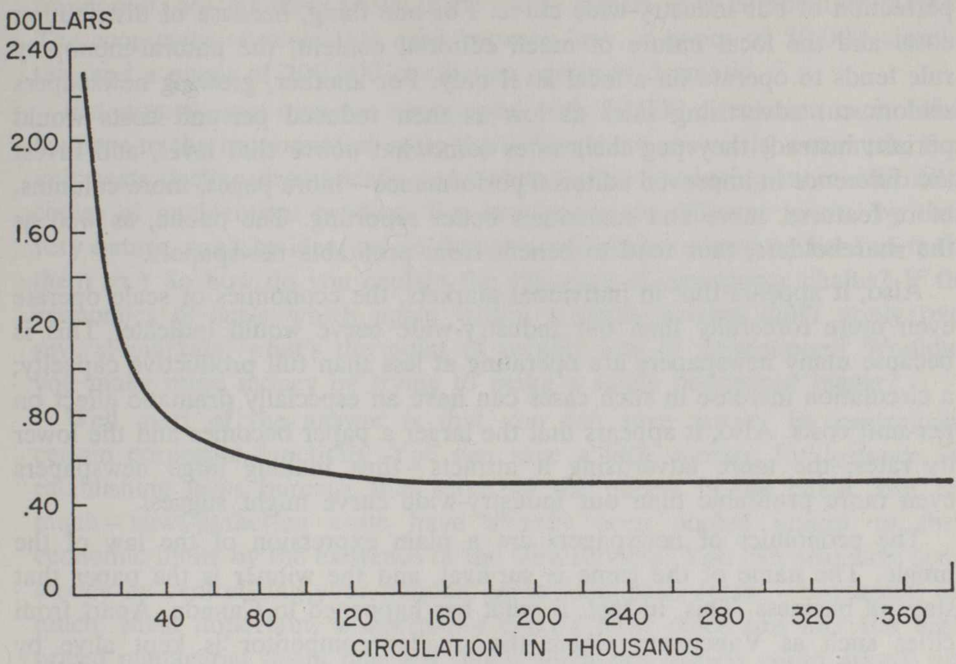
Chart 3. DAILY NEWSPAPERS, 1968 COST PER 1000 COLUMNS/CIRCULATION



Source: Special Survey.

of comparable size and quality, the smaller newspaper must raise 3½ times as much revenue per reader as the larger one.[1]

And since our studies show that large newspapers tend to pass on these massive economies of scale to their advertisers, it also means the larger paper's advertising rates will be about 3½ times lower than its smaller competitor's. In classical economics, a curve like that is the certain signature of a natural monopoly.

Classical economics also tells us that, in natural-monopoly industries where two or more firms are competing, their separate shares of the available market are always unstable. They *can't* sit still. If one competing unit is larger than the other, or even if they're of roughly equal size, they battle for supremacy. One firm may cut advertising rates and buy circulation, thus boosting production and lowering its per-unit costs – and in the process forcing the rival's firm's per-unit costs upward.

The larger one newspaper becomes, the easier it becomes to grow larger still. The bigger one newspaper grows, the slimmer are its smaller rival's chances of survival. Its only hope is to cut production costs – which usually means skimping on editorial quality – and to find advertisers willing to pay two or three times more to reach the kind of readers the smaller newspaper attracts.

[1] Question: If this is true, how come Canada's smallest dailies are among the most profitable? Answer: Most of these small dailies are the only newspapers in their markets. If they were up against larger rivals, they'd be in trouble. But since they're operating local monopolies, they're in clover.