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### Comparing the Effects of Official and Price on Circulation Of Newspapers, using China Mainland as an Example

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*Eighteen newspapers price elasticity is greater than one (maximum 4.7), and 54% of variance in circulation decrease can be accounted for by the price increase partly while majority inelasticity (average 0.62). Price mechanism is playing an important role in the newspaper industry though the official makes a strong impact on distribution. The two elements interact on the circulation. The impact of official allotting on provincial, county and government newspapers is stronger than it on national, prefecture and party, societies newspapers. So the paper introduces two new concepts----- Glitch Index and Command Capacity-----to illustrate the phenomena.*

#### **Introduction**

Is the economy in China mainland the command one, the market one or the mixed one? It is in a dilemma. Albarran (1996) figures that China still represents a command economy (p.16). But Samuelson and Nordhaus (1998) point out that all societies are mixed economies, with elements of market and command; China, while still run by the dictatorship of the Communist party, had enjoyed an economic boom in the late 1980s and early 1990s by allowing markets to operate within its borders. There has never been a 100 percent market economy and command one (p.9, p25).

Actually, the market economy has been replacing the command economy since 1980s. Before 1977, playing the market was criminal; the black market existed obviously and fought its way to the legitimacy; and any producer or seller did not hold the right on making a price. The government had controlled everything, including the newsroom founding, newsprint supply and demand, newspaper price and distribution.

But after 1977, Mr. Deng Xiaoping has dramatically turned the tide. He had constantly urged the Mainland China would transform the centrally planned economy to the market economy. Therefore three forms of pricing (market price, guiding price and official fixed price) have replaced the official controlled price that dominated over the newspaper. Later the free price has become a dominant hue in agriculture, manufacture and retail. The economic freedom has stimulated the domestic market to compete; it flourishes like the green bay tree.

Even as a report from World Bank said that China has been reforming its price system in small incremental steps since 1979. By the early 1990s, this process had reached a fairly advanced stage. Nearly 70% of all consumer goods have been deregulated and price controls have been lifted from all but 111 intermediary goods. The expanding role of the market has had a pervasive influence on decision-making. Having achieved macroeconomic stability and restored growth momentum following the crisis of 1988/89, China began another round of price adjustments in the late 1990s (Yusuf, 1993). By 1999, the pricing of more than 95% goods and service, including all newspapers and other periods, are regulated through the relations between the supply and demand on market.

Now the majority of market decisions throughout the nation are made in the marketplace, but a tiny minority by the government. Laughably (if you attended the 5<sup>th</sup> World Media economics Conference, the laugh my words arose perhaps is strongly impressed on your memory.) the tiny minorities include the mass media because it is the Communist Party's mouthpiece, which has been insisted on by the official. State owns and runs all mass media enterprises throughout the country, and forbid the private to invest in it. So the government does still play a crucial important role in the mass media. It is said that the mass media in China mainland is one of a very few of industries in which the command economy is dominating market rather than price mechanism. It is also reported that China has been lacking in the freedom of press.

The economic freedom and the command chain of level-to-level administration have complicated the niche in which all mass media, including newspapers, have been circulating. Advertising, distribution and retail turn to more and more open. They are activating newspapers to innovate and compete for its survival and profit-maximization. The newspaper market is more and more active especially since China joined the World Trade Organization in 2001; several price wars happened, and then have been checked soon (for further details, please read the commentary about China, drafted by the paper author, in *World Press Trends 2003*).

The problems cited above have lead to a number of questions for China press. Does the price mechanism malfunction wholly or partly? Does a circulation of one newspaper depend on the official order (planning command) wholly or partly? If wholly or on a large scale, command economy. If in part, mixed economy. If a mixed economy, how do the price mechanism and official allotment work on the size of circulation? Is the effect of price mechanism stronger than the effect of official command or just reversely?

The purpose of this paper is to examine three-year changes on prices and circulations of newspapers, shows some characteristics in China Mainland newspaper industry that could picture the command economy or the mixed economy. Thereupon, is the demand for newspapers inelasticity or elasticity? If inelasticity, what does it imply? If the elasticity, what does it imply? And if the elasticity and inelasticity do coexist, what does it imply? And on the other hand, is the price elasticity of demand in China newspaper industry different from the newspapers in U.S. and the rest of the world? No study on the price elasticity of demand for newspapers we are aware of has been done in China mainland.

But a few studies in consumer behavior have shown that industry wide demand for newspaper circulation has been inelasticity during the past three decades and is becoming more inelasticity as local newspaper monopolies increase (Picard, 1998, p.117; Bush, 2002; Kaiser, 2002; Dewenter, 2003). And a study from Jeff Clark also shows that in 239 cases of price increases from 202 daily newspapers picked in a random sample, circulation continued to climb in 142 instances (59.4% of the total). These took place over a ten-year period, 1965 to 1974. However, the results were not the same in all circulation categories. His study indicates that the larger the circulation, the greater the likelihood that circulation will decrease if the price is raised (Compaine, 1980, p.32). A study on Swedish newspapers shows the same result that during a recession in 1990s, subscription prices for the newspapers rose on average by 22% nominally and 6% in real terms, while average circulation fell only by 1.5%, and the price sensitivity was indeed low (Asplund, 1999).

Supposing the values of the price elasticity of demands for newspapers, in China mainland and the rest of the world, are one and the same inelasticity, we could not infer that the price mechanism plays the same roles in different systems that are all named as the mixed economies, because the mixed economy is a great different concept around the world.

### **Data Sources and Market Segments**

The data used by the paper are from the *China Journalism Yearbooks*. The four volumes (from 1985 to 1988) have uncommonly made the authorized data list of circulation and price of all newspapers that are commercial, periodically published papers, from the State Press and Publication Administration under the State Council.

