3

Artist and Gatekeeper: Trade Books, Popular Records, and Classical Music

The filtering of artists by gatekeepers and the promotion and distribution of their works goes on in all the creative sectors, leading to trouble-prone relationships between artists and the firms that link them with humdrum inputs. Authors and trade-book publishers offer a useful comparison to the visual artist and gallery. Whereas the gallery seeks to promote an unpredictable career, the publisher addresses a problem that is usually simpler. The manuscript of the book is in hand; even if not, as with celebrity authors and blockbuster novelists, the prospective development of the artist's career is not such a central concern. While that smooths the contracting process, it raises the stakes for the gatekeeper, who has more information to work with and hence a more complex task of processing it. The record album is the unit of transaction between the pop performing group and the record label, just as is the gallery show for the artist and dealer. Each team, however, hopes to launch and sustain a career for the artist. The deal again runs into problems already seen in the visual arts: hidden actions and information, incomplete contracts, the uncommitable nature of artistic inspiration, and moral hazard. The tweedy author and the grunge musician face very similar issues of contracting with gatekeepers. It proves convenient to explore some issues in the author's context, others in the musician's.

These problems of gatekeeping and contracting open several distinctive issues of industrial organization. Agents commonly serve as business representatives for artists, but their role in allocating creative resources goes much farther. They perform their own gatekeeping function in deciding which artists to represent, and along with this undertake the matching of artists to jobs or humdrum partners. Some of these tasks have natural-monopoly elements, others need one-on-one relationships to artists, so the organization patterns of agents vary greatly among art realms. Another issue of industrial organization, demonstrated in trade-book publishing, is the informal but extensive in-

formation networks that link editors in different publishing houses. The creative-industry firm is no fortress of proprietary information.

Author, Agent, and Publisher

Like classical musicians and cinema and TV film artists, trade-book authors employ agents as intermediaries, to match author with publisher and bargain the best terms. The agent deals proximately with an editor, who becomes the manuscript's champion or manager within the publishing firm. Because all functions that a publisher performs—copy-editing, printing, distribution, and so forth—can be subcontracted, the tasks performed by the publishing-house editor and the small-scale entrepreneurial publisher differ only in governance relationships among the parties.

Agent as Intermediary

The creative act of authorship has its sociable side, but compared to visual art and pop musicianship it is a solitary and individual calling. The typical beginning author cannot follow the visual artist and build a reputation outside the realm of commercial gatekeepers. There does exist a marketplace for literary reputations in the high-minded circles of the university campus and the little magazine, but it has separated itself from the mainstream of commercial writing in books and magazines.[1] There is, then, no marketplace for early reputations of emerging authors ("celebrity" books aside). The author simply prepares a manuscript and presses it into the hands of a gatekeeper, either the publishing-house editor or an agent. The chances that the gate will open are small. The president of Doubleday once stated that three or four of the 10,000 submissions received "over the transom" each year were accepted. Novels face even worse odds (one in 15,000), while scholarly and textbook publishers net many more fish from the stream of submissions.[2] These odds understate the author's chances, since they pertain to any single publisher's acceptance rate, whereas many manuscripts find homes after multiple submissions.

The publisher might decline a particular manuscript for many reasons: it fundamentally lacks quality and originality; it shows promise that could be realized only with substantial further work by the author; it is too specialized to be profitable; it fails to fit well into the publisher's portfolio of books; or it arrives at the wrong time, when the publisher's pipeline is full. Because any novice's manuscript has a tiny chance of acceptance, the publisher either incurs a high cost (per acceptance) of filtering out the losers, or chances many errors of omission (rejecting manuscripts that are worth publishing). There

is room for an intermediary who can efficiently match up publisher and author. The agent does that job. Publishers once shunned agents as collectors of rents that an inexperienced author might leave on the bargaining table. Agents are now welcomed for reducing the publisher's recruitment costs. Just when and how this attitude shift occurred is not clear. But a logically sufficient explanation lies in the growth of the literary marketplace and the total supply of manuscripts available for screening by any one publisher.

The agent's skill as intermediary lies in sensing the threshold quality a manuscript needs in order to interest a publisher and knowing the sorts of manuscripts sought by various publishers. The agent who selects from the "slush pile" of unsolicited submissions a would-be author to represent thus serves as a first-stage gatekeeper. The agent may press the author to change or improve the manuscript enough that an editor can see its potential. The agent then submits the manuscript to appropriate publishers, not so much to foment an auction as to identify the most fruitful author-publisher match. To this task the agent brings both superior knowledge and a reputation asset grown from repeated interactions with publishers. The experienced agent seeks a reputation for truthful assessments—not overclaiming either the quality of submitted manuscripts or the collaborative capability of the author. The quest for this reputation is propelled by the agent's own compensation structure. The agent's conventional 10 percent of the author's royalty does not provide a compensatory total income (that is, one matching other job opportunities) unless he "hits" with a reasonably large proportion of submitted projects.[3] Agents nurture relationships with editors rather than with the publishing houses that employ them, and the editor's claim on the publisher's resources may be more important than the publisher's identity. Editors, who frequently change jobs between publishing houses, function as in-house entrepreneurs with concentrated incentives to produce successful books. They hence value accurate assessments and astute matchmaking by agents, including theory-of-the-case ammunition for getting promising projects accepted by the publishing house. Editors with projects in mind may turn to agents representing authors who have done similar books. Indeed, switches in occupation between agents and editors appear common.[4]

The importance of agents' matchmaking function is affirmed by evidence on the origins of literary agents in the nineteenth-century Britain. At the outset the services were informal and unpaid; persons with *art for art's sake* tastes often performed a good-offices function solely for the pleasure of seeing a fruitful deal completed. The growth of the literary marketplace (provincial newspapers, for example) encouraged the emergence of author-paid agents such as A. P. Watt, who served as not only a bargaining agent but also a counselor and legal advisor to authors. Watt began by charging fees for ser-

vices, but authorial poverty and the power of well-tuned incentives soon led him to contract on a revenue share of 10 percent, a figure that (with some upward perturbations) persists to this day.[5] The origins of the agent's role underline a reason why the agent is efficient for performing the gatekeeping function. As the author's employee, the agent can elicit information from the author on components of her "reservation price"—willingness to cooperate, make manuscript changes, and the like—that the author bargaining directly with the publisher might strategically conceal. The presumed nonnegotiability of the conventionalized agent's fee keeps this strategic consideration from inhibiting the transfer of information from author to agent. The elicited information might tell the agent that no deal is likely, but the publisher is spared wasted haggling costs.

The author-agent relationship does tend to destruct when the author succeeds and becomes well-known to publishers. The agent's talents for shaping manuscripts and interceding with publishers become less valuable. The 10 to 15 percent commission implies a high charge for negotiating and monitoring contracts, services that a lawyer could perform for a fee.[6] Agents, like others who help develop an artist's career, find it difficult to write contracts that award them the expected value of their contribution to the artist's lifetime income without creating a strong incentive for the artist once successful to demand renegotiation. The committed duration of artist-agent contracts is commonly short and often open-ended. The downside hazards of long-run commitments must be too great: for the agent, being stuck promoting a burned-out author; for the author who achieves major success, overpaying for the agent's current services.

