so that my colleagues and I can learn more about this very serious issue.

STATEMENT OF HON. DALE E. KILDEE, RANKING MEMBER, SUBCOMMITTEE ON 21st CENTURY COMPETITIVENESS, COMMITTEE ON EDUCATION AND THE WORKFORCE

Mr. KILDEE. Before I leave to vote, I'll edify you with my comments here, Mr. Chairman.

I am pleased, again, to join Chairman McKeon and another one of our hearings on the reauthorization of the Higher Education Act. I know that all of the Members are looking forward to hearing the testimony of our witnesses.

Textbook costs are a major expense for students attending college. The College Board and other organizations have estimated that college students spend between $800-$1000 per year on textbooks. Textbooks come with software, and other additional items, that often increase the overall price. These expenses are very significant, an impediment of the overall costs of attending college. Since tuition is rising, due to smaller state budgets, this is a serious issue for students, publishers, and the schools which serve them.

Like Chairman McKeon, I am also interested in learning more about what makes up the price of textbooks, and the factors that influence their cost. In addition, as mentioned, Congressman Wu is already refocused—or focused on this issue, asking the General Accounting Office to examine the issues of the textbook costs. The question here is what we can do to help publishers, students, schools, and their bookstores make textbooks cheaper to students.

We're going to hear testimony, today, about solutions provided by schools, bookstores, and publishers to the escalating costs of the textbooks. Ideas such as textbooks rentals, online versions, show promise for holding down costs. However, these ideas should only be the beginning of efforts to hold down costs. Viable proposals need to ensure that publishers make a fair profit from their textbooks sales, without unfairly increasing costs on students.

I look forward to learning from the experts here this morning, and yield back the balance of my time, Mr. Chairman.

Chairman MCKEON. Thank you.

Let me introduce the witnesses, and then we'll take a break to go over and vote.

First, we have Ms. Merriah Fairchild. Ms. Fairchild currently serves as a Higher Education Advocate for the California Student Public Interest Research Group, and is the author of "RIPOFF 101, How the Current Practices of Publishing Industry Drive Up the Cost of College Textbooks." Did you get all of that on one page? Ms. Fairchild began her research career while a student at the University of Oregon, where she served as Chair of Student Chapters for the Oregon State Public Interest Research Group.

Then we will hear from Mr. Mark L. Fleischaker. Mr. Fleischaker currently serves as legal counsel for the National Association of College Stores, a leading organization representing and supporting higher education retailers by providing programs and services, and by facilitating strategic partnerships, that concur college stores are essential to their campus constituencies, and the higher education retail channel.

Then we'll hear from Mr. John Isley. Mr. Isley currently serves as the Executive Vice President of Publishing, Planning, and Business Development for the Pearson Higher Education and Professional Publishing Group. Mr. Isley has had a diverse publishing career, working principally in editorial or senior management positions in the United States and abroad.

And as I understand, Mr. Kind would like to introduce our final panelist at this time.

Mr. KIND. Thank you, Mr. Chairman. And I do thank you for the honor of being able to introduce one of my constituents, from a wonderful University in my Congressional District in Western Wisconsin, Mr. Virgil Monroe, from the University of Wisconsin-River Falls.

Again, Mr. Monroe, I am and I'm sure the rest of the Committee joins me in offering our condolences at the loss of Chancellor Highrideker earlier this year. She was a wonderful leader in higher education. Terrific leader of the university. Very much involved in community activities. And her loss will be felt for a long time to come. And I will personally be missing her at the university.

Mr. Monroe joins us from the University at River Falls. He joined the university back in 1983, and currently serves as Manager of Textbook Services. In this capacity, he establishes, documents, implements, and administers policies and procedures for the innovative textbook rental services program.

As you will hear from Mr. Monroe, Textbook Services is very much like a library. In fact, at the University of Wisconsin at River Falls, it is a department of the university library, supervised by the Director of Library Services. Textbooks are checked out of the beginning of the semester and then returned at the end of the semester. But they also give students the option to purchase any textbooks that they think will be of use to them in the future.

And Mr. Chairman, as we move forward with the reauthorization of the higher education bill, a lot of our focus and attention has been on access, quality, and affordability. And I commend you, and Ranking Member Kildee, for taking time to focus on this aspect of rising costs that our students are incurring, and being able to afford higher education—the costs of textbooks, and what innovative, and creative thinking that we are seeing across the nation. And even right there at the University of Wisconsin, River Falls, in my Congressional District, trying to make it a little more affordable, a little bit easier for students to be able to access the quality education programs that do exist in this country.

So we look forward to the testimony of all of the witnesses. But I especially welcome Mr. Monroe today.

Thank you, Mr. Chairman.

Chairman MCKEON. Thank you.

The Committee stands in recess while we vote. And we will return right after the final vote.

[Recess.]

Chairman MCKEON. Well, the vote is almost over. Let's go ahead and get started.

Let's hear first from Ms. Fairchild. You understand those lights come on, green means start talking, yellow means talk faster, and red means really fast.

Ms. Fairchild.

STATEMENT OF MERRIAH FAIRCHILD, HIGHER EDUCATION DIRECTOR, CALIFORNIA STUDENT PUBLIC INTEREST RESEARCH GROUP, SACRAMENTO, CA

Ms. FAIRCHILD. Mr. Chairman, and Members of the Committee, thank you for the opportunity to present the views of the California Student Public Interests Research Group on the important matter of the high cost of college textbooks. I'm Merriah Fairchild, Higher Education Advocate with CALPIRG, and author of the Textbook Report, and I'm based in Sacramento. CALPIRG is a statewide, student- directed organization. And my testimony will cover four main points: first, a summary of our research. Second, our policy recommendations for publishers and schools. Third, an update on the activities of faculty and student leaders in the last couple of months. And finally, some recommendations for Congress.

So first, a summary of our research. When we first looked at this issue a year ago, we found there were many theories on why textbooks were expensive. But no real documentation of the problem, or potential solutions. As you said, we surveyed students and faculty, at 10 colleges and universities in California and Oregon, and we released our findings in a report in January of 2004. I want to just highlight three key findings. I know that you have the reports.

The first is that textbooks are expensive. And we found students will spend an average of $898 on textbooks this year.

Second is that textbook publishers add "bells and whistles" that inflate the price of textbooks, and most faculty do not use these materials. For example, half of the textbooks that we surveyed came bundled, or shrink-wrapped, with CD-ROMs and workbooks. Students rarely have the option of buying the textbook a la carte, or without these bundled materials. In the one example that we found where students did have the option of buying just the textbook or the bundled version, the textbook was $60, and the bundled version was $130. So these materials drastically can increase the price of the book.

To add insult to injury, while publishers say they are putting these materials in because faculty request them, over 65 percent of the faculty surveyed said they rarely or never ask students to use these materials in their courses.

Our third finding is that textbook publishers put new additions on the market frequently, often with very few content changes, making the less expensive used books obsolete and unavailable. Again, publishers report that they are simply responding to faculty demand, but 76 percent of faculty surveyed said the new editions are necessary half the time or less.

So based in our research, we developed some policy recommendations, which you have in the report; I'm just going to highlight four that are in the report, and one that is newer than the report.

First, we believe publishers should sell textbooks unbundled from CD-ROMs and workbooks.

Second, publishers should proactively disclosed to faculty, the price and predicted shelf life of each addition, so that they can take that into consideration when making their choices.

Third, publishers should keep each edition of a textbook on the market as long as possible without sacrificing the educational content.

And fourth, publishers should pass on the cost savings of online books to students.

Our newest recommendation came about because we spend some time in California working to start up textbook rental services, and we look forward to hearing more for Mr. Monroe. So our fifth and newest recommendation is that Congress should make grants available to schools to offset the start-up costs for these rental programs, and other alternatives, because the start-up costs can be prohibitive, and the states, especially California, do not have the funds to help.

I am pleased to hear in your opening remarks that you support alternatives. We believe that funding rental services, and other alternative are a better investment, because it lowers the overall costs for the entire student body, than tax credits, or other means that are simply subsidizing the high-cost of textbooks.

So following the report, 500 mathematics professors and student government leaders from around the country began mobilizing to build support for these recommendations. And they sent a letter to Thomson Learning, which is a publisher, requesting that Thomson

Learning adopt some of these recommendations to one of their textbooks, which is Calculus: Early Transcendentals. The faculty identified this book as a textbook example, if you will, for what is wrong. It is sold overseas for half the price. And the new edition is hardly different from the previous edition. I believe that you have a copy of this letter.

And to date, Thomson Learning has not adopted any of our recommendations, but they have agreed to sell this calculus book to UCLA for $20 less. And now other schools are negotiating similar contracts, which we're excited about it. It shows what we have suspected, that there is ample room to reduce the cost of textbooks to students.

Now, if Congress were to act on the issue, we recommend that there be regular oversight of publishers' practices to ensure that they are not engaging in anti-competitive processes, and make sure they don't limit student choice. We also believe that Congress should encourage publishers, schools and bookstores to take action to lower textbook costs by unbundling books, disclosing price to faculty, and only printing new additions when it is warranted, because of new content.

Given the significant increase in tuition, it is critical that Congress address this issue as part of a larger effort to increase higher education. I appreciate the recognition of that in your opening statements.

That summarizes our view on this issue. Thank you for the opportunity to testify, and I look forward to answering any questions.

[The prepared statement of Ms. Fairchild follows:]

Statement of Merriah Fairchild, Higher Education Director, California Student Public Interest Research Group, Sacremento, CA

Mr. Chairman, Members of the Committee: Thank you for the opportunity to present the views of the California Student Public Interest Research Group (CALPIRG)[1] on the important matter of the high cost of college textbooks.

Summary

As you know, the high cost of textbooks has perplexed and frustrated students, parents and faculty for many years. CALPIRG began investigating the issue in July 2003 because the cost of textbooks, combined with recent fee/tuition increases in California, threatened to become a "tipping point" for many middle and low income students that could prevent them from attending college.

It quickly became apparent that, while there were a lot of theories to explain the high cost of textbooks, there was no formal documentation of the problem or potential solutions.

In January 2004, CALPIRG released the report entitled: Rip-off 101: How the Current Practices of the Publishing Industry Drive up the Cost of College Textbooks. This testimony summarizes the findings of that report. Students pay an average of $900 a year for textbooks, textbook publishers use gimmicks to artificially inflate the cost of the textbooks. The report found that publishers often produced new editions with few significant content changes, rendering older, used version of the book obsolete and unavailable. The report also found that publishers add bells and whistles—such as CD ROMs and workbooks—that over 64% of faculty surveyed said they use "rarely" or "never".[2]

Based on this research, CALPIRG recommends that Congress develop policy that will ensure that publishers and universities adopt the following practices:

Textbooks Should Be Priced and Sold at a Reasonable Price

- Publishers should keep the cost of producing their books as low as possible without sacrificing educational content.
- Publishers should sell ancillary items separately from textbooks.

- Publishers should fully and proactively disclose to faculty all of their products and prices and the length of time the publisher intends to keep its products on the market.
- Publishers should pass cost-savings from online textbooks onto students.
- Faculty should give preference to least-cost textbook options when the educational content is similar.

There Should be a Vibrant Used Book Market

- Publishers should keep each textbook edition on the market as long as possible without sacrificing the educational content. Publishers should give preference to supplements to current editions over producing entirely new editions.
- There should be as many forums for students to purchase many used books as possible. Universities should consider rental programs such as those at several universities in Wisconsin and Illinois and encourage students to consider using online bookswaps.
- Congress should provide grant funding to cover the start up costs for schools that wish to rent textbooks to students. Funding alternatives that lower textbooks prices for an entire student body is a better investment than tax credits that subsidize the high cost of textbooks.

Student government leaders and faculty are currently organizing a grassroots campaign to convince publishers to voluntarily change their practices. Publishers report that they produce what faculty request of them. In October 2004, more than 500 mathematics professors sent publisher Thomson Learning a letter requesting that the company adopt CALPIRG's recommendations. Faculty are now waiting for Thomson Learning to deliver on their promise and agree to their request.

In the meantime, several states, including California, are considering legislation that would adopt the recommendations of the report, and students are organizing online bookswaps as a less expensive alternative to buying textbooks in a bookstore or overseas.

Discussion

Results of the CALPIRG Report Ripoff 101: How the current Practices of the Textbook Industry Drive Up the Cost of College Textbooks

Throughout fall 2003, a team of students and staff at ten University of California and Oregon campuses conducted interviews with bookstore managers and faculty and compared different editions of the five most purchased textbooks. The report was peer reviewed by a number of academics and a former publishing industry executive to confirm the statistical validity of the report's findings and conclusions.

Among the report's findings:

Textbooks are Expensive and Getting Even More Expensive

- Students will spend an average of $898 per year on textbooks in 2003–04, or almost 20 percent of the cost of in-state fees. In contrast, a 1997 UC survey found that students spent an average of $642 on textbooks in 1996–97.

