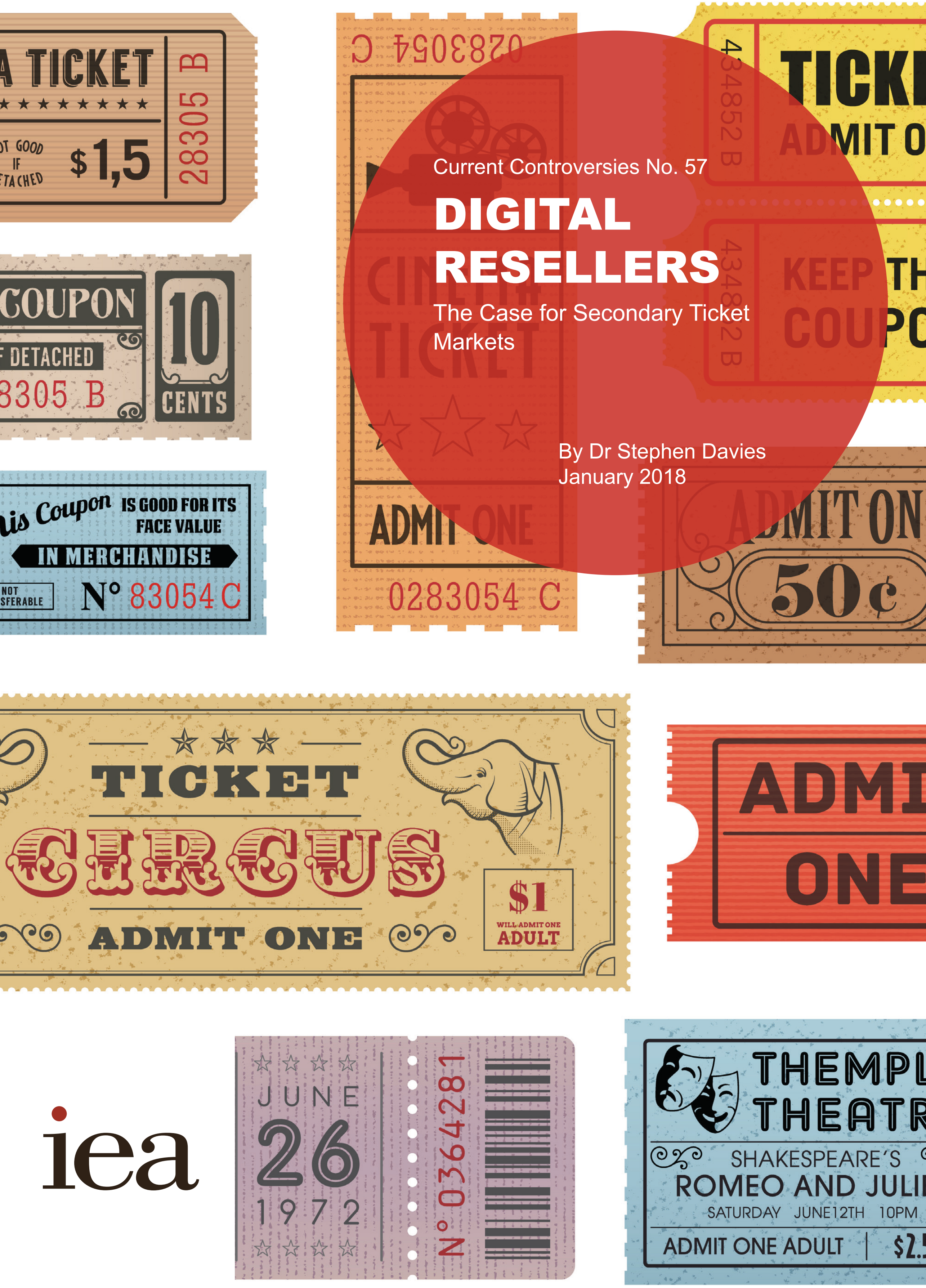

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DIGITAL RESELLERS

The Case for Secondary Ticket Markets

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Summary

- The reselling of tickets for events has a long history, dating back at least to Roman times.
- Such secondary markets in tickets are no different from other kinds of secondary market, and serve the same purpose: to correct flaws in the initial primary market.
- In recent years, new technology has led to the appearance of many new players in this market. Most of these are facilitating platforms rather than being directly involved as buyers or sellers of tickets.
- This market is fragmented with no firm having more than a very small part of the total secondary ticket market. That market itself is still small compared to the general market for tickets but is growing rapidly.
- This has led to many calls for limitations on ticket resale and, in particular, for what are effectively price caps.
- These arguments are wrongheaded and would disrupt an effective market. The more fundamental or underlying objections to secondary ticket markets are simply rejections of the principles of trade and a refusal to accept the reality of scarcity.
- It is the primary market for tickets that is dysfunctional. The secondary market is correcting its defects, so that tickets get into the hands of those who value them most. We are probably moving towards a new kind of market in tickets.

