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IS THE PRICE OF RECORDED MUSIC HEADING TOWARDS ZERO?

A transmission conference paper prepared by Will Page, Executive Director of Research at the MCPS-PRS Alliance

Key Points:

- The paper offers a framework to help understand the economics behind the commonly held observation that the price of recorded music is 'heading towards zero'.
- This economic approach helps show us how recorded music has long lost any notion of being a 'pure private good' and now risks becoming a 'pure public good'.
- Music has become 'non-rivalrous' (If I consume an mp3 file, that doesn't prevent you, and vice versa) and 'non-excludable' (it's increasingly hard to deny others access).
- The theory is supported by evidence: P2P networks creating non-excludability and the unlimited 'long tail' supply of digital content is non-rival in its consumption.
- Both supermarkets and Spiral Frog are shown as '*Tipping Points*' which risk pushing recorded music into a public good status – where the market could fail.
- So, given that digital music will never be 'rivalrous' in its consumption; the challenge is to force some measure of 'excludability' back upon the consumer, again.

IS THE PRICE OF RECORDED MUSIC HEADING TOWARDS ZERO?

– EXECUTIVE SUMMARY –

Let's begin with a commonly held observation that's often overheard in heated music industry panel debates: **'the price of recorded music is heading towards zero'**. It is true to say that you can already see this happening; simply look at the deflation in the price of a CD at your average big box retailer – the cost of an album today is roughly the same as it was 20 years ago. Various arguments are put forward to explain this but, no matter how intuitive, they often lack economic foundation.

Yet the economics behind this observation are striking – recorded music has long lost any notion of being a **'pure private good'** and now risks becoming a **'pure public good'**. To realise why requires an understanding of the terms **'non-rivalrous'** (If I consume an mp3 file, then that doesn't prevent you, and vice versa) and **'non-excludable'** (it is increasingly hard for the copyright owner to deny others access to their audio product). These concepts, along with Common, Toll & Club Goods are explained below.

Public, Private, Common Pool, Toll, and Club Goods		
	Excludable	Non-Excludable
Rivalrous	Pure Private Good (e.g. food, clothing, furniture).	Common Pool Good (e.g. the fish in the sea)
Non-Rivalrous	Toll Good or Club Good (e.g. bridges, golf courses)	Pure Public Good (e.g. national defence)

Digital music is absolutely not rivalrous; and it never will be, no matter how cheap an mp3 file may become. For a unit of recorded music to retain an element of excludability, 'bundling' might become the optimal strategy, as this increases revenues because the willingness to pay for the bundle is less dispersed than the willingness to pay for the components. So bundling with 'toll' goods like live performance and subscription services will become an increasingly important source of revenues.

The theory is supported by the evidence. With around ten million simultaneous users on P2P networks worldwide at any given time trading copyrightable content – you have clear evidence of non-excludability. In addition, with literally millions of tracks available in MP3 format with no scarcity in their consumption, we can see why recorded music is non-rivalrous. Put it together, and you get a strong downward pressure on price, in both nominal and real terms.

This paper argues that recorded music is in danger of becoming a **'pure public good'**, and proceeds to flag up warning signs of emerging **'tipping points'** that show how it might. In the off-line world, trends point towards the loss-leading pricing strategy of supermarkets dominating music retail by 2008. As for online, the forthcoming free-music initiative from Spiral Frog suggests that the music industry, itself, is acknowledging that the consumers cost of recorded music is heading towards zero.

The paper concludes by considering where value is being created by the music industry and where value is currently being lost or not fully realised Creative Commons is frequently touted as a 'way out', but this is shown to be neither workable nor anything especially new. Worse, once you give it away, you can't get it back. What's required is an understanding that digital content will never be 'rivalrous', hence the challenge is to force some measure of 'excludability' back upon its consumption.

IS THE PRICE OF RECORDED MUSIC HEADING TOWARDS ZERO?

Let's begin with a commonly held observation that's often overheard in heated music industry panel debates: 'the price of recorded music is heading towards zero'. It is true to say that you can already see this happening; simply look at the deflation in the price of a CD at your average big box retailer – the cost of an album today is roughly the same as it was 20 years ago. Various arguments are put forward to explain this but, no matter how intuitive, they often lack economic foundation.

This paper aims to explain the economics behind the observation that the price of a unit of recorded music is heading towards zero. In a basic demand-and-supply analysis, an increase in supply, (caused by going from a bricks & mortar world of 52,000 tracks to an online environment of the 1,500,000 tracks found on Rhapsody), would result in downward pressure on price. However, demand-and-supply analysis deals with the problem in isolation. A much broader approach is taken here.

