

SHOULD COPYRIGHT BE MANAGED AS AN ECONOMIC POLICY?

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BASIC PHILOSOPHY OF ECONOMICS

ECONOMIC THEORY

THE ROLE OF PRICE

THE ROLE OF POLICY

WHAT POLICY OPTIONS EXIST TO AUGMENT INCENTIVES?

WHICH POLICY MIX ?

EMPIRICAL RESEARCH

BASIC PHILOSOPHY OF ECONOMICS

How can we allocate *scarce* resources (people, natural resources) to maximise economic well-being?

In principal: well-being = all factors affecting happiness

In practice: well-being = goods & services – take social, cultural, political, moral conditions as given.

Little to say about social, cultural, political and moral conditions; their policies & goals

How can society devise rules of behaviour to maximise (material) well-being?

ECONOMIC THEORY

Assumes people's behaviour is systematic and rational – abstracts from other motives for behaviour

Analyses:

- what *is*? (explain)
- what *ought to be* ? (policy)

Unintended consequences of actions, secondary & indirect effects.

Well-being does not consider distribution

THE ROLE OF PRICE

Price = 'invisible hand'

- directs resources to most valued use (incentive role)
- rations *scarce* goods and services (rationing role)

For most goods and services, price performs both *rationing* and *incentive* role.

This does not occur for some creative products

- Once created some creative products are *not scarce* (due to nature or technology)
- No need to ration, price has no role
- BUT still need an *incentive* to create the original

THE ROLE OF POLICY

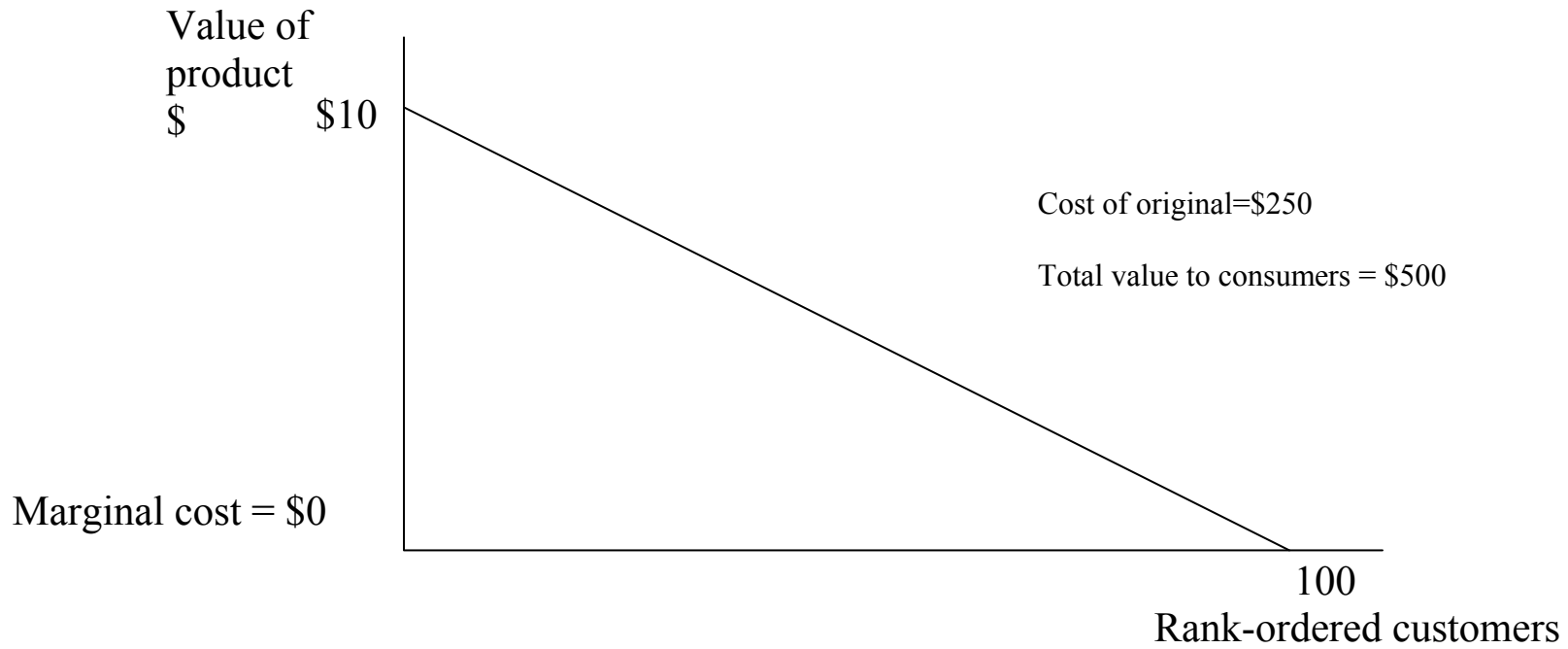
Government can augment the incentive to create

