Piracy in the Film Industry:

A Socioeconomic Anaylsis

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The turn of the century was punctuated by a vast technological revolution that has fundamentally redefined global socioeconomic standards. Advances in audio/video packaging coupled with the monumental rise of the Internet have fostered entire new markets for media distribution. While information and data can be transmitted across the globe like never before, the breakthroughs of the digital age are not without their caveats, specifically in the world’s prevailing media industries: music, software, and—notably—film.

17 of the top 20 highest grossing movies of all time hit theaters within the past ten years, with 15 of the 20 debuting within the past 5.[[1]](#footnote-1) Yet movie studios struggle to earn profits. In fact, PricewaterhouseCoopers director Matthew Lieberman projects a dismal 0.6% growth in the coming years.[[2]](#footnote-2) In spite of rising industry revenue totals over the past two decades, domestic and global film industries alike have struggled to overcome surging costs and remain profitable. In addition to the heavy losses sustained by ballooning marketing costs[[3]](#footnote-3), as describes Warner Bros. CEO Kevin Tsujihara, Hollywood appears to have fallen victim to a more “implicit” cost: piracy. The Motion Picture Association of America (MPAA) has campaigned vehemently against piracy in the film industry, citing losses of billions of dollars annually and over one hundred thousand jobs in 2005 alone.[[4]](#footnote-4) But piracy has become a widespread and often habitual practice in society, and while it is in fact illegal, prevailing social conventions suggest that the crime itself is an acceptable transgression given its low risk nature and the belief that no harm comes from mere copying of media as opposed to stealing, based on research conducted by Professor Blaine J. Fowers and Jenessa Malin of the University of Miami and Duke University, respectively.[[5]](#footnote-5)

Alongside this, the effects of piracy—economic or otherwise—are hotly contested by the film industry, economists, consumers, and the government. Many question the validity of damage estimates made by the MPAA and Hollywood film studios, if not blatantly rejecting the highly lucrative monetary losses projected by seemingly arbitrary models. The Institute for Policy Innovation (IPI) attributed $20.5 billion in annual losses to piracy, per its estimates. Such estimates included a contested “multiplier effect” that functionally does not exist, or so says University of Kansas economist Koleman Strumpf.[[6]](#footnote-6) And central to the MPAA’s argument regarding the severity of piracy’s effect on revenue is the percentage of pirated copies that would otherwise have been purchased legally. The MPAA contends obdurately that 100% of illegally viewed content would have been legally paid for in the absence of piracy.[[7]](#footnote-7) Yet Professors Rafael Rob and Joel Waldfogel of the University of Pennsylvania Economics Department disagree; they write that each consumer has his own willingness to pay, and consumers with willingness’s to pay below the legal price of a film—whether via movie ticket or dvd—may still view a free pirated copy of the film.6 Moreover, contrary to industry sentiment, a UK consumer report conducted by Ofcom illustrates that significant portions of the public engage in piracy specifically because they “can’t afford to pay,” “already spend enough,” or feel “content costs too much.”[[8]](#footnote-8) This sentiment is echoed, if not magnified, in poorer countries, in which consumers are incapable of legally obtaining content due to lack of distribution or to cost-prohibitive premiums imposed by studios and distributors; Joe Karaganis, the director of the Social Science Research Council theorized thisafter heading “the first independent, large-scale study of music, film and software piracy in emerging economies….”[[9]](#footnote-9) In that regard, piracy may even allow for discovery of material that could not be otherwise accessed.9 While not every pirated copy in existence represents a sale lost by the industry, by the same token, at least some pirated copies in existence represent lost sales.

In all likelihood, piracy is neither exterminating the film industry nor void of loss or consequence; rather the effect lies somewhere in between the dogmatic and polarized standpoints of pro- and anti-piracy activists, a sentiment echoed by Julian Sanchez, a research fellow at the libertarian Cato Institute, who concedes that: “There is a real effect but perhaps not the catastrophic effect the industry likes to claim when asking the government to pick up the tab for being the piracy police.”6 Still, anti-piracy activists and pro-piracy groups alike are adamant regarding their assessment of piracy’s impact, and very few offer concessions towards opposing arguments. The anti-piracy conglomerate has abandoned accurate reporting of data and statistics on several occasions in their fierce campaign to eliminate piracy. Statistics such as $250 billion in annual losses have been circulated for years by the MPAA and government alike, but the Government Accountability Office concluded that "it is difficult, if not impossible, to quantify the economy-wide impacts,” with the help of “numerous experts inside and outside of government.”[[10]](#footnote-10) And the MPAA was found to have “grossly inflated” the percentage-losses due to college-aged pirates; the MPAA reported 44% losses to Congress while petitioning for legislation, even though, at most, only 15% of “losses” could be attributed to piracy among college users.10

Nevertheless, pro-piracy circles too have cited unsubstantiated and questionable explanations of piracy’s role in film, including the dicey claim that piracy has a net-positive effect on industry profits because it increases publicity, thereby reducing marketing costs. The creator of HBO’s massively successful *Game of Thrones* himself has even attributed the show’s growing popularity and increased viewership to piracy and the added intrigue resulting from its illegal sharing; *Game of Thrones* was the #1 most pirated TV show the past two years, and 2015’s box office totals showed similar trends in the film industry.[[11]](#footnote-11) Ray Walsh, a UK journalist, and Ernesto Van der Sar, Founder and Editor-in-Chief of *TorrentFreak*, both point to research from Rentrak in support of 2015’s record performance at the box office (an estimated 38 billion dollars in revenue).[[12]](#footnote-12) Despite this, Warner Bros.’s struggles with “ballooning marketing costs”[[13]](#footnote-13) have been echoed by Paramount, whose global marketing costs per film have increased from $150 million to $200 million in recent years; as Warner Bros. CEO Kevin Tsujihara has stated, his studio’s marketing costs are up to approximately $2 billion annually, and cutting them down further has become a top priority—piracy effects notwithstanding.3