Introduction

Ever since human beings hit on the idea of using tickets to show the right to have access to an event or performance, there have been secondary markets in which those tickets are bought and sold after they were initially issued. Today's world is no different. However, this market has been transformed in recent years by the impact of new technology, with all kinds of new players appearing. What has not changed is the intense hostility that many feel, or appear to feel, towards this market and the firms and individuals who play the central role in it. This is currently reflected in demands for laws and controls intended to severely restrict or even prohibit secondary markets in tickets. However, such laws would harm the functioning of the event and performance market, would fail to resolve the difficulties that are the initial cause of angst, and would make some of the problems that do occur in these markets even worse.

This hostility reflects a basic and apparently widespread failure of economic understanding. The secondary market for tickets and right of access to an event may seem niche and specialised, but it is no different from many other markets of this kind, all of which play an important part in the functioning of today's economy. Hostility towards secondary ticket markets and the crucial role of middlemen reveals a wider misunderstanding of, and hostility towards, markets and exchange in general. If this were to find expression in legislation, the results would be damaging for all of us.

Some definitions

What are the key elements in a secondary ticket market and who are the key players?

Let's start with the touts ("scalpers" in the United States), who attract most of the opprobrium. These are people who get access to tickets (often by purchase, sometimes by other means, such as a contractual relationship with the original issuer) with the hope of selling them on to someone else for a price that is higher than the one they paid for them. As such they are speculators and no different in kind from speculators in any other good, such as commodities, futures, or equities. They are taking a risk, because they may find that they have misjudged the market and will be unable to sell on what they have bought for more than they laid out – something that happens frequently in the case of event tickets. Of course, if their judgment proves correct, then they make a profit – sometimes a handsome one.

How do resellers access tickets? In practice, there are two sources. Sometimes they can buy tickets directly from the issuer, the original source of the product. This can be a venue, a promoter, a club or organisation, or an artist or performer. There is often a regular contractual relationship between the originator and the reseller. The originators do this so as to ensure a minimum income for an event and to protect themselves against the loss they would face if they did not sell out at the price they originally set. Of course they are forgoing the additional income that they would get if demand proves to be so high that they could have charged a higher price. But they are willing to forgo this potential gain for the sake of playing safe.

More often resellers acquire tickets from people to whom they have been given by the originator either at a discounted rate or for free before they go on sale to the general interested public. As we shall see, this is a common practice for original issuers. In addition, there are people who have bought a ticket intending to use it but who now cannot do so or no longer want to, and who would like to dispose of their now surplus ticket. Such people may sell or transfer their now unwanted ticket directly, to someone they know, or they may sell it to a tout who acts as a middleman or broker.

The final element in the secondary market are the end customers, people who for one reason or another were not initially able or willing to get a ticket but now wish to get one and (sometimes) are prepared to pay a premium to do so.

A secondary market comes into existence when some of those who buy or are given tickets initially (the primary market) then resell them to others who were unable to get one in the initial sale or allocation. Touts and brokers are the middlemen who make this market work more efficiently than it otherwise would. This kind of thing has been going on for a very long time. In Ancient Rome, tickets to major events such as gladiatorial games or chariot races were given out free of charge by the person sponsoring the event. Some people who got tickets would then sell them on to others who had missed out, for cash. These were the locarii and soon locarius became a recognised profession, with people not only selling on their own ostrakoii (tickets made of pottery shards) but buying others and then reselling them to final buyers. This was so widespread that it was referenced in literature. For example, the poet Martial described one famous gladiator as “Hermes, wealth of the scalpers” (Hermes, divitiae locariorum). One important point to take away from this is that secondary markets arise even when the tickets are given away for free – or perhaps particularly in such cases and others where the tickets are issued at a price well below what the market will bear.