This analysis focuses on the theory of public, private, common pool, toll, and club goods. This approach is at the core of government economics and legal theorists, but the purpose here is for neither – rather to show how the price of a unit of recorded music has been eroded due to it becoming increasingly non-excludable and non-rivalrous in its consumption. Put another way, there is little preventing someone accessing recorded music for free (non-excludable); and when they do – they don't deprive other consumers of that product (non-rival).

By taking this approach, we can develop a better understanding of the economics behind the falling price of recorded music. It should be stressed from the outset that this paper does not argue that recorded music has become a 'pure public good' – rather it tries to flag up warning signs of emerging 'tipping points' that show how it might. Furthermore, the focus is on a 'unit' of recorded music and, although 'bundling' is covered here, a download versus subscription debate is beyond the scope of this paper.

So, let's begin with the standard story about the economics of copyright by setting out the distinction between public and private goods. A 'pure private good' is a good for which two conditions hold. First, the good is excludable. That is the owner of the good can deny others access (build a fence) or the law can build a legal fence by creating enforceable property rights in the good. Second, consumption of the good is rivalrous. That is, if I consume the good, you can't, and vice versa.

A 'pure public good' is nonexcludable and nonrivalrous. For example, national defence is sometimes considered a pure public good. If the nation is protected against foreign invaders, it is very difficult to exclude particular persons from the protection. And my getting the benefits of a strong national defence doesn't interfere with your getting the benefits. Government intervention is justified when you have a public good as markets don't work – if a good is non-excludable then no one will pay for it.

Intellectual property is not a pure private good: law can create excludability for information goods, but what about rivalrousness? Consumption of information is normally nonrivalrous. If I copy an MP3 file, it doesn't affect your ability to do so, and vice versa. How do we categorize goods like recorded music that satisfy enforceability but not rivalrousness? What about those rivalrous goods that cannot be made excludable? Two more kinds of goods need to be added to this classification scheme:

- **A common pool good** is rivalrous but nonexcludable. The stock of fish in an ocean may be a common pool good, assuming it is either impossible or too costly to enforce fishing limits. (This is often referred to as the 'Tragedy of the Commons'.¹)
- **A toll good** is characterized by nonrivalrous consumption and excludability. The term 'toll good' is used because efficiency conditions can be established justifying charging a toll for such a good (think of a highway toll in a rural area).

The final addition to the matrix is 'club good' – where the utility of each individual's consumption of the good is a function of the number of others who consume the good. Take a motion picture theatre, for example. My viewing the movie does not impair your ability to view the movie, until all the seats are filled. [In Japan, there are cinemas which charge you as you leave as opposed to entering]. For the purpose of completing our 2x2 matrix, a simpler definition is provided below:

- **A club good** is a good that has an optimal number of consumers. If too many consume the good, the joint utility of the group will be reduced because of crowding effects. The term 'club good' is used because the nature of most clubs is that members can share the benefits, but non-members can be excluded.

With this final category in place, we can summarize using the following table:

Public, Private, Common Pool, Toll, and Club Goods		
	Excludable	Non-Excludable
Rivalrous	Pure Private Good (e.g. food, clothing, furniture).	Common Pool Good (e.g. the fish in the sea)
Non-Rivalrous	Toll Good or Club Good (e.g. bridges, golf courses)	Pure Public Good (e.g. national defence)

Now, we can see how intellectual property law moves information from a 'pure public good' towards a 'toll good'. Legally enforceable intellectual property rights make information a toll good, because they create excludability but not rivalrousness. Copyright law gives me the power to exclude you from making copies of my writings, but it does not make consumption of the information – in the syntactic content – rivalrous. This distinction is fundamental in explaining why the price of a unit of recorded music is heading towards zero.

We can begin to put this powerful theoretical matrix into practise by applying it to an industry that's easy for us to interpret: broadcasting. The British Broadcasting Corporation (BBC), for example, can be classified as a 'pure public good', although the 'toll-like' license fee could be considered as making it 'excludable' (assuming that you 'had' to pay it) but this simply doesn't work in practise. Sky, on the other hand, is a 'toll good', as it's excludable through the fee and conditional access technology such as a smart card.

¹ The parable demonstrates how unrestricted access to a resource such as a pasture ultimately dooms the resource because of over-exploitation. This occurs because the benefits of exploitation accrue to individuals, while the costs of exploitation are distributed between all those exploiting the resource.

The key point here is that media content is generally non-rivalrous; nevertheless, we can consider ways in which its providers can try and make it so. For example, there could be three options to consume the BBC Proms: purchase a ticket for the live event, purchase a limited access ticket to a live screening in the park or watch it later on terrestrial TV for free. The second option could be made pay-per-view (excludable) and limited to a set number of interactive viewers (rivalrous). However, if you can't prevent passers by enjoying the event for free – does it then become a common pool good?