Actually, there have been not flat list prices in newspaper industry in China mainland after the beginning of reform. The price of each newspaper was an indirectly administered price, for example, in 1989, maximum retail price at RMB 0.15 yuan for the broadsheets and tabloids, minimum RMB 0.03 for the broadsheets and RMB 0.02 for the tabloids, majority of newspapers prices at RMB 0.04~0.09, but in furthering detail, more than one hundred newspapers rate at RMB 0.09 and more than eighty at RMB 0.05 or 0.06 respectively. The price of every newspaper is free, but some price-cutters, some price-fixers, some asking prices, some intervention prices, some keen prices. The diversity of pricing exists in China mainland.

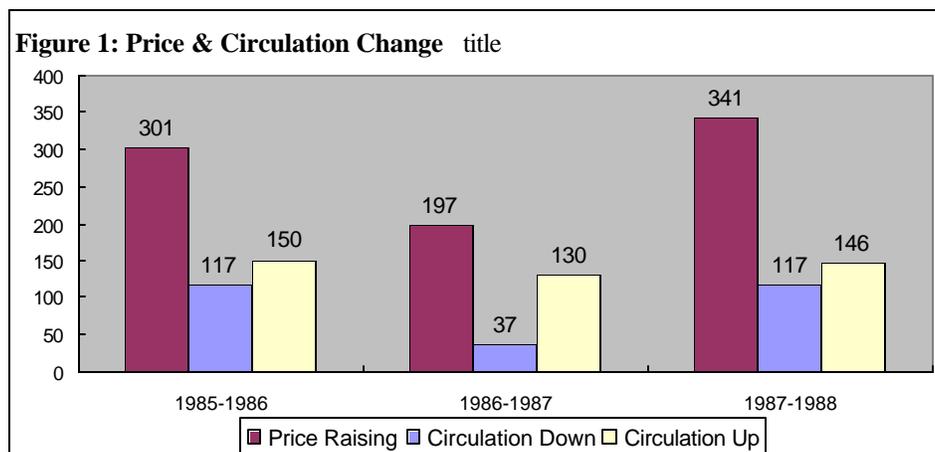
In China mainland newspaper industry, more than 300 newspapers came into being following Deng Xiaoping's policy changes of 1977. It has broken the monopoly of the newspapers of Communist Party of China. Now the newspaper market has been segmented by the administrative powers. There are four levels (national, provincial, prefectural and county) and three fields (the Communist Party of China, government and society). The comprehensive newspapers are the mouthpieces for the all-levels committee of Communist Party of China (CPC), including *People's Daily*, *Beijing Daily*, *Nanfang Daily* and others. The newspapers for special readers, such as children, young or women, workers, are the mouthpieces serving for the societies, for examples, the *China Youth Daily* for the Communist Youth League of China, *Workers' Daily* for the National Labor Union of China and so forth, which are quasi-official. The newspapers for special fields, such as education, finance and agriculture, are the organs of departments under the State Council (cabinet) and provincial governments, such as *China Education Daily* for the Ministry of Education, *China Business Post* for the Ministry of Finance, and *Science & Technology Daily* for the Ministry of Science and Technology and others (for furthering detail, please read the commentary drafted by the paper author in *World*

*Press Trends 2002*, and Chen's paper for the 5<sup>th</sup> World Media Economics Conference.). So following analysis is in line with the segments.

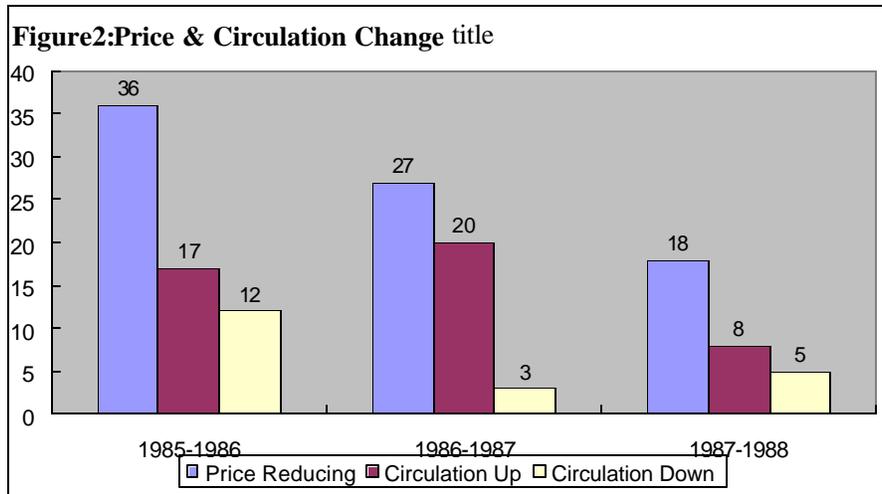
### Analysis and Results

The Figure 1 and the Figure 2 below show two sharp pictures. First, raising price is a dominant trend, not reduction. The number of newspapers raising its prices is 8, more than 7, and nearly 19 times more than the titles reducing its prices in 1986, 1987 and 1988, respectively. Second, enlarging circulation of newspapers is also dominant. The number of newspapers which circulation increased while its prices had raised is 8.8, 6.5, and 18 times more than the titles which circulation enlarged by reducing price in 1986, 1987 and 1988, respectively.

Some of the phenomena in the Figure 1 in the next page do look strange. The price increase for the majority of the newspapers does not lead the decrease of its circulation, but the circulation of the majority of the newspapers also increase while its subscription prices up. It is obviously that contradicts the principles of the price mechanism. But the phenomenon in Figure 2 shows some familiar sight that it does accord with the principles of the price mechanism. The prices reduction for majority of the newspapers does lead the increase of its circulation. Consequently, the inconsistencies imply that the newspaper industry does circulate by special mechanism though the economy in China mainland is recognized as a mixed economy, perhaps in which the characteristic element is still the traditional centrally planned economy. In the circumstances, how does the official promote the newspapers? How much does the circulation-enlarged benefit from the official allotment? And how to measure the weight of the command economy in China mainland newspaper industry?



