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The role of relationships in labor markets for the popular arts and its impact on product quality

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abstract

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While utilizing social networks is common in labor markets and may benefit both firms and laborers, social networks are argued to be unusually important in the popular arts. Prior work in economics on the role of relationships in labor markets has generally focused on the benefits and not the costs. This paper takes a different approach by focusing on both costs and benefits, by examining a specific market where relationships are particularly important. This paper argues that in addition to reducing diversity and creating inherent inequalities, excessive reliance on networks can lead to higher agency costs and lower product quality.

1. Introduction: the role of relationships in popular arts labor markets

Novels and movies often portray the popular arts business by featuring characters who are writers, actors or musicians in the storylines. Such works are fictional but nonetheless offer insight into the nature of the popular arts business. One of the standard themes frequently featured in these portrayals is that knowing somebody who knows somebody with success and power is a highly valuable commodity. A chance meeting with a known producer, director, or actor (or someone connected to them) may prompt a would-be artist on the streets of Los Angeles or New York City to hand off a script, headshot, or a music demo CD they just “happen” to have with them.

In reality, access to people with decision-making power is important in the popular arts. In some cases, labor market decision-makers include people who traditionally do not make business decisions regarding project funding. For example, giving a script to a well-known actor can have value even when the actor does

not fund the project or buy the script directly, because the actor’s advocacy or buy-in to a project holds great weight in making the project viable to the people who do regularly make such business decisions. While knowing influential industry insiders clearly has value to an unknown artist seeking a contract to sell their work, professionals within the popular arts such as editors, producers, agents, marketing personnel, and promoters also depend on relationships for their positions in the industry. For example, *Dolfsma (2004)* describes how relationships between disc jockeys and music producers are mutually beneficial and important to both parties, and *Coser et al. (1982)* describes how book distribution and book promotion frequently depends on such informal networks. Additionally, *Freakley and Neelands (2003)* have found networks and relationships to be important in entering the field of dance, and in the market for classical singers *Towse (1993)* found that there was “a wide-ranging grapevine monitoring talented singers” and that “many jobs are obtained through word of mouth rather than by advertisement” (p. 13). On this topic, *Abbing (2002)* writes:

“The arts are not open and independent and there is no such thing as an equal chance. Barriers exist everywhere and winners pass their advantage on to their protégés. Therefore, surviving in the arts is not just a matter of ‘natural’ talent.” (p. 285).

The clustering of artists in certain metropolitan areas is also indicative of the importance of relationships in the arts (*Menger, 1999*). Despite the relative expense of living in New York City or Los Angeles, novelists and prospective movie/television-related artists flock to these cities because of the importance of building relationships in these fields. *Caves (2000)* suggests that for multiple reasons relationship-based contracting can be particularly important in creative industries. And *Bridgstock (2005)* suggests, among other evidence, that the large number of books published on the topic of networking in the arts is evidence of the importance of social networks to success.

Epstein (2006) has written one such book, and unequivocally indicates that connections are vital to success in television and movie writing, stating, “People hire people they know” (p. 203). Connections in succeeding in stage-writing are no different according to Singer (1997). And regarding book publishing (Vater, 2003) and television/movie writing (Epstein, 2006) two separate books indicate that if you do not already have strong contacts you must have an agent to succeed. Unfortunately, both elaborate, the best way to get an agent is to already have contacts.

This paper will explore the role of relationships in popular arts labor markets, a market that has not received attention in prior economic literature on this topic. Additionally, prior work on the role of relationships in labor markets also differs from this paper in that economic scholars have generally focused on the benefits and not the costs of those relationships. This paper also takes a different approach than previous papers on the topic by incorporating behavioral and sociological dimensions into the economic discussion. It is important to note that more than one type of relationship can exist between participants in these markets at once (i.e. the relationships discussed are not exclusive), and that not all possible types of relationships are covered (i.e. the discussion is not exhaustive).

2. The consequences of relationship markets for labor: overview

2.1. The benefits of relationship-based hiring in the arts

Conventional wisdom from economic literature on labor markets is that the information flowing through social networks creates better matches between employers and job seekers (Labini, 2005). The use of social networks can lead to better job market outcomes because these networks promote the more effective use of information (Coleman, 1988). Other economists have also concluded that social networks provide beneficial quality signals (for example, Saloner, 1985; Casella and Hanaki, 2006). Fernandez et al. (2000) found there to be benefits from the social enrichment to ease the transition to the new job that occurs from hiring a friend or acquaintance. Employees hired through referrals may also be easier to socialize, motivate, and control (Fernandez and Weinberg, 1997). And finally, examining the book publishing industry, the findings of Coser et al. (1982) indicate that informal relationships are often considered a more trustworthy method of contracting writers and getting information regarding manuscripts because the “reward of *quid pro quo* is not fixed” (p. 74).