Matrix 2: A Broadcasting Example		
	Excludable	Non-Excludable
Rivalrous	BBC Proms-in-Park Live Limited Access at the live event...	BBC Proms-in-Park Live ...or Listen for Free outside the gates
Non-Rivalrous	Sky TV (Toll Good) Watch on TV as pay per view event	BBC TV

A similar drive toward making media content more like a private good can be seen in the pay per viewing approach to broadcasting sport. Yet, even once you've paid to view, this doesn't prevent someone else's paid-for consumption – unless you limit access. Let's consider Sky's options, where they hold exclusive rights for the English Premiership. Sky could experiment with limited access to the live broadcast – possibly by auctioning 200,000 access slots to view the big match live on TV. Whether it is a private good or not is not the point, it's that customers will price it as one that matters!

In a digital era, the music industry faces a similar problem: how to extract revenue from a good that is neither excludable nor rival in consumption? This is because online developments allow us to make and distribute copies of 'digital content' at a fraction of what the cost used to be, so the marginal cost of production (think reproduction) has fallen. The recording industry has, understandably, tried to accommodate technological change under the premise that some form of excludability and rivalrousness continues to exist.

Contrastingly, the matrix is reworked below to show how technological advancements have, until recently, been interested in protecting neither and removing both. Here, illegal P2P offers you everything for free as transferable asset – or you can opt for a legal route where you pay for limited access to files which have limited transferable value – a tough bargain! To complete the picture, a physical CD is shown as a pure private good, whilst a free open air concert which was cancelled due to overcrowding makes for a hypothetical commons ...although perhaps not quite so tragic!

Matrix 3: A Traditional versus Digital Music Industry Example		
	Excludable	Non-Excludable
Rivalrous	A Physical CD	A Free Open Air Concert? (Cancelled due to Overcrowding)
Non-Rivalrous	Limited & Non Transferable Digital Music Files on i-Tunes	Unlimited and Transferable MP3 Files on P2P

As already pointed out, digital content is absolutely not rivalrous; it never will be, no matter how cheap an mp3 file may become. Therefore, 'rival goods' like the live performances and merchandise will become a more important part of total revenues for every given artist. Another growing market will be that of 'bundling'. Increasingly, newspapers and magazines have been bundling CDs into their own content, and lots of other products are doing the same and more of this activity looks set to continue. Why? (See Box)

The Economics of ‘Bundling’

The matrix below illustrates why bundling will occur, and why music can be effectively bundled to generate the most revenue. In this simple example, Ted and Laura have different valuations – or willingness to pay – for two different Led Zeppelin tracks. Ted is willing to pay £1.20 for ‘Your Time is Gonna Come’ and only £1 for ‘Ramble On’. For Laura, the opposite holds. Assuming that the marginal cost is negligible, (highly plausible for digital music), the revenue maximising strategy is to trade each download for £1.00 – as this clears the market.

Matrix 4: Ted & Laura’s Willingness to Pay for separate Led Zeppelin tracks

	Your Time is Gonna Come	Ramble On
Ted	£1.20	£1.00
Laura	£1.00	£1.20

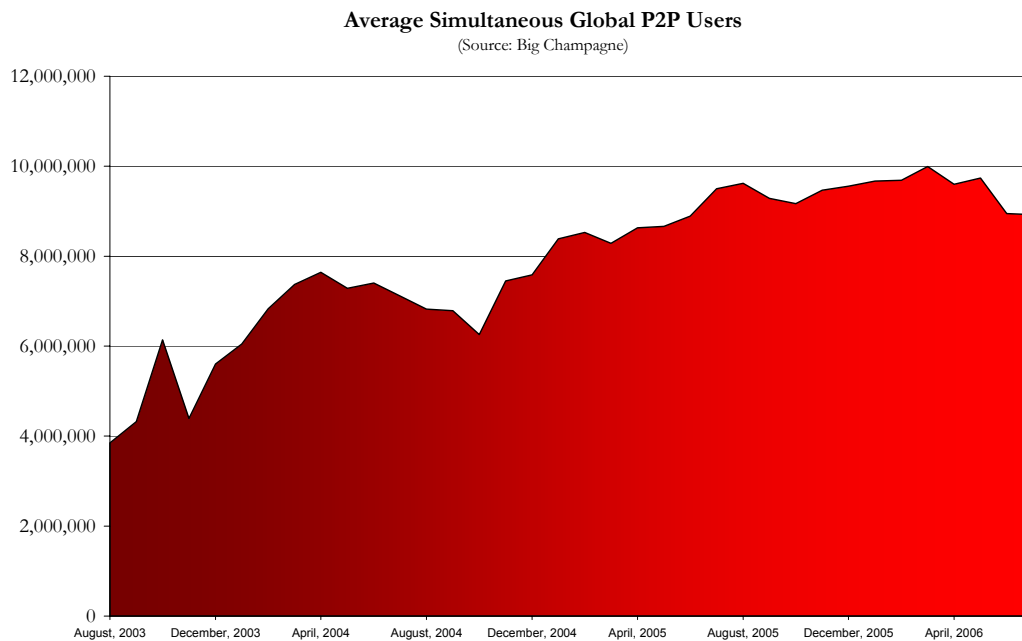
The revenue maximising price of £1.00 generates aggregate revenue of £4.00 when sold separately, however if the tracks were bundled together at £2.20 each then revenue would increase to £4.40. Bundling increases revenues in this example because the willingness to pay for the bundle is less dispersed than the willingness to pay for the components. Dispersion only matters when people are forced to use flat prices, but even when goods are positively correlated the sum of large values will tend to be less dispersed than any single value. [You don’t need to be an economist to see how the concept of an album (be it Led Zeppelin I, II or a Greatest Hits) fits into this example].

