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How the Euro will Affect the Buying Power of American Librarians

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As an introduction, it may be good to discuss the likely effects of the euro on the international monetary system. Usually these effects are described as being of a macroeconomical nature as opposed to the microeconomical cosmos of individuals and companies.

Macroeconomical Aspects

In the discussion of the macroeconomical effect two areas are usually mentioned: (1) currency stability and (2) low inflation. With regard to currency stability there is an internal and an external aspect. The internal aspect is clear; trade between member states of the eurozone will not run the risk of currency fluctuations anymore. On the other hand, it is maintained that a strong currency block of the euro may also prove to have a stabilizing effect on world trade between the eurozone and countries outside the Eurozone.

Turning to the hoped-for effect of low inflation or price stability, this is the main objective of the new European Central Bank (ECB). Recently the ECB has translated the target of price stability into two more operational objectives, namely a money supply target - like the Bundesbank used to have in the past - and a price inflation objective of less than 2%. In order to achieve this objective the ECB has been modeled after the Bundesbank. Much has been done to create the independence of political forces, but recently we have seen that movements in the political arena do not always behave in a constant manner.

Regarding the monetary policy, there is much discussion about the question whether *one* monetary policy will be good for all members of the euro. It has been pointed out that—as a reflection of different financial structures of individual countries—the effect of interest rate changes comes through quicker in some countries than in others. Furthermore, it is undeniable that the eurozone is not one uniform economical area. The southern European economies, for instance, are much more influenced by events in Latin America, than say the Nordic countries. Also, it is common knowledge that the European labor market is much more inflexible than the American labor market. For linguistic or other cultural reasons, Europeans simply do not want to relocate. This difference in economies and economical cycles cannot be addressed through one common monetary policy.

So, although some major benefits can be

expected from a common currency, clearly some dangers are on the horizon.

Microeconomical Aspects

Turning now to the microeconomical effects, it is generally believed that these have the best benefit potential. There are two main areas where benefits arise: (1) savings on transaction and hedging costs and (2) the boost of the European single market.

Estimates have been made of the potential for saving of lower transaction and hedging costs to the tune of 40 billion US dollars per year. It can, however, be questioned whether this saving will automatically accrue to those that previously paid this bill, or whether alternative charges will be invoiced, replacing what was previously charged as transaction and hedging costs.

The boost of the European single market will come from the fact that more companies and consumers will treat the eurozone as a single entity, in spite of differing national tax systems and other regulations. It will thus be easier to compare prices and wages across the eurozone, and consumers will shop where products and services are cheapest. Transparent pricing will increase competition and ultimately result in reallocation of production capacity to the areas where production resources are used most efficiently. Furthermore, it is likely that a more liquid capital market will be created by the introduction of a single currency in the eurozone. Liquidity generally leads to lower risk premiums, thus lowering the cost of capital in the eurozone.

Macro- and Microeconomical Effects on Eurozone Publishing

Now, after these general remarks, I come to the theme of my article. Will these general observations also be relevant for the European publishers and distribution agents of serials?

The large majority of the added value in this industry is manpower related, including work that is outsourced, like printing. This is not different from many other service industries. Since the costs of publishing houses are largely manpower, the general macroeconomical considerations regarding manpower cost developments appear to be very

relevant for these companies. Thus, it is clear that on a macroeconomical scale the benefits of low inflation and currency stability will work their way also to the publishing houses and agents. This could be beneficial to the foreign clients of European publishing houses. On the other hand, an increase in economical growth will create the general feeling of welfare and prosperity among employees, and probably the demand for sharing in this honey pot. This may lead to pressure on the cost of labor.

The anticipated lower financial costs are of little relevance for the publishing houses since traditionally they have a strong cash flow and thus little need for third party financing or equity capital.

For the review of the consequences on a microeconomical level we should possibly spend some time on the cost mix of publishers and agents. A survey of some annual accounts of large publishing houses and some research by financial analysts shows that typically the production costs of publishing houses, including the costs of editorial boards etc., are about 30-40% of turnover. Presumably, some 15-25% of turnover is spent on sales and distribution, and some 10-20% for overhead. The remainder, typically 15-25% of turnover, is the operating result before taxes of a publishing house. From this cost mix it can be concluded that the anticipated microeconomical effect of lower transaction and hedging costs plays a limited role. The only cost area where this appears to be relevant is in the distribution and sales area.

For the information services industry the distribution costs do play a relatively substantial role. In these costs some savings could be expected for transactions within the eurozone. Speaking from my own experience, however, it can be maintained that transaction and hedge costs are only a small part of costs. In regard to sales and distribution outside the eurozone, for instance the US, no such savings can be expected, because currency risks need to be hedged.

