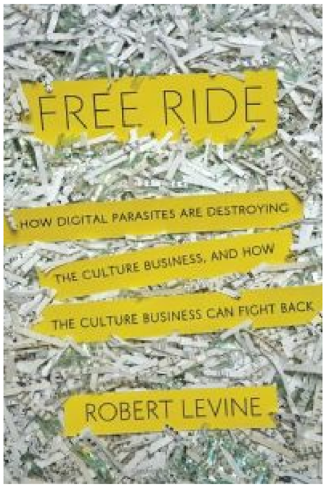

Book Free Ride

How Digital Parasites are Destroying the Culture Business, and How the Culture Business Can Fight Back

Robert Levine
Doubleday, 2011
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Recommendation

Journalist Robert Levine knowledgeably argues that ideology, inaction, misunderstanding and self-interest have created a dangerous situation in which technology is destroying culture. Fortunately, the culture industry can survive if it takes action. In this factually grounded report, Levine passionately urges the culture community – from big publishers to guitar players – to act in its own best interests and to protect its products. *BooksInShort* recommends his treatise to those involved in culture, futurists and anyone interested in a healthy economy where creativity pays.

Take-Aways

- The Internet threatens to destroy the culture business.
- Discussions of culture-based industries usually misrepresent how they work.
- Illegal file sharing has resulted in lower music sales.
- Newspapers that provide free content online earn less revenue and cut costs – as well as reporters – to stay afloat.
- Only copyright laws can ensure that artists get paid. The Internet's legal framework needs reform to cut piracy and facilitate payment for creators.
- Arguments against copyright laws often serve the self-interest of technology companies.
- Subscription services distribute art and make sure users pay creators.
- Internet TV services reduce cable revenue and make lower-quality television likely.
- Semiclosed pay platforms lead to two competing versions of the web: directly paid with controlled access or unpaid with chaotic access.
- Internet participants should unite to foster a "functioning market" that will be more competitive and that will reward creators for their work.

Summary

The Problem with the Online World

Once upon a time, TV, radio, film and music were highly profitable businesses, fertile with cultural innovation. During the 1980s and 1990s, for example, the National Broadcasting Company (NBC) produced numerous hit shows – including *Friends*, *Seinfeld* and *Miami Vice* – that shaped popular culture. In 2003 alone, NBC generated $800 million in profit. Yet by 2010, it was on track "to lose more than $100 million." When Comcast bought a controlling share in NBC, its broadcast properties listed "an on-paper value of zero."

> "The real issue is how to establish a functioning market for content online, whether that involves selling it or supporting it with advertising."

What happened in those seven intervening years? The Internet. The lawless online world is wrecking traditional media companies. Online distribution often occurs outside the market: People copy songs, TV shows, movies and books, and swap them for free. "File-sharing services" provide access to an infinite number of copyrighted songs. Legal services, like YouTube, depend on professional content: Seven of its most popular videos of all time are by major-label artists.

> "Google and other technology giants have the same agenda as the media companies and Internet service providers they lobby against: regulation for thee but not for me."

The rhetoric critics use to frame this problem exacerbates it: This is a battle of faceless, clueless corporations fighting the organic desires of a new generation of "consumers who want music and movies their way" – or so you've been told. The reality is more complicated. Consumers may want certain things, but those things have to come from somewhere. A flood of free content drives down the pay rates for all creators. This happens in an atmosphere distorted by ideology, as initially labeled by Stewart Brand, creator of the *Whole Earth Catalog*, who famously said, "Information wants to be free." However, that's only half of his 1984 pronouncement. The rest proclaimed that important information is valuable and "wants to be expensive."

Music and the Internet

Shawn Fanning, a 19-year-old college student, created Napster, which his fellow students quickly embraced as a way to get music for free. The newly popular MP3 format made it easy to download large audio files, and Napster made it easy to swap them, evoking a strain of counterculture ideology that has drawn US adolescents since the 1960s. Bands who stood up for their property rights, such as Metallica, ended up on the other side of "a new generation gap."

> "In true Alexandrian fashion, Google saw copyright law as a Gordian knot and cut right through it."

Distributing music as shared files is simple, whether listeners exchange them with one another or bands share their music directly with fans. Both eliminate CDs, records, shipping, packaging and warehousing. Both omit money for musicians. Even if record companies exploit musicians, they still pay artists for making records. Music companies help fund and promote bands' tours. No one has managed to create a viable business model using only online promotion and interaction.