There are three further reasons why bundling may occur. ‘Option Values’ are when a consumer is willing to pay up front for a bundle of goods in order to exercise the ‘option’ of using some of them later at zero incremental cost. ‘Information Goods’ such as news articles are bundled into a magazine and then into a subscription because there are only some articles in some magazines which contain information that are of unique interest to you. Hence bundling reduces the dispersion in the willingness to pay and enhances revenue. ‘Customised Bundling’ often adopts a ‘quantity discount’ strategy, so in the example above, you buy the first song at £1.20 and each additional song at £1.00.

The counter argument to ‘bundling’ is that of perfect price discrimination — charging different prices to different consumers, based on their valuations of a good. It is plausible to assume that digital advancements such as micro payments increasingly enable the sale and delivery of small units of information goods like music. Indeed, the fact that i-Tunes has opted for a non-variable price-per-unit strategy creates scepticism over the extent of bundling, but also explains why record companies are so against it. However, a proper analysis of bundling, or the ‘subscription versus downloading’ debate, is beyond the scope of this paper.

Nevertheless, the ongoing fixed-versus-variable pricing debate over i-Tunes is well known. The standard argument being that a move towards variable prices could, in theory, extract more consumer surplus (for the record company) than is currently being obtained. Another well known argument is that the price is based around cost recovery of running i-Tunes on-line service, whereas Apple are able to extract a profit on the hardware – the i-Pod. Consequently, one analogy which can be drawn is the cross-subsidisation pricing model which is adopted by Cinemas – which uses a fixed price for all films and can price up other ‘private goods’ such as popcorn in a way that maximises overall profit.

With the economic theory now in place, we can now consider the evidence of non-excludability and non-rivalrous in recorded music. To begin with, let's look at the evidence of non-excludability using data from Big Champagne, which shows that the number of simultaneous users of illegal P2P networks worldwide has been rising solidly since records began in 2003. Whilst this data is well known, it's important to consider that it overlooks other forms of sharing such as Instant Messenger services – all of which further remove the excludable properties of copyrightable recorded music.

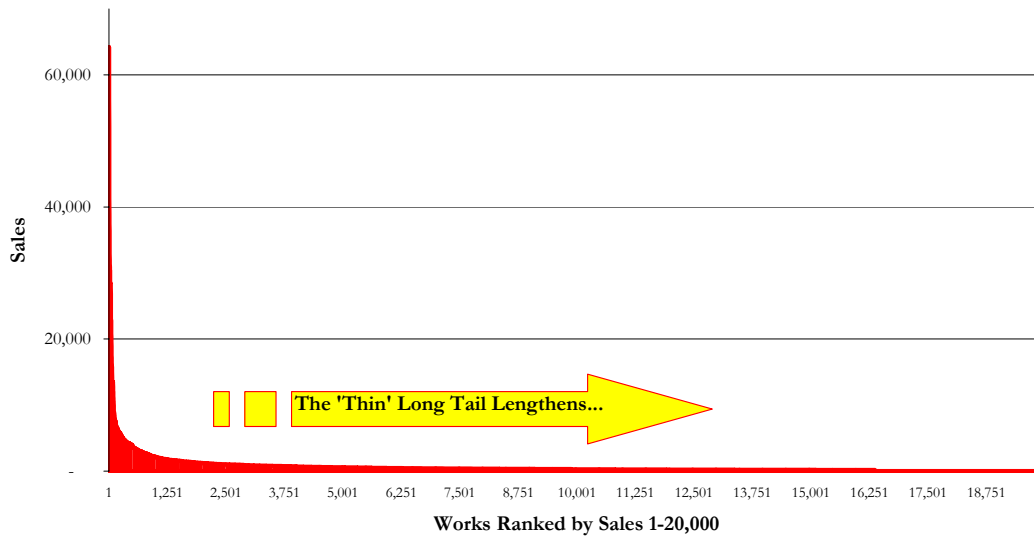


To understand just how 'non-excludable' recorded music has become, consider that it took 3 years to shift 1 billion tracks on i-Tunes, whereas it is estimated that around 2 billion are traded on P2P networks a month. Furthermore, attempts to make it excludable have frequently backfired, with the Grokster II ruling (which strengthened RIAA's campaign against files sharing) leading to an increase in the average number of simultaneous users in the States. Put another way, a vicious circle might be developing: the initial legal action against P2P sites leads to the more awareness of recorded music's non-excludability which results in more P2P activity.