A good test of agents' function comes in the traits of publishing segments where they are not used, or just falling from or coming into use. The last is illustrated by Christian publishing, which has recently seen much turnover of firms, cutbacks of lists, movement of authors from house to house, and increased prizes for the most successful authors.[7] Each factor favors or reflects agents' services. The turnover of firms and cutback of lists both increase the magnitude of the publisher's filtering problem and make the agent's gatekeeping more valuable. Meanwhile, enlarged top prizes raise the value to the author of the agent's bargaining skills, and mobility of authors likely reflects the agent's matching function. The agent plays little or no role in book publishing outside of trade books, because his advantages in lubricating the process of selecting authors do not carry over. The scholarly author holds professional qualifications and a reputation that have no counterpart for writers of sensitive first novels. The gatekeeping publisher has easier access to information beyond the manuscript itself. Textbook publishing, for example, with high fixed costs for both author and publisher, requires at least informal

precommitment between author and publisher at the outset, and peer review supplies a cost-effective evaluation. For scholarly books the publisher is apt to use other gatekeepers than the agent, such as the well-known academic who, as series editor, takes on the gatekeeping function for a 2 to 3 percent royalty. The academic author desires the quality signal broadcast by a distinguished series imprint, and the series editor's reputation certifies this. The series editor's own reputation suffers if weak or partisan manuscripts get published. Most scholarly authors rationally expect little pecuniary gain, so that the agent's bargaining prowess has little payout. The scholarly publisher runs little risk from accepting manuscripts submitted through a series editor, and need not commission costly evaluations. The selection of the series editor, however, is a serious investment for the publisher.[8]

Author and Publisher

Publisher and author of a finished manuscript face an easy contracting task. The manuscript removes most issues of opportunism and hidden actions on the author's part and makes the publisher's actions easy to specify. For established authors or celebrity books, however, publishers may participate in an auction based on just a twelve-page prospectus; if the remaining 500 pages on arrival lack the lapidary quality of the prospectus, the publisher generally can back out.[9] That is, the deal takes the form of an option contract obligating the author to deliver the manuscript to the publisher, but the publisher need accept it only if it is "satisfactory." Many disputes arise over decisions to decline manuscripts. Insufficient quality or a missed deadline are contractually valid grounds, though they can be abused as makeweights for opportunistic factors. Contracts frequently entitle the publisher to retrieve an advance for a declined manuscript. Exercise of the privilege leads to bitter disputes and often proves infeasible, leading to such compromises as partial recoupment from the author's royalty income when the manuscript is placed elsewhere.[10] The general implications of option contracts are discussed in the next section.

The royalty contract gives the publisher only an attenuated incentive to promote the book. For a trade book correctly expected to enjoy moderate sales, the typical royalty contract, which offers the author 10 percent of the book's retail price, splits the gross profit (that is, the difference between the publisher's marginal cost and wholesale unit revenue, before deducting the publisher's fixed costs) about 58–42 between publisher and author.[11] As was shown in Chapter 2's discussion of profit- and revenue-sharing contracts, the author's royalty based on sales leaves the publisher with an underinducement to promote the book (the author, correspondingly, wants more promotion

than would maximize author's and publisher's joint profits). The author's advance, though, strengthens greatly the publisher's marginal incentive to promote—he gets roughly the full resulting gross profit—until the advance is earned back, which increases the efficiency of the contract.[12] Another conflict arises between publisher's and author's interests in keeping a book in print once its sales fall to a low level. Keeping a book in print and in stock imposes a fixed cost on the publisher, while the author gets royalty income without sharing that cost.

The publisher's standard contract enjoys widespread use, with little variation in its terms. Why does it so dominate the alternatives, especially since many rejected authors would happily sign if they could? Why does the author receive nearly half of the gross profits? In fact some publishers require only that the author cough up the cost of publishing, distributing, and promoting the book. Completed book manuscripts in a sense go unpublished because the author is unwilling (unable) to throw good cash after time that was badly invested (aside from the pleasure of literary toil). The "vanity press" sector does not appear to do a large business.

Suppose that the standard contract were less generous to the author—say, 5 percent rather than 10 percent royalties. Publishers, gaining a larger share of the profits, would choose to publish more books, and the threshold of commercial prospects would fall. Weaker or more specialized manuscripts would get published, but also some potential authors capable of writing good books would divert their energies to more rewarding activities. Here we find for the first time a pattern that appears throughout the creative industries. Creative inputs are vertically differentiated *(A list/B list),* but also subject to pervasive horizontal differentiation *(infinite variety)* and uncertain reception in the market *(nobody knows)*. There is a collective interest in keeping enough artists in the game to ensure ample candidates for random success in book publishing (or, in motion-picture production, availability of just the right bit player for a role). That interest is advanced when the author allowed through the gate receives a large prize. We call this the *lottery prize* phenomenon: many keep buying tickets despite the rational expectation that their chances of winning are tiny. Readers benefit if more good books get written, and publishers who gain utility from publishing putatively good books also will not regret liberally compensating the author who is allowed through the gate.

The lottery-prize arrangement may serve the common good, but why does each party individually stick with it? Why does no trade publisher prosper by fishing from the "slush pile" the few promising manuscripts that have slipped past the 10 percent publishers, and offering these rejected authors smaller prizes? Authors have no minimum-wage contract, unlike many performing artists (Chapter 7). The ample supply of parties willing to become 10 percent

publishers by itself tends to make this "deviation" unprofitable.[13] Perhaps an informal standard evolves, widely shared among readers, publishers, and successful authors, as to how good is a "good book," and how deserving of reward is an author capable of passing through a good publisher's gate. This standard discourages bottom-fishing in the manuscript pile, even if it proves (marginally) profitable. That is, the 10 percent royalty publisher who cuts to 5 percent certainly loses the good authors. He also loses some marginal authors who would rather continue searching for a 10 percent publisher rather than "slum" for 5 percent. He loses respect among publishers and potential employees. These factors may deter trade publishers from cutting the royalty below a conventionalized rate, although the argument does not explain exactly why that convention took root in the first place—beyond the focal power of round numbers.[14]

Because most authors complete books only infrequently, career-building investments dwindle in importance. Nonetheless, a successful first book raises readers' interest in the next, just as a successful second book increases demand for the first. The publisher can internalize this benefit only with contractual first refusal of the author's next manuscript. The author has an interest in committing subsequent books to the publisher in order to lift his incentive to promote the first. Such a lock-in has pitfalls for the author, however. On what terms will the next book be published? A right of first refusal leaves the author free to accept any better offer for her next book. When the next manuscript comes around, the original publisher's bid anticipates some of the second book's expected spillover profits from promoting backlist sales of the first, in order to meet the highest outside bid. A firm commitment of the author's subsequent works denies her this leverage. In the first contract she can try to bargain favorable terms for subsequent books, but at that time *nobody knows,* and her bargaining power hence is weak. With the contract terms on future books left incomplete, the locked-in author assumes that the publisher will exploit any opportunity that arises. She either demands upfront compensation for being locked in or underinvests in effort on the next manuscript. In practice, lock-ins are not seen, and first refusals prevail but apparently cause few problems. One survey of authors found that not only did they typically take the first contract offered to them, but that over 60 percent repeated with the same publisher by default.[15]

The history of contracting practice holds interest, because the changes reflect changes in the technology and organization of publishing, changes that have not always improved the incentive structures of contracts. In England in the nineteenth century and before, either the author received a fixed payment from the publisher, or the two parties shared the net profits from the publishing venture. Up to the 1830s and 1840s, the deal covered only a

single printing of the work. Printing type was too costly to be set and retained for possible reprintings, so that any reprint was technically a fresh start for the publisher. The development of stereotype and later electrotype plates eased reprinting and allowed an open-ended deal dependent on the book's sales. Open-endedness increased the uncertainty of the venture, however, encouraging the publisher to share the risk with the author (especially the novice).

