It should be plain from the foregoing that big papers, from a profitability standpoint, are infinitely preferable to little papers in a competitive market. The economies of scale that exist between, say, a paper of 30,000 circulation and a paper of 300,000 circulation are truly dramatic.

But suppose you own *ten* newspapers with 30,000 circulation each: what happens to the economies of scale then? The short answer is, not much. Per-unit costs decline dramatically only when you're producing more and more copies of an identical product. But newspapers in different towns, by their very nature, can't be identical (although some chain owners try hard to make them so.) So how do you explain the existence of newspaper chains? If the economies of scale which apply within a single market *don't* apply over several markets, what's the point of owning lots of newspapers? Wouldn't you make more money by trying to make a single newspaper bigger?

Well, part of the answer is that you can save money by centralizing certain corporate functions. You can save a little money, for instance, by establishing news bureaux that serve all the papers in the chain. But not much – news-gathering costs have already been pooled almost to their economic limits by the existence of the wire services. You can also save some money by centralizing your national advertising sales forces – but again, not much. Most important, a newspaper chain's head office can hire the high-priced managerial talent that few independent newspapers could afford; and since people are by far the most important single asset in the publishing business, this can be a powerful benefit which size confers.

But these advantages are not nearly so significant as the clout which size confers in getting money from other people. Large chains, because they have far more collateral, can borrow more, pay less for it, and refinance more easily, than smaller concerns. It is also easier for them to raise equity capital, by selling shares to the public.

But newspaper groups, like other business enterprises, have a third source of capital: retained earnings, the money they collect as profits but don't pass on to their shareholders as dividends. In terms of explaining the tendency towards ownership concentration, this source of capital is extremely significant.

Under our tax laws, shareholders are taxed only on the earnings they receive as dividends. The remainder, the profits the company keeps in the treasury as retained earnings, aren't taxable until the day they're distributed. The effect is that corporations which keep earning profits build up larger and larger reserves of retained earnings. The shareholders don't mind, because that extra money sitting in the treasury usually means the price of their shares goes up, and the profit they can make by selling them is tax-free. This situation isn't exclusive to the publishing industry, of course. It's a fact of corporate life.

Thus, the typical profitable corporation – and this applies especially to some corporations which publish large newspapers, which are *very* profitable – finds itself with more and more idle money piling up. What to do with it?