Given that the evidence would support of the concept of non-excludability, the next step is recorded music's non-rivalrous properties. Recall the definition: *If I consume an mp3 file, then that doesn't prevent you, and vice versa.* The chart below shows the sales reports for an arbitrary 20,000 highest ranked works on a well known DSP. Note the steepness by which the thin head (of very few 'hit' titles) drops off, before the tail of niche products continues. In a limitless-supply on-line world, the tail extends beyond 20,000th rank presented here – perhaps as far as 1.6m separate works, and growing fast!

Distribution of Sales of the Top 20,000 Works

Source: MCPS-PRS Alliance Information Systems Division

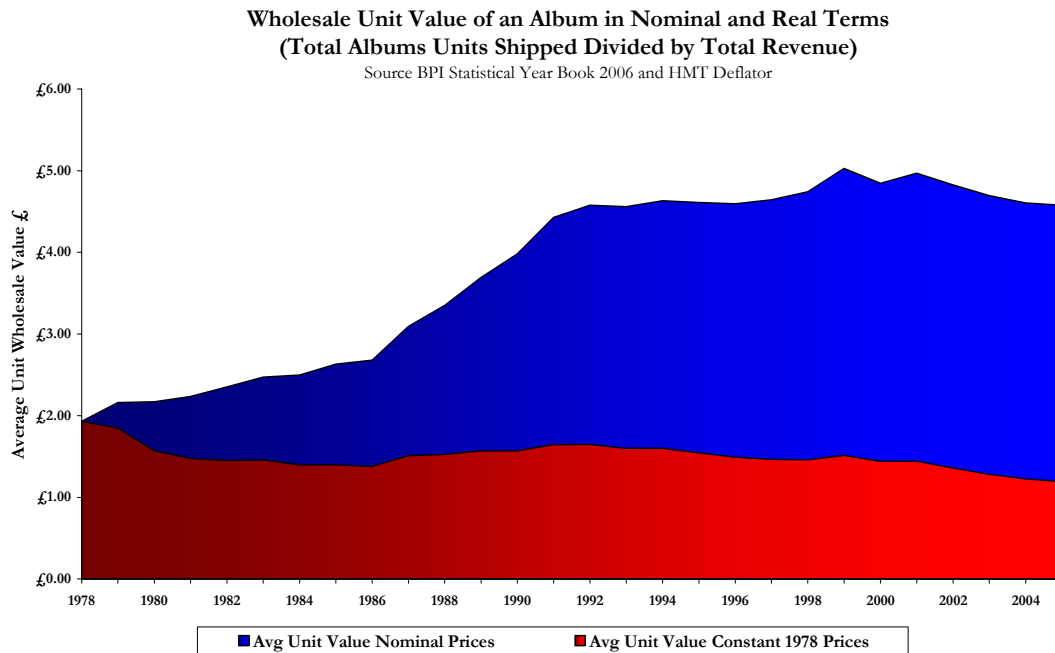


Whereas the term 'long tail' can mislead people in thinking there is unlimited demand, the reality is that it is arguably a supply side phenomenon. The point of highlighting the tail concept is that the non-rival properties of digital music can sustain this supply. Recall that in a 'Bricks & Mortar' off-line world, a CD has to rent its space on the shop floor to justify its presence. In a digital world, both rent and the marginal cost of reproduction are negligible, which gives rise to these staggering long tail statistics:

- UK sales reports that, for April-May-June 2006 quarter, the repertoire base was 264,431 titles and a volume base of over 17.6 million downloads. Of this, the top seller (Corinne Bailey) had just over 64,000 downloads, with the second best (Gnarls Barkley) showing over 56,000 downloads, a drop-off of around 12.5%. This asks questions about how 'fat' the tail is – and it turns out to be very 'thin' indeed.
- The distribution shows that the top 2% of the repertoire represents 57% of the download volume. Extending this, the top 20% of the repertoire represents 90% of the total downloaded volume – with many being downloaded less than 5 times. Turn it on its head; the top 285 titles (or 0.11% of the repertoire base) represent 20% of the downloaded works.
- Finally, we can consider the non-rival properties by looking at how the internet sustains the supply of units of record music even when demand is minimal. Of a repertoire base of roughly 264,000 titles, 95.8% of the titles were downloaded less than 250 times – all of which were non-rival in their consumption. That is, even though demand is minimal, consumption does not alter supply.

