The Great Polarization
Economics, Institutions and Policies in the Age of Inequality

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Intellectual Property and Inequality

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Abstract

It is widely believed that technology has been a major factor in the rise in inequality over the last four decades. While the specific claims for the mechanism through which this process is supposed to work have not held up to scrutiny, there is also a basic misunderstanding on how technology affects income distribution.[1] Specifically, the impact of technological innovation on the economy depends in a fundamental way on the intellectual property assigned to it. This is a question of public policy, not an outcome of technology itself.

This paper documents the large and growing share of GDP attributable to patent and copyrights and related forms of intellectual property over the last four decades. In 2018, this share is easily more than $1 trillion (5 percent of GDP) and is very plausible as large as $2 trillion (10 percent of GDP). It also shows that there is no clear evidence that the stronger IP rules associated with this increase have led to an increased pace of productivity growth. It also is clearly the case that many of the people who sit at the top of the income distribution have gotten their wealth in large part due to intellectual property.

This implies that we have put in place IP rules that have led to upward redistribution with no clear payoff in terms of economic growth. Weaker rules and alternative mechanism for supporting innovation and creative work may lead to as good or better growth outcomes with considerably less inequality.

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[1] Mishel,Larry, Heidi Shierholz, and John Schmitt, 2013. "Don't Blame the Robots: Assessing the Job Polarization Explanation of Wage Inequality," Economic Policy Institute and Center for Economic and Policy Research http://cepr.net/publications/reports/dont-blame-the-robots.