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In Business: Free For All
Presenter: Peter Day

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ANNOUNCER: It's time now for In Business. And this week, Peter Day hears from two British-born writers who've made a name for themselves in the USA by defining and participating in the great Internet Free for All.

DAY: Once upon a time - and a very good time it was, too - the rules of business were fairly straightforward: I made something; you wanted it; you paid for it; I made a profit. Easy peasey! But now that simple mechanism may be under threat from the Internet. Giving away your idea or product might just be the big business project of the future. It so happens that two influential British-born writers and thinkers are at the centre of this movement, and this programme hears all about free from both of them.

ANDERSON: Anybody under 25 gets this completely. If you say to someone maybe of our age, "Everything wants to be free", they say, "Go on, nonsense!" If you say it to someone under 25, "Everything wants to be free", they're like, "Of course. Do you have anything more interesting to say?" If you're under 25 and you're listening to music, you understand the underlying economics of music distribution, MP3's. Music wants to be free. You also intuitively understand that concerts want to be expensive. You know, you get this.

BOYLE: You shouldn't be able to own ideas or facts. E equals MC squared or Freedom is Good or just a couple of musical notes or a tiny fragment of a gene

sequence - that these are the raw materials of creativity, and that when we lock them up or restrict their uses and when we get rid of limitations and exceptions and extend copyright terms out to near infinity, we're actually harming creativity.

DAY: Professor James Boyle and, before him, Chris Anderson. And let's start with Chris Anderson in San Francisco where he's the Editor of the magazine *Wired*, a potent mixture of trendy-ness and technology insights. His best-known book so far is *The Long Tail: Why the Future of Business is Selling Less of More*. It demonstrates vividly how the Internet enables individual demands to be catered for by companies in a much more precise way than hitherto possible - a long, long tail of satisfied requirements rather than the few products available in the mass production world, the pre-Internet age. Now Chris Anderson is at it again with a book called *Free*, to be published later this year. It sets out examples (and predictions) of how companies can become rich by charging nothing at all for their key products. The product is free to the user and yet it's a business model we're talking about. I got Chris Anderson to explain more about this when I met him recently at the *Wired* offices in San Francisco. We encountered one or two things that may need prior explanation: for example, "open source" computer software which users are free to alter and build upon, so long as they then make their improvements freely available to all users. One of the best-known examples is the Linux computer operating system, a free rival to well-known proprietary systems. And then there are the free photo storage businesses such as Flickr. Anyway, let's hear Chris Anderson describing the new business model that's free for the users.

ANDERSON: There's really two kinds of free. There's fake free, which is just marketing, right - you know buy one, get one free - but the notion that free is just a kind of shifting of money from one place to another. Ultimately you're going to pay, there's no such thing as a free lunch. That is basically no change in the economic model, just the invocation of this word 'free' to grab consumer attention, but it doesn't really change the underlying economics. What changed the economics is the last 10 years. We've seen this amalgamation of digital technologies, manifest most in the Internet, has for the first time in history created an industrial model where everything gets cheaper over time. The underlying costs get cheaper. You know Moore's Law,

right? Moore's Law says that the power of the computer doubles every 18 months. The economic reciprocal of that is that the cost of a net unit of computing power falls by 50% every 18 months, which means that your computation, your storage, your bandwidth, everything gets cheaper by 50% or more every year and a half.

DAY: Everything connected with computing does?

ANDERSON: Everything connected with computing. So anything digital gets cheaper. Imagine a factory of the 19th century where the labour got cheaper, where the steel got cheaper, where the coal got cheaper, where every aspect ... the real estate got cheaper. That's why there's such an imperative to make things digital because you go from an economy where things get more expensive - that would be oil and food, etcetera, the economy of atoms - to an economy where everything gets cheaper, which is the economy of bits. So it's very, very compelling to make something digital because then you move from inflationary to deflationary economics.

DAY: But we live in a physical world with digital add-ons, don't we?