With the evidence pointing toward the 'public good' properties of non-excludable and non-rivalrous, you would expect to find this being reflected in developments of price. In the main, evidence of the market supposedly 'failing' is often demonstrated by demonstrating the slump in sales in terms of units or revenue, which is often expressed in nominal terms. This only tells part of the story, the *real* unit price of an album shows that the recent nominal slump is part of a longer term deflationary trend.

The chart below divides the total album units shipped (LP, Cassette and CD) by the total wholesale revenue from 1978 to 2005 to derive a unit price in both nominal and real terms²³. Starting in 1978, the average nominal wholesale unit price has risen from £2.00 to £5.00 in 2005. When put into real terms (by stripping out inflation) the average unit wholesale price of an album has actually been eroded by 40%, with its value in 1978 prices shown to be only £1.19⁴.



Despite the persuasive evidence, this paper does not argue that recorded music has become a 'pure public good', rather it tries to flag up warning signs of emerging 'tipping points' that show how it might. Two pieces of complimentary off-line evidence can help us identify where this tipping point might be found: who's driving the price down and who's selling music? The answer to both is supermarkets, and the market could 'tip' a lot sooner than many people think.

Firstly, in its recent statistical year book, the BPI states that two thirds of albums were purchased for under £10 in 2005. This figure is up from 40 per cent in 2000, with the greatest percentage of albums, at just over a third, being sold in the price band £8-9.99. At the premium end, the share of CDs to be sold at over £14 has halved from 20 percent in 2000 to 10 per cent today. The reduction in price is not restricted to CDs alone either: the average price of a DVD has fallen by over 20% and the average price of a computer game has fallen by over 10% between 2000 and 2003 (Source TNS).

² Source: BPI Trade Survey. Trade deliveries are defined as sales of records, cassettes and CDs invoiced to all retailers, distributors, wholesalers and mail order companies. Values are at wholesale and do not include VAT, but are net of returns. Value measure includes estimate income from downloads.

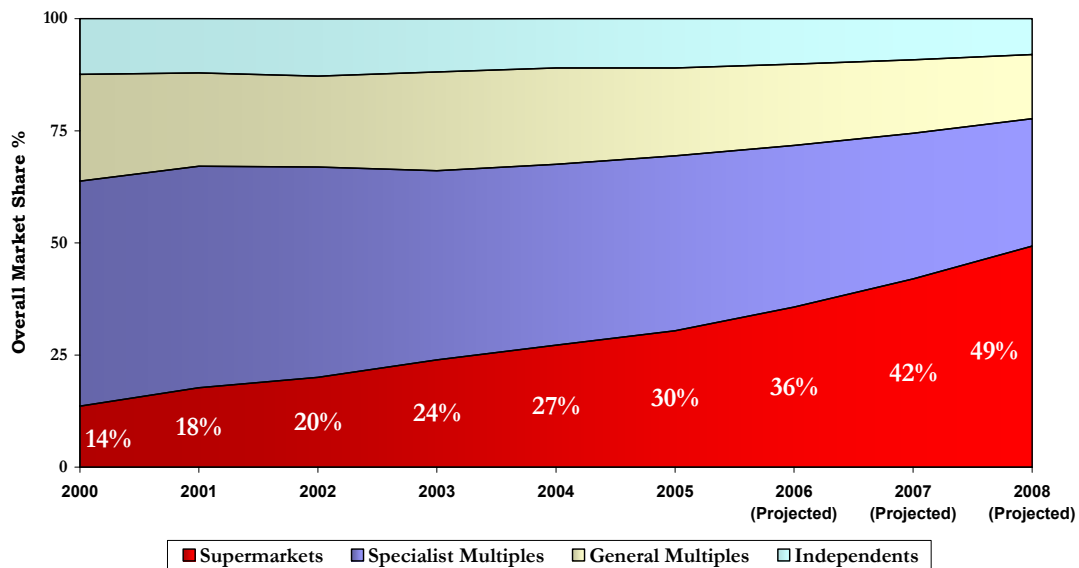
³ The unit data is number of discs - so double CD set - 'Now 64' for example would count as two discs - so the data might be affected by the number of double/triple CDs in the market.

⁴ The HM Treasury Deflator, which is available externally, has been applied to get a real terms value. Arguably, a better deflator to use is RPIX, but this leads to broadly the same result.

Secondly, although prices have dropped across the board, consumers pay the lowest average prices at Internet retailers and Supermarkets, the latter of which looks set to dominate the market by 2008. The chart below illustrates the potential growth in the market share of music retail exhibited by Supermarkets. Starting in 2000 with a share similar to independents of just over 10%, supermarkets currently constitute a third of all retail. Should supermarkets continue to grow their share at their current rate, they'll have captured half the market by as soon as 2008⁵.