Textbook Publishers Add Bells and Whistles that Inflate the Price of Textbooks; Most Faculty Do Not Use These Materials

- Half of all textbooks now come "bundled" or shrink-wrapped with additional instructional materials, such as CD–ROMs and workbooks.
- Of all the books surveyed, there was only one instance in which students could buy a textbook "a la carte" or without additional materials. In that example, the bundled version was $120, while the unbundled version was only $60. Over sixty-five percent of the faculty surveyed for the report say they "rarely" or "never" use the bundled materials in their courses.

Textbook Publishers Put New Editions on the Market Frequently—Often With Very Few Content Changes—Making the Less Expensive, Used Textbooks Obsolete and Unavailable

- Publishers keep textbook editions on the shelf for an average of only 3.5 years before updating them.
- Meanwhile, seventy-six percent of faculty surveyed said that the new editions they use are justified half the time or less; over half of those faculty said that the new editions they use are "rarely to never" justified.
- Once a new textbook edition is produced, the used copy is quickly made obsolete, forcing students to purchase the more expensive new edition. Over fifty-nine percent of students who searched for a used book for the fall 2003 quarter/semester were unable to find even one used book for their classes and were forced to pay an average of $102.44 for a new book, verses an average of $64.80 for a used book.

- Faculty are often inconvenienced by this practice because new textbook editions require many professors to revise course syllabi to reflect changes in chapters and page numbers.

Faculty Support Alternatives That Lower Students' Costs, Maintain Quality

- Eighty-seven percent of faculty surveyed support including new information in a supplement instead of producing a new textbook edition.

Online Textbooks Hold Promise for Lowering the Cost of Textbooks

- According to Association of American Publishers and the National Association of College Stores, paper, printing and editorial costs account for an average of 32.3 cents of every dollar a textbook costs—the largest share of the textbook costs. Online textbooks could eliminate this cost and significantly lower the retail cost of textbooks.
- New York Times columnist Paul Krugman, who is also an economics professor at Princeton University, has teamed up with fellow Princeton economist Robin Wells and Paul Romer, an economics professor at Stanford University and owner of Aplia Inc., a three-year-old company that develops educational software and materials. Together, these three academics are developing online versions of their upcoming economics textbooks at half the price of the paper version.

A Textbook Example

A particularly egregious example of these practices was publisher Thomson Learning's widely used calculus book—Calculus: Early Transcendentals, Edition 5. There were only cosmetic changes between the current edition, produced in 2003, and the previous edition, produced in 1999. However, the price difference was significant—a new copy of the book sells for about $130, while a used copy of the previous edition sells for between $20 and $90, depending on where one looks. Second, we found that Thomson Learning charges American students significantly more than its foreign counterparts. According to the publisher's website, Calculus: Early Transcendentals sells for $125 to American students, but only $97 ($125 C) to Canadian students and only $65 (35 pounds) to British students. This practice is widespread in the industry and has come under a great deal of scrutiny recently.

Publishers Criticize Report, Statisticians Respond

The publishing industry has responded by actively questioning the methodology of the report. We want to take this opportunity to refute these allegations. The primary criticism is that the sample was too small. In a letter to faculty who support CALPIRG's recommendation, Ronald G. Dunn, CEO of Thomson Learning, wrote: "'the study surveyed only 521 of the 2.3 million college students in California only 151 of the 44,545 faculty members teaching in California were surveyed, and 100 of them were math and science instructors." [3]

In response to this allegation, math professors from around the country wrote:

"In statistics, it is the size of the sample that matters, not the absolute size of the population. If your criticism were valid, then practically all polls in this country, including Gallup, would be meaningless. CALPIRG's methods were sound. The aim of the research was to capture the opinions of faculty who interact with the largest number of students. To that end, CALPIRG surveyed only the faculty who taught the five most purchased textbooks at ten colleges and universities in California and Oregon. In our view, this is an appropriately selected sample size." [4]

Signed by:

- Christopher Sogge, Chair, Department of Mathematics, Johns Hopkins University
- Bernard Russo, Chair, Department of Mathematics, University of California, Irvine
- Mark Ashbaugh, Chair, Department of Mathematics, University of Missouri–Columbia
- Paul Goodey, Chair, Department of Mathematics, University of Oklahoma
- Russell Thompson, Chair, Department of Mathematics, Utah State University
- Eugenio Cattani, Graduate Director, Department of Mathematics, University of Massachusetts, Amherst

Furthermore, eminent statistician Peter Bickel of UC Berkeley was quoted in the San Francisco Chronicle in response to Thomson's allegations in January as saying, "'Nonsense. The size of the population doesn't matter. It's the size of the sample that matters." With 156 faculty, he estimated, the error rate could be about 10 percent." [5]

Highlights of Student and Faculty Organizing Following the Release of the Report

The report was released at 24 news conferences across the country including ten in California, receiving media attention across the state and country, totaling more than 400 media mentions from various outlets including U.S. News and World Report, USA Today, Boston Globe, the Christian Science Monitor, Los Angeles Times, San Francisco Chronicle, Associated Press, and National Public Radio.

Immediately following the report's release, student government leaders from around the country sent publisher Thomson Learning a letter outlining the concerns CALPIRG's research identified and requesting that the company adopt the recommendations, especially to the book, Calculus: Early Transcendentals. A few months later, more than 500 mathematics professors from more than 50 colleges issued a joint call to publisher Thomson Learning that reiterated the students' initial requests; CALPIRG student volunteers spent nearly a month recruiting faculty members from around the country to join this call.

Shortly after these efforts began, Thomson Learning launched a new, "low-frills" series of textbooks designed to be 25% cheaper than the original textbook. In addition, the UCLA Mathematics Department successfully negotiated with Thomson Learning a $20 price reduction in the above mentioned calculus book for the 2004–2005 school year. Currently, several other universities are pressing for similar deals. Finally, independent from all the above efforts, publisher Pearson Education has announced plans to launch a new series of online textbooks in August 2004 that the company claims will be 50% cheaper than print titles.

These are merely small steps, and we think that, if anything, these developments simply provide more evidence that there is ample room to reduce textbook prices even beyond the steps that have been taken.

In the meantime, CALPIRG and the other State PIRGs are sponsoring an online bookswap, www.CampusBookSwap.com, available at 24 campuses in ten states. The bookswap allows students to buy and sell used books directly from each other. The website is run by students, for students, and is free of charge. There are currently more than 5,900 textbooks posted on the site.

State Solutions under Consideration

The California Legislature is currently considering two bills sponsored by CALPIRG: AB 2477 (State Assemblymember Carol Liu) and AB 2678 (State Assemblymember Paul Koretz). Both bills have passed the Assembly and are now in the Senate.

AB 2477 urges textbook publishers to adopt the report recommendations discussed above, such as "unbundling" textbooks from expensive CD–ROMs and other add-ons. Another recommendation is for publishers to fully disclose the price of textbooks to faculty members so that faculty can take price into consideration when choosing a textbook.

AB 2678 sets up the framework so that public colleges and universities in California can implement textbook rental services, if they so choose.

The Connecticut Legislature also introduced legislation calling on publishers to adopt the recommendations of the report, and the Governor of Illinois has launched an investigation into the practices of publishers.

Congressional Recommendations

CALPIRG supports H.R. 3567 (Wu), legislation that has been referred to this committee and requires the General Accounting Office to conduct an investigation of the high price of college textbooks. Many of the questions are the similar to the questions CALPIRG asked in California and Oregon and this investigation will expand to all states. Specifically:

(b) (1) the average amount of money a student spends on textbooks;

(b) (7) the extent to which new editions of textbooks are different from their previous editions, including the percentage of work that is actually substantively changed from one edition to the next; and

(b) (8) the average time period between old and newer editions of textbooks.

The investigation also asks new questions that are critical to understanding how college textbooks are produced, priced and packaged. Specifically:

(a) (2) the average cost to produce a new textbook;

(a) (3) the average cost to produce a new edition of a previously published textbook;

(a) (4) the reasons for the price discrepancy in textbooks in the United States and outside the United States;

(a) (5) the extent of the problem with such price discrepancy; and

(a) (6) whether the price discrepancy problem occurs more in certain subject areas than others.

In CALPIRG's view, the results of such an investigation will demonstrate, at a minimum, that Congress should develop policy that will ensure publishers and universities adopt the following practices:

Textbooks Should Be Priced and Sold at a Reasonable Price

- Publishers should keep the cost of producing their books as low as possible without sacrificing educational content.
- Publishers should sell ancillary items separately from textbooks.
- Publishers should fully and proactively disclose to faculty all of their products and prices and the length of time the publisher intends to keep its products on the market.
- Publishers should pass cost-savings from online textbooks onto students.
- Faculty should give preference to least-cost textbook options when the educational content is similar.

There Should be a Vibrant Used Book Market

- Publishers should keep each textbook edition on the market as long as possible without sacrificing the educational content. Publishers should give preference to supplements to current editions over producing entirely new editions.
- Congress should provide grant funding to cover the start up costs for schools that wish to rent textbooks to students. Funding alternatives that lower the price of textbooks for an entire student body is a better investment than tax credits that subsidize the high cost of textbooks.

Conclusion

The high cost of college textbooks are significantly adding to the overall cost of a college education. Faculty report that student textbook costs are inflated by publisher's practices, including unwanted and unneeded "bundles" and production of new editions that have few content changes and replace the less expensive used editions. In our view, publishers should make simple changes such as selling textbooks "unbundled" from expensive CD–ROMs and other add-ons and disclosing the price and estimated shelf-life of textbooks to faculty. At the same time, Congress should further investigate the pricing and production of college textbooks by passing HR3567 (Wu). Students deserve to pay fair prices for educational materials that faculty, not publishers, determine add to the quality of their students' education.

Endnotes

[1] The California Student Public Interest Research Group 9CALPIRG) is a statewide, non-profit, non-partisan public interest advocacy group that works on consumer, higher education and good-government issues. Since 1972, CALPIRG has been one fo the state's leading public interest groups, with 70,000 student and citizen members across the state. U.S. PIRG serves as the national lobbying office for CALPIRG and the other state PIRGs. www.calpirg.org

[2] "Ripoff 101: How the Current Practices of the Textbook Industry Drive Up the Cost of College Textbooks", CALPIRG 2004. See< http://www.calpirgstudents.org/ripoff101.pdf>

[3] See < http://www.calpirgstudents.org/RGDunn.pdf> for the letter Ronald G. Dunn, CEO of Thomson Learning sent to 500 mathematics professors.

[4] See < http://www.calpirgstudents.org/cacampus.asp?id2=13125> for the letter six mathematics department chairs sent to Ronald G. Dunn, CEO of Thomson Learning.

[5] Charles Burress, "Report Slams Cost of College Texts, "Ripoff 101" surveys students, faculty. San Francisco Chronicle. 1/30/04 For a full copy of the article see http://sfgate.com/cgibin/article.cgi?file=/chronicle/archive/2004/01/30/MNGOR4KU7551.DTL

[Attachments to Ms. Fairchild's statement have been retained in the Committee's official files.]

Chairman MCKEON. Thank you.

Mr. Fleischaker.

STATEMENT OF MARK L. FLEISCHAKER, LEGAL COUNSEL, NATIONAL ASSOCIATION OF COLLEGE STORES, ARENT FOX PLLC, WASHINGTON, DC

Mr. FLEISCHAKER. Thank you. Mr. Chairman and Members of the Subcommittee, on behalf of the National Association of College Stores, NACS, I thank you very much for inviting us to appear today. My name is Mark L. Fleischaker, and I'm a partner in the Washington law firm of Arent Fox.

NACS is a national trade association headquartered in Oberlin, Ohio. They represent all retailers whose primary businesses to sell to higher education students, including institutional stores owned by the college or university, stores leased to private operators, and private stores located on or near college campuses. NACS has approximately 3200 store members, which constitutes some 90 percent of the stores servicing the higher education community.

The role of all college stores, regardless of their ownership or management structure, is to contribute to the education function of the university, the faculty, and the university students that they serve. In that context, NACS has been concerned for several years about the escalating costs of higher education, including the cost of course materials, primary textbooks. In that conjunction, early this year the NACS board of trustees, specifically, reiterated that one of its primary objectives is to continue to work to reduce the cost of course materials for students. NACS believes that this hearing will assist in that objectives by shedding additional public light on the issues.

The price of college textbooks is affected by many factors, including the quality of new books which are sold, the sale of views books, authors' royalties, increases in the cost of producing books, "sell-through" of books to students. That is how many students who are buying books for their classes. The frequency of new editions, the bundling of other products with the textbooks, and the margins obtained by the collegiate retailers.

Regarding those margins, college books are sold on either a "pre-price" basis, in which the intended retail prices on the book itself, or on a net-price bases, when the book cover does not contain a price. When books are pre-priced and sold to retailers on the basis of a discount from the preprinted retail price, most publishers provide college stores with only a 20 to 25 percent discount from the preprinted retail price. That discount is approximately half the discount provided to trade stores for the sale of books not intended for classroom adoption.