The royalty contract with an advance improves efficiency until the advance is recouped, but then generates discord as the author benefits more from the publisher's actions that enhance gross revenue, while the publisher with a revenue-sharing contract underspends. In any case, Victorian novelist George Eliot was the first major writer to receive a royalty contract (in 1860 for *The Mill on the Floss*), and by 1900 it was standard in both Britain and America. At first the royalty kicked in only after the publisher recovered printing expenses, but that feature disappeared.[16] The royalty contract was probably associated with the rise of the large publishing house and the practice of successive differentiated editions of successful novels. A profit-sharing contract needs the account-keeping process (whoever performs it) to be transparent to both parties and free from "judgment calls" that allow opportunism. As publishing firms became larger, with overheads spread among many projects, and as the publisher's costs became a stream incurred over time, accounting opportunism arose of the sort that Hollywood later made famous (Chapter 6). The practice of temporary purchase of copyright by the publisher had strong efficiency advantages (the publisher faced the full cash-flow consequences of his decisions), with one exception. As the time of reversion of copyright to the author approached, the publisher's incentive was to run the presses nonstop and flood the market.[17]

Editor and Publisher

The gatekeeping process in book publishing affects the relationship between the editor and the publisher who employs her. The editor plays an entrepreneurial role inside the firm, starting with the decision to accept a manuscript. Editors in scholarly publishing have substantial authority to sign manuscripts on their own, as quality and breadth of interest are relatively easy to determine, and the firm's risks are correspondingly small. In trade publishing uncertainty is greater, and success is more dependent on the efforts exerted by other specialists within the firm (design, advertising, marketing). The editor assumes the role of advocate, supplying impetus and staking her own reputation on her conviction of a manuscript's commercial worth.[18] One asset that the editor deploys in this contest for resources is her status as the key link be-

tween the firm and the author.[19] The editor's entrepreneurial role diverges from the formerly central copyediting function, now spun off to specialists. Despite their entrepreneurial roles, editors' compensation apparently contains little pecuniary incentive.[20] Bonuses may be growing more common, however. Highly successful trade editors are commonly rewarded with their own publishing imprint, which at least enlarges the reputation capital that they can glean from producing successful books. As head of an imprint, the editor also has the discretion of offering larger advances and taking a more active role in the book's design, marketing, and publicity.[21] The mobility of editors among publishing houses is high and increased by the goodwill asset built up between editor and author, which allows a publisher to bid for an editor's services with the hope that her authorial ducklings will waddle along behind. The *nobody knows* outcome of editors' efforts allows reputations to swing unpredictably between dud and star status, which also increases mobility.[22]

Editors' circulation among jobs flags a pattern of behavior that appears throughout the creative industries. Regular employees who play a creative role (for example, engineers in semiconductor firms), or who hold goodwill assets with independent artists (such as trade-book editors), maintain extensive contacts with their counterparts in other firms. The contacts involve the exchange of copious information and deal possibilities in the form of favors given and returned. Economists normally assume that proprietary information is an asset used intensively within the firm and guarded vigilantly against leakage to the outside world, so this interfirm "networking" needs an economic explanation. Through these industries surge large, amorphous flows of new information. With constantly changing data, new information is costly to obtain, nobody knows it all, and employees with similar professional interests can benefit by sharing on a reciprocal basis. An employee of firm A may have some bit of information about a failed project of A's that is useful to firm B, yet its leakage imposes no cost on A. When an employee of A passes it to B's employee, the two firms taken together are better off. Furthermore, A's employee (and therefore the firm itself) acquires a call on some future reciprocation. One-third of editors reported having had projects referred to them by other publishers.[23]

This process of exchanging information complements the mobility of personnel between firms. The network not only facilitates job switching; it also widens individuals' circles of contacts and speeds the dispatch of information toward its points of greatest usefulness. The role of informal reciprocity and reputation is underlined: the better connected the network, the faster the news of defection travels, and the longer it is remembered.[24]

Dealings between Artist and Record Company

Young pop musicians (introduced in Chapter 1) seek work at local clubs, schools, and the like, honing their performing skills and (likely) writing a body of songs that they hope will eventually attract a record company ("label"). A band recruits a personal manager to help with both its creative development and business management. This role is both complex (in terms of the mixture of skills and the personal congeniality required) and risky (because of the large proportion of performing groups who break up or fail ever to earn substantial revenue). Managers accordingly demand a large share of a successful group's income, 15 to 20 percent of gross earnings (and thus a large bite of net earnings), excluding advances from labels for recording costs, support of tours, and the like. The contract's duration is clearly a sensitive issue. It generally runs from three to five years, with the artists holding the right to cancel if their earnings fall below some threshold. The manager receives a continuing share of royalties from any records made under the contract.[25]

Performers and labels pursue each other in various ways. The labels employ talent scouts ("strange noctavagants," *Fortune* once called them) to seek out talent, and in-house producers become advocates for groups that they record in the manner of publishing-house editors.[26] Musicians employ attorneys in the manner of literary agents to shop demonstration ("demo") tapes around to labels. A label may receive three to four hundred tapes a week, so only those backed by a competent certifier are likely to get attention.[27]

Terms of Recording Contracts

The principles behind the typical contract for a present-day popular music composer-performer resemble those in the visual arts. The artist (group) provides the creative inputs through songwriting and performing to create master tapes of songs suitable in quality and quantity for release as an album. The label produces and distributes the album on compact discs and cassettes and advertises the artist and album through videos, by supporting performance tours, and by promoting the album to broadcasters and record buyers. The artist collaborates not just in producing the master tape and video but also in touring and associated direct promotion.

Like the visual artist (and less like most trade-book authors), the musician and label seek to promote an extended career and gain a long-lived earnings stream. The payout is highly uncertain, however. *Nobody knows:* casual estimates suggest that roughly 80 percent of albums and 85 percent of single records released fail to cover their costs (the "stiff ratio").[28] The chances for a

successful second album are not high even given a successful debut album. The artist who had her whole life to ready the first album now has six months for the second. Apart from that, among all the world's possible record albums, randomly excellent, okay, or terrible, the musician's first released album might be a lucky draw of excellence that is unlikely to be repeated.[29]

For artist and label the issues of contracting essentially duplicate those faced by visual artists and authors. Royalty contracts based on sales revenue again dominate, with a more efficient profit-sharing deal likely ruled out by the difficulty of monitoring the label's bookkeeping. Contracts also reflect both the uncertainty of success and the inability of young performers to supply inputs other than their time and talents. The artist can commit to produce an album that the label might find acceptable to release, but of course cannot predict or guarantee the public's response. The label cannot efficiently guarantee in advance what promotional effort it will undertake: this depends on the album's character and how much (if any) public interest it initially elicits.