As can be seen on the previous figures, to curb inflation, the government did so strictly control prices that the number of newspapers price increased was only nearly one fifth, one tenth and one eighth of the total newspapers, in 1985 to 1986, 1986 to 1987, and 1987 to 1988, respectively. During the period, the emergence of hyperinflation in mid-1980s deeply eroded social stability, and caused so serious damage to newspaper industry in China mainland that more and more newspapers raised its subscription prices.



For well and truly describing the phenomena mentioned above, two new concepts are introduced herein. First one is the Glitch Index which, same as the formula for computing the elasticity, is the percentage changes in quantity divided by the percentage change in price, its result is positive number but the elasticity is a negative number. It is important that its meaning differentiates with the price elasticity of demand. The elasticity corresponds to the price mechanism in the well-balanced markets---an increase price for something leads a decrease in quantity or inversely; but the Glitch Index, picturing the market failure caused by the official or others in the abnormal markets, is one of indicators that illustrate the command economies or mixed economies. Second one is the Command Capacity, which sums the absolute value of the elasticity and glitch index. It illustrates the degree of the political or/and economical power obtrusions in the market.

The theory of economics tells us that the lower the price elasticity of demand is, the more loyal the readers of newspaper are. As the definition above, the higher the glitch index is, the stronger the official allotting is. Supposing the both factors, as the most important elements, determine the circulation of newspapers in the command economies or the mixed economies developed from command economies. But in the mixed economies developed from the free market economies, the higher the glitch index, and the stronger the company concentration.

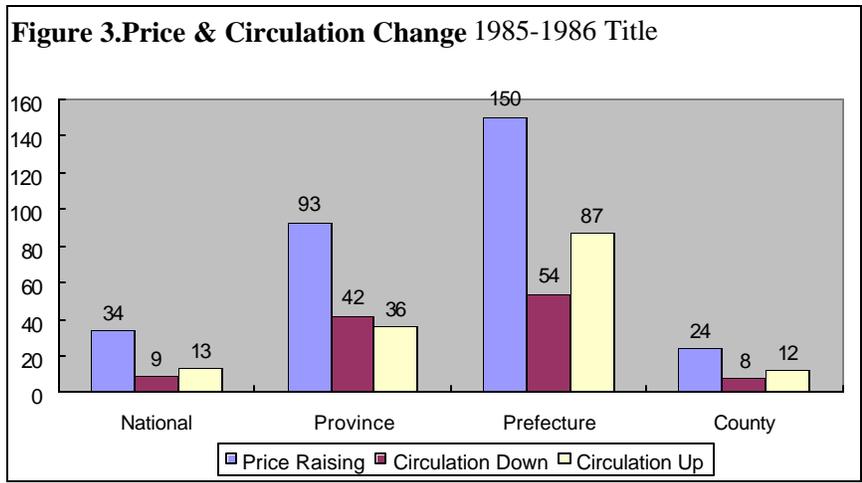
The work which is being done now is designed to find how the effects of official allotment and price mechanism on newspapers circulation in four vertical and three horizontal segments, respectively. First comparing the horizontal, then the vertical, finally the price elasticity and the glitch index.

### ***Comparison amongst the Four Levels***

In China mainland, the social system is a very different country from the rest of the world. First, that the rural residents have been isolated from the city persons is a feudal relic. Second, the current vertical rule system plotting out four levels is another one. Rose's umbrella competition in newspaper industry is impossibly applied to China newspaper market. So the paper analysis is in fully line with its administrative system at all levels. Now, there are five levels (national, province, prefecture, county and small town), but authorities at small town level have been prohibited to publish any newspapers and other periods.

The Figure 3, and the Figure 4 in the next page all show that an increase in price for 148 or 147 newspapers, equal to 49% and 43% of total titles which prices rose, did not lead a decrease in

demand for newspapers at three or two levels, in 1985 to 1986, and 1986 to 1987, respectively. It is also obvious that the number of newspapers which circulation increased after subscription prices had been raised, is more than the titles which circulation down at prefectural level, and quite other at provincial level.

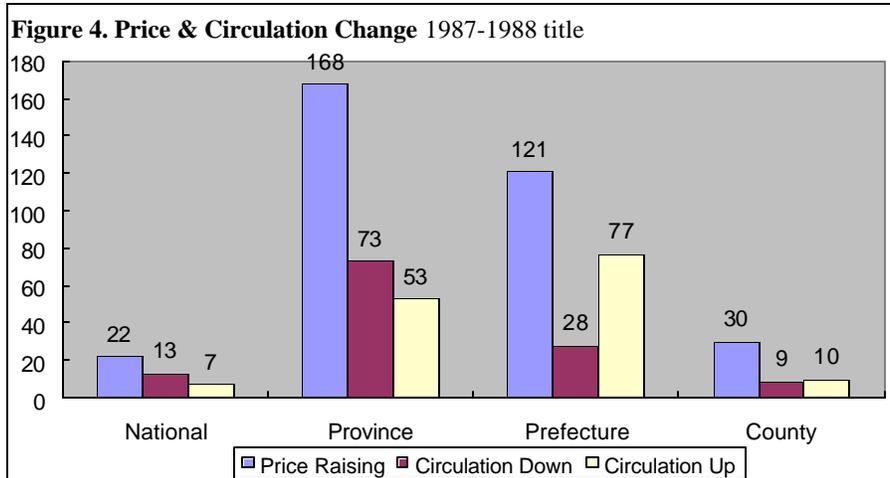


Further more, in the Figure 3, the number which circulation increased when price had been raised is 1.6 times more than the titles which circulation down at prefectural level, and at county-level 1.5 times, at national level 1.4 times, but at provincial level inversely. It reveals that the official allotting in newspapers distribution at prefecture level is the strongest amongst the four administrative levels around the country, then stronger at county level and national level. It is the weakest that the powers have proportioned the newspapers to audiences at provincial level.

