
June 6, 2008
Op-Ed Columnist

Bits, Bands and Books

By [PAUL KRUGMAN](#)

Do you remember what it was like back in the old days when we had a New Economy? In the 1990s, jobs were abundant, oil was cheap and information technology was about to change everything.

Then the technology bubble popped. Many highly touted New Economy companies, it turned out, were better at promoting their images than at making money — although some of them did pioneer new forms of accounting fraud. After that came the oil shock and the food shock, grim reminders that we're still living in a material world.

So much, then, for the digital revolution? Not so fast. The predictions of '90s technology gurus are coming true more slowly than enthusiasts expected — but the future they envisioned is still on the march.

In 1994, one of those gurus, Esther Dyson, made a striking prediction: that the ease with which digital content can be copied and disseminated would eventually force businesses to sell the results of creative activity cheaply, or even give it away. Whatever the product — software, books, music, movies — the cost of creation would have to be recouped indirectly: businesses would have to “distribute intellectual property free in order to sell services and relationships.”

For example, she described how some software companies gave their product away but earned fees for installation and servicing. But her most compelling illustration of how you can make money by giving stuff away was that of the Grateful Dead, who encouraged people to tape live performances because “enough of the people who copy and listen to Grateful Dead tapes end up paying for hats, T-shirts and performance tickets. In the new era, the ancillary market is the market.”

Indeed, it turns out that the Dead were business pioneers. Rolling Stone recently published an article titled “Rock's New Economy: Making Money When CDs Don't Sell.” Downloads are steadily undermining record sales — but today's rock bands, the magazine reports, are finding other sources of income. Even if record sales are modest, bands can convert airplay and YouTube views into financial success indirectly, making money through “publishing, touring, merchandising and licensing.”

What other creative activities will become mainly ways to promote side businesses? How about writing books?

According to a report in *The Times*, the buzz at this year's BookExpo America was all about electronic books. Now, e-books have been the coming, but somehow not yet arrived, thing for a very long time. (There's an old Brazilian joke: "Brazil is the country of the future — and always will be." E-books have been like that.) But we may finally have reached the point at which e-books are about to become a widely used alternative to paper and ink.

That's certainly my impression after a couple of months' experience with the device feeding the buzz, the Amazon Kindle. Basically, the Kindle's lightness and reflective display mean that it offers a reading experience almost comparable to that of reading a traditional book. This leaves the user free to appreciate the convenience factor: the Kindle can store the text of many books, and when you order a new book, it's literally in your hands within a couple of minutes.

It's a good enough package that my guess is that digital readers will soon become common, perhaps even the usual way we read books.

How will this affect the publishing business? Right now, publishers make as much from a Kindle download as they do from the sale of a physical book. But the experience of the music industry suggests that this won't last: once digital downloads of books become standard, it will be hard for publishers to keep charging traditional prices.

Indeed, if e-books become the norm, the publishing industry as we know it may wither away. Books may end up serving mainly as promotional material for authors' other activities, such as live readings with paid admission. Well, if it was good enough for Charles Dickens, I guess it's good enough for me.

Now, the strategy of giving intellectual property away so that people will buy your paraphernalia won't work equally well for everything. To take the obvious, painful example: news organizations, very much including this one, have spent years trying to turn large online readership into an adequately paying proposition, with limited success.

But they'll have to find a way. Bit by bit, everything that can be digitized will be digitized, making intellectual property ever easier to copy and ever harder to sell for more than a nominal price. And we'll have to find business and economic models that take this reality into account.

It won't all happen immediately. But in the long run, we are all the Grateful Dead.

[Copyright 2008 The New York Times Company](#)