

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

Tim Brennan (UMBC and RFF)

brennan@umbc.edu

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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
 - First to get profits from the patent
- Emphasis on making patented product at marginal cost
 - Pharmaceuticals in developing countries
 - Not the issue typically with prizes
 - Patent rights typically not ceded, especially with private prizes
- Why Prof. Adler's work so important
 - 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**
 - Raising prices elsewhere to pay for them just shifts the problem
 - Would the government get stuck with “dog” patents?
- **Shouldn't the market tell us what to invent? Maybe not for climate**
 - Innovation inducement as substitute for failing to price GHGs
- **Adler mentions this comparing prizes to grants**
 - But prizes are just as if not more centralized as grants
 - Prize holder has to specify “victory conditions”
 - Is peer review of grants more politically charged than agency designation of what innovations merit prizes?
 - 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**
 - Intermediate stage awards, rewards for coming in second, third
- **Control patent race costs by managing contestants**
 - Share information, determine eligibility
 - 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**
 - 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**