There were 2,342 newspapers in 1986, which had reached a great peak (2,282 in last year, later year down to 2,059) since 1949 when Communist Party of China has become the monarch in China mainland, and around 13% of total newspapers increased its price. Hereinto, of the 301 newspapers, 6% of total national newspapers, 44% of total prefectural newspapers, 12% of total provincial newspapers, and 30% of total county newspapers increased its price (residual 541 are campus and enterprise newspapers, majority are free.).

Coincidentally, the Figure 4 shows the same that the titles of newspapers which circulation increased after subscription prices had been raised is more than the titles which circulation down at prefectural level. The former is 2.8 times more than the later. And at county-level 1.1 times, but at provincial level still inversely.

The figure also shows some differences from the Figure 3. First, it depicts that the official power forced newspapers circulation to increase in 1987 to 1988 is distinctly stronger in 1985 to 1986 at prefectural level, and the strongest among the four levels, however. Second, titles which prices increase did lead a decrease on circulation is more than the newspapers which circulation expanded at national level, the former is 1.9 times more than the later, but last year the later 1.4 times the former. And finally, at provincial level, the ratio of newspapers circulation reduced to ones' circulation increased is from 1.2 in 1985 to 1986 upward to 1.4 in 1987 to 1988.

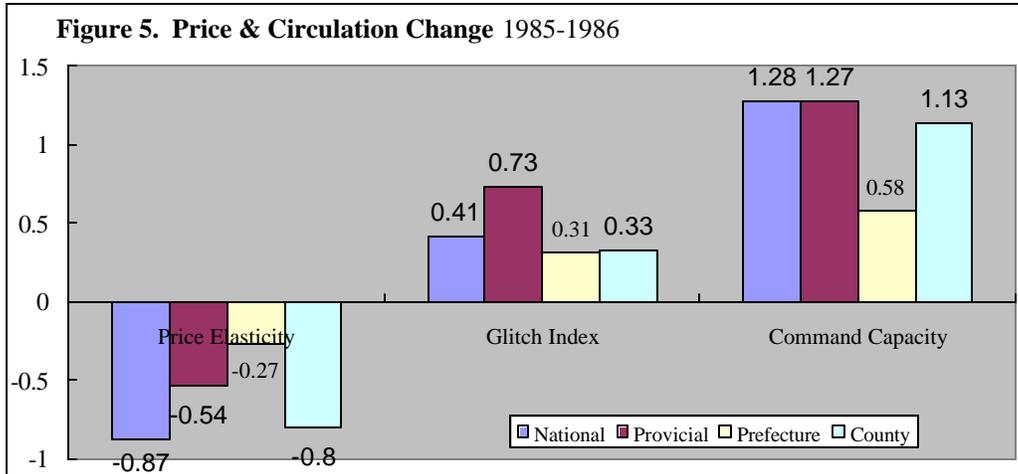


So the Figure 3 and the Figure 4 maybe finely image transitional effects, which are made by decentralizing under Deng Xiaoping's administration. The organs of state power at prefectural level have become the substantive governments from the agencies of the provincial authorities around the country. Now the majority of the agencies have been renamed to the city governments. And there is only one newspaper at every midsize city, which is also the mouthpiece of the city committee of Communist Party of China.

At prefectural level, there were 141 daily newspapers in 1988, increased 3 titles than in 1985. For examples, the prices increase for Baoding Daily at the homonymous city near Beijing did lead the decrease in 1985 to 1986 and 1986 to 1987, but rose in 1987 to 1988. Jinan Daily, based at the capital of Shandong province, appreciated three times during the same years, but its circulations always enlarged. How to explain the differences?

The Figure 5 in the next page, on the other hand, could explain something about the intensity of official allotting and price mechanism on distribution for newspapers.

The Figure 5 reveals the differences among the four markets throughout the country. First, though the demand for newspapers at all levels is inelasticity, the elasticity differences reveal markets preference. The absolute value of the elasticity at the national level is largest, and at the county level smaller than the former, the lowest at the prefectural level, which means that the market does prefer the prefectural and the provincial newspapers to the national and the county newspapers. It indicates that the price mechanism plays different functions at different markets. At the national and the county markets, it plays a crucial role; and acts as a most useful second in the provincial newspaper market, but less in the prefectural market.



Second, the glitch index displays that official allotment plays an important role in the newspaper markets. The Figure 5 above shows that the index in the provincial newspaper market is largest at all levels, which means that the amount of newspapers the official forced to subscribe is the most amongst the four levels throughout the country. At the prefectural level, the index is the lowest, which means that official allotment of newspapers is the smallest. Thus it can be seen that the departments under the State Council and provincial governments did apportion the newspapers as its mouthpieces, most actively.

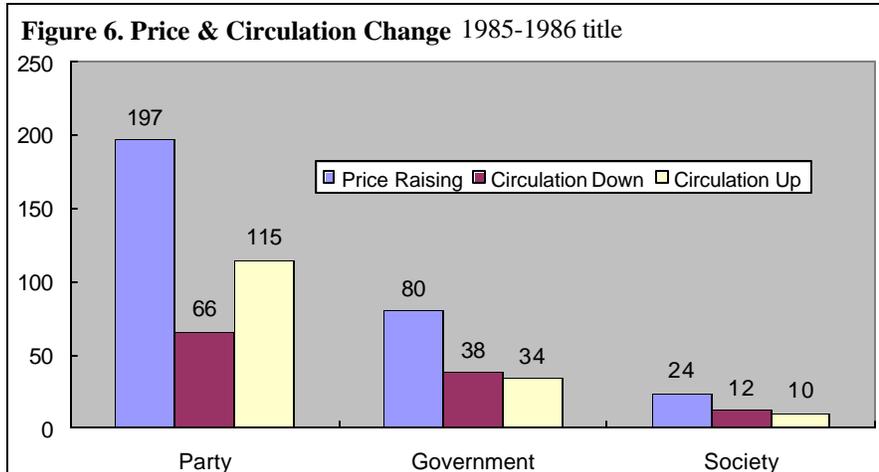
Finally, how many do the amount of newspapers circulation benefit from the official allotment? The Command Capacity can explain it. According to the amount in the Figure 5, the command capacity at national level is largest. Its followers are the provincial newspapers and county newspapers. But at prefectural level, the command capacity is the lowest. Also, the percentage change in quantity of circulation reduction led by price raise plus the percentage change in circulation increase forced by official can illustrate the command capacity. In detail, the official allotting forces the circulation of national newspapers to be increased by 32%, the provincial newspapers by 60%, the prefectural newspapers by 36% and the county newspapers by 43%. Hence it is distinctive that increasing circulation of the provincial newspapers basically depends on how to strengthen the official allotment; but expanding the circulation of the national and prefectural newspapers chiefly depends on how to use the price mechanism.