Mr. Chairman, I think you alluded to that low margin in your opening remarks. In those situations, of course, the bulk of college stores would sell the book to students at the pre-printed price, achieving a margin of 20 to 25 percent. When books are sold to stores on the net price bases, with no preprinted retail price, stores are, of course, free to charge whatever price if it was appropriate.

Based on industry surveys, the average margin for all textbooks has remained approximately 22 percent for many years, meaning they college stores are charging approximately the same margin for net price books than for pre-price books.

Therefore, it is difficult to conclude that margins earned by college stores on the primary causative factor in the escalating prices test books. And that margin, of course, is used to fund all store operations including salaries, rent in many cases, all overhead normally assumed by any business.

Of course, college stores to attempt to give their students options by selling used books. And to that extent, bookstores would probably plead guilty to attempting to increase lower-priced options for their student customers. It is indisputable, and acknowledged by textbook publishers, that most engage in dual-pricing of textbooks.

Not like the drug industry, although it does not occur in Canada, where textbook prices are compatible to those in the United States, textbooks are often sold overseas at a fraction of the cost they are sold the United States. This practice has been described as traditional by representatives of the publishers. But I do not personally know how long it has been happening.

The actual prices of textbooks sold for overseas distribution apparently, vary, and precise statistics would have to be, sir, provided by the publishers. But in many cases they are resold at no more than half the price, then they would be—at lower prices than the college store would buy the book, they are resold to the college student when they are from overseas.

It is difficult for NACS to estimate the number of students purchasing books at lower prices from overseas sources. College stores have certain natural advantages such as proximity to students, and the ability and willingness to accept returns. We estimate, that textbooks purchased from sources originating overseas, account for approximately 5 percent. That number is likely to grow.

Our understanding is that the dual-pricing system continues. Some publishers have apparently amended their distribution agreements to make re-importation back into the US, more explicitly volatile of the agreement, and we are aware of several, threatened or actual, lawsuits filed by publishers against distributors re-importing textbooks back into the US. We are not aware of these individual efforts. But the two-price system continues to be the prevalent business practice of major education publishers.

We do not seek a legislative solutions to this problem at the current time. We want to continue to work cooperatively, with our textbook publishers, to lower the prices of textbooks, while protecting the legitimate interests of publishers, authors, distributors, college stores, and college students.

I want to again express our appreciation to the Subcommittee for shedding light on this issue, and encouraging discussion of a topic that begs for broad cooperation as we seek a solution. And of course, I will be happy to engage in the discussion as we move forward in this hearing. Thank you.

[The prepared statement of Mr. Fleischaker follows:]

Statement of Marc L. Fleischaker, Legal Counsel, National Association of College Stores, Arent Fox PLLC, Washington, DC

Mr. Chairman and Members of the Subcommittee:

On behalf of the National Association of College Stores ("NACS"), I thank you very much for inviting me to appear today. My name is Marc L. Fleischaker, and I am a partner in the law firm of Arent Fox, in Washington, D.C. I have been the legal counsel for NACS for many years.

NACS is a national trade association headquartered in Oberlin, Ohio. NACS represents all retailers whose primary business is to sell to higher education students. This includes institutional stores (owned by the college or university), stores leased to private operators, and private stores located on or near college campuses. NACS has approximately 3,200 store members, which constitute some 90% of the stores serving the higher education community.

The role of all college stores, regardless of their ownership or management structure, is to contribute to the education function of the university, the faculty, and the university students that they serve. In that context, NACS has been concerned for several years about the escalating costs of higher education, including the costs of course materials, primarily textbooks. In that connection, early this year the NACS Board of Trustees specifically reiterated that one of its primary objectives is to continue to work to reduce the cost of course materials for students. NACS believes that this hearing will assist in that objective by shedding additional public light on the issues.

It is also important to point out that NACS has a long, positive relationship with textbook publishers, represented by the Association of American Publishers. Of course, that does not mean that publishers and retailers agree on every issue. But it does mean that NACS looks forward to working with AAP in appropriate ways to address the issue of textbook prices.

The pricing of college textbooks is affected by many factors, including the quantity of new books which are sold, the sale of used books, authors' royalties, increases in the cost of producing books, "sell-through" of books to students, the frequency of new editions, the "bundling" of other products (such as compact disks) with the textbook, and the margins obtained by the collegiate retailers.

One note about those margins before I move to the specific topic which I have been asked to address. College books are sold on either a "pre-priced" basis in which the intended retail price is on the book itself, or on a net-priced basis where the book cover does not contain a price. When books are pre-priced and sold to retailers on the basis of a discount from the preprinted retail price, most publishers provide college stores with only a 20–25% discount from the preprinted retail price. That discount is approximately half the discount provided to trade stores for the sale of books not intended for classroom adoption. In those situations, of course, the bulk of college stores would sell the book to students at the preprinted price, achieving a margin of 20–25 percent. When books are sold to stores on a net price basis with no preprinted retail price, stores are, of course, free to charge whatever price they feel is appropriate, and different college stores charge different amounts. However, based on industry surveys, the "average" markup for all textbooks has remained approximately 22% for many years, meaning that college stores are charging approximately the same margin for net priced books than for pre-priced books. For these reasons, it would be extremely difficult to conclude that the margins earned by college stores are the primary causative factor in the escalating price of textbooks. (That margin, of course, is used to fund all store operations, including staff salaries.) Of course, college stores do attempt to give their students options by selling used books. To the extent that this reduces the number of new books that are sold, thereby causing publishers to charge even higher prices for new books, college bookstores would probably plead guilty to attempting to increase lower price options for their student-customers.

I have been specifically requested to address the question of discrepancies between the prices of textbooks sold in the United States and overseas, the effects of that discrepancy on the cost of post-secondary education, and possible solutions.

It is indisputable and acknowledged by textbook publishers that most engage in dual pricing of textbooks. Not unlike the drug industry (although it does not occur in Canada, where textbook prices are comparable to those in the U.S.), textbooks are often sold overseas at a fraction of the cost they are sold in the United States. This practice has been described as "traditional" by representatives of the publishers, but I do not personally know how long it has been happening. The actual prices of textbooks sold for overseas distribution apparently vary, and precise statistics would have to be provided by publishers. However, we understand that many textbooks sold for distribution overseas are priced at from 20–40 percent of the price for textbooks sold for distribution in North America.

While this practice has apparently continued for many years, NACS only became fully aware of and concerned about the practice several years ago. NACS became aware of, and troubled by, the dual pricing policy when the internet became fully operational as an alternative source of textbooks for college students. Several international sources for textbooks sprang up, including such well-known sites as amazon.uk, and students began to notify college booksellers about available prices. Very quickly thereafter, distributors began selling textbooks purchased overseas back to the U.S. at very low prices that enabled U.S. students to buy at prices well below the prices at which college bookstores themselves were able to purchase directly from the publishers. College stores generally watched this development with great anguish not only did it adversely affect their own sales, but it generated complaints from students who assumed that the college store must be "price gouging," when, in fact, the college store could not even purchase the book at as low a price as a student could purchase the book from overseas sources.

It is difficult for NACS to estimate the number of students purchasing books at lower prices from overseas sources. College stores continue to have the natural advantages of proximity to the students and the willingness to accept returns when the student drops the class or decides not to use the book. (Some students actually buy books from overseas or other sources and then try to return them to the college store.) We would estimate that textbooks purchased from sources originating overseas account for approximately 5 percent of textbooks which are sold, and that number is likely to grow.

In an attempt to address the problem I wrote letters to a number of major textbook publishers in December 2002, noting that the sale of textbooks from non–U.S. sources was becoming increasingly more prevalent, and that there was no apparent good reason to "justify treating foreign and U.S. textbook markets differently beyond the fact that it has been feasible to do so." We recommended that the practice of offering more favorable pricing to overseas distributors be discontinued. As a second option, we suggested that, at the very least, publishers take steps to assure that textbooks sold into overseas markets at more favorable prices be prevented from being resold back into the U.S. for use by college students. Frankly, I did not receive a congenial response. No individual publishers responded to my letter. Instead, I received a response from AAP stating that AAP could not discuss pricing issues collectively because of the antitrust laws. The letter went on to suggest that the problem could be caused, at least in part, by the so-called "first sale" doctrine, which limits the copyright holder's ability to enforce its copyright rights to purchasers not buying directly from the copyright holder. The letter concluded by noting that the publishers' and retailers' interests were similar and that the difficulty in finding solutions "will only be exacerbated if our efforts to find mutual relief are complicated by fruitless disputes over legitimate and well-established price differential practices."

Subsequent to this exchange, the NACS Board of Trustees, in March 2003, adopted a resolution deploring "the sale of identical or virtually identical college textbooks to foreign wholesalers and retailers at prices significantly lower than those available to domestic wholesalers and retailers." Since then, NACS has continued to seek ways to work with the publishers to explore possible solutions to the re-importation problem. On October 21, 2003, the New York Times published a major, front-page story about this issue that placed the major responsibility for higher textbook prices on the publishers. The AAP responded by assigning much of the blame to college bookstores, because of margins and the proliferation of used books. Unfortunately, this "war of words" appears to have impeded cooperative efforts by publishers and retailers to address the problem.

Our understanding is that the dual pricing system continues. Some publishers have apparently amended their distribution agreements to make re-importation back into the U.S. more explicitly violative of the agreement, and we are aware of several threatened or actual lawsuits filed by publishers against distributors re-importing textbooks back into the U.S. NACS is not aware of the results of these individual efforts. The "traditional" two-price system under which the same book is sold overseas at a significantly lower price than it is sold in the U.S. continues to be the prevalent business practice of the major higher education publishers. Based on anecdotal evidence, it does not appear that the re-importation problem has been reduced from 2–3 years ago. By the same token, of course, continuation of the dual pricing system keeps textbook prices for most U.S. college students significantly higher than they are for students overseas, whether in Mexico, Southeast Asia, or Western Europe.

NACS is not seeking a legislative solution to this problem at the current time. We continue to want to work cooperatively with our textbook publishers to lower the prices of textbooks, while protecting the legitimate interests of publishers, authors, distributors, college stores, and college students. We believe that progress is achievable.

However, NACS does believe that the dual-pricing system, even if well-intentioned, is unfair. Like publishers, NACS wishes to encourage reading and education in underdeveloped countries, and can understand the desire to encourage education and discourage counterfeiting by discounting prices to some extent in those areas. This desire, however, does not justify steeply lower prices to distributors and students in Western Europe, for example. Low prices in order to discourage counterfeiting or other improper reproductions of books in countries such as Mexico, China, and India are no substitute for more aggressive and satisfactory intellectual property protection in those countries. If textbooks, like movies, can be copied with impunity, then the industries themselves and the great American intellectual achievements they represent will ultimately be in jeopardy.

U.S. and Canadian college students should not, by themselves, be made to suffer the consequences of underdeveloped countries' inability or unwillingness to enforce their laws. In fact, higher prices in the U.S. are also leading to improper copying of books and many U.S. students deciding to forego acquiring textbooks altogether. All segments of the textbook industry should be working together to see how we can best maintain the extraordinary high quality of U.S. higher education which is the envy of the world without making the price of that education prohibitive to many Americans. Textbook prices should not be ignored in this discussion.

For these reasons, I want to again express NACS" appreciation to this Subcommittee for shedding light on this issue and encouraging discussion of a topic that begs for broad cooperation as we seek a solution.

Chairman MCKEON. THANK YOU.

Mr. Isley.

STATEMENT OF JOHN ISLEY, EXECUTIVE VICE PRESIDENT, PUBLISHING, PLANNING, AND BUSINESS, PEARSON HIGHER ED AND PROFESSIONAL PUBLISHING, PEARSON EDUCATION, BOSTON, MA

Mr. ISLEY. Chairman McKeon, Ranking Member Kildee, and Members of the Subcommittee, thank you for inviting me here today. I'm John Isley, I am here as Chair of the Higher Education Executive Committee of the Association of American Publishers. My day job is working for Pearson Education as Executive Vice President of Global Strategy and Publishing.

First, I would like to say that the American system of higher education and outstanding course materials that publishers provide that support that system are without question the world's best. And like many good things, they are changing. Cutting-edge course materials are nearly as much about electronic services as they are print textbooks. They provide Web access, interactivity and access for distance learning that we couldn't have imagined even 10 years ago.

Let me emphasize that these high-end products are not for everyone. Publishers are a lot like auto manufacturers—we offer our versions, both the Lincoln Navigators and the Ford Focuses of the world.

Let me show you how this works, using some examples from my company, Pearson Education. I have to do a show and tell. The first title is a two-semester, top-of-the-line U.S. history book. Full color throughout, full of illustrations, 1200 pages long. We would sell it to retailers for $80.25. They would probably sell it to students at about $107. It also includes access to a premium web site that has a lot of resources for the students.

The second is a briefer version of the same book, designed for a one semester course, that doesn't contain the access to the web site, that we would sell to booksellers for $48.

The third is yet another American history book designed for a one-semester course, in the Penguin Academic series, that we would sell to resellers for $25, and they would probably sell to students for $33.