The Secondary Market Today

How do things work today? As things stand, there are a number of players in the secondary market. Some are long-standing, but others are relatively new arrivals and becoming much more effective because of new technology. The absolute number of tickets sold through secondary markets may seem large, but they make up only a small portion of the total number of tickets sold for any event. Moreover, as noted below, the market is very fragmented, and no single reseller ever accounts for more than a tiny fraction of the seats at any one event. (This means they are price takers, not price setters). In the first place, of course, there are the originators or primary issuers of the tickets. They have a number of goals that they would like to achieve when selling the tickets. Of course, they are looking to at least cover their costs and hopefully make a profit. In this, they are like any other business. However, they have other aims as well.

A jewellery retailer, for example, who covers their costs and makes a profit by selling a small number of high priced items in a week will welcome more sales but will not be devastated if they do not make them. However, the promoter of a concert or a sporting event who could cover their costs and make a return by selling a large part of the seats in the venue at a high price will, nevertheless, not want to have a partly empty venue. This would detract from the event as an experience and, hence, reduce its value to the customers and the producer, whose anticipated income from future events will be diminished. In addition, performers or originators often want not just an audience that can pay but one that is passionate and supportive – fans as much as customers. Again, this adds to the value of the experience for those taking part (including performers). Consequently, they will want to differentiate the price and access to tickets so as to hit the sweet spot of getting both maximum income and an engaged and passionate audience. Having said that, a person who is prepared to pay a high price for a ticket is almost always a fan by definition, regardless of their income and how easy it is for them to meet that cost. Claims that 'real fans' are unable to get tickets to events because of high prices are actually claims that fans on lower incomes are somehow more genuine or deserving than fans with higher incomes. It is not clear how that claim can be justified.

In addition, originators may wish to reward their own staff or long-term customers and supporters by giving them what amounts to a benefit in kind in the shape of discounted or free tickets for access. Often this is done with the implicit or explicit understanding that tickets given in this way will be resold. In that event, the original issuer is forgoing part or all of the income they might otherwise have received and some of that will go to the favoured customers or staff. As explained earlier, originators will often also sell tickets to an authorised broker before they are made available to the public so as to reduce risks and smooth cashflow. All of these steps will, however, help to meet the other ends mentioned earlier and so still make sense for the issuer. A crucial aspect of this is that favoured customers and staff and authorised brokers are typically given the discounted or free tickets before they go on sale to the general public. This kind of practice is widespread. Sports clubs (such as football clubs) regularly allocate a number of match tickets to their staff, including players, and to organised supporters' clubs. Theatre impresarios and promoters also do this regularly. In the case of musical and stage stars, a portion of the total tickets is often reserved and given out in advance to organised fan clubs. This can be a considerable portion of the total, as much as fifty percent in some cases. This whole area is shrouded in secrecy. There is a serious lack of transparency on the part of originators as to the proportion of tickets that are handled in this way and about the relations they have with VIP clients, industry insiders, and (crucially) authorised brokers with whom the event organiser has a revenue sharing agreement.

This is all a matter of fine calculation and judgment on the part of the issuer and easy to get wrong. An event that was expected to do well and even sell out can turn out to be a flop. And the actual mechanics of selling large numbers of tickets is itself demanding. As a result, there is an established industry of ticket agencies who handle this aspect of the business. These are well-known companies, such as TicketMaster. Their business model is to sell tickets that they get directly from the issuer, directly to customers. Today this is done primarily online rather than through telephone banks or actual box offices, although both of these continue to be used. Sometimes all of the mechanisms just described are completely adequate, the tickets are sold (or not sold in the case of a flop), everyone who wants a ticket has one and the promoters or issuers get income from the sale.

However, no market is perfect and in some cases, often high-profile ones, there is a secondary market that comes about because of flaws in the initial primary market. Some individuals who would like to have a ticket are unable to get one. Others have bought a ticket but are now unable or unwilling to use it. Many tickets go on sale several months (or even a year) ahead of the event date. There are many reasons why people may no longer be able to attend an event they bought tickets for – circumstances and plans change, people move, children are ill, to give just three examples. In addition, many of those given tickets on a special basis in advance of the general sale will be looking to convert them into cash, just like the original Roman locarius. It may be that the original issuer, either deliberately (for the reasons given earlier) or because of misjudgement, has significantly under-priced the tickets relative to the demand for them. In that case, there will, of course, be a shortage, with many people willing and able to pay more than the asking price in order to get a ticket that they really want. The practical problem is how to put these people in touch with each other. Because finding the other person who has the surplus or unwanted ticket is itself a costly process (because it takes time) for the person who wants the ticket, this kind of exchange can often fail to take place without the help of a third party.

