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Sharing sounds: Does file sharing harm the music industry?

✘ NO

Four File Sharing Fallacies

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Since the rise of Napster in 1999, music industry organizations such as the International Federation of the Phonographic Industry (IFPI), the Recording Industry Association of America (RIAA), and Music Canada (formerly the Canadian Recording Industry Association, or CRIA), and their many counterparts in countries around the world, have claimed that peer-to-peer (P2P) file sharing will destroy the industry, weaken economies, and undermine musical creativity. According to CRIA, the widespread use of unpaid downloads means "fewer artists get the chance to make their mark, and the labels are less likely to take a risk with more experimental music or niche genres. Consumers of 'free music' may get a short-term benefit, but at the long-term cost of hurting the artists they most admire, and new talent" (quoted in Leman-Langlois, 2005, p. 145). In response to the file sharing threat, the major record companies sued tens of thousands of alleged file sharers,[1] deployed technologies that monitor and constrain the use of digital music content,[2] and pressured governments around the world to grant copyright owners unprecedented control over online communication.[3] However, the academic literature and economic data related to file sharing suggest that the industry's claims regarding the harmfulness of file sharing rests on a series of fallacies. This chapter discusses four of these fallacies and argues that they divert attention from the contexts that shape file sharing's uses and effects.

FALLACY 1. THE MUSIC INDUSTRY IS ON THE BRINK OF COLLAPSE

In 2001 the IFPI claimed, "Music piracy poses a greater threat to the international music industry than at any other time in its history" and that piracy (including file sharing) "stunts the growth of the information-based economy [and] erodes innovation and cultural creativity" (2001, p. 2). Yet, according to the IFPI's data, the value of the worldwide digital music market grew by 1000 percent to $4.6 billion from 2004 to 2010 (IFPI, 2011, p. 5). Despite this spectacular growth, Frances Moore, the CEO of IFPI, claimed in 2011 that the industry should still be very worried about the danger of file sharing: "Digital piracy, and the lack of adequate legal tools to fight it, remains the biggest

threat to the future of creative industries" (IFPI, 2011, p. 3). The report goes on to suggest that combating file sharing with more severe penalties for noncommercial copying is not an option but "an economic necessity" (p. 18).

There are at least two good reasons to be skeptical of such claims. First, many scholars have demonstrated that industry organizations construct file sharing as a threat in order to deflect attention from problematic practices and conditions in the music industry, to discourage artists from experimenting with network media's capacity to bypass the industry's monopoly of distribution, and to shore up public support for legislative changes that extend the market dominance of the major record companies to the Internet (Gillespie, 2009; Klimis & Wallis, 2009; Leman-Langlois, 2005; Logie, 2006; McCourt & Burkart, 2003; Yar, 2005). Second, media history is rife with similar claims about the negative impact of copy technologies. In previous episodes of the "piracy wars," copyright owners claimed that piano rolls, film, radio, cable television, VCRs, and cassette tapes, among other technologies, would ruin the cultural industries (Lessig, 2004). In each case, copy technologies strengthened rather than harmed those industries.

Have industry revenues actually declined? For industry organizations, the answer is yes. In a section of its report devoted to digital piracy, the IFPI includes a graph that shows a 77 percent decline in global debut album sales between 2003 and 2010 (2011, p. 16). As with many of the industry's claims about declining sales and revenues, this figure reflects sales of sound recordings, which refers to sales of digital downloads (such as iTunes audio files) and physical copies (such as CDs). In Canada, revenue from sales of sound recordings did indeed decline by 22 percent from $489 million in 2007 to $380 million in 2009 (Statistics Canada, 2009, p. 14). However, industry organizations often understate the importance of revenue from performance rights,[4] music and music video for mobile devices,[5] live music,[6] and artist-related merchandise,[7] all of which are growing but are usually excluded from the category of record sales.[8]

