% Distribution

- Vivendi Universal: 32%
- Sony BMG: 25%
- Warner: 20%
- EMI: 9%
- Others: 13%
Why is it not a problem?

- Competitive price of music is too low to recover initial investment
- Traditional trade-off between static & dynamic efficiency
- IPRs grant monopoly rights to ensure a sufficient provision of music
Why is it a problem?

- Theory assumes that only one market distortion exists.
- If there is more, then the current trade-off is not socially optimal.
- Recording companies are lobbying for stronger IPRs, i.e. more monopoly power.
What other market distortions?

- Tacit collusion:
  - So few competitors nearly always imply tacit collusions, that is a far greater distortion than what originally expected
- Market power in the downstream market may imply market power in the upstream market
Monometapoly

- A monometapoly is a firm that is, at the same time, a monopsony on the input market and a monopoly on the output market.
- Each of the characteristics leads to market distortion:
  - Monopoly: lower output quantity and higher output price
  - Monopsony: lower input quantity and lower input price
- Are these effects combined? Do they cancel each other out?
The model

- Compares the input and output quantities and prices, as well as the social welfare in three cases:
  - Perfect competition
  - Monopoly
  - Monometapoly

- Conclusion:
  - Output market: monometapoly produces less and charges more than a monopoly
  - Input market: monometapoly uses less input and pays lower wages than a monopoly
  - Profit: monometapoly profit is always higher
  - Social welfare: deadweight loss is the highest with monometapoly
Analysis

✧ IPRs likely to be too strong due to wrong estimation of market distortions
✧ Induced negative effects not accounted for:
  ✧ Not only loss of quantity but loss of variety
    ✧ Because artistes are different
    ✧ Because capital is substituted to labour
    ✧ Because of “Keynesian beauty contest” (endogenous)
✧ Loss of quality:
  ✧ Adverse selection
Conclusion

- Despite lower barriers to entry, recording industry more concentrated than ever
- Market distortions created by IPRs largely underestimated (tacit collusion, monometapoly)
- The traditional wisdom that monopolies are a bad for a good is undermined because monopolies are also very likely to be monopsonies as well.
- What is worse than a chain of monopolies?
  - A monometapoly