Networks have also been found to be beneficial because the people within a network share certain traits (Marsden, 1987; Heneman et al., 1980; Rees, 1966). For example, the shared trait in worker quality can be used as a quality signal (Montgomery, 1991). Additionally, Decker and Cornelius (1979) found that job survival rates were higher for jobs obtained through recommendations, possibly due to commonalities in worker personality. This may be less relevant in labor markets for artists since many aspects of similarity that may be relevant for hiring a worker in most non-artistic industries (i.e. tendency to stay with a job, work preferences, work habits, values, etc.) are not very important for the outright purchase of the rights to a product such as a music CD, book manuscript, screenplay, etc. in the arts.

2.2. The costs of relationship-based hiring in the arts

While most economic literature finds the use of reputation and recommendations to be beneficial, Bentolila et al. (2004) found evidence that workers may choose jobs based on where they have connections rather than the position that best fits their talents and skill levels, leading to a reduction in both salary and job fit, despite reduced job search time. This may also apply to the popular arts. Applicants of moderate talent and quality of output who know they have connections in the arts may decide to enter this field when they otherwise would not if they were not well-connected. Flooding of the field by average-talent but well-connected artists likely can crowd out higher quality, unconnected

applicants. Conversely, very high quality but unconnected potential artists who know the difficulty of obtaining a profitable contract without connections may choose to enter other careers, again reducing the potential quality of output.

The use of reputation as a determining factor can also have negative consequences in terms of equity and diversity in the arts. It can lead to greater inequality (Montgomery, 1991), and to resentment and opposition by those excluded (Casella and Hanaki, 2006). When recommendations become a necessity for success, the market in some ways becomes arbitrary and unjust.

2.3. Relationships in the arts and societal implications

The role of relationships in the popular arts can influence the *types* of art products that are brought to market and therefore have deep and broad implications for society at large. Adorno and Horkheimer (1944) have highlighted the importance of the popular arts in shaping culture and the structure of society.

Marsden (1987) among others found that there exists similarity in characteristics within social networks. Peterson et al. (2000) found evidence that differential access to social networks explained all of the difference in hiring between whites and ethnic minorities by a firm. In addition to reducing ethnic/gender diversity, the diversity of ideology and perspectives for these influential cultural goods are likely reduced by contracting based on social networks.

3. Bias, quality, and potential agency costs

When relationships become highly important, they become valuable currency, and both decision-makers and recommenders have an interest in utilizing that currency. These social networks generate sources of power that create opportunities for principal agent conflict. In addition, the ability to trade in favors rather than overt monetary exchange can create agency conflicts that may not otherwise take place. This level of social exchange not only makes suboptimal behavior (from the firm's perspective) of decision makers harder to monitor and catch, it also allows decision-makers to deny any ethical problems to themselves (perhaps even coming to believe that their suboptimal action is a good thing since it may be doing a friend a favor). In addition, when the applicant pool becomes large enough, decision-makers are especially likely to fall short of an optimal search, both due to the assumption of management “shirking” in traditional agency theory and due to ‘satisficing’ (Simon, 1959), making the suboptimal action very subtle, even in the decision-maker's own perspective. While the term “corruption” could be used here to describe the actions of decision-makers that further their own interest at the expense of a firm's interest, this may be too strong a word because the

biased choices can be extremely subtle, do not involve cash payments, are typically legal, and may not even be consciously enacted. Rather, decision-makers are hypothesized to engage in suboptimal search behavior and simultaneously have self-serving biases in their preferences. At times managers may overtly “cash in” on their decision-making power, either to generate return favors or as an inherently rewarding display of power. Powerful recommenders who have the status to impact decisions and outcomes, while not formal decision-makers, will similarly act at times to further their own interests rather than make the optimal recommendation.