In order to squeeze profit from these growing segments of the music industry, record labels have rewritten contracts with artists. The use of file sharing by artists to bypass the industry's monopoly of music distribution is potentially a much greater threat to the dominance of the major record companies than the use of file sharing by consumers to avoid paying for music (Jones, 2002, p. 220). Labels have responded to this threat with so-called **360 deals**, which promise artists an array of complementary services such as merchandising deals but which also lock artists into a dependent relationship with the label for those services (Curien & Moreau, 2009, p. 111; Klimis & Wallis, 2009, p. 280; Leyshon, Webb, French, Thrift, & Crewe, 2005, p. 199). As Matt Stahl (2011) explains, whereas traditional recording contracts allow the record company to acquire revenue from licensing and sales of the artist's recordings, the expanded-rights contracts in 360 deals enable "the company to 'participate' in virtually all artist activities and revenue streams, including such formerly off-limits areas as merchandise and touring" (p. 669). The widespread use of expanded-rights contracts undermines the renewed sense of independence and entrepreneurialism among artists inspired by file sharing and other network media, and buffers labels against the threat of declining record sales by allowing them to control revenue from concerts, merchandising, and other artist activities.

Dwayne Winseck (2011) points out that by including revenue streams from concerts, merchandising, ring tones, and other music-related products in the calculation of the music industry's total revenue, it becomes clear that music industry revenue in Canada is growing, not

declining (para. 6). Between 1998 and 2011 (the period in which the IFPI claims that file sharing began to decimate industry revenues), the value of the Canadian music industry increased from $1.26 to $1.4 billion (para. 8). By focusing exclusively on sound recording sales and downplaying the growth of revenue streams that have been opened up by new technologies, expanded-rights contracts, and royalties from new sources such as web radio and social media, music industry organizations paint a portrait of an industry on the brink of ruin. In fact, the music industry is thriving, not withering, and record companies have successfully contained the threat of file sharing by extending their reach into revenue streams formerly controlled by artists.

FALLACY 2. SUBSTITUTION IS THE ONLY SIGNIFICANT EFFECT OF FILE SHARING ON RECORD SALES

The claim that file sharing is harmful stems from a narrow focus on one type of effect that file sharing might have on sales. Known as the **substitution effect**, the hypothesis is that unpaid P2P downloads substitute for or displace copies that would have been purchased through stores or online retailers (Connolly & Krueger, 2006, p. 710). Key elements of the industry's campaign against file sharing—metaphors of theft, estimates of the cost of piracy, and causal links between file sharing and declining record sales—are based on the assumption that P2P downloads substitute for purchases and are thus "lost sales."[9]

To what extent does file sharing substitute for purchased downloads and CDs? In an oft-cited analysis of industry sales data, Stan Liebowitz (2003) tested various explanations for the decline in record sales and determined that the substitution effect does indeed cause "significant harm to the record industry" (p. 29). Several subsequent studies produced similar results, although many of these studies are based on consumer surveys and thus lack detailed information about activity in file sharing networks (e.g., Rob & Waldfogel, 2004; Zentner, 2006). In one of the few studies of file sharing that does not rely on survey data, Felix Oberholzer-Gee and Koleman Strumpf (2007) examined server logs and tracked files transferred by P2P network users in the United States over a four-month period and compared these data with sales data provided by Nielsen SoundScan. Although billions of files were downloaded from P2P networks in 2002 (the year of the study), Oberholzer and Strumpf found that "file sharing has only had a limited effect on record sales.… This estimated effect is statistically indistinguishable from zero" (p. 3).[10] Using Canadian survey data, Birgitte Andersen and Marion Frenz's (2007) study, commissioned by Industry Canada, found "a positive and statistically significant relationship between the number of music tracks downloaded via P2P networks and the number of CDs purchased" (p. 27). The studies by Andersen and Frenz and by Oberholzer-Gee and Strumpf suggest that file sharing's effects vary according to the context in which people use file sharing networks, and many of those effects conflict with the substitution hypothesis.

