International Protection of Intellectual Property: Corrigendum

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In our recent paper (Grossman and Lai, 2004), we studied the incentives that governments have to protect intellectual property in a trading world economy. We considered a world economy with ongoing innovation in two (or more) countries that differ in market size and in their capacity for innovation.

In Section IV, we compared the strength of patent protection in an efficient world agreement with harmonized rates of protection to the strength of patent protection in a Nash equilibrium with policies chosen by two welfare-maximizing governments. We claimed in Proposition 5 that, as long as the elasticity of substitution between human capital and labor in the research activity is no greater than one, then efficient harmonization requires a strengthening of patent protection in both the North and the South, and that the North must gain while the South may gain or lose. Unfortunately, there was an error in our proof. It is correct that, for all elasticities of substitution no greater than one ($\beta \leq 0$), efficient harmonization requires a strengthening of patent protection in the South and in the world as a whole. Moreover, patent protection in the North must be stronger in an efficient agreement with harmonization than in the Nash equilibrium if the elasticity of substitution between human capital and labor in R&D is equal to one ($\beta = 0$). However, if the elasticity of substitution between labor and human capital is less than one, efficient harmonization may require a weakening of patent protection in the North.[1]

When $M_N \geq M_S$, $H_N \geq H_S$, and $\beta = 0$, a sufficient condition for the North to gain from efficient harmonization is $H_N / H_S \geq M_N / M_S$.

REFERENCES

Boldrin, Michele and Levine, David K. "IP and Market Size." Unpublished Paper, 2005.

Grossman, Gene M. and Lai, Edwin L.-C. "International Protection of Intellectual Property." *American Economic Review*, 2004, *94*(5), pp. 1635–53.

[1] For further discussion of this case, see Michele Boldrin and David K. Levine (2005, sect. 7).

This article has been cited by:

1. Carol McAusland, Peter Kuhn. 2011. Bidding for brains: Intellectual property rights and the international migration of knowledge workers. *Journal of Development Economics* **95**:1, 77-87. [CrossRef]
2. Edwin L.-C. LaiChapter 11 The Theory of International Policy Coordination in the Protection of Ideas **2**, 357-389. [CrossRef]