This brings us to the second major category of microeconomical effects. To refresh your minds, this is the suggestion that the euro will bring greater market transparency and a higher production efficiency. Whatever may be the effect of the introduction of the euro on the cost categories of the publishers, as a first re-

continued on page 24

The main element that would be advantageous to the US librarian is anticipated lower fluctuations or volatility in exchange rates.

How Euro will affect Buying Power from page 22

mark, I would like you to consider whether publishers' pricing is cost driven, or whether the prices for information services are also determined by added value to the product, or what information services means to the customers.

I would submit that the latter parameter is at least as important as cost developments. The products of the publishing houses show many of the characteristics of a unique product that cannot be automatically reproduced or duplicated by another publisher. Its value, and consequently its price, is determined by the value the underlying information has to the end user, not the cost of producing the information. It would therefore be my suggestion that little downward effect on the prices of serials can be expected from the productivity gains resulting from the introduction of the euro.

In the information services industry, agents like Swets play a role in the resolution of the "many-to-many" problem. In our industry the economies of scale play a large role in the creation of added value. The price paid to the agent is a sort of fair sharing of the savings that the publishers and end user achieve thanks to the administrative efficiency of the agents. It is our belief that, on top of the superior quality of handling serials, thanks to efficient administrative systems, agents should at least be able to create a substantial cost saving for the end

user. It is clear that margins in the information services industry are incomparable to those of the publishing houses. Therefore, in my opinion, in our industry it would be too optimistic to expect significant savings in efficiency realized as a result of the introduction of the euro.

As a side note I would like to draw your attention to the following developments that result in upward pressure on the costs of the information services industry. In the first place

there is the risk of non-payment. In many cases agents also take over these risks for publishers. In today's world these risks have not really decreased.

Furthermore, I would like to highlight that customers of the information services industry show a clear economical interest in full-fledged service rendered by agents. Among others, in the field of databases and archiving, there is an understandable and healthy appetite among our customers to get faster access and more functionality in the search engines they use in their libraries. There is a clear economical logic that the information services industry responds to those requests, and my company, Swets, is committed to respond. We do, however, hope that our customers also appreciate that these requests do require substantial investment and will increase costs.

All in all, it can be said that cost developments for publishing houses operating in the eurozone should be modest in the medium term, provided no substantial additional services are required by the user community.

Development of the Rate of Exchange

So far I have not given attention to the other component determining the bill for European journals delivered to the US: the rate of exchange of the euro against the US dollar. Generally it is felt that the euro will become the world's second international currency. There are some trends that can be mentioned. First,

there is the sheer size of eurozone's share in international trade, that, as a block, will be comparable to the share of the US dollar in international trade. Secondly, partly as a result of the size of the eurozone, it is anticipated that the share of invoices denominated in euro will increase relative to those in US dollars. Thirdly, it is believed that there will be a shift to the euro relative to the US dollar if and when markets and regulating authorities are looking for safe havens and reserve currencies. It is argued, however, that this transition already began some time ago, but is being accelerated now by the euro.

All of the above suggest a strong demand for the euro. This would not be advantageous to the US librarian. The main element that would be advantageous to the US librarian is anticipated lower fluctuations or volatility in exchange rates. If this were to be the case the lower the volatility, then the lower the translation risk. This is the risk that exists if and when companies transact in a currency other than their home or base currency. In the end, the decrease of this translation risk will result in lower risk premium, and thus prices.

Conclusions

We all hope that the introduction of the euro will enhance the strength of the economies in the eurozone. In the end, that is good for the entire world. For the information industry and the information services industry, general macroeconomical trends of low inflation and currency stability will benefit information users in the world.

Regarding microeconomical effects, on the other hand, Swets would not expect to see serious savings in the field of lower transaction and hedging costs. It is questionable whether productivity gains resulting from a reallocation of production resources over the eurozone will play an important role in the determination of prices charged to the end user. Furthermore, the understandable demands for higher service levels will create an upward pressure on costs levels in the industry. And although a strong euro may increase the costs of the US publishers, nonetheless it safely can be said that the introduction of the euro should not have significant effects on the buying power of the US librarian. 🌿

NB: After studying chartered accountancy and tax law, Geert Visscher filled various positions at different companies, such as the Dutch Tax Office, Shell, and Nidera. In the Dutch Tax Office he gained experience in the field of taxation auditing. In Shell he filled positions in the field of retail financial controlling and head office staff functions. In Nidera Geert was responsible for the financial operations. He joined Swets in June 1998.—BC

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