At least five other uses of file sharing networks can help offset or decrease the impact of substitution. Consumers frequently use file sharing networks to "taste test" music prior to purchasing it, which can generate a *sampling effect* where consumers purchase more music because they are confident that they will like what they buy (Cenite, Wang, Peiwen, & Shimin Chan, 2009, p. 212; Connolly & Krueger, 2006, p. 710).[11] Consumers also use file sharing networks to explore and learn about music, which can lead to an *exposure effect* by introducing users to artists and expanding the potential market for products associated with those artists (Blackburn, 2006, p. 9;

Gopal, Bhattacharjee, & Sanders, 2006, p. 1530). By circulating recordings quickly and widely, file sharing might generate a *network effect*, increasing the value of paid downloads and related music products by expanding the "network" (community, scene, or fan base) in which those products are meaningful (Blackburn, 2006, p. 10; Liebowitz, 2006, p. 18).[12] File sharing networks are also important tools for *collecting* recordings that are difficult to find because they are no longer commercially available; such recordings acquire what Lawrence Lessig (2004) calls a "second life" by means of their circulation in file sharing networks.[13] Finally, file sharing networks have important *non-infringing* uses, enabling, for example, the sharing of works that are in the public domain, works to which the copyright has expired, or works that copyright owners want to give away (Lessig, 2004, p. 69).

The claim that file sharing negatively affects record sales obscures the diverse uses that have a positive effect or no effect on sales. Of the six uses—substitution, sampling, exposure, network effects, collecting, and non-infringing uses—only substitution has a potentially negative effect on sales.

FALLACY 3. FILE SHARING IS THE ONLY SERIOUS CHALLENGE FACING THE MUSIC INDUSTRY

While industry organizations link the popularity of file sharing to the decline in record sales, one might just as easily point to the rise in DVD sales, which occurs at roughly the same time as the glut in record sales (Geist, 2005, para. 10; Oberholzer-Gee & Strumpf, 2007, p. 39). In Canada, sales of video game hardware and software also increased from $423 million in 2001 to $1.7 billion in 2010 (PricewaterhouseCoopers, 2006, p. 27; Secor, 2011, p. 6). Liebowitz (2005) notes that CD sales may be affected by a process called time-substitution, whereby consumers spend more time watching DVDs and playing video games, for example, and thus have less time for listening to CDs. According to Liebowitz, time-substitution may account for up to half of the drop in CD sales between 1999 and 2003 (p. 459).[14]

Decisions made by the music industry's largest firms may have also contributed to the decline in record sales. One such decision was the shift to mass merchant retailing for CD distribution. In the 1990s, record companies became increasingly reliant on big-box store chains like Best Buy and Wal-Mart for CD distribution (Blackburn, 2006, p. 8; Oberholzer-Gee & Strumpf, 2007, p. 39). Mass merchant retailers charge consumers less for CDs than music stores and they carry a few thousand titles rather than the tens of thousands of titles that music store chains like HMV and Tower Records once carried (Geist, 2005, para. 12–14). This reliance on big-box chains in physical distribution has led to reduced shipments of CDs to stores, less store space devoted to CDs, a decline in the amount and variety of CDs on shelves, and lower record label revenue from CD sales.[15]

Consolidation in the music industry also reduced revenues. The majority of the decline in 2005, for example, was due to losses incurred during the merger of Sony-BMG (Oberholzer-Gee & Strumpf, 2007, p. 39). Consolidation in music distribution put a stranglehold on smaller labels, which have been forced to develop alternatives to record sales such as live performance (Ontario Media Development Fund, 2011, p. 6). Concentrated ownership also set the conditions for CD prices to rise, which may have had an adverse effect on sales. In the 1990s, the "big five" music labels allegedly inflated the price of CDs through a price-fixing arrangement with the largest

American music retailers beginning in 1995 (McCourt & Burkart, 2003, p. 335). The price of CDs increased from $12 to $15 during the period in which the labels were allegedly colluding to inflate prices (Peitz & Waelbroeck, 2004, p. 6).