ANDERSON: Well you know that's almost a kind of metaphysical question. I mean you know you and I are now talking face to face, but you know the listeners will be listening in a virtual world. I mean we live in both. And from a business perspective, does my product need to exist in atoms or could it exist in bits? Does my product need to be sort of human economics or could it be software economics? Ultimately money is going to make that decision and ultimately the product that can be made free will become free. And this is why every industry is either going to have to become free or compete with free one way or another. Now there's lots of ways to compete with free and there's lots of ways to make money from free, but ultimately free is going to be part of the strategy for everybody. I mean people are suspicious of free, and rightly so because often they'll be pulled into a product or a category with the word 'free' and end up paying a lot down the line. Or you pay with your time or you pay with your reputation or all those other things. People are right to think that you know somewhere somebody's going to have to pay. Digital economics changes our thinking about this. Everything Google does is free to the consumer and yet Google's an

extremely profitable company. You've got Open Source, you've got Wikipedia, you've got the blogosphere, you've got Craig's List. You've got all these sort of strange, free phenomena which have global scale, you know country-sized economics, and yet are free to the consumers. Now someone's paying, but it's not you, and that's what's extraordinary about it. The old form of cross-subsidy is that you're going to pay sooner or later. The new form of cross-subsidy is one where a tiny minority of people who really appreciate the product, really get value from it, can subsidise everybody else because the underlying cost of doing things online and digital is so low that you can sort of give away 90% of it for free.

DAY: Well except that you know hasn't this been around a long time, particularly in the United States, with broadcasting paid for by advertising?

ANDERSON: Absolutely.

DAY: Most people listen for nothing and close their ears to the ads.

ANDERSON: That is the second form of traditional free, which is the so-called third party pace. There are three parties in the market: there's the producer, there's the consumer, and there's the advertiser who subsidised the product so it's free to the consumer.

DAY: But that's the Google model too.

ANDERSON: Well it's the Google model for some of its products. Other products ... I mean you know Google has something called GOO-411, which is directory assistance on your cell phone. No advertising, no charge. It turns out that what's going on there is that you are training their software algorithms, their voice recognition algorithms by using their 411 service and pronouncing proper names - you know Vijay's Drycleaner's, whatever, in your own accent. You are creating data, which they use to train voice recognition algorithms, which makes something of value. Wikipedia - you know another example of no advertising. The underlying cost of creating this

encyclopaedia are so low that basically you know a little bit of donations on the side can subsidise the entire thing. So I think that you know the traditional form of free to air, the media model, which is that an advertiser makes it free to the consumer but the consumer has to put up with the advertising, is one that pretty much assumes that everyone's got to pay. You either pay with your attention, which is you have to watch the ads, you have to listen to the ads, or you pay with cash. The new digital model is that actually many people may not have to pay at all because the underlying costs are so cheap to do things digitally that you *can* give away 90%.

DAY: What a problem for conventional businesses and conventional business people trained in conventional business schools with the 20th century model of the corporation and how you make your money. This is very difficult to work out.

ANDERSON: It's difficult, it's counterintuitive - you know this sort of you know what are the business models built on free that work? I mean the best example of a company that now is wrestling with this is Microsoft. Microsoft has been competing with free for longer than almost anybody else - Open Source in this case.

DAY: It found a way of making what was free because you had to do it yourself - you had to write your own software - into a box-able, copy-writable or patentable product that they put in a box and they put shrink wrapping on it. And Bill Gates wasn't the son of a lawyer for nothing, so when you broke open the shrink wrap you agreed to the conditions under which he supplied it with. So he made this nebulous sort of thing, software, into a conventional product, didn't he?

ANDERSON: Well Microsoft's financial success is about taking a product whose underlying economics are zero, the marginal costs of reproducing software is zero, and charging \$300 for it. You know incredible net profit margins. Unfortunately, economics always wins. People recognised that the underlying economics of distributing software were zero and so they were like okay, so Microsoft is getting monopoly profits because they are in fact a monopoly. What we need to do is break the monopoly. Not, as it turns out, by regulation and regulator, but instead the marketplace broke the monopoly. The marketplace said we don't need shrink wrapped

boxes, we don't need retail stores to distribute operating systems. We can do it online for no cost. And Open Source ultimately broke the monopoly in a way that the FTC, the American regulators, never were able to.

