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THE ECONOMICS  
OF THE  
POPULAR MUSIC  
INDUSTRY

Chong Hyun Christie Byun





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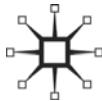
# The Economics of the Popular Music Industry



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THE ECONOMICS OF THE POPULAR MUSIC INDUSTRY

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# 1

## Introduction

**Abstract:** *Music entertains us, influences us, and shapes our lives. From the message to the medium to the physical experience of listening to a live performance, music has charms to soothe the savage breast. Rock and roll used to be a way for people to stick it to the Man. Is that still possible in today's corporatized world? Technological development has played a key role in music production and consumption. From the Sony Walkman to its modern day equivalents, the iPod and the smartphone, technology affects how musicians create their work and how listeners experience it. This book examines the popular music industry from an economics perspective. It will examine how music is produced and consumed, and investigate the role of technology in the business of music.*

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The idea for this book came about from a freshman seminar I taught in the fall of 2011 at Wabash College titled The Economics of the Popular Music Industry. I had always been a fan of popular music and as an amateur observer, had watched the shifts in the music business from both the consumer and producer side. As an economist by training, it was clear that the changes in the industry came about due to the enormous technological change in the way that music was produced and consumed. The shift from analog to digital recording and listening has had a massive impact on the way the industry operates. My own students provided an excellent example of how people listen to music today – invariably on a portable digital player, usually an iPod or smartphone. An informal polling of the students revealed that hardly any of them had ever purchased music in a physical form; usually their purchases (if they ever made legal purchases) were digital downloads from the iTunes music store or other online stores. More recent informal polling indicated that their listening habits have shifted to include online streaming sources, namely Pandora or Spotify. Depending on the situation, circumstance, or level of convenience, music was now more portable and accessible than ever before. And now more than ever, music consumption and music collecting (albeit in a form I had not practiced, namely digital downloads) are an all-pervasive part of life. Collecting became something of a game of diversifying interests, with individuals competing on the size and variety of music on their iPods. Since a collection of songs or albums could number in the thousands, without taking up the physical space that albums used to take up, music collecting was easier than ever before. The diversity of music in collections has widened, and listening habits have changed, all due to the ease by which music is available to everyone at almost any time. In addition, rather than an album purchase being a special event marking a long awaited release, students to view the ease of accessibility of music as a generally accepted fact of life, like running water or electricity. Since college students are a significant segment of the music consuming populace, understanding their consumption preferences, not just in terms of genres, but in the forms and methods by which music was consumed is vital to understanding the general consumer base of the music industry.

In response to these seismic changes consumption styles (digital downloads or streaming services versus actual physical albums) the music industry has responded either by attempting to restrict or control the way music is consumed, or by analyzing the changes in consumption patterns in an attempt to harness these forces for their own profits.<sup>1</sup> Music

production has high startup costs and requires substantial infrastructure and distribution networks, not to mention the cost and time to write, record, produce, and edit an album in the studio. Changes in technology, namely digital recording and online distribution have eliminated the need for physical distribution networks and storefronts.<sup>2</sup> Indeed, digital technology enables musicians to record and distribute music via their own means, obviating the need for record contracts and record companies. Ani DiFranco is one notable example of an artist who releases her works under her own label, Righteous Babe Records, citing the desire for artistic freedom and liberation from corporate constraints.<sup>3</sup> Although DiFranco's decision was not precipitated by the technological changes occurring in the music industry, her choice foretold a future where record companies, the middlemen of the industry, would no longer be necessary for commercial success. Modern technology has replaced the middlemen, and now many entrants into the industry bypass record labels in favor of recording, releasing, and promoting their music themselves. In the words of Justin Ouellette, founder of the website Muxtape, “[t]echnology has spoken; the people have spoken; there's kind of no putting the genie back in the bottle.”<sup>4</sup>

Every time a new technology arises in the industry, the clamor would be about how this new technology would be the ruin of the industry and the hardworking musicians that comprised it. From the home gramophone player to broadcast radio to compact discs to digital downloads to online streaming, the outcry and controversy have always been the same. And yet...and yet, it seems that it is the same as it always was. The music industry endures. The scene remains. The players and the infrastructure may change, but musical output continues. And the market persists, though with seismic shifts in the way the music business is conducted. These shifts, primarily due to technology, have an enormous influence on the way music is produced and distributed. It can also influence how music is consumed and in turn influence how music is produced, which in turn influences how it is consumed.

Technology has played such an enormous role in the music industry that its influence cannot be understated. An example is the 33 1/3 rpm vinyl long play (LP) record. Prior to the development of the LP, the 78 rpm gramophone record was the standard format. The 78 record had a capacity of about three to five minutes per side, depending on the size of the record, and it was made of shellac, a relatively noisy and fragile medium. This format imposed a strict time limit on the length

of a piece of music that an artist could record. The very physical limitation played a role in music composition, as an artist was aware of the time constraints imposed by the medium, and even had an influence on the artistic process of creating music. One notable example is Igor Stravinsky's Serenade for Piano which was to be released in the United States on a set of 78 records. With an eye toward the time limitation of the 78 record, Stravinsky recalls, "This suggested the idea that I should compose something whose length should be determined by the capacity of the record."<sup>5</sup>

Compositions with multiple segments could be spread across the sides of several 78s, with home equipment that could play the records back in sequence automatically.<sup>6</sup> Here, business decisions also had an influence on musical output. The even number of record sides dictated that a composer write an even number of movements, since record companies were reluctant to release a set of albums with one blank side. Indeed the term record *album* came about because empty booklets sold to hold sets of 78 records were similar in appearance to photo albums. These booklets were necessary for storage, since 78 records were made of fragile shellac, an imperfect medium used until advances in technology led to the vinyl record.

The 7-inch 45 rpm vinyl record is another example of the influence of the physical limitation on musical output based on the technology. Columbia Records and RCA Victor were competitors in the market for records for home and commercial use. The use of vinyl as a medium was a key development in the history of recorded music technology, as it was quieter and more durable than the shellac that comprised 78 records. Peter Goldmark at Columbia records led the way in developing a 33 1/3 rpm microgroove long play (LP) 12 inch vinyl record that could be played on affordable home playback systems. Columbia Records officially unveiled this format in 1948. On this format, the time per side was approximately 22 minutes, for a total capacity of 44 minutes for an entire album. In 1949, Columbia's competitor, RCA Victor developed a vinyl album that played at 45 rpm that was meant to be a successor to the old 78 albums. The new 45 had the same time per side as the 78s but it offered greater durability compared with the old shellac 78s and more convenience due to its smaller size. RCA Victor meant the 45 to serve as an improvement over the old 78s, and held to the belief that the listening public was still committed to the time lengths on the old 78s, despite the side breaks that were an inevitable part of music listening. During the