Market Share of Physical Album Sales by Type of Retailer 2001 to 2008

Source: Millward Brown, BPI and Authors own Calculations



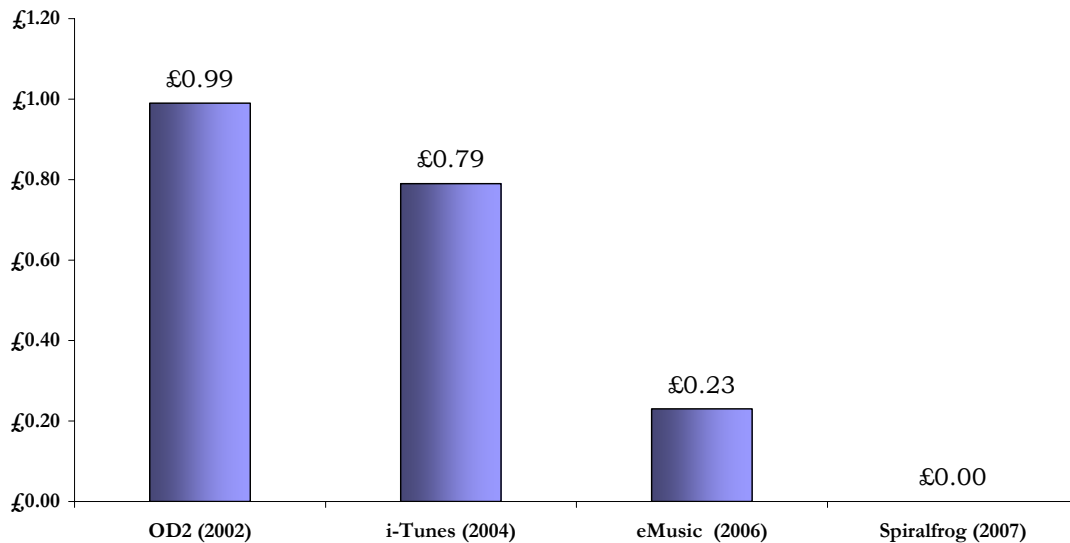
In terms of the online world, evidence of a 'tipping point' was exposed in a recent FT headline regarding the Spiral Frog initiative: *'Universal backs free music rival to i-Tunes'*. The business model is one of many and the viability of it is as questionable as the next. However, the signal being sent by the recording music industry is clear – an off-shoot of Universal music is willing to make music appear 'free like water'. Put another way, one of the market players is openly willing to accept the idea of music being presented, in terms of its consumption, as a 'pure public good'.

The chart below highlights that the Spiral Frog initiative is part of a trend in the price of a unit of recorded digital music which has been heading towards zero. Starting in 2002 with OD2, a unit of recorded music was priced at £0.99; this has since fallen to £0.79 with i-Tunes and then £0.23 on E-Music and finally to zero with Spiral Frog – due to launch next year. Within each of these price points, caution is required as the unit may contain different qualities: eMusic offer a transferable asset, whereas other services might be pricing content that is non-transferable and/or rental in nature. Nevertheless, the overall trend offers strong support to the premise of this paper.

⁵ Market Share analysis of music retail is interesting, as 'big box' outlets like Supermarkets and Internet often show unit share as being greater than value share. The analysis presented below is based on Millard Brown's data which focuses on units sold and not value received. Consequently, you would expect specialist retailers to have a bigger value share than unit share. However, the difference between the two measures is already quite narrow and narrowing further as there are clear signs that the pricing policy of specialist retailers is bringing them closer to supermarkets.

The 'Unit' Price of a Digital Music Track from 2002 to 2007

Source: MCPS-PRS Alliance Broadcast & On Line Division



To ensure balance, it's important not to overlook niche business models like CD Baby where the price of a unit of recorded music has exhibited examples of inflationary properties. CD Baby's business model is based around online disintermediation of physical retailing – the artist makes the CD independently, ships it to CD Baby, who, for their efforts, deduct around \$4 for each unit sold to cover P&P, distribution, returns and on line presence. Now, importantly, the artist chooses the unit price point and receives all of its net value, minus this single transparent deduction.

For CD Baby, the value of recorded music is arguably driven more by social rather than market forces. Perhaps this is more akin to on-line busking: 'I want to award you – not a whole host of intermediaries – for your efforts'. Either way, the CD Baby model is an example of one of many which have countered deflation by empowering the artist with the setting of price. As a niche business, CD Baby now serves over 150,000 artists, has sold 2.6million CDs and pays out \$250,000 every week, directly to the artists.

At this point, a fitting conclusion might be to return to our matrix and consider if the industry might be heading for what is termed a tragedy of the 'anti-commons'. This is where too many individuals have rights of exclusion (such as property rights) in a scarce resource. This situation is contrasted with a 'commons', where many individuals have privileges of use (or the right not to be excluded) in a certain resource. Recall that the tragedy of the commons is that rational individuals, acting separately, may collectively over-utilize a scarce resource.

