PHOENIX CENTER FOR ADVANCED LEGAL & ECONOMIC PUBLIC POLICY STUDIES
www.phoenix-center.org

5335 Wisconsin Avenue, NW
Suite 440
Washington, D.C. 20015-0234
Tel: +1 (202) 274-0235
Fax: +1 (202) 318-4909
www.phoenix-center.org

Press Release

Contact: Lawrence J. Spiwak
Phone: +1 (202) 274-0235

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New Phoenix Center Study Demonstrates the Need for an Effective Policy to Curb On-Line Intellectual Property Theft

Paper Shows that On-Line IP Theft is Not Harmless and Reduces Social Welfare

WASHINGTON, D.C. — Several opponents to strengthened protection against on-line intellectual property ("IP") theft contend that IP theft is economically insignificant given the non-rivalrous nature of such property. In a new study released today entitled: *Social Well-Being and IP Theft: A Dynamic Economic Analysis,* the Phoenix Center tackles this argument and demonstrates that the theft of IP, such as that facilitated on-line by what is now referred to as the "rogue" website, reduces social welfare. As such, the nagging problem of on-line IP theft should not be trivialized. Accordingly, the Center's work implies that policymakers are justified, on economic welfare grounds, to seek out effective mechanisms for curbing IP theft.

As the Phoenix Center's new paper explains, IP is typically non-rivalrous in consumption in that a stolen copy of a movie does not diminish the ability of others to view it (unlike a sandwich). Thus, theft of IP may be (and has been) construed as merely a transfer—what the copyright owner loses the thief gains—and economically of little significance. Opponents to the enhanced enforcement of IP use this reasoning to trivialize IP theft and, ideally, postpone indefinitely meaningful reform of U.S. law.

In its new paper, the Phoenix Center considers the economic consequences of IP theft using a very conventional dynamic general equilibrium framework in which a representative consumer (or, equivalently, a continuum of consumers) optimizes their consumption and investment plan over time. The Phoenix Center's analysis rejects the notion that "IP theft is harmless." In fact, even if the benefits to the thief are counted and theft requires no resources, the theft of IP reduces social well-being. In effect, theft of output acts as a sort of distortionary tax on sellers, and this distortion is not remedied by merely returning the proceeds of the theft as a lump sum transfer to consumers. As the debate moves forward on how to develop an effective mechanism to prevent on-line IP theft, therefore, policymakers should ignore the argument that on-line theft of IP causes no harm and therefore no foul.

"While the expanded adoption of the Internet no doubt produces large benefits, it also has costs, including the now rampant theft of intellectual property" said study co-author and Phoenix Center President Lawrence J. Spiwak. "Given that on-line theft can be formally demonstrated to

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reduce social welfare, policymakers and stakeholders must continue to work diligently to find effective enforcement solutions to curb IP theft."

"IP is non-rivalrous in consumption, meaning that one person can enjoy a movie or song without interfering with another's enjoyment," observed Phoenix Center Chief Economist Dr. George Ford. "This characteristic of IP does not imply, however, as some have argued, that theft is costless to society. Theft reduces the flow of resources into the creation of IP, thereby reducing the well-being of society. Consequently, economic theory does not generally support a permissive stance on IP theft."

In addition to Mr. Spiwak and Dr. Ford, Phoenix Center Senior Fellows and Auburn University Professors of Economics Dr. T. Randolph Beard and Dr. Michael Stern also co-authored the paper.

The complete copy of the study, PHOENIX CENTER POLICY BULLETIN NO. 32: *Social Well-Being and IP Theft: A Dynamic Economic Analysis*, may be downloaded free from the Phoenix Center's web page at: http://www.phoenix-center.org/PolicyBulletin/PCPB32Final.pdf.

The Phoenix Center is a non-profit 501(c)(3) organization that studies broad public-policy issues related to governance, social and economic conditions, with a particular emphasis on the law and economics of telecommunications and high-tech industries.