DAY: This extraordinary collaboration made possible by the Internet - people all over the world working on a better operating system in their spare time or in their company time with the company permission.

ANDERSON: Well that's it. I mean the original model of Open Source was one of sort of you know the hobbyist or the amateurs.

DAY: Going right back to the origins of personal software.

ANDERSON: Exactly. The current reality of Open Source is nothing of the sort. Most contributors to the core Linux Kernel or things like that are in fact paid to contribute to Open Source. You might ask the question why would IBM, for instance, pay people to create free software? And the answer is that what they're creating is a platform around which you can add value, you can create services, you can create other software, you can sell hardware perhaps. What they're doing is that by ensuring there is this vital Open Source software market out there, we are opening up opportunities for more competition, for more business models, to get computers in more people's hands because the underlying products, the underlying software is cheaper.

DAY: And this is proving itself as a business, is it, because it's very exciting? And I've made excited programmes about Open Source and people talk very persuasively about its potential and its cheapness to the user even if they pay - and they pay for 24 hour support, so there's pay on the margins. That's another very interesting part of the mostly free paradigm, isn't it? But is this actually producing sound businesses that are going to be with us long-term, or is it just a wonderful enthusiasm of early arrivers to do a new style of enterprise?

ANDERSON: Well Open Source is mature. Open Source at this point has now proven itself in the marketplace and it's going to be with us for ever more. What's interesting is that most of the businesses are not selling software. What they're doing is selling something *around* software. So Microsoft made its business around selling software, and now that part of the industry has been partially demonitised and in a sense there's this giant sucking sound as that part becomes free, and what you end up is moving out to sell services or sell other products that ... or maybe just to start your company more cheaply because you're built on Open Source software.

DAY: And you're saying that's a model for other businesses that we may be familiar with. Ryanair, the airline - not an airline, you say?

ANDERSON: Well exactly. The notion of redefining the business you're in and letting something be free so you can sell other things is really what's possible today. Partly it's possible because you know as things move online, you have incredible flexibility over what you decide to be. Going online lowers your costs - Ryanair is a great example - so by taking your sort of ticket sales and ticket service, putting that online, you lower your costs. Once you move something online and you have that relationship, then maybe you're going to be in the advertising business as well or maybe you're going to be in the information business or maybe you're going to be renting cars and doing hotel reservations - all things that are quite difficult if it's a kind of a phone based or a face to face experience, but very easy when you turn the business into software. If we can get your attention with the word 'free', if we can get you in the door with the word 'free', what else could we do? What could we do with the traffic, you know with the credibility that we've achieved by offering this extraordinary thing of like say a free flight? Could we end up fundamentally in the cargo business - in fact you know cargo pays the way and the passengers ride for free? Or could we ... are we actually you know a tourism arm of these tertiary destinations who really are, you know are paying us to bring traffic to them?

DAY: Which of course is happening with Ryanair and the low cost airlines in Europe. They pay you to come. They give you such subsidies for the things you need to operate from - baggage, yes I have to check my baggage in and pay if I'm flying on

the low cost airlines now.

ANDERSON: Exactly. You know what's interesting is that it gets back to this original point - it's all still cross-subsidies. Somebody's paying. The difference is the old forms of cross-subsidy is that it's you paying - you're either paying now or you're paying later, or you think you're paying for this but you're actually paying for that. Now it's somebody else that's paying. In a weird way, it's the ascent of the media model. The media model was the original cross-subsidy where somebody else was paying. It was free to you because someone else was paying. Open Source is the same thing. IBM paying for an engineer to contribute to an Open Source project is making it free to you. You don't pay in the end. There is no trick - it isn't a scam, it isn't a gimmick. It really is free.