The ongoing DRM issue could offer a parallel between the music industry and the 'anti-commons', in that this could be viewed as a right of exclusion to make a resource scarce. DRM could be considered as exclusionary – especially if that track you just legitimately purchased doesn't work on your MP3 player! Similarly, evidence of record labels scaling back their investment in artists (in the form of advances) might be a reaction to a 'commons' – for A&R, think back to fish: why should the state invest in developing north sea fish stocks if the risk of over fishing is simply unavoidable.

Ironically, the counter effect of the tragedy of the anti-commons has been dubbed the 'comedy of the commons' where the usefulness of a resource increases as the result of many individuals using it. The argument here is that, as the price of a unit of recorded music heads towards zero, the more people will consume it – the more useful music becomes. As a result, if a writer or artist can make more money from the two 'other' streams of publishing and touring, as opposed to the lost mechanical values, then the *net* effect is perhaps beneficial for composers and publishers.

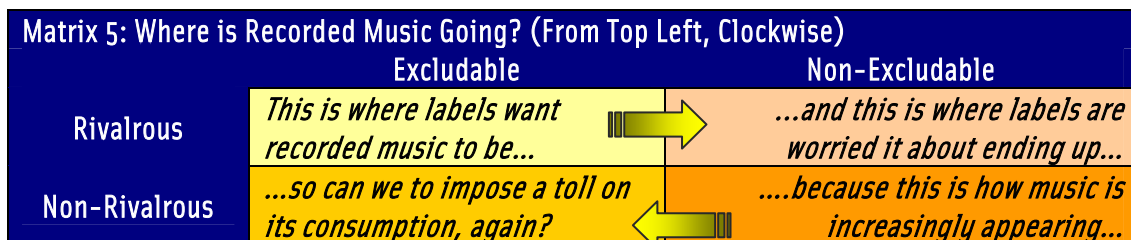
As you might expect, there's an obvious carry across between the 'comedy' and that of Creative Commons; the *en vogue* alternative to conventional copyright. However proponents of Creative Commons need to reconsider some of the shortfalls of their arguments, and ask themselves what it actually is, and more importantly what it isn't. To begin with, Creative Commons isn't a radical alternative to the existing system of copyright; in fact much of what is claimed by creative commons can be done by existing copyright law anyway – and has been for some years.

So if Creative Commons isn't anything new, then what is it? Creative commons is a model for a non-exclusive license granting the right to certain uses of a work. It works on the basis of existing copyright law by encouraging individual creators to sign specially drafted copyright licences under which he irrevocably grants a non-exclusive licence for his work to be used: (i) for the world (ii) for free and (iii) forever *de facto* excluding any possibility to benefit financially from his creativity.

It is for the creator to decide whether he wants to opt for this approach based on an informed choice about creative commons. The isolated benefits of such an approach, such as marketing, might appear persuasive at first, but these simply do not outweigh the costs – namely the opportunity costs – of allowing your work to be used for free. That is, what is the value of downstream revenue payments that have been forgone as a result of this informed choice? So, if Creative Commons is not the answer, what is it?

Let's conclude with our original matrix one more time, and add some arrows to help show where we might be going. Starting off in the top-left box, and working clockwise, we begin with the misguided notion that recorded music is a private good. It might have been, once, but as we know now – it isn't any more, despite the best efforts of DRM. So, from the labels perspective, it has moved into the dangerous territory of becoming a commons.

The inverse of this 'commons' is the consumers' perception, where it appears like a pure public good – or 'free' like water. Yet, ironically, water is often priced in such a way that presents it like a commons! Metaphorically speaking, record company advances are 'drying up' and the industry is now at risk of a drought. So, the challenge is to consider ways in which recorded music can move it back towards a toll good – that is to force some measure of excludability back upon its consumption.



About the Author

Will Page graduated with an MSc in Economics from the University of Edinburgh in 2002, where his thesis was subsequently published by Deutsche Bank and then cited by the Financial Times. Following this, he worked for four years at the Government Economic Service, with terms at the Office of the Chief Economic Adviser and Finance Ministry. During that time, he developed a moonlighting career in the music business, writing for Straight no Chaser magazine and working in A&R. He was appointed Executive Director of Research at the MCPS-PRS Alliance in 2006.



About the MCPS-PRS Alliance

The MCPS-PRS Alliance. MCPS and PRS are the UK collecting societies that ensure composers, songwriters and publishers are paid royalties when their music is used: from live performance to TV and radio, CDs to DVDs, downloads, streams and everything in between. Royalties create a future for music by supporting creators while they continue to write. MCPS and PRS are committed to delivering maximum royalties and world-class service. They work together in an operational alliance to get the best value for the music use of composers and songwriters everywhere.

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THE MUSIC ALLIANCE

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