This, of course, is the historical role of the tout or scalper who invested their own time in finding people who had surplus tickets and then finding the people who wanted a ticket and selling it on. They were, in other words, classic speculative middlemen. In practical terms, this involved having contacts with the class of people who got advanced and discounted tickets and physically hanging around venues trying to find people with spare tickets and others who needed extra ones. All of this has been transformed by new technology: specifically, the internet and contemporary information technology. Instead of individuals hanging around in inclement weather next to theatres and concert halls or sports grounds, we now have an entire industry of companies dedicated to reselling tickets and performing or assisting the middleman’s function.

The appearance of online ticket resale companies is one example of the much wider phenomenon of the ‘sharing economy’ and ‘platform capitalism’. Companies such as AirBnB or Uber are examples of both phenomena. The central contribution is to reduce transactions costs. That is, they reduce the cost of willing buyers and sellers identifying and getting in touch with each other. This makes trades and exchanges possible that would otherwise not take place because the transactions costs would be greater than the gain from the exchange. Since voluntary trades make both parties better off, this means a considerable increase in overall economic welfare. The second thing that they do is to provide a level of trust and security for the parties to the transaction that would otherwise be absent – lack of trust and recourse in the event of default or fraud would make people much less willing to engage in trades, such as letting out their flat to a stranger. These two things – low cost and safe transactions – are provided through the provision of a common or public access platform rather than by providing a service directly. AirBnB does not own any houses or apartments itself; Uber and Lyft do not own or operate taxis. They simply provide the platform that delivers the two key services described above. This is exactly the business model of ticket resale companies. As such, they are not a singular or distinctive phenomenon but are part of a wider transformation of business and markets made possible by new technology, one that is bringing significant benefits by extending the scope and extent of exchange.

The market for tickets is being transformed by these developments. For example, dynamic pricing of the kind used by airlines for several years is being introduced by originators (such as TicketMaster Platinum). There is growing vertical integration, with resale platforms being set up or taken over by primary sale companies. For example, TicketMaster owns Seatwave. In fact, the division between primary and secondary markets is becoming blurred. We are moving towards a situation where the secondary market and its players become the main route by which prices are set and tickets obtained, and the market in tickets becomes more like many other markets.

Secondary markets arise for many goods besides tickets to events – usually without attracting the controversy that ticket resale attracts. It is common, for example, in commodities markets where original buyers of commodities such as minerals or grain will then trade them on spot markets rather than simply using them or selling them directly to end users. The best-known example, which has the closest similarity to a ticket secondary market, is that for shares, particularly in newly floated companies after an Initial Public Offering (IPO). Shares are often sold in the IPO at a price below what they will soon reach in the main stock market – which is, technically, a secondary market. The reason is that although the issuing company wants to maximize the capital it raises, it also wants to be sure that the issue is fully subscribed. (So, it is in a similar situation to the ticket issuer or promoter). The safe course of action is to be cautious in pricing. Speculative investors or 'stags' buy up large tranches of these shares from the IPO in the expectation that their price will soon rise and that they will then be able to sell them at a profit. They are in almost exactly the same position as touts. One difference is that tickets to an event are worthless once the event has taken place whereas a stag who gets it wrong can still hold on to the shares in a trading company. This means that ticket middlemen are in a much more exposed and firm-ended short-term position. This, in turn, means that the role of the facilitator (the ticket resale platform) is more important than that of the financial equivalent (the stock exchange).

Ticket Resale - Scale and Scope

Secondary markets exist in many areas of economic life and perform an important market function. In particular, they rectify imperfections in primary markets and bring supply and demand closer to balance.

Ticket resale platforms are now an established part of the entertainment landscape. Among the best known are ones such as StubHub, Seatwave, and Viagogo. These and GetMeIn are the ones most familiar to UK consumers. There are however many others, not least in the United States but also countries such as Australia, Germany, and Canada, including such names as Twickets, Ticket Swap, Ticketek, and Razorgator.

Table 1: Top Thirteen Ticket Resale Companies Worldwide.[1]

Ace Ticket Worldwide
Alliance Tickets
Coast to Coast Tickets
gotickets.com
RazorGator
StubHub
TicketCity
tickets.com
Ticketmaster Entertainment
TickPick
Tiqiq
Viagogo
Vividseats

These have a variety of business models and pricing policies. Some, such as Twickets, only allow the exchange of tickets at face value and act as a

1 https://www.technavio.com/blog/top-13-companies-secondary-ticket-market

clearinghouse for fans (for a fee, of course, to cover the service). Others act as a facilitator for trades that can involve tickets changing hands for more than the face value. It is this that attracts hostility, along with practical problems facing many fans and customers that are incorrectly attributed to the resale platforms.