3.1. Relationship-based hiring and potential loss of quality: a model of agency

The favoring of relationship-based hiring in the arts holds the potential to adversely affect quality. Consider a decision-maker who must select a laborer or labor product (such as a novel). They can either select the optimal product after an extensive search, or they can take a suboptimal action (from the firm's perspective) and select a product that is of adequate quality and generates social currency for the decision-maker. If the net benefits of suboptimal action (NBSA) is positive, the decision-maker will choose a suboptimal product where NBSA is:

$$\text{NBSA} = (B_S - C_S) + \Delta E - (\cdot) \times I$$

where B_S = benefit from taking the suboptimal action, C_S = cost of taking the suboptimal action, E = effort saved from taking the suboptimal action, \cdot = the expected change in firm profits from corrupt action, and I = incentives to decision-maker for raising firm profit.

Analyzing the terms of this equation in depth yields insight into why labor markets in the arts will be particularly likely to have high levels of suboptimal decisions.

3.2. Benefits from taking the suboptimal action (B_S): why choose relationships when it might compromise quality?

The benefits of the suboptimal action represents the personal gain that accrues to the decision-maker from choosing a specific laborer or labor product such as a script, popular music band, book manuscript, actor, etc. The benefits can be in the form of unspecified future return favors, prior free labor (such as the practice in movies and television of people enthusiastically working at reduced labor rates in menial jobs to gain industry connections), sex (i.e. the “casting couch”), or the social benefits from a display of power. The value of these benefits to the decision-maker is closely tied to how much is gained by the beneficiary of that activity. An “in” for a labor market in which entry is not difficult gains the favor grantor little in terms of return favors or prestige. However, when the applicant pool is very large relative to the number of available openings, favoritism has more value. Therefore, it gives more value to decision-makers as currency to trade for other favors.

3.3. Unfavorable odds for artists and how they increase the value of favors

There are a very large number of artists in the market relative to the number able to reasonably earn livings. For example, Towse (2001) estimates the ratio of trained singers to regularly working classical singers to be about 500 to 1. Other studies have also found the supply of artists to be excessive (Santos, 1976; Throsby, 1994; Menger, 1999; Abbing, 2002). Given the level of competition and high incomes for only a small number of artists, Abbing characterizes the arts as being “like a lottery”.

Despite considerable evidence of low income potential and an oversupply of artists trying to enter the marketplace, existing studies may at times greatly underestimate the income gap and excess supply. This is because the people who have no success at obtaining publishing contracts but do have novels/screenplays sitting in their closets, demo CD's but no music contracts,

or have auditioned for hundreds of parts but never landed a paid acting role are not counted in the mix.

Using data from the General Social Survey in the United States, Brooks (2002) estimates the number of “amateur” artists is as high as 42% of the general population, or about 50 times as large as the number of people who make some of their income in the arts. This suggests a much more crowded market than studies based on labor statistics suggests. For example, in book publishing it has been estimated that there are 15,000 novel submissions for every one offered a contract (Caves, 2000; Greco, 1996).

With incredible odds stacked against those pursuing a career in the arts the role of relationships becomes imperative. Agents, in particular, play an unusual role in arts markets and are in a sense a broker in such relationships. They have been shown to be critical to artists' income, though only a small (and declining) percentage of artists are able to obtain representation from agents (dwindling to a meager 13% in Australia in recent years, Throsby and Hollister, 2003). This gives agents and those connected to them powerful currency to trade for favors. In fact, it is likely that agents are able to convert part of the value of the benefits of their social network into cheap or free labor since becoming an unpaid assistant is one of the suggestions Epstein (2006) and others make for establishing a connection.

3.4. Beyond commonplace: relationships as necessity for the arts

Of course the arts is not the only sector where relationships play a key role. For example, Granovetter (1974) found that over 50% of jobs obtained by those in his sample came through connections. Ioannides and Loury (2004) summarized multiple studies that put the range of connection-obtained positions between 30% and 60%. However, in the popular arts relationships are not just beneficial, they are almost a necessity. Prospective artists who do not have a relationship with an insider are often unapologetically excluded from receiving even a modicum of consideration. Lynn (2006), an editor for 30 years, observes that most commercial publishers do not even bother to read unsolicited work, while Coser et al. (1982) concluded that most editors considered sending an unsolicited manuscript to be a “total waste of time and energy” (p. 240).

The level of importance of relationships in the arts versus non-artistic fields is not simply just a quantitative difference in percentage—it creates an entirely different dynamic. When half of the jobs in an industry come through relationships, that field is “open”, and even though connections help a great deal, there is a modest limit on the cost an outsider will pay to establish a relationship, because they have a reasonable probability to enter the field without one. However, when virtually *all* contracts come through relationships, such as is the case in the arts, the premium put on those relationships becomes incredibly high.