- If copying is perfect & costless expect the incentive to be negligible
- BUT copying often not perfect → incentive still remains
 - hard to transfer ideas,
 - provision has 2 parts, a non-scarce (digital recordings) and scarce part (live concert)
 - lead-time important (books in the US in 1800s)
- Government only needs to augment incentive if production of originals is less than optimal
- This is an empirical issue

WHAT POLICY OPTIONS EXIST TO AUGMENT INCENTIVES?

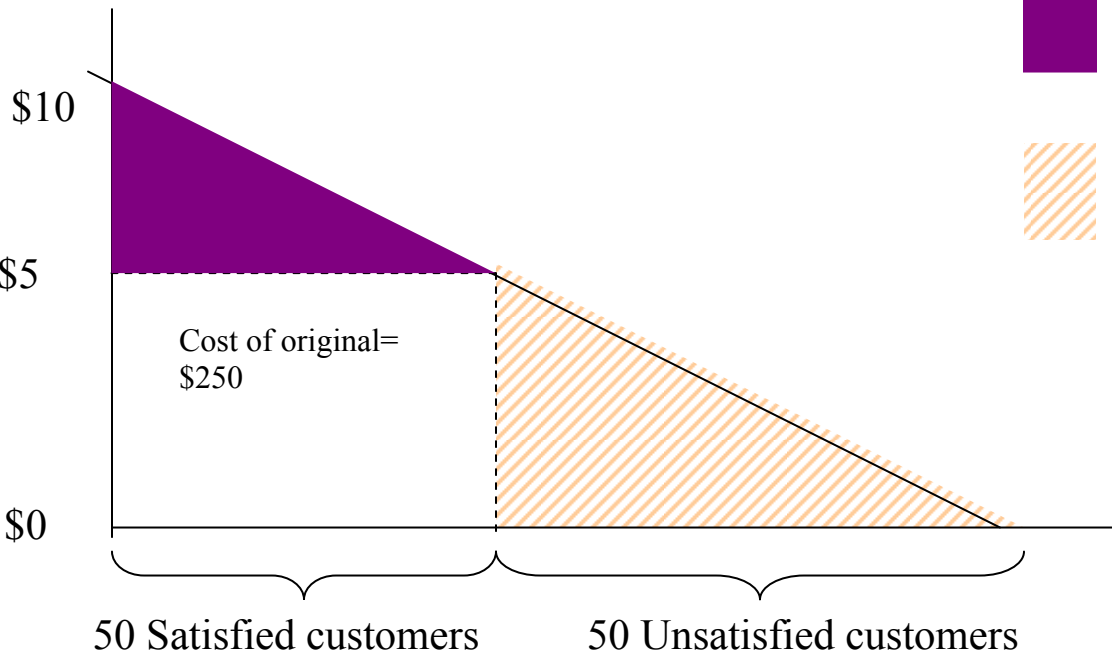
- Grants, stipends for producers of originals – marginal cost (~free) dispersion to all people
- BUT grants can be
 - demanding on the decision-making body (rent seeking)
 - administratively expensive
 - centralised (not suitable for very uncertain industries)
 - demanding on budgets (costs of collecting taxes)
- Also use
 - IP – democracy of the market
 - Prizes, honours
 - Price discrimination – market solution

