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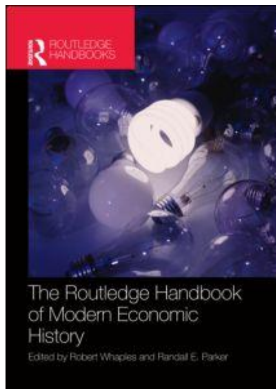

Routledge Handbook of Modern Economic History

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The Economic History of Entertainment and Sports

Publication details
https://www.routledgehandbooks.com/doi/10.4324/9780203075616.ch18
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Published online on: 18 Dec 2012

How to cite :- Michael Haupert. 18 Dec 2012, *The Economic History of Entertainment and Sports from:* Routledge Handbook of Modern Economic History Routledge
Accessed on: 08 Dec 2023
https://www.routledgehandbooks.com/doi/10.4324/9780203075616.ch18

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THE ECONOMIC HISTORY OF ENTERTAINMENT AND SPORTS

Michael Haupert

The entertainment industry evokes images of movie stars, exotic performances, regal theaters, and grand stadiums. However, from an economic standpoint, it is not much different from the market for most other goods and services. Entertainment is a normal good subject to the law of demand.

There are some properties of the entertainment industry that don't necessarily apply to other markets. These include uncertain product characteristics, producers who have an unusually high personal attachment to their product (think *art* as opposed to *commerce*), and goods that cannot readily be inventoried.

The quality of entertainment goods is seldom known in advance. What is more, no two are alike, so it is hard to predict exactly what the quality will be the next time they are produced. As a result, consumers rely on signals for quality indicators in entertainment more often than in other industries. In the movie industry, for example, the quality of a movie cannot be determined until it has been seen. In order to try to avoid buying tickets to bad movies, consumers rely on the opinion of critics and word-of-mouth reviews to give them an indication of quality. Bakker (2003a) looks at this unique market for films and finds evidence that product differentiation was important to the success of film companies. He also (2003b) finds that film companies became increasingly sophisticated in their methods of trying to obtain knowledge about consumer preferences over time. These changes were caused by the rise in fixed costs as well as technological and contractual changes. The increasing need for quick information led to the use of new market research techniques such as Gallup audience research.

Knowing what made one movie or recording popular usually adds nothing to the predictive ability of what makes the next one popular. No entertainer is a guaranteed hit every time, and no genre of film has proven to be eternally popular. Without really knowing what factors influence the quality of the final product, producers are at an extreme disadvantage, and the final result is the volatile entertainment industry we have today.

Live performances, such as plays, concerts, vaudeville, and sports, all share certain characteristics. In particular, they cannot be inventoried. The consumption of their product takes place at the same time as its final production, and customers must come to it, because it cannot be shipped to them or an intermediary for resale. Over time, technology has blurred these lines of distinction, since a live performance can be recorded and sold like any other commodity. However, while a taped version of a concert or play is a substitute for the live performance, the degree of substitution is highly variable. Listening to a high-quality digital recording of a

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concert may, for example, be a closer substitute for the concert than would be a similarly high-quality video recording of last night's championship football game. The high prices commanded for some live concerts and sporting events suggest the demand for them is highly inelastic.

Economic studies of the leisure industry in general are not common, but do exist. Cole and Lubin (1964) were among the first to consider the industry. Maoz (2010) attributes differences in the valuation of leisure in the U.S. and Europe during the twentieth century to differences in labor hours. He notes that U.S. annual hours per worker declined in general over the time period, but not always at the same rate as in Europe. Holler and Klose-Ullmann (2010) examine the effects of conspicuous consumption on the growth of the American art market between 1870 and the Second World War. Hunnicutt (1980) examines the political, economic, and intellectual events surrounding the increase in leisure time during the first four decades of the twentieth century, how its use changed and how it was viewed by society.

