CITIZEN Economists

Not Much

By Simon Grey, on January 16th, 2012

Chris Sprigman asks how much piracy hurts the economy:

Supporters of stronger intellectual property enforcement — such as those behind the proposed new Stop Online Piracy Act (SOPA) and Protect IP Act (PIPA) bills in Congress — argue that online piracy is a huge problem, one which costs the U.S. economy between $200 and $250 billion per year, and is responsible for the loss of 750,000 American jobs.

These numbers seem truly dire: a $250 billion per year loss would be almost $800 for every man, woman, and child in America. And 750,000 jobs – that's twice the number of those employed in the entire motion picture industry in 2010.

The good news is that the numbers are wrong — as this post by the Cato Institute's Julian Sanchez explains. In 2010, the Government Accountability Office released a report noting that these figures "cannot be substantiated or traced back to an underlying data source or methodology," which is polite government-speak for "these figures were made up out of thin air."

Of course, the main problem with the above "analysis" is that it assumes labor roles are static (i.e. people can't find a new job). In a sense, it presents a false dichotomy between having a job that's properly protected by IP or being unemployed. Since one can generally find or make a new job in the event of losing one, it stands to reason that the prior dichotomy is simply false.

Beyond that, though, there seems to be no accounting for the role technology plays in cutting down IP-related jobs. For example, iTunes and other digital file services have largely negated the need for the manufacture of compact discs, cassette tapes, and other forms of physical music media. Netflix, Hulu, and other video services have undermined the need for the production and distribution of DVDs and other forms of physical video media. IP rights are properly integrated into these business models, so any decline in media manufacturing jobs is due not to piracy, but to technology.

This, incidentally, is a good thing, since the decline in media manufacturing jobs now frees up some labor segments to do something more productive. Lowering the cost of production and distribution (while maintaining or increasing consumption volume) by cutting labor is how wealth is created. Freeing up labor to do something more productive is how wealth is created.

Finally, one other thing ignored by this analysis is the positive role that so-called “piracy” might have on the various IP-protected industries, particularly music. The costs and risks associated with purchasing entertainment (over time, the cumulative costs can be quite substantial, and there is no guarantee that you will like what you buy) discourages purchases. By offering entertainment for free, as is done in broadcast television, people don’t have to invest much to see if some type of entertainment will be valuable to them. If it is, they can support it more; generally by buying DVDs and tie-in merchandise.

This is also true of music. If people can acquire music for free, they can see if they like it. If they do, they might be inclined to purchase tie-in merchandise or go to live shows (where the bulk of bands make the bulk of their money anyways).

Thus, it can be said that protecting IP by enforcing monopolistic policies actually hurts media producers because it discourages people from ever sampling new media, which in turn kills the sales of tie-in merchandise and other forms of related sales. This is just a theory (based on personal experience); there is no data supporting this view.

Anyhow, the point in all this is that there is absolutely no evidence that IP piracy hurts the economy in general, or even fields that enjoy the most IP protection. In fact, it may be that IP piracy is beneficial. At any rate, the idea that the united states’ economy needs stricter IP laws is simply ludicrous.