High prices for official or licit copies have been particularly harmful to sales in low-income countries. As Joe Karaganis (2011) argues, in emerging economies, the vast majority of musical works are obtained illicitly; in Mexico, for example, 82 percent of music is pirated (p. i). The consumption of unauthorized recordings will likely increase in developing countries as laptops connected to mobile data connections enable access to P2P networks (Sandvine, 2011, p. 8). While music industry organizations claim that these high levels of piracy are due to outdated and poorly enforced copyright laws, Karaganis notes that prices of licit CDs and other cultural goods are so high in emerging economies that they have become luxury items. Prices are deliberately kept high in developing countries, despite dismal sales, in order to maintain high prices in developed countries. In other words, record companies and other media firms sacrifice sales in low-income countries in order to maximize profit across the global market. The surge in media piracy in developing countries is not a law enforcement problem but a "pricing problem," Karaganis argues, since the demand for illicit copies is largely a result of pricing problems in the licit market (p. iii).

Industry reports typically ignore sales data prior to 1999, which gives the impression that the current slump in record sales is the first of its kind in the history of the music industry. In fact, record sales declined in the late 1970s and early 1980s, in part due to economic recession (Connolly & Krueger, 2006, p. 710). Liebowitz (2003) points out that U.S. music sales plummeted during the Great Depression from 74.8 million units in 1929 to 5.5 million units in 1932 (p. 14). But the recession of the early 2000s was, according to Liebowitz (2005), "far too mild" to have any significant impact on sales (p. 455). However, it is unlikely that record industry revenues have been immune to the global financial crisis now that the scale and severity of this recession have become clear.

Perhaps the most significant challenges facing the industry stem from the unintended consequences of the industry's expansion into online licensing and sales. As Marie Connolly and Alan Krueger (2006) suggest, "Perhaps what has occurred is not just substitution of CDs for MP3 files, but a shift in leisure activities brought about by the new technologies. Internet and computers could have created a change in how people spend their time, possibly reducing the demand for pre-recorded music" (p. 711). These shifts are particularly evident among teenagers, whose consumption habits are shifting away from file sharing, paid downloads, and CDs (both purchased and shared) and toward cloud-based streaming and social media listening services (NPD Group, 2009, March 31). As Jeremy Morris (2011) argues, underlying these technological and industrial trends is a crisis regarding "the place of music in social life" as consumption practices and musical experiences become integrated into a "series of interfaces and formats" controlled by software and telecommunications firms (para. 39). The IFPI's representation of file sharing as the industry's primary problem overestimates the economic impact of file sharing and underestimates the complexity of the challenges stemming from the industry's transition to network media.

FALLACY 4. FILE SHARING AFFECTS EVERYONE IN THE MUSIC BUSINESS IN THE SAME WAY

Industry organizations often give the impression that most artists are opposed to file sharing. However, over half of the artists surveyed in a 2004 Pew study identified their position as "not too

concerned" or "not concerned at all" about file sharing (Madden, 2004, p. 21). The survey points to significant variations in artists' perceptions of file sharing. While certain high-profile artists periodically denounce file sharing in their media appearances, many other artists claim that long-standing problems within the music industry, such as recording contracts that favour labels over creators, pose a much greater threat to artists' rights and livelihoods than file sharing and other forms of unauthorized copying.[16]

Just as perceptions of file sharing vary between artists, the financial impact of file sharing on artists varies due to differences in the sources of artists' income (some artists depend on record sales while others, including many "top earners," rely almost entirely on sales of concert tickets) and uneven distributions of royalties, promotional services, and other resources in the music business.[17] In his analysis of file sharing activity and U.S. sales data, David Blackburn (2006) argued that file sharing benefits emerging artists by increasing awareness of those artists and expanding their potential market, whereas stars have little to gain from file sharing's exposure effect since they are already extensively promoted by their record labels and the media.[18] According to Blackburn, "The effects of file sharing on sales of recorded music are extremely unlikely to be consistent across artists, and therefore it is vital to identify these differences to get an accurate representation of the effects" (p. 6). Despite the efforts of researchers to highlight the heterogeneity of file sharing's effects, the industry continues to promote the view that the effects of file sharing are homogeneous.