The issue of piracy’s effect on marketing manifested itself as recently as December of 2015, when screener copies of hotly anticipated blockbusters *The Hateful Eight* and *The Revenant* leaked prior to the films’ release dates.[[14]](#footnote-14) In 2003, the MPAA issued a temporary ban on “screeners,” in an effort to avoid and/or minimize damages caused by such leaks, but the ban was lifted after being deemed illegal in US District Court.[[15]](#footnote-15) After the December leaks, Hive-CM8, the hacker responsible for the leak apologized for his actions, yet contended that the buzz surrounding his leak would help the producers make more money; subsequently, Keith Kupferschmid, “the CEO of the Copyright Alliance, which counts the MPAA and major Hollywood studios among its members,” blasted Hive-CM8 for his “patently false and ill-informed” hunch, citing Carnegie Mellon research demonstrating piracy’s harmful effects on film creators to bolster his claim.[[16]](#footnote-16) “Further,” he wrote, “other CMU researchers demonstrated that pre-release piracy (when a movie is leaked online prior to its theatrical debut, like “The Hateful Eight”) is particularly damaging, “find[ing] that, on average, pre-release piracy causes a 19.1% decrease in revenue compared to piracy that occurs post- release.”16

The monetary effects of piracy have always taken center stage, but the shockwaves caused by monetary losses in the industry produce aftereffects that, while not as widely highlighted, remain significant aspects of piracy’s effect on the film industry. The ever-growing population of pro-piracy consumers cite the axiom, “piracy is a victimless crime,” when asked to defend their position, as corroborated by a 2014 US public study conducted by Verance Corporation.[[17]](#footnote-17) Victimless, say many millennials, in the sense that actors and executives earn millions of dollars per movie, and the nominal losses in royalty earnings pale in comparison to their outlandish starting salaries; these consumers assert that the act of piracy is “no big deal” to anyone. Even industry worker, Brent Weichsel, a Hollywood camera assistant, denies losses attributable to piracy, citing Ofcom’s UK study indicating that pirates spend far more than honest consumers on media.[[18]](#footnote-18) Conversely, in a 2006 report, the IPI reported an approximate 47,000 (rounded) jobs lost in 2005 to piracy.[[19]](#footnote-19) That same report was criticized by economists for overstating economic losses via arbitrary multipliers, but even if the multipliers were removed, thousands of jobs are being lost each year by function of piracy rates, which have drastically increased over time.19

Journalist David Christopher Bell and Legendary director/producer Steven Spielberg theorize Hollywood studios’ leniency for creative and niche products has diminished starkly, with industry profits low, and studios struggling to remain competitive.[[20]](#footnote-20) Bell highlights how studios have become hesitant to invest original, artistic, and/or uncharted ideas, opting instead to double or triple down on previous successes; specifically, he illustrates how sequels and reboots have become “safe investments” for movie studios, with successful franchises and summer blockbusters earning even more desirable “low risk, high reward” models.20 In particular, he cites Warner Bros. decision to reassign the director of the *Tarzan* reboot to the new *Harry Potter* film before *Tarzan* had even finished production. With entire crews and even genres receiving less and less funding, the abandonment of entire classes of projects represents a tremendous opportunity cost forgone, not only at the box office, but in media retailers and on-demand releases. But piracy coerces film studios to chase the next multi-billion-dollar franchise and lock down a few years of stability and security rather than risk potential losses/stagnation on projects void of consumer preapproval.20, 21 Spielberg thinks “essentially that a studio will eventually go under after it releases five or six bombs in a row. The reason: budgets have become so gigantic.” And industry studios are struggling financially. 2013 saw a number of big-budget films “tank” in theaters.[[21]](#footnote-21) And if the blockbusters can’t produce, the studios themselves, reliant on such success, will not be able to produce. From a business standpoint, pursuing risk-averse investments that offer low exposure to failure are undoubtedly preferable to unproven, albeit promising or visionary conquests. But from the standpoint of the employees and crewmembers responsible for aiding in the production of such films, all they see are budget and salary cuts, layoffs, downsizing; all as studios pour what they can afford into a few pop culture hits and generic blockbuster templates.

The MPAA, Copyright Alliance, and Hollywood film industries see piracy as a detriment to industry revenue—and by extension profits and growth—as well as to employee wages and job security. Economists, social scientists, and independent researchers have touted a position criticizing the film industry and its governing bodies for wildly speculative and unsubstantiated estimates which overstate and fabricate losses. The GAO concludes that quantifying or demonstrating piracy’s impacts is extremely difficult, if not impossible. And consumers, a plurality of which condone piracy given greedy industry premiums, especially overseas, and little to no fear of repercussion, feel they inflict no significant harm Piracy is a transgression bred from passion and enthusiasm; few pirate movies just to “steal” without intent to watch them. The dilemma that these consumers now face is whether or not they should continue to pirate and view movies they are interested in without paying given the possibilities of a shrinking variety in movies and a gradual decline of innovative and exciting content produced and distributed by the film industry that will pique and maintain the interest of devoted moviegoers.

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