DIFFERENT INCENTIVE STRUCTURES



IP (MONOPOLY) RIGHTS

Cost or value of product
\$

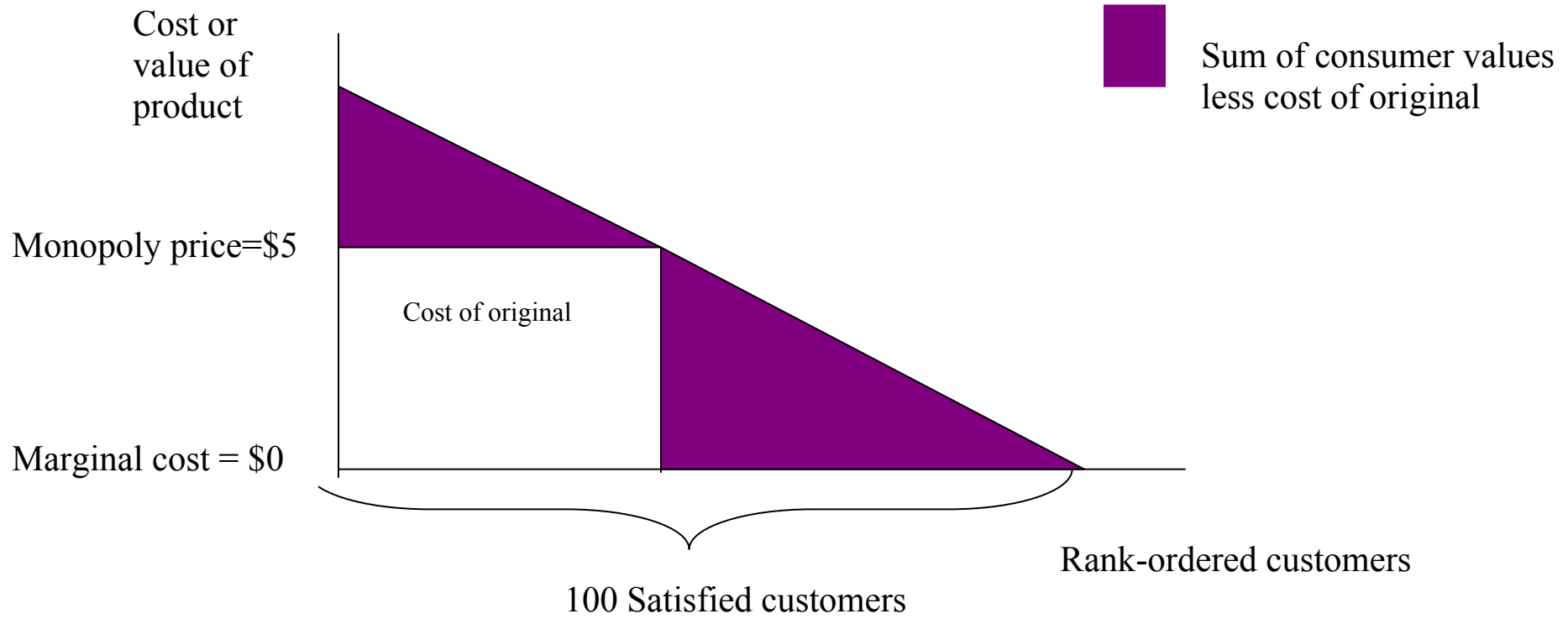


Sum of consumer values
less producer profits



Deadweight loss

GRANT OR PRIZE



PRICE DISCRIMINATION



WHICH POLICY MIX ?

This is an empirical issue, that depends on :

1. Whether the incentive to create needs augmenting?
 - Easy copying does not eliminate incentive to produce the original
 - ie has free radio music reduced original production?
 - Joint product with non-copyable item (live concert)
 - Need only pay as much as alternative occupation (both creators and publishers), did the Beatles need billions to encourage them to write & sing?
 - Non-pecuniary incentives

2. If yes to 1, how much augmenting needed – how sensitive is creative effort to incentives?

3. The size of the deadweight losses due to each policy option
 - affected by how widely used, close substitutes)
 - alternative incomes of potential creators & publishers
 - costs of raising the money through taxes (rent seeking, administration etc)
 - cost of registration, enforcement of each system
 - deadweight losses include the loss of stimulus to follow-on creators

4. Size of grants, prizes; duration, breadth of copyright; provision for fair use.

EMPIRICAL RESEARCH

There isn't much around – copyright much less than patents
(research dominated by musician royalties)

Have to estimate counterfactuals – what would occur under a
different policy scenario? (US cf UK in 1800s)

A few findings

- median annual royalties to musicians in UK £75
- file sharing has ↓ CD sales, but positive impact on unknown artists
- what about effect on originals?
- Movie producers receive more \$ from videos & DVDs than cinemas
- Establishing that CD sales fell does not mean the incentive to create original music is deficient