In the standard recording contract, the artist commits to deliver exclusively to the label master tapes for a series of albums. The label holds an option to distribute these records for a period of time, and commits to pay royalties based on revenues generated by each recording. For each album the label provides an advance to the artist that at least covers the cost of recording the album (including union-scale wages to the session musicians) and may provide income that anticipates earnings from royalties. The advance against royalties is an absorption of risk by the label and a guarantee of minimum royalty income for the artist. Royalty rates fall in the range of 11 to 13 percent for a new artist (as low as 9 percent for a small, independent label), 14 to 16 percent for artists in the middle range of success, and 16 to 20 percent for superstars.[30] The rate on a given album may escalate with the number of copies sold.

The effective value of these nominal royalty rates is reduced by what Donald Passman called a series of "cheats" by the labels that have crawled into the standard contract. The royalty is based on the album's suggested retail list price, but this is reduced by an arbitrary "packaging charge" for the record's container, 20 percent for cassettes and 25 percent for compact discs. The count of records shipped (for determining the royalty payment) is reduced by genuinely donated copies used for promotion, but also by phony donated copies (15 percent) conventionally generated by boosting the wholesale price quoted to the retailer but shipping an offsetting number of free copies. Until recently the count of records shipped was reduced 10 percent to allow for breakage, although fragile shellac records disappeared from the market 50

years ago. The breakage and free-good allowances together knock the artist's royalty base down to 76.5 percent of actual shipments.[31]

A vital feature of the recording contract—one that appears throughout the creative industries—is its option structure. An option in this context gives the gatekeeper an exclusive right (for some period of time) to consider acquiring the artist's creative product on pre-agreed terms; if the gatekeeper declines, he has no further obligation to the artist, and she keeps any payments already made to her (in some art realms that includes payment for the option itself). The label, having advanced to the artist the cost of recording an album, is not required to release it, if the tape disappoints sufficiently to kill expected profit.[32] That means gross profit (without deducting the advanced recording cost) from the record at hand plus net profit expected from future albums. If the label continues to release tapes delivered to it, the contract then obligates the group to supply further albums. Nowadays the terms commonly require the artist to deliver a second album within some number of months after the first. The label's acceptance carries an increased advance and royalty rate, but it also commits the artist to ready yet another album, the cycle continuing for a total of eight to ten records.[33]

The artist receives royalties on a record only after the advance is recouped. No necessary relation exists between profit to the label and the recoupment of the advance. Likewise, an artist might issue a series of apparently successful records and yet receive no royalties except for any excess of the advance over recording costs. These outcomes depend simply on the size of the negotiated advance relative to the maximum joint profit actually available to artist and record company together. The label insists on "cross-collateralizing" the artist's albums issued under a contract. Cross-collateralizing pools revenues from independent projects (or markets) for the purpose of recouping advances for any of them: if the first record fails to earn back its advance, the deficit becomes a claim on the royalty stream of the second record, and so forth.[34]

The option contract looks unfair to guileless young musicians, yet its form has a compelling logic. Many creative goods proceed through stages of production with costs completely sunk at each stage, yet with the final payout remaining highly uncertain. At each stage, fresh news regarding the ultimate payout likely emerges, and additional costs are incurred. The efficient contract allocates decision rights at each step to the party about to sink liquid purchasing power and able to test its expected payout against the project's current prospects. If would-be superstar musicians became much scarcer relative to the public's demand, the new equilibrium contract would likely provide the musicians with more favorable advances and/or royalty rates, but

preserve the option structure. This proposition does depend on the two parties' attitudes toward risk; if artists are risk averse, the label might give a firmer commitment to release even in the presence of fresh bad news. In fact highly successful artists bargain for somewhat stronger obligations for the company to release; for example, the master tape need only be "technically satisfactory" or "in the artist's previous style" rather than "commercially satisfactory."[35]

Implications for Incentives

This contract has a number of salient incentive features. By guaranteeing terms of access to the artist's future albums, it bolsters the record company's incentive to promote the artist's first album despite the high expected stiff ratio. A successful group is under exclusive contract long enough for the label to recoup on later albums any losses run on earlier ones. Promotion of one album generally has positive spillover effects for the artist's previous albums, and this is also internalized. If the artist is successful enough, the contract's built-in schedule of royalties may not escalate fast enough to deny substantial rents to the label. But the contract is then prone to renegotiation: injustice perceived by the performer in her current contract does not favor the timeliness and quality of the next album delivered. The label has only limited ability to collect its biggest contractual jackpots in full. The label's incentive to promote a successful artist withers as the contract's expiration date approaches, shrinking the rents expected to fall into the label's hands from subsequent albums. For the artist the multiyear option contract does not provide much downside protection. Even if the label continues to pick up its options, unsuccessful albums may cause it palpably to "lose interest" in the artist. While it might be obligated by contract to issue the artist's next album, it is not obligated to promote it. The label's ability to terminate a contractual arrangement is quite complete, and the artist's ability to sustain the forward motion of a best-efforts commitment quite limited.[36]

The royalty contract based on the label's sales revenue diverges in some ways from the terms under which authors and visual artists get paid. While the label funds the physical production and distribution of the album, large components of promotion costs (as well as all recording costs) are recoupable from the artist's royalties. Because each party to a royalty contract benefits from the other's promotional outlays, the label might even overpromote an album, relative to the outlay that would maximize parties' combined profits. The incentive's strength increases with the company's confidence that the label will recoup all costs that it has advanced. The incentive decreases with the

artist's effective royalty rate. The higher the rate, the less of a promotion-induced extra dollar of revenue lands in the company's pocket. There is no easy way to test empirically for overpromotion, beyond noting the industry lore on promotional expenditures charged to artists' royalties that have little function save gratifying the artist: vanity billboards on Sunset Boulevard and "limousines to take you to the bathroom" might attest to either an overinducement to promote or the strong appeal of ego gratification to the immature.[37]

The artist may have little control over the promotion outlays chosen by the label, but the costs of recording the album depend directly on the artist's quest for quality (and degree of organization for achieving it). The royalty contract seemingly induces the artist to underinvest in studio time and resources, because the company pockets a large share of the additional revenue once the advanced recording costs are earned back. Nonetheless, record executives commonly complain of the artist who out of indiscipline or perfectionism takes up far more studio time than necessary.[38] Such a concern by the artist with creative success over income can be written off to *art for art's sake*. The uncertainty of the album's success, however, supplies an economic reason why the performers might rationally overinvest in studio costs. If the album fails to recover its costs, the artist receives no royalties while the loss—whether large or small—falls entirely on the label. The artist's royalties increase dramatically, however, when album is a big success—indeed, the royalty *rate* commonly escalates. If inflating the studio costs raises the chances of a big win, while the downside loss falls entirely or mostly on the label, the artist could select a heavier investment in album production costs than the label would prefer.[39]