In each country, file sharing's effects are also mediated by a *regime of copying*, which refers to the institutions, rules, technologies, and practices that regulate copying. In the 1990s, many governments changed their regimes of copying in response to digital media. Some countries, such as the United States, focused on preventing piracy through the development of copy control technologies that encrypt and monitor digital content. Other countries, such as Canada, emphasized **alternative compensation systems** for unauthorized copying. Alternative compensation systems are based on the notion that some degree of unauthorized copying is inevitable and that individuals in democratic societies should be able to make copies privately without being monitored by governmental or corporate institutions. In this view, governments should focus on developing systems that offset losses associated with unauthorized copying rather than using public funds in a perpetual attempt to prevent or eliminate unauthorized copying (Condry, 2004, pp. 344–345). In 1997 the Parliament of Canada amended the *Copyright Act* to allow individuals to copy sound recordings for personal use and created an alternative compensation system through the blank media levy. Manufacturers and importers of CD-Rs and other recordable media are required to pay the levy to the Canadian Private Copying Collective (CPCC), which distributes private copying royalties to artists and labels through their royalty collection organizations. As Michael Geist (2005) notes, "The evidence suggests that Canadian artists have scarcely been harmed by the reduced sales [of sound recordings] from 1999 to 2004 since royalty losses are fully compensated through the private copying levy" (para. 17). By 2010, the CPCC had distributed over $212 million to Canadian artists, record labels, and other copyright owners (Canadian Private Copying Collective, 2011, p. 1).

File sharing's economic impact in countries like Canada, where artists and labels are compensated for private copying, is considerably different from file sharing's impact in countries where alternative compensation systems are either absent or ineffective. In her study of twenty-one

independent music labels in Montreal, Tina Piper (2011) found that these labels generate the majority of their revenue from grants and other forms of government funding (rather than from record sales and licensing) and that the owners of these labels were less concerned about piracy than other issues in the industry. This suggests that Canada's alternative compensation system, along with other forms of federal and provincial support for music production, to some extent insulates smaller labels from the effects of file sharing and other shifts in consumer technology, and allows those labels to distance themselves from the obsessive focus on piracy characteristic of transnational music firms operating in Canada.

CONCLUSION

Through the IFPI and other industry organizations, the major record companies are in the process of persuading policymakers in Canada and many other countries to create anti-piracy rules that would grant copyright owners and other private institutions tremendous control over online communication, including the ability to block websites and terminate alleged infringers' Internet access. The industry argues that these wide-reaching anti-piracy laws and international agreements are necessary to reduce the harm caused by file sharing and other forms of piracy. However, the claim that file sharing is harmful is not based on a consensus among researchers; it primarily reflects the assumptions of large copyright owners about the effects of file sharing technologies on the behaviour of audiences. Few other proposed legal reforms that affect so many communicative activities are based on such scant evidence of harm. As a result of the industry's intensive and ongoing intervention in uses and perceptions of file sharing, file sharing remains largely untapped as a source of alternative modes of circulating and communicating music.

Notes

[1] Since 2003, the major record companies have filed over 30 000 copyright infringement lawsuits against individual file sharers in the United States (Anderson, 2009). The major labels' "shock and awe"–style litigation campaign was extended to Canada in February 2004 when CRIA sued twenty-nine Canadian users of the Kazaa file sharing network, but the Federal Court of Canada ruled that CRIA had not established a prima facie case of infringement (Canadian Internet Policy and Public Interest Clinic, 2005). In April 2005, the IFPI announced that it was coordinating at "new wave of lawsuits" across Europe and Asia (IFPI, 2005).

