

# Online Music and Movie Piracy

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## Legislation vs. Innovation

**John R. Bradley**  
**Professor Julie Gay**  
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## **Introduction**

A modern version of the "American Dream" is to create or invent something popular and sell or profit from the idea in order to become financially comfortable and successful.

Intellectual Property Rights through the use of copyright laws and patents have been used for a long time as a way of protecting this idea of creative production benefits. These laws have guaranteed the creator with five basic rights to their creation; modification, distribution, reproduction, public performance, and public display. For someone else to use the copyright holder's creation in one of those areas requires them to obtain permission from the copyright holder. Sometimes permission is given for use without compensation, or for use with compensation. Other times permission is denied even if compensation is offered. Violators of copyright laws can face civil and criminal penalties. The FBI warning on VHS Tapes, DVDs, and BluRays is hard for people to miss. If you violate the copyright law you risk \$250,000 in fines and up to five years in prison. Yet despite these risks, people still choose to violate the law. The problem has become even more interesting as we have entered the digital and Internet age where information can be exchanged more easily across borders and it is harder for copyright holders to track and enforce their rights. With this new digital age have come unforeseen and unintended impacts caused by the violation of intellectual property rights. Some of these impacts are economic and political.

## **Economic Impacts**

One of the economic impacts from online piracy of music or movies is the loss of revenue for the copyright holder. It is difficult to find accurate and consistent statistics and reports to see how big this impact is, but some sources claim lost revenue of \$6.1 billion in 2005

for the movie industry (Forno). In an FAQ on the RIAA (Recording Industry Association of America) website, they refer to a study done by the Institute for Policy Innovation that claims that "global music piracy causes \$12.5 billion of economic losses every year, and a loss of \$422 million in tax revenues, \$291 million in personal income tax and \$131 million in lost corporate income and production taxes" (RIAA).

Another economic impact is the loss of jobs for people who work for companies in the movie or music business. Again, it is hard to find consistent yearly statistics on this impact. A news article from CNET tells us that the US Chamber of Commerce reports 750,000 jobs lost annually due to online piracy (Condon). This doesn't specify what areas the jobs are lost in. I assume it includes software and gaming as well as movies and music. The RIAA refers to the same study by the Institute for Policy Innovation for their statistics. They claim 71,060 jobs and \$2.7 billion in workers earnings lost annually to online piracy (RIAA).

One would think that with the loss of yearly revenue and forced job cuts that the music and movie business would be on the verge of collapse. However, the MPAA's annual theatrical market statistical report for the year 2011 shows that global box office revenue has increased on average by \$1-2 million each year from 2007 to the present (MPAA). The RIAA's statistical report for the year 2011 shows a 4% decrease in physical music units sold (CDs, LP/EP, vinyl record singles, DVD music videos), but a 4% increase in digital download units sold (RIAA). These figures don't seem to represent an industry on the verge of collapse. The movie business has consistently increased revenue each year despite a downturn in the economy and the music industry is breaking even as purchasing habits shift from physical units to digital downloads.

### **Political Impacts**

Along with the economic impacts of online piracy of music and movies come political impacts. The MPAA and RIAA have a long history of testifying before Congress about the woes of technologies that will threaten their industries. In 1982 the MPAA President compared the VCR to the Boston Strangler because it would kill the movie industry (Forno). The RIAA succeeded in lobbying for the passage of the Audio Home Recording Act in 1992. This law imposed a tax on blank cassette tapes and other empty recording media in order to offset the costs of piracy. In 1997 the RIAA also attempted to have MP3 players banned, but was unsuccessful (Salam and Ruffini 37).

The most recent lobbying attempts by the MPAA and RIAA were seeking the passage of the SOPA and PIPA acts in 2012. These acts would have criminalized websites that took "deliberate actions to avoid confirming a high probability of copyright violations." Lobbyists for the MPAA and RIAA spent \$94 billion dollars in 2011 trying to persuade congress to pass SOPA, PIPA and other copyright friendly legislation (Salam and Ruffini 38). Support for these bills was withdrawn and laws were not passed after protests led by Internet companies like Google, Twitter, Wikipedia, Reddit, and others made the public and lawmakers aware of their disapproval of the way the laws would impact the Internet as a whole, and not just copyright violators (Salam and Ruffini 38).

### **Conclusions**

For someone to say that online piracy doesn't occur would be silly. However, many writers and commentators on the recent SOPA and PIPA debates have brought into question how big a threat online piracy of music and movies is to their respective industries. It seems strange that the MPAA and RIAA claims that piracy is killing their industries when every year these

industries continue to post reports that show increased revenue from the previous year. Writer Richard Forno quoted the late Senator Daniel Patrick Moynihan as saying, "you are entitled to your own opinion, but not your own facts." Forno suggests looking into the facts given by the entertainment industry about the impacts of piracy. He cites a 2010 study by the U.S. Government Accountability Office that concluded piracy exists, but questions the statistics used by the entertainment industry to say how much piracy exists. It also concluded there may be no accurate way to measure how prevalent online piracy is or what economic impacts it has. Forno refers to a 'piracy investigator' who in 2011 said that the entertainment industry would boost its piracy statistics to gain stronger support in the media and political arena (Forno).

I believe these industries would be better served by spending a little less on lobbying for copyright legislation and instead change their business model to something that followed the economic theory of the Long Tail developed by *Wired* editor, Chris Anderson. The theory suggests that you can still be profitable by having a large group of smaller successes than relying on a few big successes. He recommends that businesses "make everything available, lower the price, and help people find it" (Meadows 55)

Both industries are moving in this direction but are slow to change. In the music industry you have I-tunes, Pandora, Spotify, & Slacker that make it easy for people to find music they like and listen to it in methods of their choosing. The movie and TV industry is a little slower, but is starting to come along with services like Netflix, VUDU, and Hulu. New technologies will always place a demand on companies to adapt to changing audience demands on how to access and consume their products. With a little more time and money spent on innovation instead of legislation, these companies could meet their customer's demands and exceed their expectations.

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