> "Amazon seems to see publishers the way technology executives see record labels: as companies that manufacture and distribute physical goods no one needs anymore."

Record companies and file-sharing firms have engaged in a series of conflicts: court cases that aimed at the law and at public opinion, negotiations, public announcements and attempts to resolve the issue technologically, for instance, by using "copy protection." Initially, record companies seemed greedy and totally out of touch. File sharing had a marked negative effect on CD sales, eventually leading to a drop in the number of albums musicians produced. The movie industry faces a similar problem of lost revenue due to piracy, and some people have suggested similar solutions, such as easy streaming from a single source.

"Copyfight"

The first recognizable ancestor of modern copyright law is the British Statute of Anne (1710), which gave printers a 14-year monopoly. The US built legal protection for inventors and artistic creators into the Constitution to "promote the Progress of Science and useful Arts." Copyright rewards people for their creations. This legal protection and incentive is under attack from several directions. Academic Lawrence Lessig got involved in the copyright fight because he thought the 1998 Digital Millennium Copyright Act gave too much power to "media companies." Lessig founded – and Google funded – Creative Commons, an institution that enables sharing. Lessig praises collaborative creation efforts such as Linux and Wikipedia and argues that, since all culture is collaborative, copyright is not as important to creators as most people believe.

> "Although technology has revolutionized the process of distributing books, it hasn't fundamentally changed the process of writing one."

Lessig's argument, which he articulated in his 2005 book *Free Culture*, discounts how piracy penalizes artists. For example, director Ellen Seidler made an inexpensive "lesbian romantic comedy" film. Careful marketing to a loyal audience could have allowed her to break even or make a small profit without releasing the film in theaters. However, as soon as the movie was released on DVD in 2010, pirate sites offered it for free. Seidler found "more than 30,000 links to illegal copies of her movie." She estimates that if even 5% of downloaders bought the movie, she would have turned a profit. But piracy cost Seidler most of her investment.

> "In the grand narrative of the music business collapse, the labels were rescued from their own incompetence by Steve Jobs's iTunes music store, which made piracy a marginal problem."

The copyright fight in Europe, where national laws vary, is somewhat different. Some countries do more to regulate "file-sharing networks" than others. Internet culture is much like American culture, both in favor of capitalism and against regulation. France, for example, is fighting the influx of web culture. The Western European attitude toward regulation differs from the US view. Europeans want rules to protect them from an unregulated free market, not to protect that market.

Print Material

Newspapers symbolize the paradox of culture in a digital age. Despite increased competition, US papers are more popular than ever; they reach one-third of all Americans online, about 75,000,000 readers a month. Traditional media firms (from the BBC to *The Washington Post*) also provide "99% of the stories" that blogs link to, yet they're losing money. Newspapers saw a 45% drop in ad revenue from 2006 to 2009. Thousands of journalists have lost their jobs, and hundreds of papers have closed. This influences how media outlets report the news. Only the largest papers, like *The New York Times* or *The Wall Street Journal,* maintain their own staffs of international reporters. Some newspapers no longer cover statewide or even local city stories.

> "The company that represents the greatest threat to television may be Google."

Newspapers never made money by "selling news." Their content exists to entice readers so advertisers can reach specific markets. This model worked for decades. Online ads target audiences for as little as one-tenth of the newspaper price. When papers shift to publishing online, or push subscribers to read their papers online, they lose money. Web advertising money does not automatically flow to newspapers: Roughly 50% of "online marketing spending goes to search sites." To prevent losses, newspapers can cut expenses or increase revenue. To date, "almost all of them" have cut expenses.

> "The Internet is an irresistible force, but Europe is full of immovable governments."

A few papers, such as the *Arkansas Democrat-Gazette*, do not offer their content free online to nonsubscribers. The result? From 1998 to 2008, the *Democrat-Gazette*'s circulation rose 1.7%, while sales of other papers in the region fell from between 2.7% and 29%. Beyond the shift in advertising revenue, the core problem for newspapers is the allure of "free" written material: news linked to or aggregated by others, posted by bloggers, and so on. Readers already accept this paradigm; problems arose when newspapers conceded that this shift was inevitable.