And the last is a fully featured book, but you can't really see it, because half of it is on the Web. It's a text-Web hybrid. So again, it is a one-semester book in American history. We would sell it to bookstores for $28.80. They would probably sell it for like $38. And it includes an access code to the web site.

And finally, at Pearson, we are introducing an electronic text subscription service, where any text in the service would be available at 50 percent off its likely suggested retail price. So you are, basically, half off. You get an electronic subscription, it's viewable from any computer from the Internet.

And this is only a small subset of what is available. And all of these options, except the new e-book initiative, were available well before the CALPIRG report.

So with all of these choices, who does the choosing? Well, course materials are selected by instructors. And that's a tough job, given all the options they have. Frankly, we think they do this job conscientiously and well. When a class uses the course materials thoroughly, whether they are a book, electronic, we generally have high faculty and student satisfaction. What goes wrong is when students are asked to buy something they don't use or value.

We think the best source for measuring what students are paying for textbooks come from the student monitor. They've been doing this for years. Their studies say student spending on textbooks at four-year institutions was $620 this past year. And it has risen an average of less than 2.5 percent per year for the last five years—similar to inflation. But at $623 they're buying roughly 12 books, or paying about $52 a book.

There are other data points in this issue. One issue that confuses the data is the difference between prices and spending. For example, measuring the price of the Lincoln Navigator over time doesn't say very much about what the average person is paying for a car.

Now, we are worried about used books. These make up about a third of the market in dollar terms. So about a third of the $623 spent on textbooks, you spend on used books, not new. Publishers neither set the price, nor do we, nor do our authors receive any of the proceeds.

And one last point on cost, per the College Board, student spending on course materials and supplies, at public four-year colleges, represents about 6 percent of the total cost of that education. I think it's worth it.

The invitation memo asked what we thought about the recent CALPIRG report. There is much in the report that we object to, in its tone, data, and conclusions. One clear inaccuracy in the report is a description of packaging or bundling. This is a process described previously where things are put together and sold at one price. Well, I can't comprehensively speak to pricing policies in our industry, but most bundles, specifically including those in the CALPIRG report, represent a considerable savings to the purchaser.

The misunderstanding around new editions is also pervasive. In the college market, new editions are usually published every three years. Professors generally want the most up-to-date information and resources available and are unwilling to adopt older textbooks. I know from personal experience, when a title is not revised, it won't continue to be adopted.

Finally, though, CALPIRG suggests that electronic delivery of course materials might save students money. We hope they are right. Many in our industry, including Pearson, are seriously taking the plunge in electronic text offerings, and we hope to find a market for them.

Let me say, in closing, that I believe the concern and debate about course materials will resolve itself in the competitive market, as it has done in the past, and will involve all members of the academic community working together to improve on the high standards that we've already set.

Mr. Chairman, this concludes my statement, and I look forward to answering any questions.

[The prepared statement of Mr. Isley follows:]

Statement of John Isley, Executive Vice President, Publishing, Planning and Business, Pearson Higher Ed and Professional Publishing, Pearson Education, Boston, MA

Chairman McKeon, Ranking Member Kildee and members of the subcommittee, thank you for inviting me here today to discuss the role of the publisher in textbook development and distribution.

I am John Isley, Executive Vice President of the Pearson Higher Education, International and Professional Group. I appear today representing the Association of American Publishers in my role as Chairman of the AAP Higher Education Executive Committee.

The Association of American Publishers is the national trade association of the U.S. book publishing industry. AAP's members include most of the major commercial book publishers in the United States, as well as smaller and medium-sized houses, not-for-profit publishers, university presses, and scholarly societies.

There have been significant changes in higher education over the last decade and we appreciate the invitation to share these developments with you, as well as address the questions you raise. Today's students, and the faculty that teach them, have new expectations from their higher education. These expectations are driven by many factors, including demographics, employment requirements for knowledge workers, the significant lifetime wage benefits of a college degree, and a student population that is multi-tasking the demands of school, work, and home.

These market conditions have created the need for publishers to personalize higher education, employing technology, instructional tools, and a new, vast array of materials that address individual learning and teaching styles. Higher education publishers offer a continuum of price points for the textbooks and digital products we offer, from low-cost editions to fully-loaded textbooks and instructional packages, with a variety of options to integrate the components which may include customized editions, and electronic, abridged and brief editions.

Publishers offer faculty and students ancillary materials customized to the way individual faculty members prefer to teach and enriched and prescriptive learning resources that ensure all our students have an equal opportunity to be successful.

Allow me to address some of the key issues relating to postsecondary textbooks that have been raised by you and others:

1) How are course materials decisions made in colleges, community colleges, and universities?

The decision-maker in selecting instructional materials for course use is the individual professor or, in some cases, a committee of the instructors responsible for teaching a specific course. The selected textbooks are then typically ordered from the publisher and/or wholesalers by the campus bookstore or other resellers and purchased directly by the student from that retailer.

Professors and instructors independently choose instructional materials in the context of their course needs, their perceptions of their students' needs and abilities, and any guidelines given by their department or institution. A wide array of materials from a variety of publishers is generally available for each course at the college level. Since the market is freely competitive, there are typically materials available from both AAP member and non-member publishers, including multiple versions or customized offerings from individual publishers in various formats and at significantly different price points.

Faculty members have the difficult job—which we believe they do conscientiously and well—of making selections among the offerings based on their judgments about which are the best materials that meet their standards to recommend or require students to buy. Their judgments are based on a variety of factors but it is clear that price and value offered by the materials are increasingly important in their considerations.

2) Why are textbooks so expensive? When adjusted for inflation, are books and textbooks more expensive today than they were in the past?

As noted above, textbooks are available from publishers at a variety of price points, and there is price pressure on college textbooks as a result of several factors that will be discussed below. In general, however, we don't believe students are paying significantly more for course materials today, either on an inflation-adjusted basis or as a percentage of overall education expenses. To be more specific:

- Student Monitor, LLC, an independent market research firm which studies a broad range of student lifestyle and purchasing patterns, consistently measures what students spend each semester on new and used textbooks. Their data says students of four-year colleges spent $623 in the 2003–2004 academic year and that increases in student spending have averaged 2.5%. By our figuring this increase is 0.2% faster than inflation. (See Appendix for Student Monitor's view of textbook spending.) We realize there are other measures that tell a different story, though there are also those—including one cited by CalPIRG for the U. of California system that says student spending increased 3.4% over the last seven years—which present similar data. Perhaps the GAO study can help sort out a more precise number here but it is certainly our view that in recent years student spending on course materials has not increased much faster than inflation.
- Textbooks have always been expensive relative to general interest publications since the potential market for any individual title is limited to the students who would enroll in a college class on the topic.
- Publishers often support the basic text with an increasingly large and complex array of print, web, and other media supplements and services to both instructors and students. Instructors value these complementary products and additional instructional support but the costs of creating, maintaining and servicing these assets are not insignificant.
- Production values in the texts themselves have increased significantly from the days of one-color, lightly illustrated books. Today, many of the books are in oversized formats and in full color. This shift is in response to customer demand.
- The majority of costs involved in creating textbooks are in the intellectual capital and labor of the authors and knowledge workers who create them, costs that aren't easily reduced. These sorts of cost pressures present, of course, a challenge in all facets of higher education.
- A significant amount—we estimate 50%—of the revenues from student purchases of authors' and publishers materials goes to the distribution and re-distribution chain. (See Appendix for a graphic representation of where student purchasing dollars go.) To be sure, some of this money goes back to students who choose to sell their books at the completion of a term for resale on the used book market.

3) How are authors recruited to write textbooks and course materials?

In the most typical cases, textbook authors are college instructors. There are, however, many, many different sources of authors of successful textbooks and, since the market is freely competitive, people with non-traditional backgrounds or unaffiliated with academic institutions can succeed.

In the most typical case, however, authors are college instructors who are great teachers, write well, are entirely up-to-date on certain areas in the field or in pedagogical techniques, and smart enough to know to ask for and accept help in areas where they are less talented or up-to-date. Some potential authors contact publishers directly, others are discovered by a member of a publisher's staff who hears them talk about their classes and students, believes they are talented, and encourages them to give textbook writing a try.

Successful, proven authors, or even new authors with a terrific proposal or samples, can be highly sought after and competed for by various publishers. We each have our stars. However, the norm for results, as is probably true in most of the creative businesses and is certainly true in other parts of the publishing business, is that most new titles do not sell as well as their author's or publishers' initial expectations. In these instances, the royalties earned, in an economic sense, in no way justify the time and energy spent on the project, though few regret having written their books.

There is an even larger group of members of the academic community, generally instructors, who serve as authors of supplementary materials or developers of electronic materials or reviewers of draft manuscripts, who greatly aid in the creation of a publisher's learning materials.

Finally, and increasingly, many publishers engage, generally through instructors, students who "class test" portions of draft manuscripts or beta versions of electronic materials for their efficacy.

4) What portion of total expenses of attending college do course materials represent?

According to the College Board, the cost of course materials and supplies is about 6% of the total cost of attending a four-year public college or university

5) Why are supplementary materials, such as workbooks and CDs, packaged with textbooks instead of sold separately?

When print or media supplements are packaged with textbooks that offer is generally the result of the instructor's specific selection of that combination of materials. In may cases, the combination of materials enable the publisher to offer the learning package at a discount relative to the aggregated cost of the items if purchased separately. That noted, the items in the package typically can be purchased separately, or a student could combine buying a used book with new supplementary print or electronic materials.

6) How often are new editions published? Why do they have to be published so often? Why can't faculty order older editions of books to supplement the college's supply of used copies of a certain edition?

In the college market new editions are usually published, on average, every three years. In some disciplines or markets the cycle could range from two to four or fives years but three years is a typical normal cycle across most disciplines.

Students and professors generally want the most up-to-date information available and instructors have historically been unwilling to adopt textbooks that are three and four years old. New editions are done to update content, improve the instruction, issue new sets of problems and practice tests that aren't in general circulation, offer electronic resources that are compatible with current software systems and infrastructure, and enable publishers to attempt to make sales and gain new adoptions by instructors who have not previously used the title. Once a new edition is published, publishers generally do not continue to stock the old edition for any extended period of time. There is nothing, however, to prevent campus bookstores or other resellers from maintaining a stock of an old edition.

7) How is the Internet changing your business? Do you sell online texts? If so, does it cost as much to prepare them as it does to publish paper texts? Eventually, will the publishing of books on the Internet lower their prices for both students and publishers?

It is still early to fully understand how the Internet will change the delivery of instruction in higher education and, as a consequence, change the higher education publishing business.

Most higher education publishers do, indeed, have many of their textbooks available online, either in downloadable form or readable-online. There are several initiatives to this effect currently ongoing, with some offering substantial discounts to students. That noted, e-textbooks have been available for a few years but sales have been minimal so far. The costs of e-textbooks are additional to the costs of producing and maintaining the print content. On an industry-wide basis our customers are still heavily favoring print content in their purchasing despite oft stated demand for digital delivery. To meet marketplace demands, I suspect publishers will choose to maintain a dual inventory for some time to come.

We welcome the challenges of digital delivery and we look forward to opportunities to improve instruction through digital delivery of content. All publishers are currently providing a variety of digital content for use by instructors and students in assessment, homework, or for other instructional purposes, very often in a variety of electronic formats as specified by an instructor or individual campus. That noted, I expect the migration to digital delivery to be very gradual, and I expect that the need to maintain and increase investment in both print and digital delivery will be with the sector for some time to come.

However, as previously noted, on an industry wide basis the largest costs in producing quality instructional content and tools lie in the creative inputs—the work of authors, editors, artists, and reviewers—not in the sheer manufacturing and delivery of that content.

8) Are textbooks priced differently around the world?

By any measure, American higher education is the world's best and we believe American course materials are part of that excellence. The rest of the world agrees. American books, written primarily by American authors, particularly in business, science, engineering, and computer science, enjoy strong demand outside the U.S.

Each publisher has its own individual policies and practices about pricing around the world but it is fair to say that most titles intended for purchase in areas such as Asia, India and Latin America are sold at prices that reflect local market conditions. To set pricing, each publisher, usually through their local management, examines the factors that influence that market, such as local income, costs, competition, standard of living variances, and local regulatory and trade issues.

Selling into foreign markets helps publishers spread their costs of development over more copies and keep prices lower for U.S. students.

One reason that most publishers have chosen to make desirable U.S. textbooks available at prices that reflect local market conditions is that price is often used as an excuse for copyright infringement. According to a conservative estimate by the International Intellectual Property Alliance, piracy cost U.S. publishers $500 million in 2003. While piracy of American textbooks is a worldwide phenomenon, AAP believes book piracy and commercial photocopying of American texts are most rampant in Asia due to the high demand for English language materials in that region. United States government officials encourage publishers to price their materials to the local markets. The U.S. Government has also requests publishers to commit their own resources to monitoring piracy and they are, both through the AAP and individually.

9) What are publishers' views of textbook rental programs?