Governance of Contracts

Recording contracts encounter various problems of opportunism as they run their course. Previously mentioned was the erosion of label's incentives to invest in the artist's career as the contract's expiration date approaches. From the artist's viewpoint, a problem of moral hazard arises because the label keeps the books that determine the earnings remitted to the artist. This problem festers at some level in all of the creative industries, reaching its peak in the motion-picture industry. Recording artists face less commonly the problem that afflicts visual artists (Chapter 2) of bankruptcy and disappearance of the commercial partner, but a greater hazard of opportunistic transactions. In a long dispute between the Beatles and EMI and its U.S. subsidiary Capitol, undercounts of sales for royalty calculation were alleged, as were

transfers of "free" promotional records to subsidiaries that released them for commercial sale.[40] Music videos are a valuable tool for promoting albums, although their high fixed cost warrants their preparation for a new artist only if an album has already shown substantial public appeal. A video therefore is not committed in the contract initially and involves renegotiation. The video itself generates a royalty stream for both artist and label, apart from its promotional benefit. Usual practice is apparently for the label to recoup 50 to 75 percent of the video's cost from the artist's royalties—from the video, from the record, or from the two cross-collateralized.[41] Overall, the recording contract seems peerless in the scope that it offers for governance disputes. With the recent consolidation of several record companies these have reached fever pitch, causing many artists to consider managing their own promotion and record distribution over the internet. But one website among the endless horde, with no mediating gatekeeper, is probably an inadequate substitute for an established label.[42]

Artists' concert tours raise their own set of complications. Concerts on the road bring in substantial revenue streams while also incurring heavy direct costs as well as personal stress for the performers. They promote record sales, just as records increase the demand for concert appearances. This interdependence provides an example of an economic relationship that appears here and there throughout the creative industries. Assume that an artist's recordings and concert tours are each profitable, taking just their own respective costs and revenues into account. Because each increases demand for the other, each profit stream's recipients would willingly spend to induce an increase in the scale of the other activity. When a deal is worked out, it is not clear whether (in this case) the label will contribute to touring expenses, or the tour's beneficiaries (artist and promoter) will sacrifice to increase the stream of recordings. A mutually acceptable deal could send payments flowing in either direction. Labels have supported tours to a degree varying over time, cutting back when music videos emerged as an effective competing promotion technology. New and unknown groups can benefit greatly from opening for established groups at concerts; indeed they might willingly pay for the privilege and have been known to do so.[43] In the 1960s touring pop groups were paid very little, but their recordings received extensive local airplay. British artists found that to build a base of fans large enough for a high level of success with recordings they had to make several money-losing tours of the United States—clearly a high cost for establishing a group.[44] Gradually the concert circuit evolved into a spectacular "show" and a way to "break" (that is, promote into widespread recognition) new groups and advertise new albums of well-established ones. The revenues from concert tours have in-

creased greatly, but so have their costs and promotional benefits, and taken by themselves they apparently are profitable only for the most popular groups.[45]

Contracts between performers and local promoters and venues suffer their own epidemic of failures. A profit-sharing arrangement is common: the performers get a guaranteed minimum payment; before any further distribution to the performers, the promoter recovers expenses and a "guaranteed" profit; and the remaining net revenue is divided between performer and promoter in a ratio between 60/40 and 90/10. Large venues (stadiums) with local spatial monopolies capture some rents (often partly absorbed in union wages and feather-bedding agreements); local promoters, however, lack any rent-yielding unique assets. Scope for opportunism arises as performers move rapidly from one venue to the next, while accounts arrive only months later, when the expenses and gross revenues are costly or impossible to audit. One booking agency, Frank Barsalona's Premier Talent, rose rapidly in the late 1960s to dominate the scheduling of rock concerts partly through forming continuing informal partnerships with local presenters. The agency would guarantee that the local presenter broke even if a concert unexpectedly lost money; the presenter presumably sustained the relationship by rendering honest accounts. Enforcement of contracts in the creative industries depends heavily on the power of repeated interactions among parties who value their reputations for cooperative behavior.[46]

Agents and Job-Matching

Agents play several roles in the creative industries. Literary and concert-booking agents perform a job-matching function—lining up trade-book authors with publishers and popular musicians with performing venues. The gatekeeping role assumed by the literary agent results from excess supply due to *art for art's sake*, but the job-matching task would remain even if every manuscript found a publisher and every publishing house issued its preferred number of titles. Creative outputs such as book manuscripts differ pervasively *(infinite variety)*; in the short run that matters for the matching process, publishers are likewise heterogeneous—in their fields of interest, backlists, current congestion of the publication pipeline, promotion methods, and so on. Indeed, most creative activities have to solve some job-matching problem—allocating vaudeville acts among theatres, big bands among ballrooms, classical pianists among concert series, actors among movie projects. The organization of matchmaking agents varies greatly. In classical music (this section's empirical focus), the agency function at times has been nearly monopolized.

Hence, we need to pin down the basic functions that agents perform—which side of the market they represent, and what forces determine their number relative to the parties whom they represent.

Whose Side Are You On?

Why do matchmaking agents represent the side of the market that they do? We usually see them representing sellers. But that arrangement is not universal (think of executive search firms and other such independent purchasing agents), and for some matching problems it is hard to see any case for attaching the matchmaker's services to one side rather than the other. Why should marriage brokers represent would-be brides rather than potential grooms? The gatekeeping role suggests one way to explain which side is represented. With potential authors vertically differentiated *(A list/B list)*, and a cost incurred to assess the quality and prospects of any given author, it would clearly be inefficient for every publisher to read every manuscript that tumbles over the transom. Publishers, we assume, cannot themselves divide up the stream of submissions and share their assessments with each other, while an agent who finds a good manuscript knows which publisher will find it most attractive. Agents, as they decide which authors to represent, "pool" the task of assessment, performing it once for the benefit of the several publishers to whom the agent refers promising manuscripts. All gain from this pooled screening.[47] The gain increases with the number of writers who never find a publisher.

Matching is a two-sided process: publishers need to find out about writers, and writers about publishers. Suppose that publishers' policies are readily revealed by their backlists and reputations with their authors for capability and integrity; authors' qualities are more costly to expose. If the transacting parties on one side of the deal are represented by agents who pool information and economize on its transfer to the other side, pooling the more costly assessments of authors and their manuscripts beats pooling the less costly assessments of publishers' traits on behalf of authors.[48] The same logic applies to the differential importance of the information to the other side. A publisher loses heavily if a celebrity author's book flops, but the celebrity might be nearly indifferent about which of several mainline trade publishers publishes the book.[49]

Other influences also weigh in. Suppose that it costs the same for a publisher to size up a prospective author as for the author to evaluate a prospective publisher. Even after the gatekeeping agents have swept out the losers, the authors remain more numerous than the publishers. (Think of each house serving as exclusive publisher to a number of authors.) If agents are to

pool information on one side of the market only, they should pick the more numerous authors, thereby consolidating more information than if they represented the less numerous publishers. The agent's gatekeeping function, which excludes many authors, is really a special case of this "differential numbers" effect.

The agents' assignment might also be determined in part by functions that they perform along with job-matching. The auditorium sits immobile at the corner of Fourth and Main, while someone must ensure that the band finds its way there; after the concert the band rides off into the night in its limousine, and somebody must check that the venue makes its obligated payment to the artists. Agents will tend to represent the artists, because they place higher value on such auxiliary services. In summary, job-matching agents likely represent the side of the market that has the most clients, is subject to more exclusionary gatekeeping, is less able to reveal credible information about itself, has less need for differential information about the other side, and/or has a greater need for the agent's ancillary services.

How Many Agents?