In a word, the circulation of newspapers at all levels is a result that price mechanism did act with the official allotment.

### ***Comparison amongst the Three Vertical Segments***

The Figure 6 and the Figure 7 below expressly show that the official conducted the most widespread movement for its newspapers distribution, and that official allotting was the most active in the party newspaper market throughout the country. The numbers of newspapers which circulation increase while its prices raised, were 1.7 and 1.8 times more than the titles which prices increase led a decrease in circulation in 1985 to 1986 and 1987 to 1988, respectively.

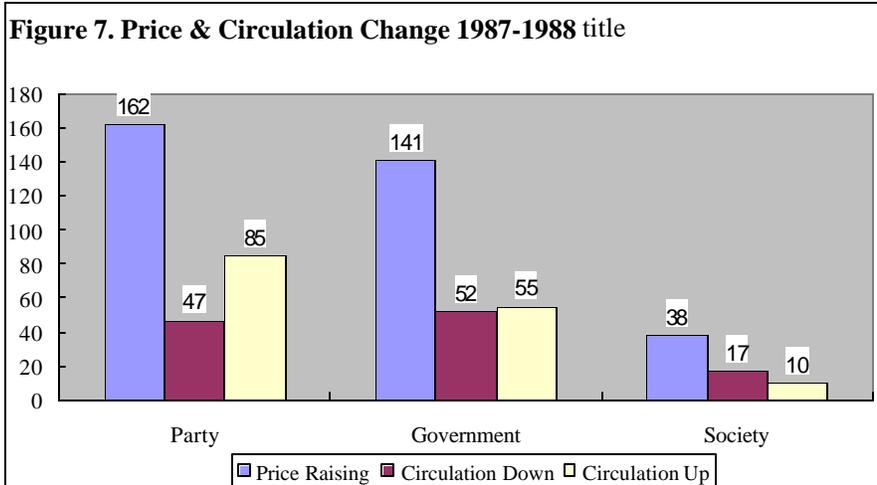
As can be seen on the previous, the official allotment did dominate the party newspaper market. It indicates that the traditional planned economy was a base mechanism for the party newspaper industry. Actually, the propaganda departments of the party at all levels always command schools, departments and mass organizations have to fulfill its orders for the newspapers.



In more detail, at the national and the provincial levels, almost all newspapers prices did stand during the period except 18 titles which function as the sub-mouthpieces. For instance, the People’s Daily, as a leading mouthpiece for the Party, its subscription price kept RMB 0.1 per copy from 1985 to 1988. But unluckily, its circulation decreased by 10%, from 5 millions copies per issue in 1985 down to 4.5 millions in 1988. Its followers are 30 mouthpieces of provincial committee of the Party, such as Beijing Daily, Tianjin Daily and Hebei Daily; its prices had been fixed at RMB 0.05 from 1985 to 1986; and of 14 newspapers circulation decreased while 16 increased.

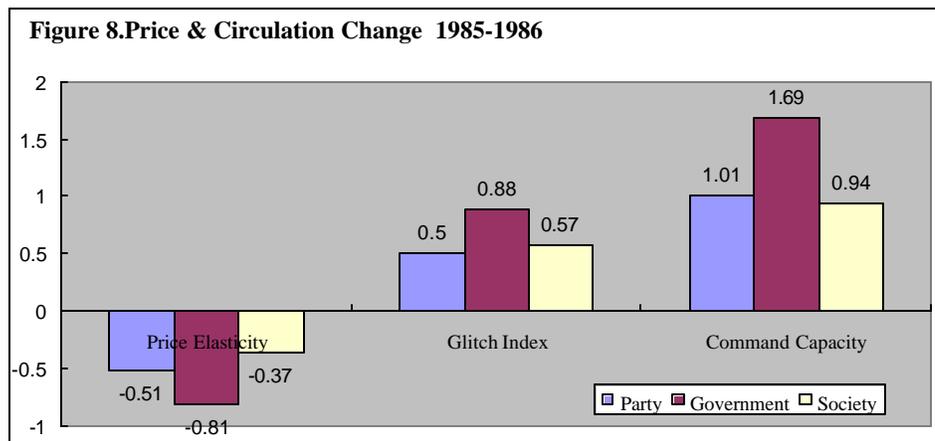
Consequently, all party newspapers in the Figure 6, which prices rose, are mouthpieces at the prefectural and county levels. There are 53 newspapers at prefectural level that its prices increase did lead the decrease in circulation, remainders are the mouthpieces for the county committee of the Party. And as the figure above shows, almost all Party newspapers that prices increase did not impact on its circulation negatively, are mouthpieces at the prefectural and county levels too. There are 90 titles at the prefectural level that while its prices increased its circulation also increased, the rest 12 titles are the county newspapers. So it sharply pictures that the official allotments head the distribution of the Party newspapers at the prefectural level.

The Party newspapers do contrast sharply with others, such as the government and society newspapers. The Figure 6 shows that the number of the government newspapers which prices increased is only equal to 40% of total party ones, and that the number of the government newspapers which prices increase did lead the decrease in its circulation is a bit more than the number of the government ones, which circulation did not effect negatively by the price mechanism. In other words, the negative effect from the price mechanism is tiny more powerful than the positive one from the official allotment in the government newspaper market from 1985 to 1986. Then an inversion happened in 1987 to 1988. The Figure 7 below shows that the number of the government newspapers which prices increase did lead the decrease in its circulation, is a bit less than the number of the government ones which circulation did not effect negatively by the price mechanism.