3.5. How the need for relationships in the arts shapes behavior and are self-reinforcing

The key role of relationships in the popular arts can be seen in the lengths to which people will go to secure relationships in the popular arts fields. Prospective book authors are sometimes advised to go to expensive and time-consuming conferences and seminars just to secure the opportunity to meet an agent who they might later be able to send a manuscript. Epstein (2006) advises would-be TV writers to work in the industry for free in a job they do not necessarily want, just so that they can eventually obtain a low-level paid position they do not want, so that they can get connections to get an agent, in order to get the writing contracts that they ultimately desire. The lengths would-be artists will go to is so common in the thespian field there is even a

name for it—the “casting couch”,¹ where would-be actors provide sexual favors to decision-makers in exchange for roles.

The role of social networks themselves can also be self-reinforcing just like other social institutions (North, 1990, 1991). The more important relationships are in a field, the more beneficial favor exchange can be since it becomes a more liquid currency. The social stigma of these transactions is also reduced. Networks of corruption in particular can be self-reinforcing and the act of helping to build and maintain the network of behavior can be a motivation in itself for engaging in corrupt behavior (Cartier-Bresson, 1997).

The importance of relationships can be seen at all phases of popular art production and marketing. Curtis (1998) estimates that two blurbs from established authors raised the value of a book by \$210,000 per blurb. As Curtis points out, these blurbs are traditionally undertaken and traded in a form of favor barter. Coser et al. (1982) observes that books, like other popular art products, depend on publicity, and relationships between industry personnel and personnel at publicity venues are vital to success ... even a five minute appearance on a talk show such as the Today show “may sell fifty thousand copies” (p. 215).

3.6. Relationships and income potential in the arts

There are reasons other than opportunities for entry for relationships to be particularly valuable in the arts. Studies of the arts have repeatedly found the variance in income to be much higher than in other industries (Towse, 1993; Waits and McNertney, 1980; Santos, 1976). Since jobs found through connections tend to be higher than average in salary (Granovetter, 1974), the importance of these relationships is even higher in the arts due in part to the high income variance.² Bridgstock (2005) calls the unusual, self-employed career structures of artists “protean careers”, and argues that “knowing whom” is particularly important in industries that have this career structure. Additionally, the cultural industries also tend to be natural monopolies (Towse, 2001). For example three quarters of the global music industry is controlled by just five firms. The limited scope of alternative options available for artists in such a concentrated industry can accentuate the importance of establishing relationships with decision-makers at the major firms.

3.7. Relationships and non-monetary rewards in the arts

The high levels of intrinsic reward in the arts also affect the nature of relationships. Much of the oversupply of those wishing to enter the arts may result from those seeking non-pecuniary rewards (Abbing, 2002; Towse, 2001). In fact, the oversupply of those seeking to enter the arts for non-monetary reasons can be so strong that the “market-clearing price” for labor is less than zero (Caves, 2000). If intrinsic reward is completely independent of outcome, then it does not affect the importance of relationships. However, sometimes non-pecuniary reward depends on dissemination of the artistic work. For example, a novelist may be intrinsically motivated by the art itself, but only provided that his or her work has an opportunity to be disseminated and appreciated by some amount of readers or an artist may appreciate critical acclaim, even if they make virtually no money from their work. In these scenarios, obtaining a contract to produce one’s work can be a barrier to achieving intrinsic rewards. If somebody wants to enter a non-arts industry and finds the path blocked, acceptable alternative career paths are frequently available and wage levels will help to balance supply and demand. But in a field where the reward to successful entry goes far beyond the monetary rewards, mundane job alternatives are very weak substitutes and the power of relationships with those who control entry becomes even stronger.

¹ Epstein (2006) offers an industry joke about a “dumb actress in Hollywood”—she slept with the *writer*. While the joke itself is of questionable merit, it does have sociological value in what it implies about the hierarchical nature of Hollywood relationships.