Rental programs have existed at certain institutions for a number of years so there is likely good data on their efficacy. As publishers, we have the view that many of our learning resources have

lasting value for students in their educational and professional careers, and we would hope they would keep them. A system of "rental" presupposes that books are primarily for borrowing, not keeping, and we struggle to agree with that view.

In addition, although this is not really an issue for publishers, there are economic considerations for colleges and universities. We believe on campus bookstores are generally profit centers for these schools.

There are also practical concerns. As more of publishers' resources for students become electronic, measure individual student performance and, thus, are consumable, it is not clear to us how the rental model can effectively respond to that usage.

10) What did publishers' think of the recent CALPIRG report?

It isn't hard to imagine that publishers weren't too keen on a report entitled "Rip-Off 101" that attacked our industry. There is much we object to in its methodology, tone, data and conclusions. Perhaps the GAO report will help clarify the survey methodology and data. One small point: AAP was aware of the report while it was in preparation and offered to participate, but we were not invited. On the other hand, there are points in the report that accurately reflect student frustration with course materials purchasing and some suggested directions that some industry members already are pursuing.

The report is inaccurate in its description of packaging. Most packages of learning materials, including those cited in the CALPIRG report (as reported by the California Association of College Stores), represent a considerable savings to the purchaser over purchasing the items separately. Where packages go wrong is when a student is asked to buy something that isn't helpful or doesn't get used.

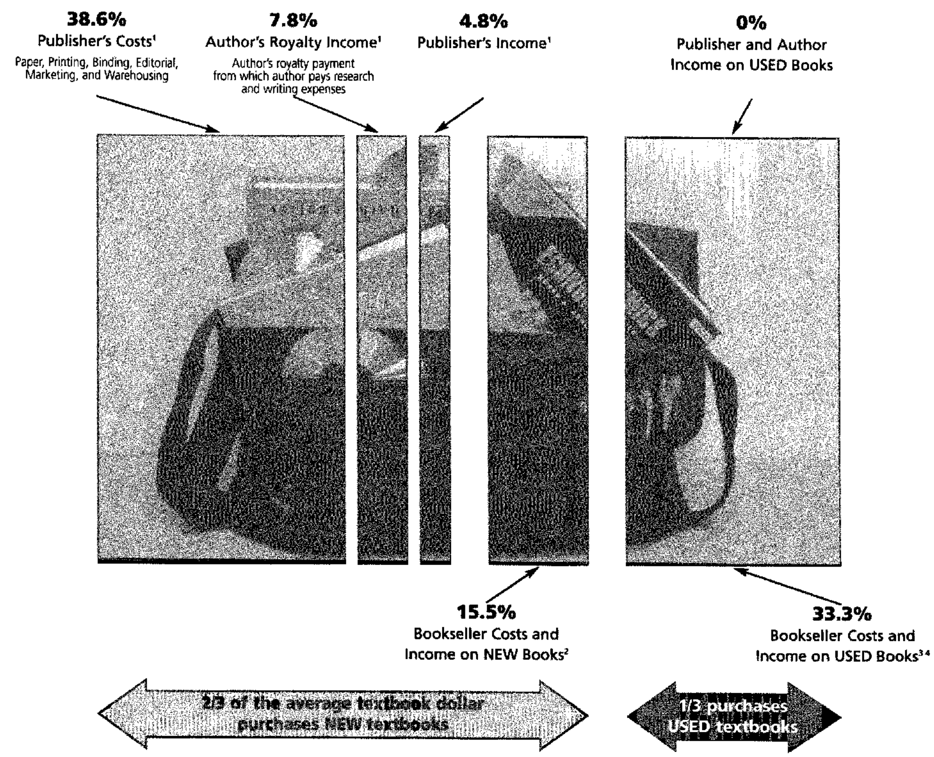
The misunderstanding around why publishers introduce new editions, discussed previously, is also pervasive.

Finally, though the report suggests electronic delivery of course materials might save students money, so far this has not been the case as most e-book offerings have met with customer indifference. Still, some AAP member publishers are currently pursuing this avenue and offering significant savings to student customers.

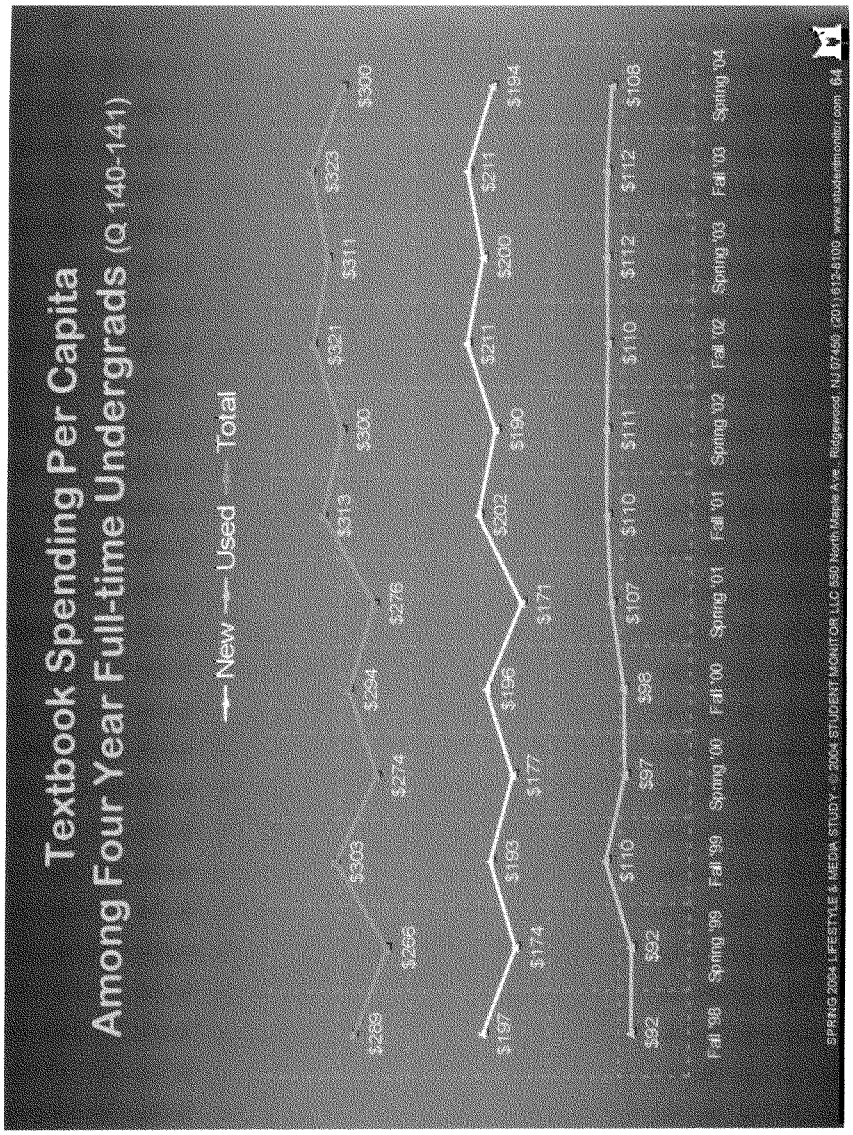
Mr. Chairman, that concludes my testimony and I am happy to answer any questions you and the Members of the Subcommittee may have.

[Attachments to Mr. Isley's statement follow:]

STUDENT COURSE MATERIALS EXPENDITURES



1 Source: AAP
2 Source: NACS
3 Source: *Student Monitor*, LLC
4 Note: A portion of these costs represents money paid to students to acquire books.


Textbook Spending Per Capita
Among Four Year Full-time Undergrads (Q 140-141)
New Used Total
$289 $266 $303 $274 $294 $276 $313 $300 $321 $311 $323 $300
$197 $174 $193 $177 $196 $171 $202 $190 $211 $200 $211 $194
$92 $92 $110 $97 $98 $107 $110 $111 $110 $112 $112 $108
Fall '98 Spring '99 Fall '99 Spring '00 Fall '00 Spring '01 Fall '01 Spring '02 Fall '02 Spring '03 Fall '03 Spring '04
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Chairman MCKEON. Thank you.

Mr. Monroe.

STATEMENT OF VIRGIL MONROE, MANAGER, TEXTBOOK SERVICES, UNIVERSITY OF WISCONSIN–RIVER FALLS, RIVER FALLS, WI

Mr. MONROE. Thank you, Mr. Chairman. Thank you, Members of the Committee. I'm very pleased to testify before the House Subcommittee on 21st Century Competitiveness.

As Representative Kind mentioned, Textbook Services is in his district. It is very much like a library.

Chairman MCKEON. Mr. Monroe, could you pull the microphone closer, please.

Mr. MONROE. Yes.

Chairman MCKEON. Thank you.

Mr. MONROE. it is very much like a library; in fact, on our campus it is a department of the university library, supervised by the Director of Library Services. Textbooks are checked out at the beginning of the semester, and then returned at the end of the semester. But we also give students the option to purchase any textbooks that they think will be of use of them in the future.

Our rental system is very popular with students. In fact, on our campus, it is popular because of the rental system. A full-time student pays $59 per semester rental fee, and that entitles a student to check out textbooks for the semester. Students check out an average of seven textbooks each, that means 14 textbooks over the course of the year. If the text are returned undamaged and by the due date, no further charges are levied. If students wish to purchase texts, then they may purchase them. Any text in our inventory during our semester textbook sale, at a discount of 20 to 40 percent off the retail price.

As textbook prices continue to rise, prospective students and their parents are attracted to the University of Wisconsin-River Falls by the potential for saving money on textbooks. The textbook rental system also has the effect of bringing total college costs down to a more manageable level, and this makes college more accessible, especially for poorer students.

As I said, the service is very popular with students. And a student survey, which we conducted in 1998, the 417 students who responded to the survey question, do you think the textbook service is a valuable service for students. Four hundred and ten indicated they thought it was. In the section of the survey reserve for written comments, 82 students wrote, excellent, good, or great service for students or a similar comment. Forty-nine students wrote, saves money, better than buying books or a similar comment. Only one student wrote, I would prefer to buy my books in the bookstore.

At the University of Wisconsin system audit of the seven Wisconsin-based textbook rental systems, which was conducted from December 1998 to September 1999, concluded that, "Textbook rental programs provide a needed service, while at the same time rendering measurable cost savings to students and the campus community. Overall, textbook rental operations are well-managed, and we have recommended that institutions without textbook rental, explore the feasibility of providing some rental services."

Students also like a rental service because they do not have to decide whether or not the academic benefit they gain from buying copies of the text, for a particular class, is worth the considerable financial cost. As I monitor class enrollments each semester, and then compare enrollment to our textbook inventories, I see almost invariably, everyone in the class has checked out the textbooks for the class. This is in contrast with textbook purchase systems, where a percentage of students in the class may elect not to purchase the text at all. This percentage can reach 25 percent or more in some classes.

In addition, students have the opportunity to check out, without additional charges, a second copy of a text or texts from other classes. The ability to check out a second copy of a text can be very useful for students with disabilities, and for students who may forget their text at home on the day of the big test, or when an important assignment is due. Each semester we distribute 41,000 texts, and the other 48,000 texts in our inventory are available for these purposes.

Faculty members like our rental system for the same reasons the students do. Though faculty members do not support the rental system as uncritically as students, they are, basically, satisfied. A most recent faculty survey, conducted in spring semester 2000, indicated a medium to high level of faculty satisfaction with our rental service. We sent 337 surveys to teaching faculty. Seventy-seven completed surveys were returned. In response to the survey question, are you satisfied with our textbook ordering policies, 62 percent indicated that they were very satisfied. 31 percent indicated that they were satisfied. No one indicated that they were dissatisfied.

Textbook services is considered an asset by many other universities, faculty and students. I think the recommendations of the UW system audit reflects this. As textbook services manager, I respond to frequent requests for information about textbook services from universities, faculty, and students all across the nation. Other universities are actively looking for a way to solve their significant problems with textbook purchase systems. I wish I could say that we were very innovative in establishing a textbook rental system at the University of Wisconsin-River Falls, when in fact, we've always had a textbook rental system here. That decision was made a long ago before our current faculty and staff and administration had begun this service to the university.

However, it is to the great credit of the current university faculty and administration that they have continued to support textbook services, when it is now and has always been clear that a textbook service purchase system would bring in more revenue for the university.

This support, I believe, begins with a very sincere respect for student opinion and a sincere concern for their academic and financial welfare. Thank you.

[The prepared statement of Mr. Monroe follows:]

Statement of Virgil Monroe, Manager, Textbook Services, University of Wisconsin–River Falls, River Falls, WI

My name is Virgil Monroe. I manage Textbook Services at the University of Wisconsin–River Falls. I am very pleased to testify before the House Subcommittee on

21st Century Competitiveness. In my testimony today, I will describe our textbook rental service for students, the impact it has on the cost of their college education, how it was implemented on our campus, and how it is perceived by our students, faculty and administration. I will close with comments about textbook pricing and a short discussion of the feasibility of establishing textbook rental systems on other college campuses.

