Chicken Little and the Recorded Music Crisis

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"The era of mechanization is indicted as 'the murderer of music' in a pamphlet issued yesterday by the American Society of Composers, Authors, and Publishers…[Various new devices] have 'murdered music', at the same time failing to compensate musical genius adequately for talent and melody that have been killed."
—*New York Times,* 19 July 1933

"We cannot stand by while piracy takes a devastating toll on artists, musicians, songwriters, retailers and everyone in the music industry."
—Cary Sherman, president, Recording Industry Association of America, 25 June 2003

For the past few years, the recorded music industry has blamed the "falloff" in CD sales on piracy, and they have lobbied heavily against technologies like file-sharing and CD writers. Now, I am against piracy and in favor of artists being paid for their work, but before we start adding special-purpose restrictive hardware to everyone's computer, let's recognize that this is an old story. Music sales have declined in the past, and the recording industry has repeatedly blamed new technologies. But the new technologies haven't gone away; the solution has always been some kind of economic bargain, and we should again expect an economic bargain to deal with the problems caused by online music distribution.

Recorded music sales: A brief history

Thomas Edison invented the phonograph in 1877, using wax cylinders as the storage medium. Emil Berliner invented the disk in 1888, and the two formats fought it out for approximately 20 years until disks won out in the market. For the next 50 years, most music sales were of phonograph records (although there were still some player-piano rolls at the beginning). The history is not one of steady gains for music sales, but rather of ups and downs. New recording formats (tapes, CDs, and such) often produce gains, but when alternative forms of home entertainment are introduced declines in recorded-music sales often follow.

Table 1 shows nearly 100 years' worth of US sales of recorded music, copied from back issues of the *Statistical Abstract of the United States.* The two columns reflect different information sources: before 1978, the numbers came from manufacturers' surveys, and after, they came from Recording Industry Association of America reports. For the years in which both numbers were reported, the RIAA numbers were much higher. Because there was no explanation at the changeover, I can only assume this reflects the difference between wholesale cost and retail price—although it seems rather high for that.

The charts in Figures 1 and 2 are my attempt to reduce the numbers in Table 1 to a more easily understood form. In both cases, I multiplied all pre-1978 numbers by 4 to reflect the change in measurement source. In Figure 1, I divided the numbers by the US population and adjusted those results by the consumer price index calculator at http://data.bls.gov/cgi-bin/cpicalc.pl. In Figure 2, I simply divided the numbers by the US gross domestic product for each year.

As the charts show, music sales boomed during the early 20th century, but dropped sharply after 1921. At the time, the music industry attributed this decline to the rise of radio stations, which were threatened with prosecution in 1923. The music industry's complaint alleged that "the owners of receiving sets wish to listen, but they are not willing to pay for the service given."

J.C. Rosenthal, representing composers and publishers, and speaking to the Second National Radio Conference, added to that threat by requesting that the federal government not license radio stations that failed to paid royalties (*New York Times*, 22 March 1923). He went on to complain that radio sets were placed on top of phonographs, which were no longer opened.

Eventually, radio stations and the music industry agreed on a royalty-payment scheme for broadcast music. Music sales recovered somewhat in the late 1920s, but dropped again significantly in the 1930s. An obvious reason for this was the Great Depression's onset, but the music industry blamed the decline on the invention of "talking pictures."

Record sales boomed during World War II, but declined again in the late 1940s and early 1950s—this time in conjunction with the rise of television. Sales then grew somewhat steadily from the late 1950s through the 1970s—during which time the recording industry introduced stereo records and various cassette-tape formats—until they

Table 1. Recorded music sales in the US. ($ Millions)