The demand for entertainment

Americans saw a fourfold increase in their real income over the twentieth century. The average manufacturing worker saw his real wage rise by a factor of five. And the percentage of personal consumption expenditures by Americans devoted to recreation and entertainment tripled from 3 per cent at the end of the nineteenth century to 9 per cent by the beginning of the twenty-first century. These patterns were common across developed countries, contributing to a worldwide increase in the demand for entertainment.

The decrease in the length of the workweek also contributed to an increase in the consumption of entertainment. The average workweek decreased by one-third over the century from 59 hours to 39 hours. Additional time for leisure has also been made available by technology, which had an impact on wages through its increase in labor productivity, and led to the reduction of the amount of time needed for household chores such as laundry, cleaning, and cooking. Numerous scholars have studied the evolution of wages and labor hours in the American economy, including Costa (2000), Garrett (2009), Higgs (2009), Whaples (1990), and Vandenbroucke (2009), who looked specifically at the impact of the length of the workweek on the consumption of recreation. He attributes the decrease in the length of the U.S. workweek in the first half of the twentieth century to technological progress, which increased wages and decreased the cost of recreation, making it possible for the average worker to afford more leisure time.

In addition to the higher incomes and lower work hours brought about by urbanization, the cost of pursuing entertainment is also lower for city dwellers because of the closer proximity of venues such as theaters and stadiums. There is also a greater supply of entertainment opportunities in the city. Population density leads to economies of scale in entertainment; thus, urban dwellers have access to more entertainment options, and it doesn't cost them as much to purchase them.

One specific technology that has had an impact on the entertainment industry has been the automobile. It created a more mobile society, increasing the scope of possible entertainment venues and lowering the cost of reaching them. Shaw (1986) looks at the complementary goods of transportation and entertainment by examining the ownership of amusement parks by street railways during the latter part of the nineteenth century. Economies of scale in the generation of electricity as street railways converted from horse power to electric power required efficient use of the capital plant, which involved running as many loaded cars as possible over the tracks. Railway interest in amusement parks arose from a desire to encourage use during non-peak hours. Clevinger and Vozikis (2007) look at the role of transportation on the spread of

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entertainment, finding the railroad to be a significant determinant of the growth of the American theater.

Technology also created more and newer ways to enjoy this newfound leisure time. The first big innovation of the century was recorded sound, followed closely by the motion picture industry and radio. These latter two industries ruled until the 1950s, when television exploded upon a postwar America ready to spend money and anxious to escape the drudgery of the Great Depression and the war years. Not until the personal computer became a household fixture at the end of the century would anything come along to rival television for the leisure time of Americans.

It is not merely technology that explains the emergence of new media, however. Stoeber (2004) combines Schumpeter's distinction between invention and innovation with evolution theory to argue that the emergence of new forms of media are not merely the consequence of new technology, but also "social institutionalizing," whereby the new technology takes on new possibilities and is adapted in new ways by society. The technology that provided text messaging, for example, begat a whole new way of communicating and social-networking possibilities.

Bowden and Offer (1994) provide an interesting view on technology and the use of time in the household. They look at the falling cost of electronic entertainment media and their role in the household budget, and conclude that electric appliances didn't shorten housework hours until television viewing expanded in the allocation of household time to the point where its marginal utility fell to that of housework. Chandler (2006) uses the example of the rise and fall of RCA in a broad, sweeping look at how high-technology industries transformed work and life.

The supply of entertainment

Technology also changed the supply of entertainment, progressing from live theater to the movies for public consumption and adding home entertainment in the form of recorded music, radio, television, and ultimately the Internet. The American entertainment industry responded to the demands of the public and adapted the latest technologies in an effort to capitalize on the growing demand for entertainment services.

The fact that the costs of producing entertainment are almost all borne before the product can be marketed means that the entire investment must be made before the producers know if it will be a success. These sunk costs cannot be recovered if the show is a bomb.