In absolute terms, the ticket resale market appears to be large. However, the United States alone accounts for 45% of the total global market. This reflects the domination of popular culture by that country and the large number of major events of all kinds held there. More significantly, the market for secondary ticket sales is growing rapidly in volume and is expected to show a compound annual growth rate of 19% and reach a global value of $15 billion by 2020.[2] So, this is a booming business. This reflects both growing demand from consumers for the service and, as already noted, a transformation of the way ticketing works, with a move to more flexible delivery and sale. This transformation still has some way to go – unless misguided action by policy makers arrests it.

However, it is also important to realise that in terms of the market for tickets as a whole, the secondary market today is marginal. The great majority of events do not sell out and have limited or non-existent secondary markets. As the figures in Table 2 show, even for major recent UK events, only small proportions of the total of tickets issued were sold through StubHub, one of the main online resale platforms.

2 https://www.technavio.com/report/global-media-and-entertainment-services-secondary-tickets-market

Table 2: Ticket sales through StubHub

Event	Venue	Percentage of capacity sold on StubHub
Adele	Wembley Stadium	2%
Wimbledon Men's Final	Wimbledon	0.06%
Ed Sheeran	The O2	1%
U2	Twickenham Stadium	1.5%
Capital Summertime Ball	Wembley Stadium	3%
ICC Champions Trophy Tickets	Kia Oval	2.5%
Guns N Roses	Queen Elizabeth Olympic Park	1%
The Stone Roses	Wembley Stadium	2%
Coldplay	Principality Stadium Cardiff	1%
IAAF World Championships Tickets	Queen Elizabeth Olympic Park	0.7%

In Ireland, according to a submission to the government enquiry held there by the former CEO of Ticketmaster Tommy Higgins, the situation is similar.[3] In his estimation, no more than 100,000 tickets are sold on secondary market websites out of a total of 15 million tickets issued for sale. In the Irish case, Higgins estimates that only 30,000 to 35,000 are sold for more than face value. This amounts to 0.3% of all tickets. (We should compare this to the figure from the New York Attorney General's report of an average of 58% of all tickets being held back from general sale.[4]) In other words, we are not talking about a situation where the majority or even a large part of the tickets for events are traded on secondary markets, except for a very small number of exceptional events. Rather, this is a corrective mechanism that deals with cases where the primary market has not worked for one reason or another.

If that is the case, then why does this secondary market matter? Firstly, some critics have a misguided and mistaken view of what is going on and, if influential, this could have very damaging results. In reality it matters because of the way markets (including this one) are developing in todays world.

3 https://dbei.gov.ie/en/Consultations/Consultations-files/Tommy-Higgins-Tickets-submission-resale-of-tickets.pdf

4 https://ag.ny.gov/pdfs/Ticket_Sales_Report.pdf

Complaints and Demands

In the last two to three years there have been a series of complaints about the way that ticketing markets work, with a focus on the role of ticketing resale sites. Complaints have come from sports and entertainment with bands including Arctic Monkeys, Iron Maiden, and One Direction joining a campaign that also has support from the Rugby Football Union and the English Lawn Tennis Association, as well as other media figures such as Live Aid producer Harvey Goldsmith. Politicians of all parties have also joined in. One notable campaigner has been the Labour MP Sharon Hodgson, who in 2015 introduced a Private Members' Bill calling for any mark-up on the face value of tickets to be capped at no more than 10%.[5] She has support from MPs in all parties, notably the Conservative MP for Selby and Ainsty, Nigel Adams. Support for the demands made by campaigners is widespread on social media, as any survey of Twitter will reveal.

The complaints can be categorized under several distinct heads. First, there are accusations that primary ticket sellers such as Ticketmaster encourage people to use secondary sites that they own, such as Seatwave, instead of making it clear that in most cases they do not need to do this. Another frequent complaint is that of misrepresentation, in particular, of tickets being resold even though the original issuer has banned resale so that the ticket may not give a right of entrance (leaving aside the philosophical question of whether issuers have the right to do this, in many such cases the ticket will still give admission). The response to these complaints is relatively straightforward. Issuers who ban resale make this very clear and it is reasonable to expect those buying them second hand to know they are taking a risk. Very few people will go directly to a resale site while there is any chance of getting a ticket from a primary seller. Most importantly, matters such as this are covered by existing regulations. There is no need for further intervention in the market.[6]

