GIG ECONOMY

MARK LITTLEWOOD on a new book that lifts the lid on the economics of the music business

In *ROCKONOMICS, What the Music Industry Can Teach Us About Economics (and Our Future)* renowned economist Alan Krueger seeks to explain what the music industry can teach us about economics and our future.

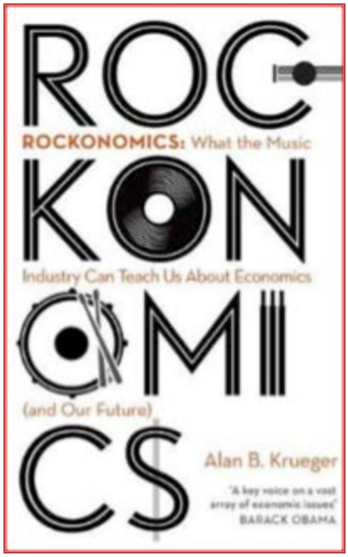
In reality, however this detailed and often surprising analysis of trends and developments in the music business shows how economics can help explain the industry, rather than the other way around.

The startling starting point is just how microscopic spending on music is across the globe. Listening to music is essentially a ubiquitous pursuit – Krueger estimates the average American listens to about three hours of music a day, albeit often in the background as a secondary activity.

However, the entire music industry amounts to a mere 0.1% of the USA's GDP. Globally, that figure is 0.06%. Music represents just 2% of the entertainment industry's total turnover.

Krueger (who sadly died after the publication of this book) suggests that Americans spend more on unused health club memberships than they spend on music. For something of such cultural impact and importance to so many people, music is in fact a tiny part of the wider economy.

The picture painted of those who dedicate their lives and career to music-making also defies some conventional wisdom. On average, musicians in America are better educated than other workers. But their take home pay tends to be measurably less than that of the average worker – about $20,000 per annum for artists compared to the national



median wage of $35,000.

For most, it is essentially a hobby or a vocation rather than a career. We obviously associate those at the top end of the music market with colossal riches, but this trend is actually increasing, with higher and higher rates of return accruing to a small handful of superstar performers.

Krueger draws parallels with the rise of the superstar in other economic fields – including superstar companies such as Amazon and Facebook. The twin driving forces behind the increased returns to superstars have been scalability and non-substitutability.

Technological developments have allowed top artists to reach an ever-growing audience of fans at very limited additional cost and, although music is often categorised into groups or genres, the performance of one artist cannot easily be replicated by another.

Over two centuries ago, opera singer Elizabeth Billington was perhaps the most celebrated singer of her times. But as the great economist Alfred Marshall later observed, there was a natural limit to her potential earnings. In the absence of microphones, recordings or digital streaming, there was a strict limit to the number of people she could reach.

Today's megastars such as Taylor Swift face no such firm constraints and are thus able to earn higher proportions of the overall music economic pie as a result and the trend shows no sign of abating.

The top 1% of artists accounted for 26% of all ticket revenues in 1982. By 2017 this had risen to 60%.

The make-up of performers' income has also markedly changed. David Bowie saw a key development coming to the industry when he remarked, "Music itself is going to become like running water or electricity…You'd better be prepared for doing a lot of touring."

Previously, stars had treated playing live venues as a promotional or marketing activity – possibly even a loss leader to enhance their core proposition of album sales. Average ticket prices have enormously outstripped inflation since the 1980s as artists increasingly seek to sell an "experience" rather than a CD or an LP to their fans.

Krueger implicitly accepts that forecasting where the industry might go next is something of a fool's errand. When Napster emerged onto the market enabling widespread file sharing, some worried that the entire viability of the music business would be called into question.

But new approaches and technologies have come to its aid. Streaming services have become popular and have secured buy-in from fans.

In 2007, the band Radiohead decided to make their latest album available for free and ask people to donate whatever they felt appropriate.

Although 60% didn't hand over a penny, the average donation was $6 – and they made more income from that single album than from their total back catalogue combined.

Predicting which artists are likely to emerge in years to come is also near impossible to predict. This is due to the enormous role that luck can play in any individual career. There is no doubt that skill, imagination and dedication are vital ingredients, but sheer good fortune can be the decisive factor.

Reginald Dwight recalls how he was randomly paired with a lyricist by the name of Bernie Taupin when attending an over-crowded audition at the age of twenty. Dwight went on to become Elton John and his lifelong collaboration with Taupin led to the sale of more than three hundred million records.

Famously, Mick Jagger and Keith Richards met by coincidence on a train – without that chance encounter, the Rolling Stones would never have come into being.

Rockonomics does a splendid job of explaining the dramatic recent changes in the music industry through an economic lens. As is appropriate for a book on this topic, Alan Krueger is able to neatly divide the key economic signals from the wider noise●

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