The skills of those producing entertainment goods are highly variable, and in many cases are not identifiable before hiring. For example, not all athletes are the same quality. In fact, there is a huge discrepancy in talent (defined here only as ability to generate revenue, usually through ticket sales). This leads to a market with high salaries for the few who are most easily identifiable as high-quality workers (i.e. superstars). This leads to a division of the marketplace into "superstar" and "secondary" employees. The difference is not in the known outcome of the quality of their product, but rather the likelihood of the quality being high. A superstar actor is more likely to produce a high-quality acting job (and high box-office revenues) than is a "secondary" actor. This "superstar effect" is explored by Berri *et al.* (2004, 2006) in the sports industry and by Frey (1988) who applies the theory to museums.

Vaudeville

Before technology made entertainment a packaged and stored commodity, live entertainment ruled the industry. This took the form of staged shows, such as symphony, theater, and vaudeville, and spectator sports. The former were attended primarily by the well educated and upper class. The latter were attended primarily by men. Only vaudeville appealed to the mass audience.

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Vaudeville flourished in America for the first two decades of the twentieth century and spawned many of the actors who went on to propel the movie and television industries to their current dominant positions in the entertainment industry. Like theater and opera, vaudeville was performed live. Unlike theater and opera, however, it was neither as formal nor as exclusive. Vaudeville also contained elements of the circus and appealed to a much broader customer base than did the theater, opera, or symphony.

A typical vaudeville show lasted about two hours and featured as many as ten different acts, ranging from singers and comedians to acrobats and animal acts with the occasional appearance of the famous and bizarre. Prices were low compared with more formal stage shows, and the acts traveled from city to city, usually on a weekly basis. Thus, the local theater provided great variety, and the vaudeville acts performed before a wide range of audiences.

Vaudeville reached its peak in the early 1920s, about a decade before the entire industry collapsed under the weight of the Great Depression and competition from talking pictures. At the time, there were over 15,000 theaters in towns of every size, making it the most popular form of mass entertainment in America. It was easily accessible, affordable, and appropriate for the whole family. The bill changed on a weekly basis and the most famous names eventually landed in even the smallest of theaters, adding a sense of commonality to it all.

Vaudeville was a victim of the radio and movies on both the demand and the supply side of the equation. The demand for vaudeville shows fell off as demand for the movies increased and radios came down in price. In addition, talent was drained. Performers preferred the higher paychecks and reduced travel schedule offered by national radio networks and Hollywood. Finally, venues disappeared as theaters were converted from vaudeville shows to the more profitable motion pictures.

Vestiges of vaudeville live on in Las Vegas, though only in spirit. The Vegas entertainment scene offers the variety that vaudeville once did, but each act is a separate ticket purchase. Gragg (2010) addresses the evolution of the Las Vegas entertainment scene in his research on the growing use of nudity during the 1950s as a means of attracting customers during a period of overexpansion of hotels.

Variety shows still exist, but in a different format – the Internet. While vaudeville is dead and television thrives on reality shows, sitcoms, and dramas, the Internet is perhaps the ultimate example of the variety show. With the click of a mouse one can move from sports to music to whatever else is desired. The improvements in computer technology over the past decade have made video and audio streaming commonplace, making the computer a sophisticated and powerful entertainment medium.

Little attention has been paid to the economics of vaudeville. General histories of the industry have been written by Gilbert (1940), DiMeglio (1973), and Erdman (2004). A more general look at theater, especially in its earliest years, is covered by Milford (1999), who looks at the puritanical influence on early American theater. Sullivan and Pry (1991) use the eighteenth-century London theater market to study the capture theory of regulation. They find that the Licensing Act of 1737 restricted competition and successfully maintained the interest of three London theater companies.

Recorded sound

The basic scientific principle of converting sound into an electrical current has evolved into a massive entertainment industry that has advanced on two major fronts since 1900: art and technology. On the artistic front, the styles of popular music have changed and diversified from classical to jazz to rock and its many variations. The technological innovations in the recorded sound industry have been no less dramatic.