5 http://www.sharonhodgson.org/ticket_touts_campaign, http://www.sharonhodgson.org/sale_of_tickets_bill_second_reading_21_01_11

6 https://www.businesscompanion.info/en/quick-guides/services/the-sale-and-resale-of-tickets

On some occasions there is simple fraud, such as the sale of counterfeit tickets. This can be dealt with under existing criminal law and does not require new legislation. Ticket resale sites actually offer greater protection to fans with more options for recourse than other kinds of resale markets. This is partly because the creation of trust between buyer and seller is central to their business model. Operating as they do in a highly competitive market with many repeat customers, they have strong institutional incentives to be transparent and reputable in their conduct. This is strikingly different from the position of the primary ticket agencies and issuers who face no such pressure. This can be seen in the way that major events can be cancelled at very short notice (and not on grounds of force majeure) and the way in which sales are often handled.

There are other complaints that fall under this heading, of a lack of transparency, that, while basically correct, are otiose. One is that secondary sites do not reveal the identity of the seller. This can be difficult to establish and, even if it became the norm, would be unlikely to make any difference to the actions of clients whose main interest is in obtaining a ticket. Another complaint is that in many cases sites continue to refuse to identify the actual seat associated with the resold ticket. The reason for this, however, is that original issuers will often cancel tickets that they can identify in this way even if the law has not explicitly banned resale (as it does for safety reasons in football). These kinds of complaints either do not require action or can be dealt with in a number of ways: by the enforcement of existing laws and regulations; by amended or more explicit regulations (including ones that apply to original issuers and primary sellers as well as secondary sites); or by the articulation of industry standards by trade associations. Above all, they do not require interference with the price mechanism or the suppression of trade and exchange.

The same cannot be said about the second category of complaints, which are the ones that have attracted the most attention. These derive from what are essentially media frenzies around a small number of specific and very high-profile events, often involving major stars such as Adele, Sam Smith and Iron Maiden, or certain very popular sporting events. The complaint typically is that the event sells out within minutes of the tickets going on sale to the public. Large numbers of tickets then appear quickly on resale sites with a substantial mark-up so that for many fans it is impossible to get the tickets at the face price and they have to buy them at the higher resale price if they want to be able to go to the event. The explicit argument is that this situation arises because touts buy up large numbers of tickets as soon as they go on sale and then resell them using the medium of resale sites. In other words, they act like stags at an IPO. It's argued that the difficulties of fans and their having to pay more than face value for the tickets is due to the activities of the resale sites in and of themselves or (the more common charge) the actions of the touts facilitated by the sites. The implication is that, if were not for this, fans would be able to get the tickets they want at the original price. It is hard to know where to start with this kind of argument.

The first point to note is that the majority of tickets offered up for sale by the primary sellers do not appear on resale sites. They are bought by keen and fortunate fans who get in first and buy tickets that they then use. Others are sold on privately to friends or family. By its nature, the scale of this is hard to estimate but it undoubtedly takes place. Secondly, the supply of tickets in the primary sale is often restricted significantly by the original issuers themselves. As explained above, a large proportion are given to privileged clients or supporters before the general offer to the public, for the kinds of reasons set out. Many of these tickets are then sold on, even though the bulk of them may remain in the hands of those who they were given to in the first place. This practice restricts the number of tickets initially on sale, sometimes markedly so and so creates an artificial scarcity. In addition, originators sometimes place a significant block of tickets directly with a resale site, such as Viagogo, and with primary sites such as Ticketmaster Platinum. Their reason for doing this is to hit the sweet spot mentioned earlier and maximize their revenue while also passing on the risk that the tickets will not sell to the secondary seller.

A third response is that the original issuers often either knowingly or unwittingly set a price for the tickets that is well below what many potential purchasers are prepared to pay – that is, below the market clearing price. As with company IPOs, this leads to an immediate jump in the price of the tickets once they are traded and many will look to take advantage of it, perhaps on a professional basis but sometimes simply deciding that they value the cash they can now get for the ticket more highly than the concert they originally intended to attend. A below market price for any good will naturally lead to shortages and the price being bid up to its clearing level so long as trades are taking place. The fewer original tickets that are traded in the secondary market, the greater the mark-up on those that are traded.