Textbook Services is a college textbook rental service which was established by the University of Wisconsin–River Falls to supply our students with college textbooks and other instructional materials in direct support of the curriculum. In exchange for a rental fee, paid as part of the student's tuition, we provide textbooks and other instructional materials to students under the direction of the faculty and the University administration.

Textbook Services is very much like a library. In fact, on this campus, it is a department of the University Library, supervised by the Director of Library Services. Textbooks are checked out at the beginning of the semester and then returned at the end of the semester, but we also give students the option to purchase any textbooks that they think will be of use to them in the future.

Our rental system is very popular with students. It is popular primarily because it saves students a significant amount of money each semester. For example, it is not unusual for a student in a book purchase system to spend $300 to $600 for texts each semester, and then to sell the texts back to the Bookstore or online, at the end of the semester, for $150 to $300. In our rental system, (full time) students pay a $59.00 per semester rental fee to checkout texts for the semester. Students check out an average of 7 textbooks each. If the texts are returned, undamaged, and by the due date, no further charges are levied. If students wish to purchase texts then they may purchase any text in our inventory during our semester book sale at a discount of 20–40% off the retail price. The amount of the discount depends on the age of the text.

By buying current texts at discounts of 20–40% and by buying discontinued texts (i.e. textbooks which are no longer used, have been replaced by a later edition, or a different text) at prices that range from $.25 to several dollars per copy, students may develop a personal and professional library at minimal cost. I think it is incorrect to assert that a rental system discourages the development of a personal and professional library. In fact, it does just the opposite. We sell approximately 10,000 copies of current and discontinued texts to students each year. Each semester teaching faculty members receive a list of discontinued textbooks, in their subject areas, that are available for students to purchase. For many weeks after these lists are distributed, we have large numbers of students who come in to purchase discontinued texts. We also advertise our current and discontinued semester textbook sales in the student newspaper, on campus t.v., and in emails that we send to students each semester. So it is very easy and inexpensive for a student to establish a professional library.

As textbook prices continue to rise, prospective students, and their parents, are attracted to the University of Wisconsin–River Falls by the potential for saving money on textbooks. The textbook rental system also has the effect of bringing total college costs down to a more manageable level and this makes college more accessible, especially for poorer students.

In a student survey, which Textbook Services conducted in 1998, of the 417 students who responded to the survey question: "Do you think that Textbook Services is a valuable service for students?," 410 indicated that they thought it was. In the section of the survey reserved for written comments, 82 students wrote "Excellent, good, or great service for students," or a similar comment. 49 students wrote "Saves money, better than buying books," or a similar comment. Only one student wrote, " I would prefer to buy my books in the Bookstore."

A University of Wisconsin–System Audit of the seven Wisconsin based Textbook Rental Services, which was conducted from December 1998–September 1999, concluded that ". . . textbook rental programs provide a needed service while at the same time rendering measurable cost savings to students and the campus community. Overall, textbook rental operations are well managed. . .We have recommended (that) institutions without textbook rental explore the feasibility of providing some rental services. . .Textbook rental operations provide the convenience and flexibility needed by students, while at the same time helping control textbook costs and consequently shielding the students to some degree from ever-rising textbook prices."

Students like the control a rental system gives them. They may buy the texts they think will be of value to them in the future, in later classes or in their professions, but they are not forced to buy texts that they may never use again. Our students also have a voice, through the Textbook Services Advisory Committee, the Student

Senate and the Fees and Facilities Board, in reviewing Textbook Services policies and procedures and in setting the textbook rental fee each year. So, I think our textbook rental system is perceived by most students as being a fairer system. In my experience, students who must buy their textbooks each semester have little or no voice in determining textbook prices.

Students also like our rental service because they do not have to decide whether or not the academic benefit they gain from buying copies of the texts for a particular class is worth the considerable financial cost. As I monitor class enrollment each semester and then compare enrollment to our textbook inventories, I see, almost invariably, everyone in the class has checked out the textbooks for the class. This is in contrast with textbook purchase systems where a percentage of students in the class may elect not to purchase the texts at all, others students in the class may wait until late into the semester—until they realize they cannot get along without the texts—to purchase the texts for the class. This percentage can reach 25% or more in some classes. Some students may elect to purchase a similar text at a lower price, and this can also cause problems.

In addition, students have the opportunity to check out, without additional charge, a second copy of a text, or texts from other classes. The ability to check out a second copy of the text can be very useful for students with disabilities and for students who may forget their texts at home on the day of a big test or when an important assignment is due. Each semester, we distribute 41,000 texts. The other 48,000 texts in our inventory are available for students to check out for review, for help in preparing papers and assignments, for looking forward to future classes, and for reference.

Faculty members like our rental system for most of the same reasons that students do. They appreciate the savings it offers to students. They know everyone in their classes will have the textbooks for the class. They can make assignments from and recommend texts that are used in other classes. Though faculty members do not support the rental system as uncritically as students, they are basically satisfied.

Our most recent faculty survey, conducted in Spring Semester 2000, indicated a medium to high level of faculty satisfaction with our rental service. We sent 337 surveys to teaching faculty; 77 completed surveys were returned. In response to the survey question, "Are you satisfied with our textbook ordering policies,?" 48 (62%) indicated that they were very satisfied, 24 (31%) indicated that they were satisfied, 0 (0%) indicated that they were dissatisfied, 0 (0%) indicated that they were very dissatisfied and 5 (7%) did not respond to the question. In response to the question, "Is our textbook collection adequate for the classes you teach,?" 42 (55%) indicated that the collection is very adequate, 35 (45%) indicated that the collection is adequate, 0 (0%) indicated that collection is inadequate and 0 (0%) did not respond to this question.

In the section of the faculty survey reserved for written comments, 14 faculty members wrote, "The rental system is great, keep up the good work.," or words to that effect. 6 faculty members wrote that they would like us to purchase new texts instead of used texts. 2 faculty members wrote indicated that they would like students to purchase texts instead of renting them. In our 1997 faculty survey, one faculty member wrote, "(I) should be able to change books as (often as) necessary and (have) as many (titles) as necessary for each course." Another wrote, "Too many used books are purchased, we lose out on extra perks from publishers." Another faculty member wrote, "Too many books are in poor condition.," and another wrote, "Discard books that are in worn condition or written in."

In a letter to the Faculty Senate, dated 10/29/99, a faculty member wrote, "Faculty need greater flexibility in adapting to an ever changing world of information in their respective fields. Students who leave this institution need to have established a library to which they can refer as a foundation in their field It's time we join the rest of the academic institutions in the state and nation which have university bookstores'"

The letter and the survey comments effectively summarize the main problems and concerns that a relatively small number of the teaching faculty have with our textbook rental system. We have sought to address these concerns, but we have not always been successful. To be financially viable, we have established a minimum two year use period for textbooks, we occasionally have to limit the number of titles that we can supply for a class, and our textbooks become worn, marked and highlighted when they have been used repeatedly. I do think, though, that we offer a very good opportunity for students to develop a personal and professional library.

In 1995, a subcommittee of the Faculty Senate evaluated all campus student support services in terms of their importance to the mission of the University, their contribution to student academic success, and their effectiveness in providing service to students and faculty. Textbook Services was ranked number one among all student support service departments. In their report to the Chancellor the committee wrote: "This program is a model of efficiency and effectiveness because of: 1. Its high level of service. 2. It uses survey data to improve and refine services. 3. It is oriented to serve students as cost-effectively as possible. 4. It is highly efficient in getting texts, distributing texts, and retrieving texts. 5. It operates at a very reasonable cost. 6. It maintains a clear focus and single function."

Is the rental system feasible for other Universities who currently have book purchase systems? Possibly, but there are several hurdles to overcome.

A textbook rental system is very expensive to establish and there is very little financial return on investment. With most Universities struggling to make do with static or reduced revenues from taxes, they do not have the revenue necessary, without taking money from other University programs, to make the initial, large textbook purchases that are necessary in order to establish a textbook rental system .

Once the program is in place, it is self supporting and may even be able to generate some revenue for other University programs. At the University of Wisconsin–River Falls, our textbook rental program currently provides $10,000 per year in revenue to the University Library and $19,000 per year in revenue to other University programs. Admittedly, this is a small amount when compared with typical revenues that the University collects from a textbook purchase system.

In order to reduce the financial impact to their other programs, Universities seeking to establish a rental system may want to phase it in gradually, beginning with Freshman and Sophomore level classes, as texts for these classes are generally less expensive.

The University administration must be willing to give up a significant source of revenue. Whether the University owns the Bookstore or leases it to an independent company, a portion of textbook sales on most University campuses makes its way into the University's general revenues and is used to help cover the cost of University programs.

The program must have strong support from the teaching faculty. In order for the textbook rental system to be financially viable, professors must agree to use a text for at least two years from the date of its adoption. Though exceptions may be made in areas where information changes rapidly and where a new or different professor begins teaching the class, the textbook rental system is less flexible, less forgiving, than book purchase systems, where, in many cases, the text may be changed each semester if desired.

In order to avoid getting stuck with a bad text, professors must be willing to devote time and research into the selection of a text and new professors may need to seek help from their older colleagues and from their department chairs. The result of more time spent in the selection process and better coordination among department members can pay real dividends, however, in the selection of a better text that is better integrated into the broad selection of courses that the department offers.

Student support is also critical, though much more easily achieved. Students are very concerned about the rising cost of textbooks and, judging from the many comments and requests for information about our rental service that I receive from students, from all over the country each year, they are looking for a means to help reduce the percentage of their college expenses that they spend on textbooks.

Students are justified in their concern about textbook prices. Textbook prices have been rising rapidly. Some of our commonly used texts have a retail price of over $120 per copy. The recent years of very low inflation rates, nationally, do not seem to have affected the rate at which textbook prices are rising.

Many times the same textbooks we are using are for sale in college bookstores in England, Europe and Asia for much lower prices. The introductory calculus text that we use on our campus retails for $130 in the United States; its' retail price in England is $75.

Students think that the rapid production of new editions, especially of texts that are used in entry level and lower level classes, is designed to inhibit the sale of used textbooks and keep textbook prices high. There does seem to be some justification for this belief. Rapid edition changes in lower level classes, where enrollment is high, but where information generally does not change as rapidly, far outpace edition changes in higher level classes, where enrollment is low, but information generally changes more rapidly. When publishers representatives come to visit they never ask me what text is being used in Advanced Organic Chemistry, but they are very interested to know what text is being used in General Chemistry I.

Textbook Services is considered an asset by many other universities, faculty and students. I think the recommendations of the UW System audit reflect this. As Textbook Services Manager, I respond to frequent requests for information about Textbook Services from universities, faculty and students, all across the nation. Other universities are actively looking for a way to solve their significant problems with textbook purchase systems, and they are looking for innovative ways to deal with the rapidly increasing cost of a college education.

I wish I could say that we were very innovative in establishing a textbook rental system at The University of Wisconsin–River Falls, but in fact we have always had a textbook rental system here. That decision was made long ago before any of our current faculty, staff and administration had begun their service to the University. However, it is to the great credit of the current University faculty and administration that they have continued to support Textbook Services when it is now and has always been clear that a textbook purchase system would bring in more revenue for the University. This support, I believe, begins with a very sincere respect for student opinion, and a sincere concern for their academic and financial welfare.

Chairman MCKEON. Thank you very much.

That's intriguing. I don't know if I understand exactly how it works. Say you have 2,000 students signed up in the school for Economics 101. Do you buy 2,000 texts and then rent them out?

Mr. MONROE. Yes.

Chairman MCKEON. Say the cost of the book is $80, you rent out for $59. How can you afford to do that?

Mr. MONROE. Well, we require that a text be used at least two years.

Chairman MCKEON. Okay.

Mr. MONROE. Some texts are used longer than that.

Chairman MCKEON. Okay.

Mr. MONROE. It just depends. It's completely up to the professor. And after that two-year period has passed, the professor can replace a text or not replace it, as he or she sees fit.

Chairman MCKEON. So it is a revenue generator then and cheaper for the students.

Mr. MONROE. Well, it's not a revenue generator, no. But in our particular case—

Chairman MCKEON. But it's not a loss.

Mr. MONROE. No. Once it has been established, it does generate some revenue for the university, which can be applied to other programs. In our case. Last year, we generated about $29,000 in revenue for the library and for other university programs.

And I should mention, also, that the $59 that we charge, is not per textbook. That's for all textbooks.

Chairman MCKEON. I understand.

Mr. MONROE. Okay.

Chairman MCKEON. I understand it. But I just couldn't see—I understand it, and if you use the textbook for five years it's even better.

Mr. MONROE. Yes.

Chairman MCKEON. Because you're only buying it once, and you use it for five years.

Mr. MONROE. Yes.

Chairman MCKEON. And the student has to keep it in certain shape before they turn it back in.

Mr. MONROE. Well, we repair books to the maximum extent possible. But I guess we do depend upon our students to do that.

Chairman MCKEON. Mr. Isley, in the four examples, if the professor picked the first one, the more expensive version, that's the one the students have to buy.