DAY: What are the people who are getting to grips with it? Are they visionaries, are they early adopters, are they companies with bright outliers? What are they?

ANDERSON: They're kids. It's really a matter of experience. If you've grown up online, if you're of the Google generation, you intuitively understand that everything online is ultimately going to be free. And you also intuitively understand that things offline are *not* going to be free by and large. You get atoms and bits on a level that isn't abstract or philosophical; it's just the life you've been living. There's something called Freemium, which is fascinating. So take the notion of a free sample in the physical world - muffins or perfume, etcetera. This would be one where you give away 1% of your product to market to sell 99%, so you spritz a few people in the department store, a counter with some perfume on, in the hope that they will buy perfume. That's in the atoms world where things cost money, and the marginal cost of that muffin or that perfume is not zero. In the digital world, of course, the marginal cost is zero, so you have much more flexibility. In this world, you do just the opposite: rather than giving away 1% to sell 99%, you give away 99% to sell 1%. You know there are some things like online services - there'll be Flickr's, the photo sharing service. Flickr Basic is free, Flickr Pro is for the people who have ... you know premium subscribers who have special needs - you know they want more storage, they want certain features. It only takes a few percent of people to subscribe

to Flickr Pro at a cost to subsidise everybody else who gets Flickr Basic.

DAY: That's like the Open Source people who charge the companies who want 24 hour backup for the Open Source software that everybody else is using and doesn't worry too much about the backup.

ANDERSON: A few corporate users can subsidise many consumer users.

DAY: They pay for the whole thing. That's the business model.

ANDERSON: Freemium, exactly. The industry that's probably going to be most transformed by the Freemium model is videogames, online games. So videogames was, very much as you described with Bill Gates, a packaged software business: \$50 for a box. As videogames move online and they become things like mass multiplayer online games, they're moving from the packaged software - \$50 is your ticket to entry to the free model, which is free to play - and then they're going to make money in different ways. They'll either sell digital assets. You buy sort of a new character, new clothing, you'll buy gold or weapons or maybe you buy time savers. You could play the game for free and you have to trudge from place to place, or you can buy a teleportation stone and get there quickly. The majority of the game players play for free. Some fraction of them - the really committed, engaged ones - end up paying and they don't feel ripped off by it because they're so bought into the game that they welcome the opportunity to play more efficiently or to get certain advantages. So the people you're charging are happy about it and the people you're *not* charging are the majority, and so everybody's happy. And the company makes money because the marginal costs of supplying that game to the free users is close to zero.

DAY: Chris Anderson, Editor of the magazine *Wired*, on his new book *Free*, coming out this summer. Another big issue is copyright - the right of an author or creator to benefit from his or her work. Late last year, in a move which surprised the music industry, the British government said it is now prepared to consider extending copyright on recorded music to 70 years. That's a compromise on the European Union

proposal for a 95 year copyright life, the same as the USA. The idea of extending copyright goes very much against the ideas of another British authority, the Law Professor James Boyle of Duke University in North Carolina. He's also published several books, including a comic book and a novel, but his recent one is *The Public Domain: Enclosing the Commons of the Mind*. Among other things, James Boyle is Chairman of the board of an organisation called Creative Commons. It campaigns for people to shun traditional copyright, which prevents widespread use of copyright material - books, music and films for example - in favour of a flexible agreement that much recently released material can be used and modified without payment, especially by non-corporate users. Is this the end of being financially rewarded for being creative, or - as the Creative Commons enthusiasts argue - a great, big step forward? Listen to Professor Boyle.

BOYLE: My thesis in a nutshell is that we have to learn to value the area of freedom that intellectual property leaves. The fact that you shouldn't be able to own ideas or facts, E equals MC squared or Freedom is Good or just a couple of musical notes or a tiny fragment of a gene sequence, that these are the raw materials of creativity and that when we lock them up or restrict their uses and when we get rid of limitations and exceptions and extend copyright terms out to near infinity, we're actually harming creativity. It's as if we were back in the 1950s, assuming that the more development we had, the better off we would be, and not understanding that there's this reciprocal relationship between development and the environment. The public domain, I argue, is our environment of mind. It's the material from which we draw and if we over-commoditise it, we will actually end up harming ourselves.