One argument often made is that speculative buyers (aka touts) use computer programmes or bots to 'harvest' large numbers of tickets in a short time. The implication is that this is an automatic process similar to the way that spam is generated. In fact, while relatively simple software is used, the key practice is to buy multiple tickets by using the names of spouses, friends, relatives, and associates as well as one's own with different credit cards for each named person. This is very hard to prevent while still having an online sale. Making the identity of the person reselling the ticket known would not make this transparent, as the organiser would not necessarily be the person identified. In any event, it is the primary ticket issuers who should be responsible for this (if anyone should), rather than secondary platforms and facilitators.

All of this, however, is only additional to the main point. The entire process will work for the speculator touts only if there is a mass of willing buyers who are prepared to pay the higher price for the tickets. In many cases there is not, and the speculators lose money because the implicit bet they have made has gone sour and, unlike City stags, they do not have a long-lived asset that they can hold on to. Instances such as these do not make headlines in the way that hugely inflated prices for concerts by artists like Adele or Ed Sheeran do. The fundamental cause of disappointment for many would-be buyers or their having to pay more than a nominated but below-market price is that in these cases (which to repeat, are not the norm) there is a massive excess of demand over supply. Far more people want to go to the event than can physically attend. We can get an idea of the disparity by comparing the number of people who stream artists' work through media like Spotify compared to the number of tickets available for a concert, or even an entire tour. For example, in 2017 Ed Sheeran had 223 million streams of his third album in just one week.[7]

Given this situation, there are only a few ways to resolve it. One would be to rely purely on the price mechanism and allocate tickets to the highest bidder through some kind of auction or an open market akin to a stock exchange (but with many platforms rather than one main one). Another method would be to use the kind of demand-sensitive pricing software used by industries such as airlines or hotels. This would mean that tickets would

7 http://www.bbc.co.uk/newsbeat/article/39227884/ed-sheeran-nearly-breaks-spotify-with-streaming-record

end up in the hands of those who valued them most but not necessarily in the hands of those who would get the greatest value out of the experience, because people with effective purchasing power (i.e. money) would have an advantage. This could militate against the other ends described earlier, such as having an enthusiastic and engaged audience. However, in the case of major stars or events (which is what we are talking about here), this seems unlikely given the very large numbers. It is more likely that you would still have an enthusiastic and knowledgeable audience but slightly better heeled.

The other end of the scale would be to ban resale entirely by one means or another and to allocate the tickets by a ballot or lottery. This strikes some people as being fairer, but it is not clear why it is. In this case, the advantage goes to those who are lucky rather than those who have more resources or are prepared to give up more of other things to get the ticket. Nor would it address the issue of tickets going on sale far in advance of an event and people having plans change. There needs to be some way to prevent these tickets being wasted.

In either case, a form of rationing of a scarce resource is taking place and many people will be disappointed and unable to get the ticket they want. This is unavoidable in a world of scarce resources. Of course, people would prefer to get something that they value at a price that does not accurately reflect the demand for that product. But this simply cannot be achieved for most people, no matter what system we have.

What we have at the moment is a compromise or, we might say, a chimaera that combines different and possibly incompatible elements. Some tickets are allocated at a below market price and go to people who are either connected or fortunate or who belong to a privileged category. Others are allocated by something more akin to a market mechanism. It is not clear how easy it will be to keep this unstable combination going, given the continuing developments in technology.

The third category are essentially objections to markets and trade per se. To be fair, politicians have not generally expressed these sentiments, but they are clearly at the basis of much of the popular animus. The first is a feeling that there is something morally objectionable about buying a good at one price from a first party and then selling it on at a higher price to a third party. The second is that it is wrong that prices should rise (or ‘surge’ in the current jargon) in response to a short-term event or crisis or even a basic excess of demand relative to a fixed or inelastic supply. Essentially, these objections reject the idea that goods should be priced by the interplay of supply and demand as embodied in freely chosen exchanges between willing buyers and sellers. Instead, there is the idea either that there is a just or traditional price for goods and services that should not change, or that prices should reflect non-economic concerns and principles, or that it is ultimately producers who should control economic exchange and set prices rather than consumers through their demand. We can see all of these notions expressed in many discussions of ticket pricing and resale. It seems, for example, that many originators and much of the public believe that the initial price set by the originator should not be deviated from if the ticket is subsequently exchanged or traded. Usually, this manifests as opposition to the ticket being marked up in price while there is seemingly no problem with it being discounted (as often happens, of course) but it seems that some people even object to that! This effectively is a form of Resale Price Maintenance but with the control on the upside rather than the downside.