How many parties will each agent represent, and how many agents serve the market? Suppose that what each seller offers and each buyer seeks could be fully described as quantitative, measurable traits. Suppose also that the best match-up of heterogeneous buyers and sellers can be reduced to a computer algorithm.[50] Then matchmaking, like an automated stock market, would be a "natural monopoly" efficiently run by a single agent. Where the agent's role arises from the costliness and incompleteness of information, however, the virtue of a monopolistic job-matcher breaks down. Wherever the agent's role centers on the costly pooling of heterogeneous information, the agent's capacity to absorb and exchange information is limited, and with it the number of clients each agent can represent. If agencies perform auxiliary services subject to scale economies, the agency firm might become a large partnership of individual agents. But the more idiosyncratic the information and the more often and extensively it changes, the more personalized the agent's role becomes, and the fewer parties he can serve.[51]

The organization of agency relationships is also driven by problems in governing the deal between the agent and the party represented. Take the popular dance bands that toured among ballrooms and theatres in the 1920s through 1940s. Its booking agent might schedule a band at one location for Saturday night, then uncover and accept a better offer for that same night without renegotiating the first—resulting in an enraged presenter and a disgraced bandleader. Or the band might fail to show up due to personal disor-

ganization that could be warded off by a suitably hectoring agent. These problems led to the rise of relatively large booking agencies, notably Music Corporation of America (later MCA). The organizations' sizes were partly due to scale economies in managing the logistics of bands' travels, but the valuable fixed assets of these booking organizations also ensured their diligent and consistent performance to parties on both sides of the market.[52] That is, the victim of a breach of contract could locate the perpetrator and bring suit that could (if successful) allow it to recover its losses from those valuable assets. A fly-by-night operator by definition offers the contracting party no such protection.[53] In the creative industries, large-size firms sometimes owe their prevalence not to conventional scale economies, but to the value of large blocks of exposed assets as collateral for proper performance of obligations. The firm with exposed assets has incentive not to cheat on its obligations; the contracting partner, recognizing this, has more incentive to sign.

While the job-matching agent might formally represent either seller or buyer, there is a reason why he must align with one or the other. Linking seller S and buyer B may be the best deal for both parties, one that would be picked by an agent representing either sellers or buyers. The contract price however, divides the benefit between S and B, and the agent negotiating that price can serve the interest only of one party at the expense of the other. The problem of interest conflict when agents get onto both sides of a transaction recurs throughout the creative industries. MCA fell into the role when it diversified its activities from agency to the production of films, and was forced to divest its agency operations (see Chapter 7).[54] Creative Artists Agency under Michael Ovitz became a successful and innovative packager of scripts and creative talent for TV and cinema films, but also found itself compromised by both hiring and representing its own talent.

Agents in Classical Music

The booking of classical musicians—singers, instrumental soloists, and orchestra conductors—provides a case study of agents' organization. In the United States, booking agents arose in the 1880s as travel became efficient enough for large numbers of musicians to take to the road. The same pattern emerged in Europe of individual agents, usually well-connected people with musical training and often substantial family wealth. The representation role focused on the artists rather than the venues, for several reasons suggested previously.[55] Personal integrity was problematic, for many musicians (then as now) would perform for little pay in order to build their careers; some agents took their money for promotion and did nothing, confident that the artist

was going nowhere.[56] Large agencies emerged, such as Ibbs & Tillett in London and Henry Wolfsohn in New York, for the expected reasons. Wolfsohn employed a large staff of road agents to sell his artists to local sponsors in the United States. Ibbs & Tillett carefully built its reputation for integrity in the wake of personal agents who ran into financial trouble and began appropriating funds due to artists; it even took part in bailing out one failing competitor.[57]

The size distribution of agencies' operations has varied over time. Small (personal) scale always yields an advantage in the agent's opportunity to help build the artist's career. For artists of high promise, these services frequently dominate the ones that large agencies can supply efficiently.[58] Large-scale agencies plied different strengths. Arthur Judson's Judson Concert Management arose in the 1920s, becoming Columbia Artists Management Inc. (CAMI). Before blossoming as an agent, Judson had managed both the Philadelphia and New York Philharmonic orchestras. His specialty was representing conductors, and his continuing orchestra-manager job gave him easy access to any promising guest conductor or soloist who appeared with the New York Philharmonic. Conductors are key decisionmakers in recruiting orchestral soloists, so Judson's dominance as an agent for conductors gave leverage for representing soloists. As intermediary in many deals, he could punish any musician who eschewed or dispensed with his services. By 1930 he had bought up the six largest competing agencies in New York. Judson clearly saw himself as the honest broker between music presenters and musicians, and he managed repeatedly to be on both sides of transactions without protest from the contracting parties.[59]

Judson's successor, Ronald Wilford, preserved CAMI's dominance, representing about 100 conductors and 800 musicians overall (mostly singers). Judson's unique advantage of a central position in the information web was sustained, and conductors remain the linchpins for leveraging the placement of other CAMI soloists. CAMI's objective was clearly to maximize benefit for the musicians represented, however. Judson's domain had been the United States, while Wilford became active internationally and began pulling talent away from agents abroad. Wilford pioneered the practice of conductors holding down the job of musical director with several orchestras at once, while topping their incomes with the cream of guest-appearance fees. His success may explain why, from 1960 through 1990, the price of conductors' services was estimated to rise three times as fast as a laborer's average weekly wage.[60] Apparently, either Olympian optimization or outright monopoly over talent can sustain a large-scale agency organization in classical music.

Another success in large-scale organization was the approach to promoting classical music (and its performers) innovated in 1921 by the Redpath-Chi-

cago Lyseum Bureau, particularly its partner Dema Harshbarger. She devised the Civic Music Committee, for which she would identify leading citizens of a town or city and persuade them to organize a concert series, guaranteeing the fees for visiting artists from subscription sales and undertaking local publicity. The Civic Music Committees expanded local demand for concert tickets, reduced the agent's risk of a nonpaying presenter, cut the agent's promotion costs, and usually recruited their soloists from Chicago Lyseum. By 1932 the energetic Ms. Harshbarger had papered 32 states with Civic Music Committees. She was glimpsed on the horizon by Judson, who made haste to defend the east coast with his own Community Concerts Corporation, which mimicked Civic except for requiring that touring artists be taken from his firm's list. Later (1955) this tying arrangement was enjoined under the antitrust laws, but by then declining public interest in the vocal recital, the mainstay of these series, had shriveled its importance.[61]

For ensemble performers, the agent's function in classical music devolves to contractors, who organize orchestras and choral singers for free-lance work. New York's performing groups, except for the New York Philharmonic and Metropolitan Opera Orchestra, are staffed by free-lance musicians assembled for individual concerts by a dozen contractors, who maintain rosters from a pool of about 1,000 free-lancers. The contractor's specialty is knowing exactly the various players' strengths and weaknesses and their compatibility with the conditions of various jobs. They also ensure that the musicians' wages are placed in escrow accounts and payments are subsequently made. The contractors perform a gatekeeping function in admitting new talent to their rosters, but this role was restricted in 1994 by the musicians' union's success in forcing each of the biggest free-lance orchestras to establish its own roster of regular players, whom the contractor is required to contact first. This seniority system obviously impairs the ability of the contractor to assemble the best available group on each occasion.[62]