DAY: But all that effort and the rejuvenation of copyright by extending and things like that, the increasing power of copyright over the last few years, you're flying in the face of that. So this is not going to be a popular message, is it?

BOYLE: I think that it actually, it's a message that a lot of people are ready for because just as a matter of common-sense, nowadays ordinary human beings encounter copyright law and they don't like what they find. And I don't mean people who just think they should be able to download everything for free; but just people

who want the rules to make sense, who think that you know their kid ought to be able to take a little excerpt of a movie to illustrate for a school project and not be demanded for fees or threatened with suit, or that we ought to be able to have our life online without constantly looking over our shoulders, wondering whether or not we're violating the law. I think the common-sense assumption of what should be right and what should be wrong is actually pretty close to reality. I'm actually putting my own self-interest at stake here, so the book itself will be available online in full for free as a kind of test of my ideas, which my publisher agrees with, even though it's also for sale as a commercial trade book.

DAY: But you're a privileged person. Your income comes from other sources. You're not relying on the book to make all your money, so that doesn't really compare with a movie studio or something like that that sees their rights being eroded, just as the record producers' rights have been eroded by music on the Internet.

BOYLE: In my case, it's actually quite a substantial proportion of my income. But I think if you look, for example, at the broader realm of people using this - so if you take IBM, for example, which uses Open Source licences on its software, so that licence allows anyone to copy that software, to build on it freely, IBM gives up its control - IBM is the largest patent holder in the world and it makes more than twice as much from these Open Source related revenues as it does from its patent portfolio. IBM *is* reliant on that income for its revenue stream, it *is* a commercial company, and it *is* an extremely innovative one, and it's chosen this path because it believes, sure, we lose something in giving up control over our software, but we gain this network of collaborators who add to it, build to it, effectively become unpaid labourers helping us in IBM, and that creates a much greater demand for our services. So I think we shouldn't be too quick to say this can *never* have commercial relevance. I actually think it has *considerable* commercial relevance. Should the movie industry adopt something like Creative Commons' licences wholesale? Absolutely not. My point is not give up the idea of control and embrace the idea of freedom everywhere in every place - that would be ridiculous, that would be as ridiculous as the opposite. My point is we need a balance, and often that our initial intuitions are wrong. But it's certainly not the idea that I'm saying to J.K Rowling oh you should put your material online in

full for free. For her, I think that's probably a very *bad* idea.

DAY: So who are the beneficiaries of the Creative Commons, apart from the users who can use stuff that they're actually not allowed to do (at least officially) at the moment, though they probably do do?

BOYLE: The beneficiaries I think are the participants. So that if you look at for example the way that I use Creative Commons licence material in my own practice as a teacher and scholar, what it does is it allows me to have access to very high quality material and it allows me to build on it. So rather than getting a static textbook, take it or leave it, I can have educational materials and in this case Creative Commons, which is, just to be clear, this is not the public domain, this is a copyright licence in which the person who actually wrote the material, created it is giving me certain freedoms. That person has allowed me in some cases to say yes, you can change this, you can translate it, you can adapt it, you can modify it in the way that you want.

DAY: But you're not talking about a new kind of economy - that in some mysterious way at some stage this turns into revenue flows - or are you?

BOYLE: Well in some cases, I am - I mean, as I mentioned with Open Source software - and there are actually people who make a great deal of money out of that.

DAY: Talk about music and particularly bands who you know can't get signed up by the record industry companies. They're using Creative Commons in a big way, aren't they?