3.8. Costs from taking the suboptimal action (C_S) in the arts

The costs to the decision-maker from taking the suboptimal action are distinct from any connection between firm profit and employee incentives which falls under $(\cdot) \times I$. These additional costs are psychological in nature and stem from any disutility from taking an action considered improper or unethical. These costs can differ significantly depending on norms of behavior as well as the ability of the agent to cognitively justify their behavior. While C_S is defined here as distinct from the impact of firm profit on material incentives to decision-makers, these two costs are nevertheless linked. The behavior of favoring an insider candidate becomes easier to justify (both to self and others) when quality is highly subjective and profit is highly unpredictable, as they are in the arts.

3.9. The norms of favoring relationships in the arts

When social networks and the trading of favors are common, engaging in such behaviors is less likely to be viewed negatively by the individual and his or her network. Certain practices become acceptable through their commonality and are no longer stigmatized as they are in other industries. For example, in many businesses it would be considered highly inappropriate to only consider the labor of people you knew (or people who knew people you knew), even when many other people are actively seeking to sell their labor. Such favoritism may occur, but it is often considered improper and is therefore hidden. However, in the popular arts, agents and firms producing work will say outright in print (such as in the *Writer’s Market*) that they will only consider work or artists who are recommended to them by somebody they know.

3.10. So many applicants, so little time: effort saved from taking the suboptimal action (E)

Much of the literature on agency theory treats agent-principal conflict in terms of manager “shirking” by expending less than the optimal amount of effort, for example by cutting a labor market search short prematurely. At some point, if there are a very large number of candidates (as there are in the arts) it becomes optimal for the firm to cut search costs by considering only a subset of candidates (Frank, 2008). However, when maximizing the manager’s own utility, the point at which search should be terminated may come sooner.

If a firm is only going to consider a small percentage of applicants, it might rationally start by considering those it has some reason to favor. If a decision-maker will personally benefit from considering specific applicants, those people may be considered first. This could be a friend or relative or it could be more removed such as someone who an established artist linked to the decision-maker would like to receive consideration.

Of course, these dynamics can happen in any labor market, but the large size of the applicant pool in the popular arts increases the likelihood and extent of not giving all qualified applicants consideration. Subjectivity in artistic quality also makes the full evaluation of all potential products and artists less valuable to firms since they know they make errors. Frank (2008) demonstrated that as error rates of firms increased in the arts, the optimal number of candidates evaluated declines.

These dynamics have secondary effects. When it is a given that not all candidates will be considered, favoritism that hurts the firm is harder to detect. It also creates a blurred line between taking the optimal action for the firm and taking the optimal action for a shirking decision-maker. Not only is it easier for the decision-maker to avoid detection, but also the boundary between optimal firm behavior and optimal agent behavior becomes very ambiguous, leading agents to use motivated reasoning (Kunda, 1990) to justify their own best interest as the firm’s best interest.

² If it is true that virtually all jobs are found through recommendations in some popular arts, there still can be considerable variance based on the strength of the connection and the power of the “insider”.

3.11. Evaluating the subjective in the arts: expected change in profit × incentives [(~) × I]

When it comes to determining “quality”, all of the popular arts are highly subjective. There are also numerous anecdotal stories within the popular arts fields of highly successful artists who initially faced a long, protracted series of rejections. Stuart (2001) lists many examples from book publishing where best-selling and prizewinning authors were initially rejected by publishers and/or agents many times. Success in the arts is also very hard to predict, even among experts (Caves, 2000; Whiteside, 1980). Subjectivity in evaluating art products is exacerbated by the fact that unlike in other professions, inartistic professions, paper qualifications do not seem to provide the correct signals to potential employers (Towse, 1993, 2001).

Given the high level of subjectivity in output quality and large random dimension to project profit, decision-makers may rationalize that choosing an “insider” has little negative effect on firm profits or their own pay/chance of promotion/firing. In fact, success may be only weakly related to quality both due to the Superstar Phenomenon and the presence of experience goods. In the versions of the Superstar Phenomenon posited by Adler (1985) and De Vany and Walls (2004), a small number of artists can become superstars for reasons that are unrelated to quality; the success of these superstar artists will be self-reinforcing. For artists with little existing market power, success may depend on reaching a critical mass of consumption that leads to self-reinforcing tendencies. Commercial success and firm profit can be driven by factors other than quality (such as firm investment in promotion). The artist’s own social capital may also play an important role in these self-reinforcing dynamics of success, making it rational to sometimes choose a product thought to be of slightly lower quality

Table 1
Summary of potential benefits and costs of relationship-based labor markets in the arts