Internet Killed the TV Star

Before cable, the financial side of television was simple: The three major US networks – NBC, CBS and ABC – knew they reached "a mass audience." If a show was expensive, creators accepted that they would lose money on the first broadcast but could make up their losses through syndication rights. When cable appeared, providers had to persuade American viewers "to pay for something they used to get for free." Cable changed in the 1990s when President Bill Clinton's administration enacted new rules to encourage competition. Cable became very profitable and produced many of the better shows. However, even a hit show like *Mad Men* doesn't draw enough viewers "to survive on advertising alone." The American Movie Channel (AMC) – the producer of *Mad Men* – needs cable fees to survive. Thus split the focus of television production, so that now better shows originate on cable. The networks make cheaper, less challenging fare, such as reality shows like *The Bachelor*.

> "By sheer force of its market size and willingness to regulate the Internet, Europe's decisions about technology and culture will exert a pull on the rest of the world, however they play out."

The online world complicates television's finances further. Some of these complications multiply how viewers can watch their favorite shows; some of them cut at the financial root of television. Innovations like the Boxee Box let people use their TVs to surf the Internet or stream videos without paying cable fees. If people can watch *Mad Men* online for free, AMC ends up in a much weaker bargaining position.

Amazon, Google and Publishing

Amazon and Google both utilized digital technology to change book publishing, but from different angles. Google blends lofty aims with quiet self-interest, such as its ambitious goal to "digitally scan all the world's books." Making all human knowledge available to everyone sounds idealistic, but – less idealistically – Google started scanning books without following existing copyright law. After several lawsuits, Google agreed to make only portions of books available online and to pay for this use in various ways, thus returning some economic benefit to authors and publishers. This proposed settlement fundamentally altered traditional copyright. Rather than needing authors' permission to duplicate their books, Google attained the right to duplicate books unless authors protest. The courts rejected this angle in 2011, but the matter remains unsettled.

> "The problem with Spotify is all too common in the online world. In order to compete with pirate sites, legitimate sites have to aggressively cut prices or offer some media for free."

The advent of e-books, such as those consumers can download and read on Amazon's Kindle, puts pressure on the publishing industry from other angles. Many people assume that hardcover books cost more than paperbacks because of the cost of printing, binding and shipping. But that cost doesn't cover the entire price differential. Hardcovers allow publishers to "maximize revenue" by selling them at a higher price and making them available at an earlier date.

> "Much of the enthusiasm for free media comes from mistaking the packaging for the product."

When Amazon sells e-books, it doesn't have to profit from them. It makes money selling Kindles, which cost more than $100 per device until, in June 2010, Amazon reduced prices on some models to draw readers. Amazon treats book publishers the way tech firms treat recording companies. In fact, a more accurate analogy would be between Amazon and the book publishers' "printing and distribution infrastructure." Publishers give writers advances, edit books, market the books to the right audience, and so on. Amazon does none of that work, but it profits from those who do.

What the Future Might Look Like

One of the web's defining characteristics has been that no single authority is in charge of it. Anyone can publish online, and anyone can access what others publish. Having no barriers makes distribution easy and sales hard.

> "The real conflict online is between the media companies that fund much of the entertainment we read, see and hear and the technology firms that want to distribute their content – legally or otherwise."

In 2010, *Wired* magazine declared the web dead in response to a major shift from "the wide-open web to semiclosed platforms." Many companies are now experimenting with "paywalls" that make content available to customers only if they pay, like "iPhone apps." In the next 10 years, consumers will choose "between two competing visions for the online world." One vision makes the web like cable television: Consumers pay for programming. The other would push cable and other pay systems to become more open, with more free access to programming.

> "The longer the current online chaos lasts, the more bitter the fight between creators and copyright infringers gets."

Certain laws, especially the Digital Millennium Copyright Act, created the free, chaotic conditions defining the Internet through its initial history. In arguing for an open Internet, Google and its affiliated institutions frame their argument in terms of "net neutrality" and democratic access. However, the new media organizations who fight for this freedom function like traditional media: They attempt to lobby governments to regulate other media while leaving them alone. Closed systems may prove to be a superior business model. Furthermore, consider whether a system can really be open when one corporation – Google – dominates it so completely?

The question remains whether free universal access is the best model for cultural production. The Internet's current legal framework needs reform to cut piracy and facilitate paying culture creators. No single law will suffice, and various industry groups can't execute changes alone. However, if these forces work together, they can foster the emergence of a "functioning market," improve online culture and break up the market dominance of a few firms.

About the Author

Robert Levine, a former executive editor of *Billboard*, is a features editor at *Wired*. He has written numerous articles for *The New York Times*, *Fortune*, *Vanity Fair* and *Rolling Stone*.