YEAR	MANUFACTURER-REPORTED	RIAA-REPORTED	YEAR	MANUFACTURER-REPORTED	RIAA-REPORTED
1914	10.377		1968	314	
1919	42.931		1969	401	
1921	47.323		1970	402	1,660
1923	34.714		1971	465	
1925	26.791		1972	537	
1927	31.781		1973	561	
1929	34.129		1974	569	
1931	7.698		1975	649	2,391
1933	2.50		1978		4,131
1935	3.705		1979		3,685
1937	7.823		1980		3,863
1939	19.762		1981		3,970
1947	102.015		1982		3,592
1950	85.203		1985		4,387
1952	87.670		1987		5,567.5
1953	91.527		1988		6,254.8
1954	80.224		1989		6,270.2
1955	80		1990		7,541.1
1956	102		1991		7,681.0
1957	118		1992		8,821.5
1958	136		1993		9,787.5
1959	142		1994		11,780.8
1960	149		1995		12,320.3
1961	146		1996		12,553.8
1962	187		1997		12,236.8
1963	178		1998		13,723.5
1964	204		1999		14,584.5
1965	198		2000		14,323.0
1966	219		2001		13,740.9
1967	271		2002		12,614.2

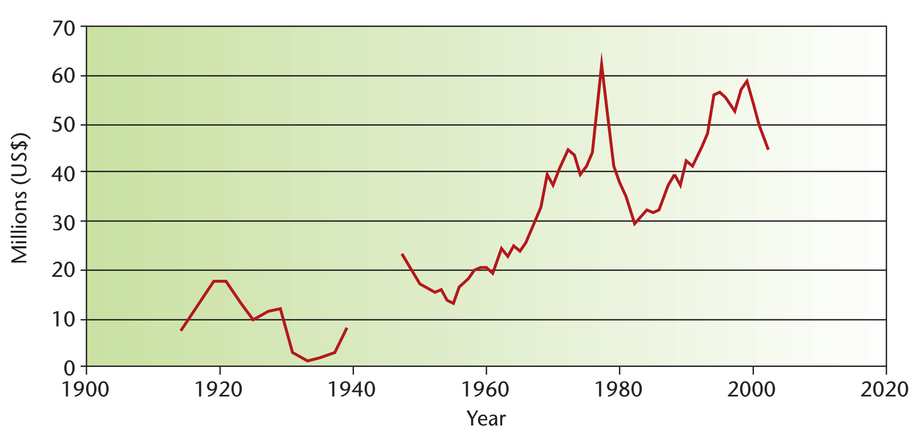

Figure 1. Per-person recorded music sales, adjusted for inflation and data source. There are gains after the general acceptance of vinyl disks, cassette tapes, and CDs; declines coincide with the growth of radio, the start of the Great Depression, and the introduction of television and VCRs.

reached a peak of sorts in the late 1970s, just before videotape became common. The rise of CDs during the 1990s coincided with an increase in music sales that slowed again around 1997—before the widespread consumer purchase of CD writers, which did not become quite cheap enough for the mass market until 1999. However, the slowdown did coincide with the Web's emergence as a place to spend your spare time. Now, in the early years of the 21st century, recorded music sales are still slipping. Is this because of pirate recordings or because consumers spent US$4.6 billion on DVDs in 2001 instead? Or is it just a consequence of the smaller number of CDs that manufacturers have issued in recent years?

Table 2 shows, as George Ziemann of AzOz has pointed out, that consumers are spending more dollars per music CD than they were in the late 1990s. They don't spend more because there are fewer disks, but because the prices have gone up. The amount spent per CD published actually increased from 1999 to 2001—despite the recording companies' complaints—and even the 2002 number is better than several other recent years. In part, higher dollars per CD results from higher prices, and in part from a focus on a few hit records. Marketing strategies have left us with some irrational situations. As of August 2003, for example, the soundtrack CD for the movie *Blue Hawaii* cost US$19.98 at Amazon.com, whereas the DVD of the whole movie was available for $16.99; you could close your eyes while playing the DVD and save $3.

Concerts versus recordings

In its list of the 50 richest rock musicians of 2002, *Rolling Stone* documented the fact that even very successful musicians often get almost no money from CD royalties. Bruce Springsteen, for example, took in

US$17.9 million touring and only US$2.2 million from the sale of almost 2 million CDs in 2002. The Eagles took in $15.1 million touring compared to $700,000 from CD sales. Some famous recording artists such as Billy Joel, Neil Diamond, and Crosby, Stills, Nash, and Young earned no royalties at all in 2002. Admittedly, some artists do make more from recordings than touring—Elvis, for example, took in $2.9 million from CD sales and made no money touring in 2002—but they are the exceptions.