[2] The music industry pressured Apple and other electronics firms and online music retailers to implement technological protection measures (TPMs) and digital rights management (DRM) systems, which are designed to make copying more difficult. Whereas copyright law enables owners to take legal action after infringement has occurred, the music industry has adopted technologies that are designed to prevent unauthorized copying altogether. Scholars have criticized these copy control technologies on the grounds that they contribute to monopolization in the media and cultural industries, undermine freedom of expression and privacy, and restrict forms of copying that are permitted and even encouraged by copyright laws (Cameron, 2009; Radin, 2004; Sharpe & Arewa, 2007).

[3] As Ariel Katz (2005) notes, in the 1990s, the music industry's lobbying efforts "yielded significant achievements in the form of new international treaties, such as the TRIPS Agreement and the WIPO Copyright Treaty; new legislation at the national level (such as the *Digital Millennium Copyright Act* in the United States); and increased government spending on enhanced public enforcement of copyright laws" (pp. 155–156). Music industry organizations are currently focusing their efforts on the development of more effective means of enforcing copyright online, such as "graduated response" systems whereby warnings are sent to alleged infringers, followed by the termination of the users' Internet access. In this way, copyright owners

are bypassing the legal system and using other private institutions such as Internet service providers to identify and punish alleged infringers. Graduated response rules have been signed into law in the U.K., France, and South Korea, and were incorporated into the proposed Anti-Counterfeiting Trade Agreement, to which Canada is a signatory. The proposed *Stop Online Piracy Act* in the United States goes a step further and would enable foreign websites suspected of infringement to be blocked.

[4] Worldwide in 2010, "performance-rights distributions to record companies totaled US$868 million, up 9.2% compared with US$794.6 million in 2009," according to Music & Copyright, a music industry research service (2011, para. 3). In the United States, performance rights grew more rapidly than the global average. Citing the IFPI's data, *Billboard* reported that revenue from performance rights increased by 28 percent, from $70 million in 2009 to $90 million in 2010 (Billboard, 2011, para. 6). The proliferation of mobile and online music services that pay royalties to the labels and the development of more effective royalty collection systems are largely responsible for this increase in performance rights revenue.

[5] According to the Warner Music Group, global industry revenue from mobile music was $1.6 billion (U.S.) and Warner expects that mobile revenues will continue to increase: "While revenues from ringtones initially drove the mobile music business, new mobile phones equipped with new capabilities are increasingly offering the capability for full-track downloads and streaming audio and video" (Warner Music Group, 2010, p. 19). One recent success story in the mobile music market comes from U.S.-based mobile provider Cricket, which claims that its Muve Music plan (which bundles unlimited music downloads with its monthly mobile plans) acquired 500 000 subscribers in 2011, its first year of operation (Steinberg, 2012).

[6] Although the number of concert tickets sold in the United States has declined since 2000, revenue from ticket sales has grown because the price of tickets has increased (Connolly & Krueger, 2006, p. 682).

[7] Revenue from merchandising has increased due to reduced costs and the use of expanded-rights contracts, which allow record labels to acquire a share of merchandising revenue.

[8] Since the 1980s, record companies have increasingly focused on the exploitation of intellectual property rights in musical works across different media rather than relying on the more traditional understanding of profit in terms of "moving products" or selling records (Jones, 2002, p. 218). The transition to digital media and online distribution is intensifying this trend toward cross-media rights exploitation.

[9] Various trade organizations calculate the cost of piracy by estimating the number of pirated goods consumed in a given market and using retail prices to gauge the monetary value of those goods. The figures produced in this manner are rather alarming and are thus useful for constructing piracy as an urgent policy problem. For instance, the Canadian Intellectual Property Council (2009) suggests that, in Canada, the cost of "piracy" (everything from counterfeit Viagra pills to P2P downloads) is approximately $22 billion "in lost tax revenue, investment and innovation" (p. 14). These estimates assume that all P2P downloads substitute for purchased recordings even. No economic study of file sharing that I am aware of demonstrates such far-reaching and encompassing substitution effects. Unlike estimates of the cost of piracy, links between increases in file sharing and decreases in record sales have the merit of focusing on actual historical trends. While there are some indications in the economics literature of a correlation between the popularization of file sharing and declining record sales, industry organizations often mistake this correlation for causality.

