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BOOK REVIEW

Wendy J. Gordon and Richard Watt (eds.), *The Economics of Copyright: Developments in Research and Analysis*, Cheltenham, UK and Northampton, MA, Edward Elgar (2003).

The ten papers in this book were first presented at the SERCI annual congress in Madrid in 2002. In her introduction to the volume, co-editor Wendy Gordon notes that the technology that enables us to preserve and make reproductions of creative works changes the entire cultural landscape, as it provides authors with a means of earning income from the general public as consumers, and not just from patronage appointments. This shift in the source of income will change the kind of works that are created. Importantly, "it was to harness the extra value enabled by technology that copyright was invented" (p. xviii). It is therefore appropriate that much of this valuable volume of new research on the economics of copyright is concerned with the response of copyright policy and market contractual arrangements to changing technology.

An especially interesting paper is by Joëlle Farchy and Fabrice Rochelandet: "Self-help systems: Good substitutes for copyright or new barriers to competition?" Armed with a detailed knowledge of the technologies of copying and contracting they provide a sound warning to those who believe that new technologies have so reduced transaction costs that contracts between producers and consumers might eliminate the need for copyright. They conclude: "Purely technological solutions seem ill suited to resolving free riding problems. Maintaining rules and institutions appears to be a must" (p. 157).

Many of the papers present models of industrial organization that can apply to a wide range of goods, not just copyrights. This is not necessarily a bad thing, since the model might illuminate some aspect of copyright that had previously been overlooked.

As Ruth Towse notes in her paper assessing copyright policy as one aspect of broader cultural policy regarding support for artists, much copyright administration binds creators and producers when in fact they might be competing with each other for a share of what is a bounded pool of revenue. In light of this, Jorge Alonso and Richard Watt, and Tobias Regner, take on the challenging task of writing about contracts between creators and producers, challenging because any writing on this topic will be compared to the analysis and institutional detail found in the brilliant book by Richard Caves (2000), which is not cited in either paper (the lack of citation is especially surprising in Regner, since like Caves he uses the Grossman-Hart-Moore property rights framework). Each paper sets up a simple model of contracting between creators and producers. Alonso and Watt model total sales revenue from the good as a random variable where neither contracting party can take any action to influence its value (thus taking a very different direction than Caves), and take us to the conclusion that if one party is less risk averse than the other some partial insurance will be offered. They draw from this that fixed-share contracts, commonly observed in the music industry, are highly inefficient: "clearly, there is a very large set of real-world contracts that are currently in use that can be improved upon" (p. 93). But we must take care that we do not over-reach. It is a valuable thing to use a simplified model to illuminate some aspects of contracts we observe in the real world, but it is something else to construct a simple model and go on to claim that the real world is somehow in error.

Other papers modeling contracts and firm behavior are by Lisa Takeyama on the potential benefits of copying when it serves as a means of establishing the quality of the product (in a reversal of the 'market for lemons', good quality product drives out bad), Paul Belleflamme on pricing information goods when there is copying (and so giving a new model of Stan Liebowitz's notion of "indirect appropriability", which Liebowitz himself surveys, in the context of new copying technologies, in the volume's opening essay), and Francesco Parisi and Ben Depoorter on the pricing of complementary inputs. Parisi and Depoorter develop a general model which shows that when there is a set of complementary inputs in production, a single monopoly owner of the set will price more efficiently (and more profitably) than an oligopoly where each input is separately, but singly, owned. This model might apply to many types of inputs, but is especially interesting in the copyright case because we get a new insight into the value of copyright collectives; where intellectual property rights are complements in a process, a collective will price more efficiently than separate owners.

It is not reasonable to expect that a collection of ten papers drawn from a conference will address each and every aspect of copyright that might be of interest. Still, there are things to wish for in what I hope will be future volumes from SERCI. First, it was a surprise that there was virtually no discussion of the international aspects of copyright (the paper by Giovanni Ramello on copyright and antitrust issues is the only one that even mentions international aspects). International matters are central to copyright policy issues: changes to international flows of payments are a critical component to debates surrounding proposals to change a country's statutory royalty schemes or to sign into international treaties, and in the debates surrounding the Copyright Term Extension Act (CTEA) in the US, and "harmonization" in the EU, the conventional wisdom that it is costly to have a different copyright term from one's trading partners deserves critical scrutiny by economists.

A second feature we might like to see more of is empirical work. Rochelandet's interesting study on the efficiency of copyright collectives is the only paper in the volume that attempts to construct hypotheses and test them with data. To be fair, in their papers Liebowitz and Towse also make a plea for more empirical work; here's hoping that some researchers will take up the challenge. Our lack of knowledge on basic empirical questions is striking. Consider two of the biggest recent copyright policy issues: the CTEA, and the Napster case. In their analysis of the CTEA, an extremely distinguished team of seventeen economists (Akerlof, et. al., 2002) take the basic incentives-versus-access tradeoff familiar from the Landes and Posner (1989) model, show that extending the term of copyright can only improve incentives by a very small amount as a proportion of what incentives existed under the previous copyright term, and conclude that term extension is not justified. But it seems that little progress has been made at putting any estimates on the parameters of the central tradeoff. If life-plus-seventy-years is too long a term, what, even in ballpark terms, is the optimal term? On the Napster case the key empirical issue can also be taken from the Landes and Posner framework: to what degree are the very good copies that can be made by downloading music harming commercial sales of music, and in turn harming the incentives to produce new music? Liebowitz, in his contribution to this volume, refers to the sketchy evidence currently available, but as he notes we need more results produced by impartial scholars.

This is all the more reason to applaud the founding of this new journal, and the publication of this volume of conference papers, each of which should inspire research, and help attract new scholars to this fascinating, and increasingly important, field of study.

References

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