It is so clear that the impact of official allotment and the effect of the price mechanism on the circulation of the government newspapers are equivalent. But in the society newspaper market, the impact of official allotment is weaker than the effect of price mechanism, clearly. For example, Xinying Beijing Bao, which belongs to Beijing-based two film studios; its subscription price increase by 25%, from RMB 0.04 per copy in 1985 upward to 0.05 in 1986, did lead a decrease by 50% in its circulation from 1985 to 1986. Its price elasticity of demand is minus 2. The price elasticity of demand for Shanghai Literatus News is minus 1.3 in the same period of years.

The figures above clearly show that an extent of effects made by the price mechanism and the official allotment on newspapers distribution or circulation in the nation. But the Figure 8 reveals that a degree of effects made by the price mechanism and the official allotment.



The Figure 8 distinctly displays that the absolute value on the price elasticity of demand for the government newspaper is maximum. The elasticity of the government newspaper is minus 0.81 averagely. It means that circulation drop by 8% for a 10% price raise; but the party newspaper, average elasticity minus 0.51; the society newspaper, average elasticity minus 0.31. It is very clear that the price mechanism effects on the government newspaper are stronger than on the Party and the society newspaper. It means that the government newspaper buyers are more sensitive than the buyers of the party and society newspapers. Also the figure depicts that buyers prefer the society newspapers to the Party newspapers in 1985 to 1986.

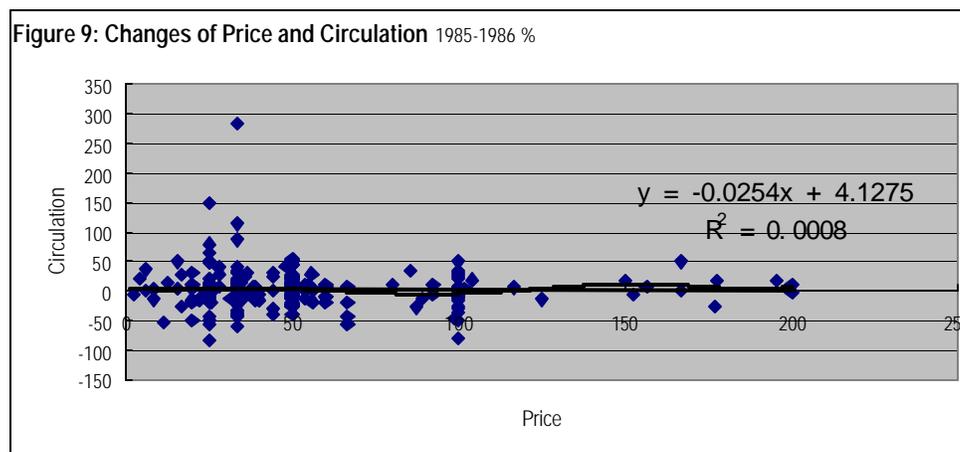
At the same time, the Figure 8 told us that the official allotments do play an important role in the government newspaper market. The glitch index of the government newspapers is 0.88 aggregately. It means that the official forces its circulation to increase by 8.8% while its price also increase by 10%. But the official forces the circulation of the Party newspapers to increase by only 5% and society newspapers to increase by 5.7% while its price increase by 10% too.

The absolute value of the price elasticity for the government newspapers that price increase leads the decrease in its circulation in 1985 to 1986 is the largest; and the glitch index for the government newspapers that the official allotments force its circulation to increase while its prices increase is also the largest. It is visible that the official allotment dominates the government newspaper market rather than the price mechanism. Combining the negative effects of the price mechanism and the positive impacts of official allotments, the command capacity for the government newspapers is the largest, for the party newspapers second and for the society newspapers the weakest.

### ***Comparison the Price Elasticity and the Glitch Index***

The analysis above implies that the newspapers circulation does depend upon the two factors. One is the official allotment, other the price mechanism. In the newspaper market, the price mechanism has been disturbed by the official allotting, and the official allotting mechanism also has been stirred by the price mechanism. How about the mingled results?

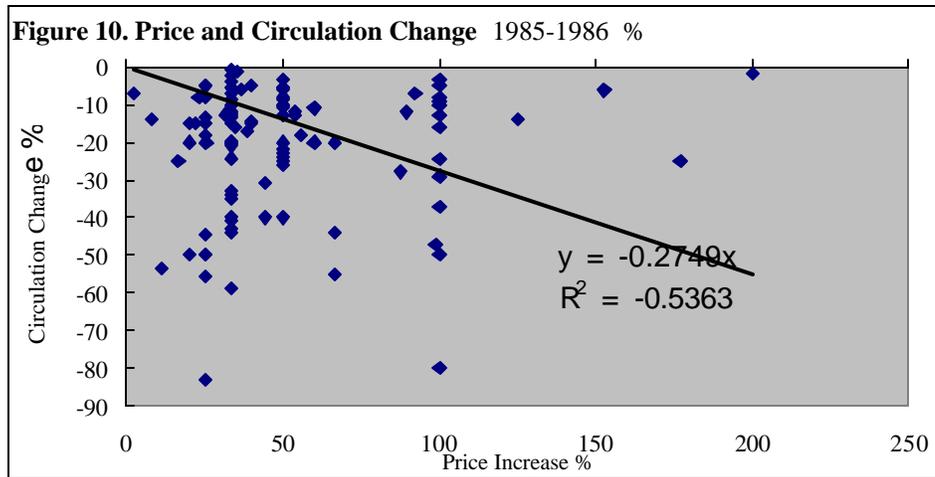
The Figure 9 below does clearly display that the outcome that price mechanism mingled with the official allotting mechanism, and that 0.08% of the difference in circulation change is accounted for by prices changes for newspaper in 1985 to 1986, and it is so positive number that the number of the glitch index is more than the number of the price elasticity, or the official allotting mechanism is stronger than the price mechanism. Clearly, the price mechanism has been limited on the whole, and the official allotment is the dominant.



