Monometapoly:
The economic impact of the recording industry on the music market

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The IPR issues in the music market have been in the spotlight for a few years, due to the rampant piracy phenomenon occurring in this sector. Although artistes may seem, at first, as the most concerned by this phenomenon, it is, in fact, the recording companies that have led the fight against piracy and have lobbied for stronger IPRs. Based on their own account, piracy has cost recording companies large losses and undermined the profitability of this industrial sector.

In the meantime, important technological changes have taken place. Recording and distributing music, once both very costly processes, have now become so affordable that artistes have sometimes the means to conduct these activities independently. Yet, these two activities have been, over the past seven decades, not only the prerogative, but also the *raison d'être* of recording companies.

There are thus important changes that are, currently, challenging the very viability of recording companies. At a time when governments are placed in a position where they have to make important decisions in regard to the safeguard of this sector, it is crucial to conduct a thorough investigation of the economic role and impact of the recording industry on the music market.

The aim of this article is twofold. First, it aims at investigating the economic rationales of the existence and social added value of recording companies and how these rationales have influenced and structured the whole music industry. A dynamic perspective is adopted and the evolution of these economic rationales is put together with the changes that have occurred in the music market.

In a second part, the economic impact of recording industries is evaluated. It is shown that recording companies are, in fact, in a very peculiar situation, in the sense that they are *"monometapolies"* – both, at the same time monopoly, from the consumer perspective, and monopsony, from the artiste perspective. This, rather uncommon, situation has very important consequences, since both monopoly and monopsony, on their own, lead to market distortion and loss of social welfare. The two effects brought together are shown to lead to a further loss of social welfare.

Furthermore, it is demonstrated that the *monometapoly* situation of recording companies induces two further negative effects that have, traditionally, not been accounted for in the literature. The first of this effect is related to the variety and diversity of musical creations that is expected to be greatly decreased due to the presence of a *monometapoly.* This argument is particularly important to take into account, since the usual account of the loss of social welfare only considers the missed advantageous trade opportunities exogenously, that is it the fact that some consumers and artists miss trading opportunities due to the imperfect market structure. In contrast, the argument developed in this article also considers the endogenous loss of social welfare. Indeed, the filtering activity exerted by recording companies decreases the quantity of potentially advantageous trade due to the fact that artistes endogenously adapt their product to match a standard promoted by recording companies. Thus the loss of social welfare, related to missed opportunities, is further aggravated by the endogenous reduction of the number of opportunities.

Finally, this article points out a risk of further market failure due to adverse selection taking place in the music market. Due to the high risk involved, on the artiste's side, and due to the low expected reward obtained through creating and playing music, the question of the ability of the recording industry to efficiently select and promote the best artistes. Quite on the contrary, it is conjectured that the current system is such that there is little correlation between the potential social value of an artiste's creation and the probability that this artiste will be signed by a recording company.

Overall, this article demonstrates that the current *monometapoly* structure of the recording industry leads to a double loss of social welfare, related to the existence of a deadweight loss on both supply and demand sides. In addition, this loss is aggravated by the fact that this structure leads to a sub-optimal outcome, both in terms of quantity and quality. Finally, the analysis of the economic rationales this *monometapoly* structure shows that the current technological trends have considerably weakened them, thereby enabling a new, more efficient, course of action for the production and distribution of music.