Patents vs. Prizes: a comment on Adler’s *Eyes on a Climate Prize*

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George Carlin on Prizes:

“She said she later found a note he’d written about the award, which he was pleased to learn was officially called a prize. Because? ‘Because,’ said Kelly, with perfect Carlinesque timing, ‘because he said an award is what grown-ups win. A prize is something a kid wins.’”

Kelly Carlin speaking about the Twain Prize for American Humor awarded posthumously to her father, George
Not why support innovation, but why prizes?

• We’ve got other rewards for innovation: Patents, grants

• Economic analysis doesn’t really answer the question: Patent models treat winning a patent as winning a prize
  o First to get profits from the patent

• Emphasis on making patented product at marginal cost
  o Pharmaceuticals in developing countries
  o Not the issue typically with prizes
  o Patent rights typically not ceded, especially with private prizes

• Why Prof. Adler’s work so important
  o We know less about prizes vs. other mechanisms than one might think
Patent buyouts, grants as alternatives

• Why government buyouts of patents aren’t the answer
  o Raising prices elsewhere to pay for them just shifts the problem
  o Would the government get stuck with “dog” patents?

• Shouldn’t the market tell us what to invent? Maybe not for climate
  o Innovation inducement as substitute for failing to price GHGs

• Adler mentions this comparing prizes to grants
  o But prizes are just as if not more centralized as grants
  o Prize holder has to specify “victory conditions”
  o Is peer review of grants more politically charged than agency designation of what innovations merit prizes?
  o Grants reduce cost risk, but prizes reduce value risk
Institutional advantages of prizes over patents

• Publicity benefits, social contribution, fun: G. Carlin

• More flexible contest design
  o Intermediate stage awards, rewards for coming in second, third

• Control patent race costs by managing contestants
  o Share information, determine eligibility
  o Tradeoff benefits against potential loss of competition

• Meeting victory conditions less uncertain than whether patent will stand up in court or be enforced

• Biggest: Not all innovations are patentable
  o Idea of flying across Atlantic, suborbital flight, 100 mpg car
Economic fundamentals on prizes vs. patents

- **Generality vs. specificity**
  - Prizes highly specific
  - Patent process open ended

- **Risk**
  - Innovators face uncertainty regarding chance of winning, cost of innovative effort, and benefits of success
  - Prizes mitigates last of these, and generally risk overall

- Prizes better with known goal, risk averse innovators
- Patents better with unknown goal, less risk aversion
- Formal model yet to be done, and may not add much
- Why Prof. Adler’s insights are so valuable