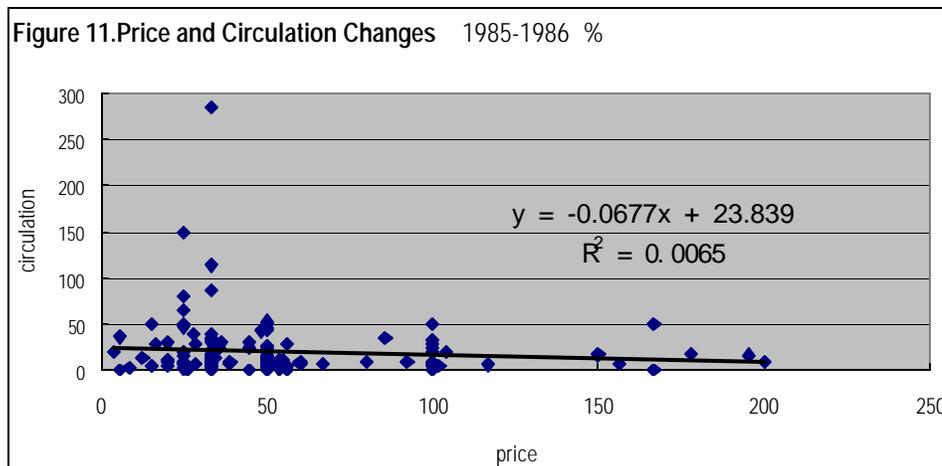
Therefore, partially how much has the price mechanism contributed to, and partially how much the official allotment contributed to? So the coming analysis for the two markets, respectively. One market is ruled by the price mechanism evidently, and other dominated by the official allotting mechanism apparently.

Thereupon, on the market in which price mechanism rules the trade, how much of variance in the circulation reduction, to be precise, can be accounted for by the price mechanism? The Figure 10

below shows that there is a negative relationship between the circulation decrease and the prices increase, and that a 54% of the variance in circulation reduction can be accounted for by the price increase. It suggests that 46% of the difference in circulation reduction is not accounted for by prices increase for newspaper in 1985 to 1986.



Contrasting the Figure 10 and the Figure 11, the numbers of the  $R^2$  sharply show that the price increase affects the circulation of some newspapers negatively, some positively. But the Figure 11 shows that only a 0.65% of the variance in circulation increase can be accounted for by the price increase. It hints that the most majority of the circulation really benefits from the official allotting mechanism.

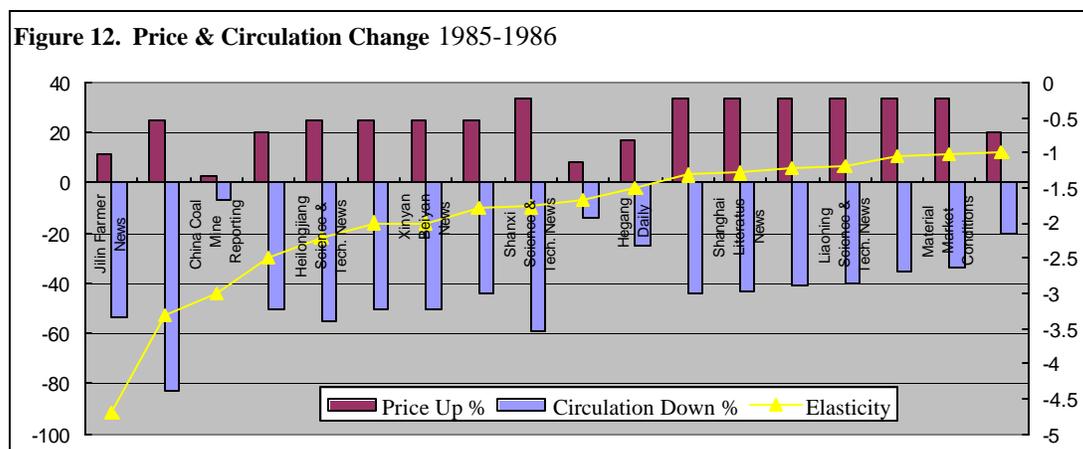


In the disordered market, the analysis above also indicates that the demand for newspapers in China mainland still remains the inelasticity, and that price mechanism has been limited in the mass. Does it hint that the demand for every newspaper is inelasticity?

The answer is no. Though the demand for the majority of the newspapers is inelasticity, the price demands for eighteen newspapers are elasticity in 1985 to 1986.

The elasticities of the eighteen newspapers are displayed in the Figure 12. The elasticity for *Jilin Farmer News*, which is an affiliated one of Jilin Newspapers Group (the mouthpiece of Jilin Province Committee of CPC, in the northeast China), is minus 4.7, which is the largest amongst the eighteen newspapers and only one be targeted for the rural people in Jilin province. Its circulation

dropped by 53.7% for 11.4% price increased. In 1985, it was one of the largest four farmer newspapers throughout the country, and it reached 0.5 millions copies per issue. A price increase from RMB 0.36 to 0.39 for a month in 1985 to 1986 had brought on its circulation down to 0.23 millions copies per issue. It was down to the tenth on the farmer newspaper market, far from the first, Jinan-based *Rural People* (0.58 millions) and the second, Guangzhou-based *Guangdong Farmer News* (0.5 millions). After two years, it did strive against the reduction of circulation, but failed. Though its price did stand, the circulation continuously cut down, from 0.23 millions in 1986 downwards to 0.22 millions in 1987, and then down to 0.17 millions in 1988.



