

Copyright and Productivity: Escape from the Cost Disease

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This paper considers whether live performance is a preferable to copyright as an institution for supporting performers. Some have contended that copyright is no longer viable and that creative people, particularly musicians, will soon need to earn their living via live performances. David Bowie nicely summed up the argument a few years ago:

Music . . . is going to become like running water or electricity. . . . [T]ake advantage of these last few years because none of this is ever going to happen again. You'd better be prepared for doing a lot of touring because that's really the only unique situation that's going to be left.

Although I agree that an era is drawing to a close, I am skeptical that live performance can sustain most musicians through the next era of pop music. Conventional wisdom seems to side more with Bowie on this point, however, viewing revenues from performance as a big part—if not the whole—of pop music’s future business model. Given this view, I believe that the economic merits of live performance demand more serious examination and questioning than they have yet received.

I apply insights from the cultural economics literature to assess the viability of live performance as a substitute for the exploitation copyrighted works. Baumol and Bowen’s landmark study of the economics of the performing arts (Baumol and Bowen, 1966) launched the field of cultural economics with its formulation of the “cost disease” theory. The cost disease theory contends that productivity in the performing arts tends to be stagnant or grow slowly at best. In an economy where productivity in most sectors is increasing, real wages are likely to increase, thus causing lagging sectors like the performing arts to experience ever-increasing upward pressure on costs and downward pressure on wages. I also consider more recent insights from Connolly and Krueger regarding the causes of the increasing price of rock concert tickets (Connolly and Krueger, 2005).

I conclude that revenue from live performance likely would not adequately replace revenues from the sale of copyrighted recordings. In the modern era, most performing artists are not well paid. Popular musicians have been a relative exception, in part because they benefited tremendously from the technological advances and productivity gains generated by 20th century innovations in broadcasting, recording, and other technology. Copyright is the linchpin that allowed musicians and those who employ them to appropriate some of the gains from these innovations. One can hardly expect the same results if musicians do not share in the benefits of 21st century innovation, but are instead relegated to low-productivity growth live performance. The economics of modern classical music may be instructive: A few superstars like Pavarotti may do very well, but most other performers may need to abandon the field or rely on other support, often from non-market sources.