Potential benefits	Potential costs
Better matches/enhanced quality through quality signals	Workers choose jobs based on connections rather than “best fit”.
Reduced search costs	Workers of moderate talent with connections crowd out more talented unconnected people.
Better matches through correlation in traits within a social network	High quality potential artists without connections are discouraged and leave field entirely.
Enriched work environment from having friends/colleagues in workplace	Inequality arises based on connections. Also, inequality in wages can increase when connections dictate level of success (such as through marketing budget).
Longer job retention of employees hired through connections	Artistic diversity is diminished. Products become more homogenized.
Easier to control and motivate employees	Increased agency costs, partially in the form of insufficient search.
An infrastructure for exchange in favors arises that benefits many in industry	Infrastructure and norm for corrupt behavior can become self-reinforcing.
Selection of arts laborers with a strong network can enhance marketing	Reduced product quality.

from an artist who has a strong social network.

It is important to note that the decision-maker’s choice depends on the perceived impact of their actions on profits, not the actual impact. There is good reason to believe that quality judgments in this highly subjective environment may be biased when firm and personal goals differ. According to Akerlof and Dickens (1982), motivated reasoning is likely to take place when the benefits of holding a belief exceed the cost. Elster (2004) hypothesizes that people can also form motivated motivations interpreting their reasons for a behavior in the best possible light. Decision-makers in the arts may interpret their motivation as finding the best product for their firm, when in fact they are at some level self-motivated; their motivated reasoning may lead them to overestimate the potential of the product they would prefer to select. Elster suggests that motivated reasoning may have a “plausible story constraint”, where motivated reasoning is most likely to occur in ambiguous situations that allow a plausible conception of impartiality to be constructed. These behavioral biases may be particularly

³ James H. Cahill has a background in the music and entertainment industry that has spanned several decades. His experience within the music industry has included radio programming and promotion, and marketing and promotion for Alice Cooper and Alive Enterprises, STYX, and Frontline Management, where he worked as the music marketing supervisor on numerous

prevalent in the arts because quality judgments are highly subjective and profitability is highly unpredictable.

4. Further considerations on quality and relationships: the importance of technological changes in the arts labor markets

Given the impact that recent technological advancements have had on the final product in sectors of the arts market (books, music and film in particular) we would be remiss not to include a discussion of the impact these changes have had on the relationship structure and on the labor market in general.

Previous literature has suggested that technological change has been the driving force behind economic changes in the arts labor market (Gray and Seeber, 1996; Anderson, 2004; Cieply, 2007). Technological advances in recent years include DVDs (allowing movies to be easily ordered on the Internet and sent through the mail), DVRs (allowing for movie viewing at home without interference of one’s schedule), high-speed cable and satellite advances (allowing for movies to be viewed on the Internet, as well as file sharing, allowing for music to be heard, uploaded and shared with others, including for no cost, and aspiring musicians to create music with little to no training or skill), low-cost reproduction capability of art prints, low-cost reproduction of print copies of books and no cost opportunities to produce and offer books for sale electronically, among others. Whether these technological-driven changes in the arts have had a positive effect on the quality of the final product remains to be seen. An interview with entertainment executive James H. Cahill³ about what technological advances have meant for the music industry reveal that the effects of technological changes in the arts may not have all been positive.

“[In the 1960’s] as American radio exposed the counter-culture to art and

music [it seemed] we had it all. There was great freeform, expressive music to live by and stations to transmit not just the music, but the lifestyle. This was our finest hour. And at its core was commerce ... people paid for the music ... they paid for the albums, they supported the sponsors of the radio stations ... the economic system was perfect for feeding full careers...

“The first change was deregulation of radio, which was one of the worst things that ever happened to music. Consultant-oriented radio became vogue and out went innovation ... deregulation radio also took an American form of rebellion out of the mix. Radio became corporatized and homogenized. But through it all, it was impossible to steal music [vinyl records] ... until the next change...

“Eventually technological advances made it easy to steal music and broadband made it rampant. Music itself lost its value when you could have it for free.”

motion pictures including Fast Times at Ridgemont High, and Imagine, among others. He is currently President and CEO of Heat Seeking Multimedia, a Los Angeles, California based marketing, production and branding company.

But some industry insiders view recent technological advances as holding the potential for actually improving quality within the arts sector. Writing about how technological advances such as the hand-held electronic book reader (such as Amazon.com’s Kindle) will impact the book industry, publisher and writer Stephen Windwalker (2008) writes:

“[Now the major publishing houses] are so driven by the need for scalable revenues and high turnover bestsellers that literary quality or enduring cultural value usually takes a distant backseat to considerations about whether an author has a marketable brand name ...” (p. 96).