BOYLE: Yeah, a lot of bands use Creative Commons licences. They basically put their material up and they use the non-commercial licence where they say you're free to share it, you can play it, you can send it to your friends, you know they can put it on their iPods. But what you can't do is use it for commercial purposes. And then if that attracts the ear of a record producer or of somebody who wants to use it in a TV show, then they have to come to the band and say, "Okay, now we'd like to make a

deal.” So this is simply a slightly more structured and legal form of something that bands have always done, which mainly they’re trying to attract attention by giving away copies of their material. The big difference now is this enables them to give it away to a worldwide audience while still retaining some legal control over it.

DAY: The music industry does look to have been severely dented by the way things happen at the moment. What if so many people download or so many people listen online that that becomes the main way of listening; and the original way, the money making way, simply dwindles away altogether? That’s an industry wrecked by the Creative Commons then, isn’t it?

BOYLE: Well no. Let’s be clear. Creative Commons is when *you* choose to put up *your* material online under a copyright. Nobody’s requiring you to use Creative Commons. It’s not something that’s compulsion. It’s a completely voluntary choice and it isn’t for everyone. Does the music industry face a threat from illicit downloading? Somebody who’s Blur or Sting or whomever have their music up there and they *don’t* want to share it, they *don’t* want it to be shared around and people are nevertheless copying it without their permission - is that a threat to them and to the music industry? And the answer is it definitely is. But the fact that some of this activity is harmful shouldn’t then lead us to assume that everything that is proposed in order supposedly to remedy that harm is kosher, is legitimate, is appropriate. Often what you have is a legitimate interest by the content companies - be they recording industry or the movie industry - which then leads them to suggest a series of reforms or changes to copyright, some of which might be perfectly reasonable and others of which are actually designed to make competition with the business model of the recording industry or the movie industry illegal. It’s almost as though we were giving the people who made lamp oil a veto over the actions of these newfangled electric light makers. The dangerous possibility is that they might actually be making some of the forms of music illegal in the future; that jazz or the blues or rock and roll would be much harder to grow up in the world that they’re now creating.

DAY: And what are the mechanics of putting a book out in two forms: a downloadable one for nothing and a buyable one? What actually happens when you

do that?

BOYLE: Well in this case, the buyable form appears in just the normal way. The downloadable form will be up on the open web. I'll be putting it up on a website called the Publicdomainbook.org and you can download it from there. It will look exactly like the finished version of the book. And a lot of people have told me that they believe they'll end up using both because a lot of people like to be able to search a book or to have it available on their laptop, but also to have something that you know you can read in the bath.

DAY: Yuh whereas in the conventional world, the world I come from and people listening to this come from, then one precludes the other, doesn't it? You don't do both. You do one or the other. And so it's difficult to get your head round this being a great, big benefit to the publisher and you as a paid author as well as oh the intellectual commons in general. It's difficult to grasp that still, isn't it?

BOYLE: You've put your finger on it: it's difficult to grasp. And I use the analogy of if I'd asked you 17 years ago how to create the biggest encyclopaedia the world had ever seen, the Encyclopaedia Britannica for the 21st century, you probably would say well we need you know extensive control and a large corporation and hundreds and hundreds of researchers, and you would have gone on to describe you know extensive use of copyright. That's what I would have said too. And if someone had said to you actually a network of volunteers in and out of encyclopaedias, search engines are going to create what is effectively the greatest encyclopaedia the world has ever seen, update it in real time, produce it in multiple languages and allow it for free for anyone who has Internet access, you would have thought I was a lunatic. That method of creativity, of compiling and commentating on facts simply seems incredible or would have seemed incredible 17 years ago. Why? Because our assumption is that we need high degrees of control. We're frightened of openness and we tend to underestimate how much creative potential it can unlock.

DAY: Professor James Boyle of Duke University, mentioning of course the vast Internet Wikipedia - the free to use online encyclopaedia with millions of entries

created by thousands of volunteer contributors and users. Professor Boyle's new book is called *The Public Domain*. Of course radio is free to use too, isn't it? And so is the uncannily popular In Business podcast, available online (for free) on bbc.co.uk. How wonderful it is to be a pioneer.

ANNOUNCER: In Business was presented by Peter Day. The producer was Caroline Bayley.