3. Artist and Gatekeeper

1. Malcolm Bradbury, *The Social Context of Modern English Literature* (Oxford: Blackwell, 1971), ch. 9.
2. Lewis A. Coser, Charles Kadushin, and Walter W. Powell, *Books: The Culture and Commerce of Publishing* (New York: Basic Books, 1982), pp. 130–132.
3. Publishers Weekly, *The Business of Publishing: A PW Anthology* (New York: R. R. Bowker, 1976), especially pp. 52, 60–61.
4. Publishers Weekly, *Business of Publishing,* pp. 54–57, 61.
5. James Hepburn, *The Author's Empty Purse and the Rise of the Literary Agent* (London: Oxford University Press, 1968), pp. 53–64; Coser, Kadushin, and Powell, *Books,* pp. 286–287.
6. Martin Arnold, "The Agency Has Many Faces," *NYTNE,* Jan. 8, 1998, p. B3; "Is the Agent Really Needed?" *NYTNE,* Jan. 15, 1998, p. B3.
7. Lavonne Neff, "The Rise of Agents in Christian Publishing," *PW,* Nov. 11, 1996, pp. 36–37.
8. Coser, Kadushin, and Powell, *Books,* pp. 133–135; Walter W. Powell, *Getting into Print: The Decision-Making Process in Scholarly Publishing* (Chicago: University of Chicago Press, 1985), pp. 48–50, 101.
9. Powell, *Getting into Print,* p. 88.
10. G. Bruce Knecht, "HarperCollins Reverses Get-Tough Plan to Recover Advances for Canceled Books," *WSJ,* Aug. 22, 1997, p. B13; Richard Brookhiser, "Pop Authoress Seduces Jury, Keeps Advance," *WSJ,* Feb. 15, 1996, p. A12; Roger Cohen, "For Authors, the Key Words Are in the Book Contracts," *NYT,* Aug. 27, 1990, pp. D1, D8.

11. No systematic data are available, so we rely on recent anecdotal information from Ken Auletta, "The Impossible Business," *New Yorker,* Oct. 6, 1997, pp. 50–63. On a trade book with a $25 retail list price, the publisher receives wholesale revenue of about $12.25 and incurs marginal costs of about $6.25 ($2.50 printing and binding, $2.00 distribution, $1.75 marketing, which here is appropriately treated as a marginal cost of "buying" sales). The author who receives a standard royalty of 10 percent of the list price takes $2.50, leaving $3.50 gross profit for the publisher. With a highly successful book a higher royalty rate will apply, but at least some of the publisher's variable unit costs decline, so the profit split probably does not change much.
12. The advance can also deter a publisher from opportunistically declining the completed manuscript. He might do that when the manuscript on receipt likely will profit author and publisher together, but the contract terms award the whole profit (or more) to the author. See Henry Hansmann and Reinier Kraakman, "Hands-Tying Contracts: Book Publishing, Venture Capital Financing, and Secured Debt," *Journal of Law, Economics, and Organization* 8 (October 1992): 628–655.
13. That is, publishing appears to be an industry with easy entry of new firms, so that average profits in the long run are normal or competitive.
14. This argument applies with much less force to academic publishing, where the low-reward publication of a quality specialized monograph carries no opprobrium.
15. Coser, Kadushin, and Powell, *Books,* pp. 240–243.
16. Hepburn, *Author's Empty Purse,* pp. 12–14; Allan C. Dooley, *Author and Printer in Victorian England* (Charlottesville: University of Virginia Press, 1992), pp. 59, 101, 119–120; Donald Sheehan, *This Was Publishing: A Chronicle of the Book Trade in the Gilded Age* (Bloomington: Indiana University Press, 1952), pp. 80, 88–97.
17. J. A. Sutherland, *Victorian Novelists and Publishers* (Chicago: University of Chicago Press, 1976), pp. 87–92, 139, 218–219.
18. Publishers Weekly, *Business of Publishing,* pp. 70–72; Powell, *Getting into Print,* pp. 76–81.
19. Publishers Weekly, *Business of Publishing,* pp. 69–72.
20. In *Getting into Print,* Powell (pp. 129–33) reported that editors are subject to little if any formal evaluation or held accountable for the performance of books that they have signed. Poor sellers can always be rationalized as bad guesses, but editors do know that sponsoring a string of failures will result in discharge (p. 142).
21. Michael Norman, "A Book in Search of a Buzz," *New York Times Book Review,* Jan. 30, 1994, p. 22.
22. Coser, Kadushin, and Powell, *Books,* ch. 4; Publishers Weekly, *Business of Publishing,* p. 69. On the property-right problems with editors' mobility, see Laura Mansnerus, "Not the Usual Farewell: Editors Quit and Are Sued," *NYT,* Nov. 25, 1996, p. D7.
23. Powell, *Getting into Print,* p. 133.
24. Powell (especially in ibid., ch. 6) studied the network process among editors; also see Coser, Kadushin, and Powell, *Books,* ch. 3; Martin Arnold, "Art of Foreplay at the Table," *NYTNE,* June 11, 1998, p. B3. On the parallel phenomenon in the

semiconductor industry, see Everett M. Rogers and Judith K. Larsen, *Silicon Valley Fever: Growth of High-Technology Culture* (New York: Basic Books, 1984).

25. Donald S. Passman, *All You Need to Know about the Music Business* (New York: Simon & Schuster, 1994), pp. 48–54. There is obvious scope for disputes arising from the fact that the manager's claim on the group's income may persist after his capacity to contribute to its development is exhausted.
26. Richard A. Peterson and David G. Berger, "Entrepreneurship in Organizations: Evidence from the Popular Music Industry," *Administrative Science Quarterly* 16 (March 1971): 97–106.
27. Passman, *All You Need to Know*, pp. 34–35.
28. R. Serge Denisoff, *Tarnished Gold: The Record Industry Revisited* (New Brunswick, N.J.: Transaction Books, 1986), p. 4; Simon Frith, *Sound Effects: Youth, Leisure, and the Politics of Rock* (London: Constable, 1983), pp. 101–102.
29. The phenomenon is studied in computer software by Thomas J. Prusa and James A. Schmitz, Jr., "Can Companies Maintain Their Initial Innovative Thrust? A Study of the PC Software Industry," *Review of Economics and Statistics* 76 (August 1994): 523–540.
30. The Beatles reached a figure of 25 percent. In the late 1980s Michael Jackson's royalty rate was 41 percent of the wholesale price (which corresponds to a rate of approximately half that on the retail list price), while Bruce Springsteen's was 38 percent. Both Jackson and Springsteen also received large nonrecoupable advances (up to $3 million), transferring a good deal of risk to the label. See Passman, *All You Need to Know*, p. 109; Fredric Dannen, *Hit Men: Power Brokers and Fast Money inside the Music Business* (New York: Vintage, 1991), p. 339. Minimum royalty rates quoted in earlier sources for the 1970s were lower, 7 to 9 percent, suggesting an upward trend in the floor.
31. Passman, *All You Need to Know*, pp. 88–98. He suggested that these devious terms dominate a straightforward lower royalty rate by giving the artist bragging rights on the nominal rate. Royalty payments are also adjusted for records returned unsold by retailers (Chapter 9).
32. Another option step may be interposed at the outset. Before the artist is signed to produce a full-fledged album tape, the company pays for a high-quality demo, holding the option to commit the advance to fund the album itself after reviewing the demo. See ibid., pp. 117–118, 146–147.
33. Once contracts were written in terms of calendar time, but the growing technical complexity of pop recording techniques made calendar-based deadlines impractical. Contracts could not be based exclusively on a total number of albums obligated for delivery, either, because a performer who delays long in delivering the next album may be forgotten by the audience. See ibid., pp. 121–122.
34. For additional details on record contracts in practice, see Sidney Shemel and M. William Krasilovsky, *This Business of Music*, 6th ed. (New York: Billboard Books, 1990), pp. 3–17; Jeffrey Brabec and Todd Brabec, *Music, Money, and Success: The Insider's Guide to the Music Industry* (New York: Schirmer Books, 1994); and R. Serge Denisoff, *Solid Gold: The Popular Record Industry* (New Brunswick, N.J.: Transaction Books, 1975), pp. 68–70.
35. Passman, *All You Need to Know*, pp. 125–126.
36. Steve Chapple and Reebee Garofalo, *Rock 'n' Roll Is Here to Pay: The History and*

Politics of the Music Industry (Chicago: Nelson-Hall, 1977), p. 184. Artists have resorted to such drastic expedients as bankruptcy filings to break contracts. See Katharine Q. Seelye, "Bankruptcies by Musicians Inspire a Bill," *NYTNE*, May 15, 1998, p. A18.