Mr. ISLEY. It's the one that the bookseller would most likely stock. And yes, it is the one that students would buy. And that would be at the professor's direction.

Chairman MCKEON. So the choice is not the student's, the choice is made by the—

Mr. ISLEY. Right. Typically, the student—the professor would choose among various offerings. The student choice occurs whether they either by a new book, or as Mark said, they buy used book, or now, we hope, potentially, an electronic.

Chairman MCKEON. Or you can go to University of Wisconsin and rent them.

Mr. ISLEY. Or go rent them. Yes, in that setting, sure.

Chairman MCKEON. I understand the wide, wide divergence there. How do you answer the question about the calculus book that—How much has calculus changed over the last five years, 10 years?

Mr. ISLEY. Calculus probably hasn't changed in 200 years. But—

Chairman MCKEON. Or longer, right?

Mr. ISLEY. Pedagogical methods, though, around calculus have changed.

Chairman MCKEON. So—

Mr. ISLEY. The way classrooms are managed has changed.

Chairman MCKEON. How often do they change?

Mr. ISLEY. The way homework is done has changed. There are new technologies, and infrastructures schemes coming out, virtually every year. New versions of—

Chairman MCKEON. So you should have a new textbook every year?

Mr. ISLEY. I'm not saying that. I'm simply saying that the way classroom instruction is done is constantly evolving. And that some universities are out there on the cutting edge with all the latest stuff, and others are not.

Chairman MCKEON. You know, I'm wondering if some of those new methods derived because instructors are bored with the way they taught it last year. Or if, in fact, students will learn better with the new methods, because some of our tests show that were not improving a whole lot. And I don't know if that's—I don't know what the reason is there.

Mr. ISLEY. Yes. And I would simply say that again, just like some books fail, some teaching methods fail, too. But the efforts are to increase productivity. I mean, if you look at a quantitative discipline like math or physics, or something like that, it's all about practice. It's all about—

Chairman MCKEON. How much does U.S. history change?

Mr. ISLEY. U.S. history changes, well, quite a bit.

Chairman MCKEON. Yeah, that's the problem.

[Laughter.]

Chairman MCKEON. The act doesn't change, but the new author changes because of his impression, or because another year has gone by.

Mr. ISLEY. But I—

Chairman MCKEON. This is a very complex problem, and I don't mean—we're not up here attacking anybody. But we just have real concerns.

I have a question, Ms. Fairchild, used the amount $898 a year for textbooks. And you have the figure of $623 a year. I like to hear both of you respond to how you came out with those different numbers.

Mr. ISLEY. Well, the $623 number comes from a company called the Student Monitor LLC, that has been monitoring student lifestyles and spending behavior, and what TV shows they watch, and what they buy. And they have been doing it for years. And they use very consistent methodology. They do long interviews with students. That's their number. It's in the written testimony. It shows that spending on textbooks hasn't really—I mean, has gone up a little bit in the last five years, but not dramatically. And it pretty consistently, about two-thirds of the books are new, and about one-third of the spending is on used books. And students spend more in first semester than they do in second semester. And the reason for that is the two-semester courses start in first semester. So the more expensive books are first semester books, not second.

Chairman MCKEON. Ms. Fairchild.

Ms. FAIRCHILD. Well, the way that we came to that number was simple. We went out and asked students how much they were spending on books. But our number is consistent with other numbers. And of course, there are different numbers out there.

So you could also cite The College Board—they just put out a new report which you mentioned in your opening statements. For this year, they estimate that students, on average, at a four-year school, nationally, will spend an average of $817. They also broke that down regionally, and for the West Coast, showing in California and Oregon, they estimate that the average for books and supplies is $1,039. So our number is right there in the neighborhood of these numbers.

Chairman MCKEON. And that will vary state by state, school by school?

Ms. FAIRCHILD. Sure, and it's different for community colleges. On the West, The College Board estimates that students will spend, this year, $807 on books at a community college. But if you compare that to what they're spending on fees, they're basically spending 44 percent of their total cost on textbooks, according to The College Board.

Mr. ISLEY. May I?

Chairman MCKEON. My time is up. If you can do it very quickly.

Mr. ISLEY. Okay, sure.

The College Board number is not just a books number, it's a books and supplies number.

Ms. FAIRCHILD. Right.

Mr. ISLEY. So supplies are printing ink, and software, and stuff like that, that's not inexpensive. So it is not hard to see how that changes the data.

Chairman MCKEON. Thank you. Mr. Kildee.

Mr. KILDEE. Thank you, Mr. Chairman.

This has been a very good panel, and I appreciate it very much for that, some very good input.

The question of textbook prices really needs to involve—all the parties involved. The schools, at University of Wisconsin, you have a method there, the students and the publishers.

What, if any, is the role of the Federal Government in the question about the price of textbooks? And we will start with you, Merriah, and move down. Okay?

Ms. FAIRCHILD. Great. Well, I suggest three things. One is that we need to invest in alternatives that have proven to significantly cut students costs. So the model that Mr. Monroe is talking about is difficult for some schools that are trying to start that up now. You know, River Falls was lucky. They had it started when they first started the school. Most schools are not that fortunate, and they need help with the start-up costs.

As the Chairman described, to buy all of those books, you're not going to make all of the money back in the first semester. So I think it would be very helpful if Congress could allocate funds for schools to acquire those start up costs—to offset the startup costs. That would help to lower the, you know, costs for an entire student body.

He's talking about $59 a semester, that's a little over $100 a year. No matter whose numbers you look at, that is a huge savings for students. And that's a great investment.

Secondly, we are very concerned that faculty don't have full disclosure over the price of books. It's great that they have these four different options. But if a faculty member doesn't know how they compare in price, they're going to pick the Lincoln Navigator. Of course, because they are looking at the content.

So we want to make sure that Congress is ensuring the publisher is disclosing that price of faculty. And they say that they do, but, when we talked of faculty, they don't know, or it is very difficult to get. It's not in the materials, the publication materials.

Mr. KILDEE. Could we move—

Ms. FAIRCHILD. Yes.

Mr. KILDEE. We do want to give him a chance.

Mr. FLEISCHAKER. Yes, let me just respond, very briefly.

First, your question is an excellent one. We are not convinced that there is a role, at the moment, specifically, in addressing these issues, whether it is promoting rental programs or otherwise. I would say, though, that we do support H.R. 4243, which would provide a tax credit for the cost of course materials which is not currently in the law. That would be an amendment that is pending.

And also, we don't have a position on the College Access and Opportunity Act. It does contain a provision expanding the allowance for textbooks from $450 to $600, under three campus-based aid programs. So those we feel are appropriate roles for Congress to play. But we do not feel, at this point, anyway, at the very least, it's premature for Congress to try to dictate the way books are distributed. That's our view.

Mr. KILDEE. All right. Mr. Isley.

Mr. ISLEY. Basically, in line with Mr. Fleischaker on this one, the only other thing that I see the Federal Government funding are studies on pedagogy, and educational teaching methods, that if they work, promise to increase productivity. And I think that, sometimes universities are strapped to do it on their own, and the occasional, you know, grant to have somebody figure out how to better teach something, is not a bad spending—is not a bad expenditure.

Mr. KILDEE. Mr. Monroe.

Mr. MONROE. As far as the role of the Federal Government in helping the universities to establish rental systems, I think the Federal Government could have a role in making the system, publicizing the system, to various universities.

Perhaps, giving some sort of aid—financial aid, in some form or another, to help with pilot programs in the states. And to possibly, also help with the cost of establishing programs in the universities across the country. I guess, that's the role that I would see for the Federal Government.

Mr. KILDEE. Thank you, Mr. Chairman. I yield the balance of my time.

Chairman MCKEON. Okay. Mr. Osborne.

Mr. OSBORNE. Thank you, Mr. Chairman. Thank you, members of the panel, for being here.

I would like to address Mr. Isley, I think that you had the four examples. I can understand the hardback, $100, I think you said.

Mr. ISLEY. Yes.

Mr. OSBORNE. But some of the other—what was the next highest?

Mr. ISLEY. The next example was a soft cover version, for a one-semester course that is still pretty full featured, but it did not have access to the premium web site.

Mr. OSBORNE. Yes.

Mr. ISLEY. And it sells for $40.

Mr. OSBORNE. Yes. Well, that kind of caught my attention in that—I would have assume that there is a fairly high mark up here, when you look at the materials that go into that book. And I know—

Mr. ISLEY. Certainly—

Mr. OSBORNE.—I know the author, maybe, gets a percentage. And the publisher has to make some money. But when you look at—you know, I don't know what Bill Clinton's book sells for, its $36 or something like that, and it's 900 pages, hardback. There is something wrong here.

And as the Chairman mentioned, unless you are into revisionist history, you know, the time in which the Pilgrims discovered America or came here first doesn't change.

Now, is there some churning involved, where people revise little bits of books here and there, and interpret history different to keep the thing going? Where in the world are these margins? Because it just looks very exorbitant to me.

Mr. ISLEY. Okay. Let me address that in a couple of ways. Textbooks are produced for very, very limited markets. Successful textbooks can sometimes be defined by selling a thousand copies. I don't think Bill Clinton would be very happy with that. So volume is certainly one driver in costs.

Another driver in costs is that the actual physical print materials aren't really the major part of the costs of the textbook. I would guess, and I am estimating here, that the physical materials in this book probably cost somewhere between three dollars, three and four dollars, probably. The same is true of a car. The physical materials in a car maybe cost $3,000.

The cost of the textbook is in the human capital of intellectual labor that goes into making it. There are lots of moving parts here.

[Interruption to proceedings.]

Mr. OSBORNE. That is okay.

Mr. ISLEY. Should I continue?

Mr. OSBORNE. Yes.

Mr. ISLEY. Okay.

Mr. OSBORNE. We are not gonging you, or anything like that.

Mr. ISLEY. Fair enough.

Mr. OSBORNE. Okay.

Mr. ISLEY. I was going to say, my time was up—earlier.

Mr. OSBORNE. Right.

Mr. ISLEY. There are lots of moving parts in textbooks, and they are the work of a lot of people. And that, in industries where—like the educational industry, like the healthcare industry, where the major costs are in people, those costs are pretty irreducible.

Mr. OSBORNE. Okay, so you have an author, you have a publisher?

Mr. ISLEY. Right. We've got—

Mr. OSBORNE. Who else? Who else?

Mr. ISLEY. We've got reviewers. We've got people writing the supplements. We've got production editors. We've got artists. We've got art researchers. We've got permission staff. We've got production staff. We've got people on the outside who do page makeup. We've got manufacturers. We've got sales, marketing, advertising people.

The publishing industry is not one—and you could check this out by looking at the public results of the public companies—that is enormously profitable.

Mr. OSBORNE. Okay. Thank you, it was very interesting, and very enlightening. But having taught courses in universities, and I feel that there is a pretty good markup there, and students are really paying quite a price. There ought be some way we could figure out to bring the costs down, and I appreciate the thought that the panel has given to this subject.

I yield back, Mr. Chairman.

Chairman MCKEON. Would the gentleman yield to me?

Mr. OSBORNE. Yes, certainly.

Chairman MCKEON. You said, there are some textbooks that have a thousand—

Mr. ISLEY. Yes.

Chairman MCKEON. But that's got to be a very small percentage, I think, of what is—

Mr. ISLEY. Unfortunately—

Chairman MCKEON.—produced.

Mr. ISLEY. Unfortunately, you would be surprised.

Chairman MCKEON. Well, I think that's a real problem then. Because, the vast majority, I think, of the classes are probably very large. You know, English, history—

Mr. ISLEY. Yes, but in any university catalog, you'll find 800 to a thousand different courses.

Chairman MCKEON. So we have a few anthropologists, and a few medieval history, and things like that—

Mr. ISLEY. Yeah.

Chairman MCKEON.—that are good for well-rounded education, but only prepare us to maybe teach anthropology or medieval history. That's where some of these schools have an advantage where they are preparing somebody for the job market, versus just a broad, general education. Anyway, that's—Mr. Kind.

Mr. KIND. Thank you, Mr. Chairman.

Yes, we do have a vote on, so you may have some of us running off to the floor to cast a vote. But don't let the bells scare you. We will probably get another one and a couple of minutes.

But I do appreciate the panel's testimony, today, in a lot of the thoughts that are going into how we can better manage and control the rising costs of higher education for our students. It is such an imperative that we come to grips with this. This is just one aspect of it. But I like the idea, Mr. Isley, that you had, perhaps, some grant money to increase efficiencies in delivering higher education to students too.

And I know that a lot of our Fortune 500 companies are investing in Sig Sigma programs, for instance, to find those cost-efficiencies, and how to deliver a better product. And maybe, the higher education industry needs to go through the same type of transformation process itself.

Ms. Fairchild, getting to some of your testimony on that, with regards to the used book market, and the viability of that option to students, in light of changing editions or updated editions, is that a major impediment to the used book market? Or, are students able to work around that in some fashion?

