

ECONOMIC SCENE

Music sales slump, concert ticket costs jump and rock fans pay the price.

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Published: October 17, 2002

IF you have gone to a rock 'n' roll concert lately, you probably noticed that the price of tickets has been rising faster than the decibel level. Although concert prices have always grown somewhat faster than inflation, from 1996 to 2001 the average price soared 62 percent, while the Consumer Price Index increased just 13 percent and the price of sporting events, movies and theater rose 24 percent.

The average price to see Billy Joel and Elton John in concert, for example, jumped from \$44 when they toured in 1995 to \$110 this year. The best seats rose even more: to \$175 from \$50.

The reasons for this extraordinary growth are debatable.

Many point to Clear Channel Communications, the giant multimedia conglomerate. After the Telecommunications Act of 1996 relaxed constraints on radio station ownership, Clear Channel gobbled up nearly 1,200 stations. It also owns amphitheaters and billboards. Clear Channel entered the concert promotion industry by acquiring SFX Entertainment in 2000, and it now promotes two-thirds of all concerts, by dollar sales.

Critics have accused the company of monopolizing the industry. Representative Howard L. Berman, a California Democrat, has urged the Justice Department to investigate whether "Clear Channel has 'punished' recording artists, including Britney Spears, for their refusal to use its concert promotion service, Clear Channel Entertainment, by 'burying' radio ads for their concerts and by refusing to play their songs on its radio stations."

Although the anecdotal evidence is strong -- and the concert industry certainly appears to be more monopolized lately, with rising prices and declining ticket sales -- it has proved surprisingly difficult to find systematic evidence linking Clear Channel to the exorbitant growth in concert prices. In particular, analyzing data from Pollstar and Arbitron, I find no correlation between Clear Channel's share of radio listeners in a city or state and its share of concerts promoted there, or between its share of radio listeners and the growth of concert prices. Likewise, there is no correlation between the change in the concentration of concert promoters in an area from 1994 to 2001 and the corresponding growth of prices or ticket sales.

Furthermore, ticket prices have also risen sharply in Canada and Europe since the mid-1990's, suggesting that deregulation of radio in the United States is not driving the trend.

It is certainly possible that Clear Channel uses its muscle to sign up concerts for national or international tours, but one would have expected the regional data to leave some trace of Clear Channel's influence if it was the main force behind accelerating prices.

Another problem is that Clear Channel is losing money on concerts. The company blames artists for demanding higher fees, which it says cause higher ticket prices. Although paying higher fees may reflect predatory behavior intended to drive out competitors, it is nonetheless surprising that Clear Channel has not managed to profit from concerts in areas where it dominates the radio market.

So what does explain the surge in ticket prices?

One possibility is that the cost to the consumer has not actually increased because scalped tickets render the list price irrelevant. The rapid growth in list prices, especially for the best seats, could have merely displaced scalpers. That seems unlikely, however, because declining ticket sales suggest that costs are rising. Fewer concerts sell out, and

prices have surged even for those that sell fewer than 90 percent of their tickets.

Furthermore, the extent of scalping is often overrated. To check, I conducted a survey of 858 fans when Bruce Springsteen and the E Street Band performed at the First Union Center in Philadelphia this month. The concert was a throwback: every ticket in the house sold for \$75, well below the market rate. Yet only 27 percent of the tickets were bought through a scalper or ticket broker, or over the Web. The average ticket that was resold went for around \$280, yet most fans paid the list price. The list price is indeed relevant.

Mr. Springsteen deliberately set the price at \$75 for his entire tour to give value to his fans -- and succeeded. If the market price for a ticket was \$280, Mr. Springsteen gave almost \$3 million of extra "consumer surplus" to his fans in Philadelphia, double the ticket revenue the concert actually took in.

So why the surge in ticket prices?

I suspect the main reason is that the growing ability of fans to download music free from the Web -- legally or illegally -- has cut into artists' revenues. Millions of people have downloaded music from Napster, Morpheus and KaZaA -- and bought fewer records as a result. Music sales are plummeting, putting downward pressure on artists' royalties.

In this environment, concerts take on a different meaning for artists and their managers. In pre-Napster days, concert prices were kept below their market rate to help sell albums, a complementary good. Now concert prices are set with an eye toward maximizing concert revenue.

Bands have always had cadres of fans, whose loyalty conferred monopoly power. Yet they were reluctant to exploit this power by charging higher prices because they wanted to sell more albums. When revenue from albums began to dry up, it was natural for bands to raise concert prices.

There is some empirical support for this hypothesis. Jazz and blues fans are probably less likely to download music from the Web than are fans of rock and pop. Since 1996, prices increased by only 20 percent for jazz and blues concerts, but by 74 percent for rock and pop.

"Music itself is going to become like running water or electricity," the singer David Bowie said recently. "You'd better be prepared for doing a lot of touring because that's really the only unique situation that's going to be left."

It is not that bands have become greedier; it is that the technology changed to make it less profitable to charge below-market prices for concerts. Not all artists are as generous as Bruce Springsteen -- and even the Boss now charges twice as much as he did in 1996.