[10] According to the authors' estimates, "While file sharers downloaded billions of files in 2002, the consequences for the industry amounted to no more than 0.7 percent of sales" (Oberholzer-Gee & Strumpf, 2007, p. 39).

[11] Andersen and Frenz (2007) found that substitution effects were offset by file sharers who use file sharing in order to sample and who tend to buy more CDs as a result (pp. 28–29).

[12] Such effects have been observed in the software industry, where publishers deliberately leave their products open to piracy in order to achieve faster and wider distribution than competitors (Katz, 2005, p. 157). Some economists have suggested that business models in the music industry could be adapted so that rights-holders would be able to charge more for official copies when file sharing begins to generate a network effect (Gayer & Shy, 2005, p. 477).

[13] Mark Cenite and co-authors (2009) found that some file sharers use P2P networks as a kind of archive in which music that is difficult to find can be heard once again. See also Markus Giesler and Mali Pohlmann (2003) for an extended discussion of the use of file sharing in practices of music collecting.

[14] Liebowitz (2003, 2006) rejected the idea that competing products, such as DVDs, had a significant impact on music industry revenues. In his view, CD and DVD purchasing complement rather than displace each other.

[15] The Warner Music Group notes that these trends in physical distribution and retailing have had a significant impact on record sales: "Retailers still account for the majority of sales of our physical product; however, as the number of physical music retailers has declined significantly, there is increased competition for available display space. This has led to a decrease in the amount and variety of physical product on display" (Warner Music Group, 2011, p. 51).

[16] In the U.K., Annie Lennox, Ed O'Brien (Radiohead), Dave Rowntree (Blur), and others formed the Featured Artists Coalition (FAC), which advocates for artists' rights in the negotiation of record contracts and in intellectual property reforms and other areas of law and policy (Featured Artists Coalition, n.d.). Rather than seeking increased legal restrictions on file sharing networks, FAC encourages the development of strategies and policies that enable artists to "monetize" file sharing and other forms of unauthorized reproduction and distribution.

[17] Artists have traditionally enjoyed 100 percent of merchandise sales at their concerts and 50 percent of ticket sales, whereas in record contracts, the artist's share of royalties was often so low that "only the most popular artists earn substantial revenue from record sales" (Connolly & Krueger, 2006, p. 674). The industry practice of allocating the vast majority of revenue from record sales to the label forces many artists to seek alternative sources of income, such as increased touring.

[18] Although many pro-file sharing commentators cite Blackburn's study as evidence of the positive effects of file sharing, Blackburn (2006) notes that the long-term effects depend on the way record companies respond to the perceived effect of file sharing on sales (p. 38). If record companies stop investing in new artists owing to the fear that file sharing will reduce the probability that new acts will achieve stardom, this decline in investment would have a negative effect in the long term.

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Discussion Questions

1. When did the issue of file sharing begin to gain attention? What were some of the first considerations raised?
2. Explain how P2P file sharing harms the music sector.
3. What role do free riders play in the harm being done to the music sector?
4. This chapter discussed six uses of file sharing networks: substitution, sampling, exposure, network effects, collecting, and non-infringing. Based on your own experience with file sharing networks, burned CDs, or other music-sharing media, do you agree with the major labels that substitution is the only significant use of these media? Or do you use music-sharing media for other reasons as well?
5. File sharing played an important role in the shift from tangible music formats towards network media in which recorded music acquires the characteristics of software: intangible, customizable, portable, remotely-accessible, and ubiquitous. In your view, are these characteristics of music in the network media environment having a positive or negative impact on the way people consume and experience music?
6. In the early days of file sharing, digital media theorists such as Steve Jones suggested that file sharing's most significant threat to record labels is not the manner in which consumers use file sharing to obtain free downloads but rather artists' uses of file sharing (and other network media) as alternative means of promoting and distributing their own works. Do you agree with Jones? Why or why not?