The second which elasticity followed on the heels of the former is also a Jilin-based newspaper, *Weekend Sports News*. Its circulation dropped by 83% for its 25% price increase; actually, its subscription price raised only RMB 0.01 (from 0.04 per copy in 1985 to 0.05 in 1986). So its elasticity is minus 3.3. Its followers are Beijing-based *China Coal Mine Reporting* (the organ of Ministry of Coal Industry), Jilin-based *Huadian News* (county newspaper), Harbin-based *Heilongjiang Science & Technology News* (the organ of Department of Science and Technology, Heilongjiang Province) and so on; its elasticities are  $-3$ ,  $-2.5$ , and  $-2.2$ , respectively.

The newspapers, which elasticities are more than one but fewer than two, are ten titles, including Liaoning-based *Mixed Farming News*, county-newspaper *Tongshan News* (in Jiangsu province, a neighbor of Shanghai), Shanghai-based *Literatus News* and so on; its elasticity is  $-1.78$ ,  $-1.77$ , and  $-1.32$ , respectively.

The circulation of *Mixed Farming News* dropped by 44.4% for a 25% price increase in 1985 to 1986, and then it disappeared after 1987.

The mouthpiece for the local committee of CPC--*Tongshan News's* circulation reduced by 14% for an 8.3% price increase, from forty thousands copies per issue in 1985 downwards to thirty five thousands in 1986, and down to thirty-two thousands in 1987 though its price did fix. But by 1988, its price increased by 75% further more its circulation increased by 65%. It does show a historical reverse that the official allotment had replaced the price mechanism dominating its distribution or circulation after 1988.

The *Literatus News's* circulation decreased by 43% for a 33% price increase in 1985 to 1986, from one hundred and seventy six thousands copies per issue down to one hundred thousands. Its circulation kept the size though its price rose to RMB 0.12 from 0.08 in 1986 to 1987. In 1988, its circulation increased by 20% while it kept the same price. And other four newspapers, Changchun

Daily, Beijing-based Material Information News, Guangxi Qiaobao, and Liaoning Science & Technology News, its elasticities are nearing to one.

### **Discussion**

The paper works the price elasticity of demand out first for China newspapers. The average price elasticity of demand for newspapers in China mainland is less than one though there are eighteen newspapers which demands are elasticity. Partly, the pilot study manifests the newspaper market in the country same as in U.S. and the rest of the world. Newspapers, same as the food, water and clothes, are daily necessities, anywhere, regardless of its cultural approach. But the paper does think first-midst-last that the same results (inelasticity) derive from greater different causes around the world.

It is reportable that the price elasticity of demand does vary strongly from one segment to others with the national newspapers being the most prices sensitive one and the prefectural newspaper the least one; and from one of horizontal markets to others with the government newspapers being the most prices sensitive segment and the society newspapers the least one, and that the inelastic demand accompanied by the elastic demand, and the almost perfectly elastic demand and unitary demand do coexist in China newspaper market.

According to the values of the price elasticity, some newspapers, such as the People's Daily ranked the 22<sup>nd</sup> in the world and the 2<sup>nd</sup> in China mainland in 2003, Beijing Daily and Hubei Daily, etc., are the substitution because it are the perfect elastic demand. Its circulations have decreased continuously though its prices unchanged for many years. Some newspapers, such as the eighteen above, are also the substitution, but different from the type of newspapers with perfect elastic demand. Some newspapers, such as the World Economic Tribune that had been shut down in 1989, Cankao Xiaoxi (Reference News) ranked the 10<sup>th</sup> in the world and the 1<sup>st</sup> in China mainland in 2003, and Nanjing Daily, etc., are the inelastic demand. The great adversity of price elasticity mirrors the diversity of setting for newspapers, the diversity of competition amongst the newspapers, and the diversity of newspaper quality.

As can be seen on the analyses above, one of prominent characteristics of newspaper industry in China mainland is that the official directly meddles the distribution of newspapers. The official allotment makes a strong impact on the circulation of the Communist Party newspapers at the national, the provincial and the prefectural levels or markets; and on the circulation of the government newspapers at the national and the provincial levels. Details by detail, at the prefectural level, the majority of the Party newspapers are distributed by the official command, and the majority of the provincial departments newspapers are also spread by the official order strongly.

The analysis above is a sharply defined image that the command economy and market economy do interact in China newspaper industry. As a rule, the official allotment dominates the market around the country, but the price mechanism plays its role partially. Actually, the two mechanisms work differently at different markets. For instance, the mechanism of the official allotting continuously dominates the prefecture party newspaper markets and the provincial newspaper markets. But the price mechanism does rule the society newspapers distribution at the national and the provincial markets throughout the country.

The analyses above show that the price mechanism has a greater influence upon some newspapers that prices increase leads the decrease in circulation, and in which more than 50% of variance in circulation change can be accounted for by the price mechanism. As press reforming

deeply, the price mechanism is playing the more and more important role in the newspaper market in China mainland. But unhappily, there are 18 newspapers that are elastic demand. It is more fatally that the managers did not perceive the price elasticity and did markup fondly. They become the necrographer for the newspapers that they do manage. As the accredited directors, they never answer for the decrease of circulation of newspapers. It seems a misplay made by the officials if the circulation of a newspaper decreases, and they who are charge of the newspapers would impeach some ones who monitor the content of newspapers.

So some newspapers always call for subsidies more so far by political sake or by playing to the officials, which are used to and have been benefiting from the financial assistance given by the government, and for an agreement price that could deliver them from the price wars, and for stronger and stronger official allotting which could protect them from reader preference.

Luckily today, more and more managers in China newspaper industry do perceive the role of price mechanism. They have innovated upon the business model for newspapers, the model that its basis revenue by advertisements replaced the traditional model that its basis revenue by the distribution of newspapers. In the circumstance, the price wars in China newspaper markets have taken place in the late 1990s. For catering to the readers, more and more newspapers have been rewriting its contents, rebuilding its styles, reconstructing its functions, to weight its trait and its substitutability.

Significantly, an official order issued in last March calls to prohibit the official allotting in newspaper market throughout the country, all must be clear between the newsrooms and the officials and all relationship must be cut off in finance, employee and distribution, but except the all-level Party newspapers.

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