Many popular musicians fight with their recording companies over money and contracts (see almost any tabloid for details). This is also nothing new. In 1907, Victor Herbert, one of the founders of the American Society of Composers, Authors, and Publishers (ASCAP), wrote the *New York Times* and accused the phonograph companies of having "driven from the field all competitors by oppressive litigations based on alleged infringements of patents. By secret agreements they have managed to keep the entire market to themselves and thus been enabled to maintain prices and mulct the public." (If you don't know who Victor Herbert was, go to your local music store and buy a copy of *Naughty Marietta* or *Babes in Toyland*.)

More recently, singer and songwriter Janis Ian wrote an excellent essay on the economics of the music industry (see www.janisian.com for the text). She clearly describes the tensions between the companies and the musicians, and explains why many musicians are happy to anticipate that new technologies might bypass recording companies.

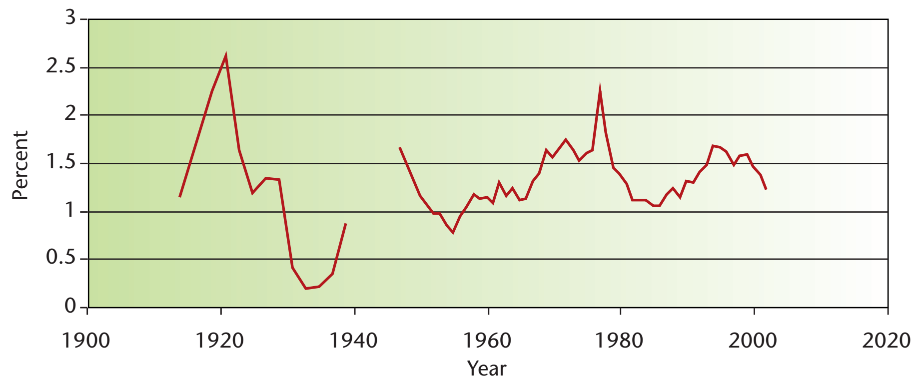

Figure 2. Recorded music sales as a fraction of US gross domestic product. Sales have never surpassed the peak reached in 1921.

There is nothing new under the sun. Recorded music has jostled for a century with other uses of spare time and other entertainment devices. Sales have gone up and down with the economy, individual musicians' popularity, and consumer choice. In one metric, the record business has never surpassed its performance in 1921. Despite the sinking total CD sales, the total amount of money spent on prerecorded 4.75 inch plastic disks is still increasing today, because DVDs are selling like hotcakes.

The recording industry has always attacked new technologies, whether radio, sound movies, MP3s, or whatever. Downloading songs from the Internet might be part of the mix of issues today, along with DVDs and the like, but remember that the early attacks on radio gave way to a world in which the recording companies paid radio stations to play their records (the "payola" scandals of some decades ago). Historically, the new technologies haven't gone away; the answer has always come through some kind of financial settlement. In the current situation, we would all be better off with a simple process for paying for recorded music online, rather than a lot of lawsuits and legislative efforts to turn back the technology.

Fortunately, in recent weeks and months we've seen some encouraging uses of marketing instead of lawsuits to sort out the problems. According to the company's press release, Apple's iTunes service (www.apple.com/itunes/) seems to be doing well, with ten million songs sold by September 2003, even though most online users don't have Macintoshes. Other services are now starting similar, but PC-compatible, ways of selling online music with the hope of similar consumer acceptance. In early September 2003, Universal Music Group also cut prices on CD music recordings, which is likely to increase sales. Thus, economics and negotiation might well work with the Internet just as they did with earlier new technologies. ☐

Table 2. Per-CD spending (data not adjusted for inflation or population).

YEAR	CDS RELEASED	$K/CD
1992	18,400	479
1993	20,300	482
1994	36,600	322
1995	30,200	408
1996	30,200	416
1997	33,700	363
1998	33,100	414
1999	38,900	375
2000	35,516	403
2001	31,374	438
2002	33,443	377

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