The response to this is simple and robust. In the first place, there is no reason to think of tickets to events as being different from other kinds of goods. If it is wrong to charge a premium for resold tickets to an Adele concert in Dublin, then why is it all right for the cost of a hotel room close to the venue to rise for that night? If it is wrong for tickets for a major sporting event or concert in London to rise in price on a secondary market then why is it not wrong for rail fares into London to go up at peak travel times when demand is high, such as when many want to travel to London for the event? Also, why is it wrong for a consumer to resell a £35 face value ticket at £70 in the secondary market, when artists are themselves now using dynamic pricing to sell tickets for hundreds of pounds in the primary market? Why is a price cap advocated for one half of a market and not the other?

In a market economy, the function of prices is to send signals to economic actors so that their behaviour adjusts to lead to the most efficient and welfare enhancing allocation of resources. For this to work, it is essential that prices be flexible so that they can adjust to changing circumstances or when the initial setting of prices is not at the clearing level (too high or too low). Tickets to events are no different from other kinds of good in this regard. In addition, it is worth pointing out several other features of markets in event tickets. Firstly, all of the transactions that the critics object to are voluntary and freely chosen. Nobody is forced to buy tickets from speculators or to sell to them. The entire secondary market, and beyond that, the business of touting, exists because of a large pool of willing purchasers of second-hand tickets. It is not clear why or on what grounds anyone should interfere with this. Moreover, tickets to events are a luxury good, they are not in the same category as ones that are vital or essential to a minimum standard of human dignity, such as food or shelter. People routinely engage in property speculation, buying land and property in order to resell it at a profit. Yet for very good reasons we don't cap the resale price of a house. One of the problems with a very small number of events may be that attending them has become a badge of status rather than something to be enjoyed for their own sake. This is not a new problem nor a significant one – certainly not enough of a problem to justify wrecking a functioning market.

Having said that, it is clear that for many members of the public the response to the two rhetorical questions posed earlier is that it is wrong for the prices of hotels or trains to rise. This kind of attitude can be seen, for example, in complaints about the price surge policy of Uber at times of peak demand for taxis. People who think this way are rejecting the whole idea of using prices to allocate resources. What they implicitly assume, however, is that there is no scarcity, that resources are abundant. Apparently, at a time when demand for taxis rises sharply, we should keep prices the same and everyone who wants one will get a taxi at that fixed cost. If there is a concert that is oversubscribed, then somehow everyone should be able to get a ticket to the event at the price set by the originator. The reality, of course, is that in those cases, without the price mechanism, there will be a shortage. The scarce good will have to be allocated in a different, non-market way by rationing combined with luck (as in the allocation of tickets by a ballot) or by waiting and queuing, as would happen with taxis and used to happen frequently with events. The first benefits the fortunate, the second those whose time is not so valuable. To allow this kind of thinking to influence public policy through controls, price fixing, and regulations that limit free exchange is to have an economy that is less productive, less flexible, and marked by both shortages and gluts. The secondary market for tickets may seem a marginal one but, in many ways, it is the proverbial canary in the mine in terms of revealing public attitudes.

It is also worth reiterating the elementary economic point that price controls of any kind, whether floors or ceilings, are invariably disastrous and have far reaching but predictable second order effects. Putting a price cap on a product or service for which there is a high demand does not only lead to shortages and queues. It leads inevitably to a black market outside the law, run and dominated by very unpleasant people, and with often violent disputes between the actors in that market (because they cannot rely upon the legal system to settle disputes). Does anyone really want to create yet another income stream for criminals?

Finally, it is worth thinking about the state of the market for event tickets at the moment and where it might go. There is a strong case for saying that it is the primary ticket market that is dysfunctional rather than the secondary market. The primary market is dominated by a small number of players who because of their small number, vertical integration (primary ticket agencies often also own large venues), and position as primary producers are price setters rather than price takers. This was inevitable so long as the transaction costs of bringing together people who had tickets and might be willing to sell and people who did not have tickets and wanted to buy one were very high. There were always middlemen who operated in this market (touts), but the high transaction costs meant that their role was relatively limited and ultimately marginally corrective. New technology, however, means that the secondary market has grown and is continuing to grow dramatically. It has several advantages over the primary market; notably, it is quicker and more responsive, more transparent (despite the complaints), more differentiated with greater price discrimination and so more efficient. The tickets market is becoming more like the markets for equities, with platforms acting as competing equivalents to stock exchanges, touts being like brokers and traders, and originators being like companies issuing shares. If the demands for regulation are defeated, this transformation of the tickets market will ultimately benefit all parties.[8]

8 http://www.europe-economics.com/publications/secondary_sales_market.pdf

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