“But all one must do is look around in any chain bookstore or on the latest bestseller list to conclude that while the mainstream publishing industry may in some places have the elitist trappings of snobbish self-importance, it is not meritocratic in any way that is connected to literary quality ... Once one determines that the big publishers could care less about quality at the expense of blockbuster bestsellers, it follows naturally that any renegade movement to allow independent creative people to make more of the decisions about what to publish ... could and should be less about artistic democracy than about artistic meritocracy and literary freedom” (p. 104).

“While the mainstream mega-publishers seem bound by economics and their own retrograde preoccupation with bestsellers to fall short of satisfying the growing appetite for choice, independent publishers and entrepreneurial indie authors are

Menger (1999) argues that technological change in the arts have generally been lowering barriers to entry and therefore leading more prospective artists to enter the field. This in turn increases oversupply. As already discussed here, oversupply can lead relationships to become more important.

There is a common belief that technological change in the arts helps promote production and distribution of a “long tail”, where niche products with a smaller audience have a chance to flourish (Anderson, 2004). However, in an empirical test of DVD and other video sales, Elberse and Oberhelzer-Gee (2007) found that while the number of titles that sold only a few copies increased, the number of non-selling titles increased even more. There was also evidence of a Superstar Phenomenon, once again suggesting high concentration in these markets, despite technological change.

One way technological change has affected the movie industry is to increase the portion of money that comes from sources other than the traditional initial domestic release of a movie. A study by Global Media Intelligence indicates that the bulk of the revenue from these sources is already being committed to the industry superstars (Cieply, 2007). The evidence here suggests that power and connections to power are more important than ever in today’s technological environment.

5. Discussion

Prior economic discussions on the use of relationships in labor markets have primarily focused on their benefits. However, relationships have a number of costs as well as benefits. These are summarized in Table 1.

Many of these costs and benefits will apply across industries. However, the arts are unusual in a number of respects. These unusual characteristics serve to

Table 2
What makes arts labor markets different

Unusual market trait	Impact
High non-pecuniary reward	Enhances the value of getting hired/contracted and therefore the value of connections. Increases market crowding. Also increases the costs to the unconnected.
Extremely crowded labor market supply	Enhances value of connections. Also leads to not all labor receiving consideration at firm profit maximum, making it easier for decision-makers to reduce search further (both in terms of monitoring and internal rationalization) and focus on “insiders”.
Highly subjective quality	Reduces cost to agents of not searching for optimal employee. Reduces risk of detecting suboptimal search and makes it easier to rationalize. Enhances value to firms of using connections in labor search. Increases labor supply.
Superstar Phenomenon	Reduces cost of suboptimal search by making success more arbitrary. Enhances the value/importance of key insiders. Makes relationships more important after the initial hiring/contracting phase.
Cultural impact of arts	Increases the potential social costs if diversity is lost through relationship-based labor search. Increases non-pecuniary reward.
Social relations important to marketing/promotion/operations	Helps to establish a norm of social relations in the industry, making favor exchange more acceptable and liquid.
Growth of favor exchange as norm	Becomes self-reinforcing once established due to its benefits as currency for powerful decision-makers, presence as cultural norm, and increased liquidity.

well-suited to respond ... At the most recent turn of the century important advances in technology and the marketplace were empowering independent-minded writers and pushing the publishing world toward, if not a precipice, a significant tipping point ... more recent developments have only intensified the velocity of change ... Each of these developments is likely to subvert traditional gate-keeping roles in the publishing industry” (pp. 97–98).

increase the importance of relationships in the arts relative to other industries as shown in Table 2.

These unusual characteristics can also serve to change the balance of benefits and costs. In the arts, it may be that the balance has shifted so that the costs outweigh the benefits and labor markets have become dysfunctional. However, self-reinforcing tendencies in the market may prevent it from self-correcting.

4.1. New technologies and the potential impact on relationships in the arts

Regner (2002) suggests that technological change in the music industry may change the nature of contractual relationships. In a “post-napster” era, musicians may no longer depend on labels to market their product. However, newcomer artists will still depend on others to succeed, with mentoring from established artists possibly playing a more prominent role. Therefore, while the power structure may change, relationships with powerful insiders will still be vital to assure success.

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