37. Marc Eliot, *Rockonomics: The Money behind the Music* (New York: Franklin Watts, 1989), pp. 171–175.
38. In the 1980s good recording studios rented for around $20,000 a week. Skilled producers and engineers are expensive inputs; the total compensation to an independent producer might amount to 5 to 10 percent of an album's gross revenue. See Denisoff, *Tarnished Gold*, pp. 169–173, and his *Solid Gold*, pp. 152–164.
39. In standard economic terms this phenomenon is called debt-equity moral hazard.
40. Eliot, *Rockonomics*, pp. 200–221.
41. Shemel and Krasilovsky, *This Business*, pp. 75–81. For a case study, see Geoffrey Stokes, *Star-Making Machinery: Inside the Business of Rock and Roll* (New York: Vintage Books, 1976).
42. Neil Strauss, "A Chance to Break the Pop Stranglehold," *NYTNE*, May 9, 1999, sec. 2, pp. 1, 51.
43. Denisoff, *Solid Gold*, pp. 72–79, and his *Tarnished Gold*, pp. 57–58, 67. In his *All You Need to Know*, Passman (p. 334) offered another example: clubs with well-established "showcase" reputations may charge new artists to perform there.
44. George Tremlett, *Rock Gold: The Music Millionaires* (London: Unwin Hyman, 1990), p. 47.
45. Frith, *Sound Effects*, pp. 136–137; Tremlett, *Rock Gold*, pp. 112–115; Passman, *All You Need to Know*, pp. 336–339.
46. Michael Cable, *The Pop Industry Inside Out* (London: W. H. Allen, 1977), pp. 131–135; Chapple and Garofalo, *Rock 'n' Roll*, pp. 124–131, 152; Robert Stephen Spitz, *The Making of Superstars: Artists and Executives of the Rock Music Business* (Garden City, N.Y.: Anchor Press/Doubleday, 1978), pp. 121–132, 159–164, 167.
47. The transfer of the digested information need not be costless; it is only necessary that digestion yields sufficient economies to compensate for the opportunity cost of the agent's services.
48. Although a good reason will emerge why an agent represents only one party in a matching transaction, a different platoon of agents might represent each side. Our concern here is with the two sides' differential pull.
49. This reasoning might seem to neglect an obvious point—that the agent functions as the artist's salesperson—but it really does not. A salesperson provides information to the recipient of his "pitch." If the information is puffed, or puffed beyond the conventions for displaying enthusiasm in this particular market, the salesperson will make no second sale.
50. That best match-up is what the sellers and buyers would achieve on their own if they could costlessly investigate all possible hook-ups, and all deals remain provisional until no two parties can beneficially ditch their present partners and link with each other.
51. Natural-monopoly tendencies were evident long ago in the booking of variety and vaudeville acts into local theaters. See Jack Poggi, *Theater in America: The Impact of Economic Forces, 1870–1967* (Ithaca, N.Y.: Cornell University Press,

1968), pp. 11–26; Russell Sanjek and David Sanjek, *American Popular Music Business in the Twentieth Century* (New York: Oxford University Press, 1991), chs. 2, 3.

52. Leo Walker, *The Wonderful Era of the Great Dance Bands* (Berkeley, Calif.: Howell-North Books, 1964), sec. 2, ch. 5; David W. Stowe, *Swing Changes: Big-Band Jazz in New Deal America* (Cambridge, Mass.: Harvard University Press, 1994), pp. 103–106.
53. MCA's success also relied on the market power exercised by requiring large ballrooms to employ only MCA's bands if they used any of them. Dennis McDougal, *The Last Mogul: Lew Wasserman, MCA, and the Hidden History of Hollywood* (New York: Crown, 1998), pp. 108, 123, 224.
54. David F. Prindle, *The Politics of Glamour: Ideology and Democracy in the Screen Actors Guild* (Madison: University of Wisconsin Press, 1988), pp. 78–80, 88–90.
55. The gatekeeper function is clearly relevant. Also, the orchestra recruiting a soloist or singer will need quite intricate evidence and quality assurance of the performer's ability, while the musician is relatively indifferent between performing in (say) Cleveland or Cincinnati.
56. Milton Goldin, *The Music Merchants* (New York: Macmillan, 1969), ch. 7; Norman Lebrecht, *Who Killed Classical Music? Maestros, Managers, and Corporate Politics* (Secaucus, N.J.: Birch Lane Press, 1997), especially pp. 66, 78, 90.
57. Goldin, *Music Merchants,* pp. 162–163; Lebrecht, *Who Killed Classical Music?* pp. 80–84. The integrity problem arose partly because of opportunism, partly because financial acumen and diligence did not necessarily accompany the other skills needed for agenting.
58. Goldin, *Music Merchants,* pp. 161–162; Lebrecht, *Who Killed Classical Music?* pp. 62–69, 92–93; Joseph Horowitz, *The Ivory Trade: Music and the Business of Music at the Van Cliburn International Piano Competition* (New York: Summit Books, 1990), pp. 114, 118; Barbara Jepson, "How Musicians and Managers Coexist," *NYT,* July 18, 1982, sec. 2, pp. 17, 20.
59. But see Lebrecht, *Who Killed Classical Music?* p. 130.
60. Norman Lebrecht, *The Maestro Myth: Great Conductors in Pursuit of Power* (London: Simon & Schuster, 1991), p. 321 and ch. 16 generally; Lebrecht, *Who Killed Classical Music?* ch. 7 (especially pp. 172–173, 199–200); Ralph Blumenthal, "Gray Eminence of Classical Music's Stars," *NYT,* May 23, 1995, pp. C13, C16.
61. Goldin, *Music Merchants,* ch. 7; Lebrecht, *Who Killed Classical Music?* pp. 108–110; James F. Richardson, "Vocal Recitals in Smaller Cities: Changes in Supply, Demand and Content since the 1920s," *JCE* 5 (June 1981): 21–35.
62. Allan Kozinn, "Who Makes Music with Whom Is the Work of Hidden Hands," *NYT,* Jan. 2, 1995, pp. 11, 17. A similar market for choral singers in Britain is described by Ruth Towse, *Singers in the Marketplace: The Economics of the Singing Profession* (Oxford: Clarendon Press, 1993), pp. 13–15, 98.