Ms. FAIRCHILD. Well, we are less concerned with the used book market. And what students are spending. Of course, and we didn't actually know what we were going to find when we did this research. So we didn't ask all of the questions that, in retrospect, I wished we had asked.

Mr. KIND. Yes.

Ms. FAIRCHILD. But one question that I think it is telling, is that we asked students, you know, how many used books were they able to find? And we found that 59 percent of the students surveyed were unable to find even one used book.

So that would just make me think that the used books are being replaced by the new books. And AAP has said, that books, new editions are put on the market, on an average, every three years, as I understand it. And that's what we found in our research as well.

But it's like clockwork. From what I can tell, it is basically,—it is regardless of really any new change in the field, and it is just every few years. From their view, there are too many used books in the market, and they want to get out a new edition, so that, you know, can increase their profits.

They are a business, and I understand that. But it is unfair to students, because there's nothing wrong with those previous editions. They should be able to find them.

And then one other note, just in terms of the cost difference between new and used books. We did find that an average new book costs $102.44, and an average used book costs $64.80. So that is some pretty significant savings that students are missing out on.

Mr. KIND. Okay.

Mr. FLEISCHAKER. May I respond to that, sir?

Mr. KIND. Sure.

Mr. FLEISCHAKER. With all due respect, I think that is a little oversimplified version of the way that used books are sold.

But there have been to—I think, incontrovertible results of the increase in the price of new books. One is an increase in the used book market, because students look for used books in order to avoid buying the new books. And that results in—the stores, obviously, are seeking sources for those used books.

And the second result—

Mr. KIND. Not just used books, but also class notes. I found students anxious to acquire.

Mr. FLEISCHAKER. The second result is a decrease in sell-through. Fewer students buy books, which exacerbates the problem of low runs, frankly, of new books. There are classes in which less than half of the students are buying books. So the problem needs to be addressed, and there ought to be a common interests of all segments of this marketplace in addressing it, because that issue hurts everyone.

Mr. KIND. Mr. Monroe. Let me turn to you, real quickly. And getting back to what Chairman McKeon was getting to in his initial statements, in regards to startup costs of the textbook rental program and that.

Is that significant? Is that coming straight out of the university budget, or is there a different way of financing the start-up costs of the rental program?

Mr. MONROE. Well, there are, I think, as I look at that question there are several strategies that could reduce the cost of starting a textbook rental program.

One is to phase it in gradually, you know, freshman, sophomore classes, first. Another is to have a buy-back at the end of the semester, prior to the rental system being instituted. Have a buy-back, in which the bookstore would buy, just as many of the texts from students as they could.

Another, would be to have a voluntary agreement among faculty, that for the first several years of the rental system, they would keep the textbooks that there presently using. And of course, there are grants available, too. And pilot programs might possibly help with these expenses. But yes, to respond to your question—

Mr. KIND. One last, final question, Mr. Chairman.

Any negative feedback from faculty? I mean the results of your survey were pretty overwhelming. But any concerns expressed?

Mr. MONROE. Yes. There is some negative feedback. There are a few, a small number of faculty members on our camp is who don't like the rental system. They would prefer to change their books more often—their textbooks more often. And some feel that it doesn't help the students to develop a professional library, for instance.

Now, I can understand why they might want to change the books more often, but, I don't agree with the statement that it inhibits students from developing a professional library. I think it does just the opposite. Because we sell very many books every year out of our facility. And most of them are discontinued texts that are no longer being used, that we sell, you know, for 25 cents to several dollars, per copy. And so, our students have a real opportunity to develop a professional library, for the course of their careers there.

Chairman McKEON. It's hard to have it both ways. To say that they are out-of-date, so we need to come up with new ones. And at the same time, you ought to put it in your professional library.

We will take about a 15-minute recess to go vote, and then come might back. We appreciate your patience. Thank you.

[Recess.]

Chairman McKEON. We're going to go back into session. And there may not be anybody coming back. I just heard. If I had known that before, we would have ended the hearing. But I appreciate you waiting. And I'm going to ask a couple more questions, as long as I have the gavel. And in case somebody does come back—let me ask. In student stores, what kind of—you said some of them pay rent, some of them don't. They have different operating overhead.

I come from a retail background, and I know that 25 percent is not enough to make ends meet. If you buy a book for $50 and sell it for—what's 25 percent? The way in retail, we used to say a 50 percent—

Mr. MONROE. It's about $65, yes.

Mr. FLEISCHAKER. It's about $65.

Chairman McKEON. Yes. We used to call it a 50 percent markup, because we would go off of the selling price. So if you bought it for $50, you would sell it for $100.

Mr. FLEISCHAKER. Right.

Chairman McKEON. And then after you paid all of your expenses and everything, if you made 1 or 2 percent, that was pretty good. So I am intrigued as to how you can do that on 25 percent.

Mr. FLEISCHAKER. Well, to the extent that they are a non-profit part of the university, they don't have tax advantages in terms of that issue. They do, they have many student employees that are part-time, and that is one way do it to keep personnel costs down. And—

Chairman McKEON. Do they get rent breaks from the university?

Mr. FLEISCHAKER. You know, it's very hard to say it across-the-board, because some—about a third of college stores are leased, and run by for-profit institutions. And then, you have private stores—

Chairman McKEON. Yes.

Mr. FLEISCHAKER.—that are near the campus creating competition for the college institutional stores.

Chairman McKEON. Yes.

Mr. FLEISCHAKER. Which, also, is another reason that prices have to be kept down. I know that most stores like to return some money to a scholarship fund, or something at the campus. But generally, it's very small, and are trying to be self-sufficient, and not make much of a profit to keep the prices as low as they can.

Chairman McKEON. And that's commendable, and I want to thank them for doing that.

What we're really looking at, and it sounds like we are just ganging up on textbooks. This is just one hearing, and we have held lots, lots of hearings. And we are trying to look at every possible way we can to cut the costs of education, because we have too many young people that are being cut out of the system, right now. And the studies show that by the end of this decade, about 2 million are not going to be able to attend college. And that's just not right. And that's not acceptable in our country.

So we are trying to find every way that we can. And textbooks is one of the things that we're looking at.

I have some concerns about when you have professors, basically, writing the textbooks, and then determining which textbooks are used. I am wondering if there is some conflicts there, there are some things we need to look at.

Mr. ISLEY. Let me address that in one way. There are, again, it is part of the university issue. On individual campuses there will be policies that say that you can't make any money off something that you are assigning to your own students. So that's an individual campus, or sometimes department, or sometimes, frankly, individual policy.

Chairman MCKEON. Okay, as I mentioned before, I am not adverse to profit. So I am not trying to say they should not make money, it's just when you have a captive market—

Mr. ISLEY. I agree—Yes.

Chairman MCKEON. There should be some—

Mr. ISLEY. I also think the captive market explains to some extent why Marc's group doesn't need to have the high margin, because the students are going into the store because the professor is saying, you need this product.

Chairman MCKEON. Yes.

Mr. FLEISCHAKER. I think that is true to the extent, marketing costs are probably less in the college community than they are in many retail environments.

Chairman MCKEON. Right.

I tried to get some information, today, on how other books—President Clinton's book was mentioned. Actually, you can get that a lot cheaper than $36 if you do a—not that I bought it—

[Laughter.]

Chairman MCKEON. But I had looked at the prices in the window.

But I was wondering how publishing, out in the Barnes and Nobles, and you know, the other regular bookstores, how they compare with textbooks. How the publishers, how their costs breakdowns vary compared to—but I couldn't get that information today.

And I don't know, I'm sure we can get it as we go forward. It doesn't really make much difference, it was just kind of curiosity.

I want to thank you all for being here today, and for your patience as we run back and forth to vote. That's just kind of the life that we live with here. But I appreciate your being here. I appreciate your testimony.

And as we go forward in reauthorizing the Higher Education Act, I would hope that you will avail yourselves of more questions that we may have as we move forward, and be involved in the process, because it's a very, very important issue.

And sometimes I think only the people involved in it are the only ones that see it as important. But we do. And again, thank you for your testimony, for your patience, and for the things you have given here today.

If there is no further business, now, this Subcommittee stands adjourned. Thank you.

[Whereupon at 4:22 p.m., the Subcommittee was adjourned.]

[Additional material submitted for the record follows:]

Statement of Thomson Higher Education, Submitted for the Record

IN RESPONSE TO UNFOUNDED ACCUSATIONS LEVELED BY CALPIRG

Methodology of CALPIRG report

In fact the size of the POPULATION relative to the sample is irrelevant, as long as the population is large. The two relevant issues are the size of the sample, and the method of selection. In CALPIRG's case, they say the students were "randomly surveyed" but then say they were chosen as they finished buying their books at the campus bookstore. That is not a "random" sample. They also admit that the faculty were selected based on what books they used in their classes. Thus, they were not randomly selected either.

Jessica M. Utts, Professor of statistics, University of California, Davis.

Facts regarding Stewart's Calculus: Early Transcendentals, alternative texts and media

CALPIRG decided to single out a popular Thomson calculus textbook, Stewart's Calculus: Early Transcendentals, to be the focus of its publicity campaign. Stewart's Calculus enjoys a well-earned reputation for excellence among professors and students alike. Of the five leading texts for the calculus market, Stewart's is the least expensive, and it is not revised more frequently than its competitors. And, almost all of the allegations CALPIRG makes about the book are simply wrong.

Here are some key facts about Stewart's Calculus:

- Students normally use Stewart's Calculus over three semesters, so the price they pay up front provides them with their calculus course materials for that extended time period. This means that the retail price paid by the student in a college bookstore is less than $50 per semester.
- Thomson has always offered a range of choices and options in calculus, including different price points for different versions of Stewart. These include:
  1) If a professor who wishes to choose a 12-chapter, shorter version of the book, but wants all the media that accompanies the text, they can do so; this version, Stewart, Calculus: Single Variable Early Transcendentals, 5e, sells for $81 net.
  2) There is also a 6-chapter multivariable version that sells for $73 net.
  3) If the instructor or student does not want the media, the single variable text is also available without the technology in two volume splits priced at $35.00 net each. No other publisher offers this option
  4) Thomson also offers professors customized versions of the Stewart text that meet their specifications so the student only pays for material that the instructor actually covers in the class.
  5) Since December 2000, Thomson has offered low cost option to our customers for a three-semester calculus text: Swokowski, Calculus: The Classic Edition, which is available for $68.75 net.
  6) International Pricing is a reality of the marketplace.
     - To ensure worldwide access to quality educational materials, publishers set regional prices in the context of local consumers' purchasing power and other social, political and economic conditions.
     - If Thomson did not sell Stewart, Calculus internationally at appropriate regional prices, the price of textbook in the U.S. would be higher because the fixed costs of creating the text would be spread over a smaller number of copies.
- It is also important to note that because many students sell their textbooks back to bookstores for 50% of the price they originally paid, their effective cost can be less than $25 per semester. It is difficult to see how this could be considered a burdensome part of the total cost of a student's education.
- The Stewart revision cycle is four years, not three years as CALPIRG's letter claims. Even though the principles of calculus may not have changed dramatically, its applications change all the time, requiring new teaching methods. New editions are created to provide new pedagogy and improve instructional techniques. Examples and practice questions also must be updated frequently.
- Revisions to the most recent edition of Stewart's Calculus were prepared with extensive input from many faculty around the country who considered it very

important that we maintain the accuracy and approach that has made Stewart a best seller. In addition, faculty wanted new problems, (to prevent students sharing the answers) and they wanted to see more extensive integration of our technology teaching aids. The problems are a key part of the core content in mathematics. They are not peripheral.

- Thomson spent nearly $1 million developing the 5th edition of Stewart's Calculus, which contains literally hundreds of improvements including new examples, new margin notes to clarify explanations, more effective artwork, new references to relevant websites and other sources of supplemental information, and integrated references to interactive learning tools like a CD called Tools for Enriching Calculus. More than 25% of the problems in the book are new and there are five completely new projects. These changes go well beyond what CALPIRG erroneously called "cosmetic."
- When the new edition came out, professors had the option to stay with the old edition for more than a year; some chose to do so, some wanted to change immediately to the new edition to take advantage of the improved integration of technology, new teaching and learning aids for students and professors, and new examples, problems and other updates in the text.
- Electronic versions of textbooks do not cost less than printed textbooks. Only 3% of students have purchased an online textbook (Student Monitor), so publishers need to provide both print and electronic versions when e-books are requested by customers. Hence, the costs of producing a typical e-book are incremental, and simply add to the base costs of publishing the printed book, rather than decreasing those costs.

At Thomson Learning we believe that our textbooks are among the finest in the world, and that our pricing practices are fair and reasonable. That said, we share the concern about rising costs and are working diligently to develop lower-priced and/or digital alternatives. For example, in February the company introduced the Advantage Series, a set of books and electronic versions sold for at least 25 percent below the price of typical hardcover texts, and Digital Discounts, a special limited-time offer on digital versions of leading textbooks. These new products were two years in the making so the CALPIRG press release had no bearing on this offer.

July 28, 2004