Despite changes in the types of music preferred by the listening public and the different means of delivering music, the industry looks remarkably like it did a century ago. The main issues are still the same. Manufacturers seek to push the envelope and deliver the highest-quality sound possible. Performers still strive to express themselves through their art. Producers compete for the opportunity to promote and distribute the best-selling stars, and consumers clamor for the best equipment to listen to the best music. Despite all the advances in technology, or perhaps because of them, the same problem besets all the players in the industry: how to control the rights to the final product. The dawning of the computer age in the recorded sound industry has only complicated this problem. Property rights issues in the recorded sound industry were first discussed by Coase (1966). Kruse (2002) takes a narrower view in her study of the evolution of property rights in the radio broadcasting spectrum.

Radio changed America in the twentieth century the way the computer has revolutionized it today. It brought immediacy to the news that had heretofore not existed. The telegraph wire reduced the time it took for news to travel from point to point, but it still had to be gathered by newspapers and converted to print before being distributed to the general public. Radio brought the news directly into the homes of listeners, who could sit by their radios and hear it happen live.

Fones-Wolf (1999) looks at the use of radio by corporate America during the period 1930 to 1950. Beginning in the 1930s, corporate America increased its use of radio for public relations campaigns aimed at improving their image. She concludes that radio was the most influential medium by which they could reach the public, which succeeded in helping business improve its status in American society. On the other hand, Lewis (1992) focuses on the social impact of radio during this same period of time. He describes the early radio broadcasting as a mix of culture, education, information, and entertainment and looks at the role of radio on American culture in the decades between the wars.

The advantage of wireless communication was the ability to bypass wires. The drawback was that it was not completely private, because anyone with a receiver tuned in to the specific frequency of the transmission could receive it, thus resulting in a classic public good problem. The inventions of Lee de Forest, Howard Armstrong, and others exploited this drawback and created the concept of "broadcasting" a signal to as wide an audience as possible. Walter Gifford, President of AT&T, solved the free-rider problem.

Under the leadership of Gifford, AT&T, in an effort to establish a foothold in the broadcasting business, established a high-watt radio station, WEAF in New York, and then used their telephone model to finance it. Telephone users paid for the time they used the wire, and AT&T applied the same model for use of the radio waves. AT&T set up their station and invited any and all to come and rent airtime, to say what they wanted during a broadcast that would reach hundreds of thousands of potential listeners. Customers flocked to the idea called "toll broadcasting." In order to fill the empty time between paid broadcasts (i.e. commercials), Gifford hired people to sing, play piano, lecture, and otherwise entertain. The model for radio, and eventually television broadcasting, was set: scheduled interruptions of paid advertisements.

The movie industry

The movie industry has been a popular subject of research for economists. Only the sports sector of the entertainment industry has received more attention. One of the earliest overviews of the economics of the movie industry was provided by Strick (1978). He noted at the time that little economic analysis was actually applied to the movie industry. This is no longer true. There have been numerous studies of the industry ranging from silent film-era labor markets (Kraft

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1994; Ross 1991) to attempts to model the demand for movies (Hand 2002; De Vany and Wallis 1999).

At the dawn of the twentieth century, the movie industry was dominated not by movie stars, directors, and producers, but by inventors and business moguls. The kinetoscope, the forerunner of the movie projector, debuted in the late nineteenth century and by the beginning of the twentieth century its commercialization was rapidly spreading. Businessmen, particularly the inventors themselves, moved to monopolize the potential profits of the kinetoscope by tying up the technology necessary for making and displaying the pictures. DeGraaf (1995) looks at the difference between innovation and marketing. He focuses on the failure of Thomas Edison to successfully market his phonograph, concluding that his strategies were ill-suited to the emerging mass consumer market.

The legal battles involving patents came to a head in 1908 with the organization of the Motion Picture Patents Corporation (MPPC). It was formed through a horizontal merger of 10 major companies that held most of the important industry patents. In 1910, a vertical merger combined the production and distribution levels of the industry. The MPPC purchased 68 distribution companies and merged them into one company, called the General Film Company (GFC). This created a virtual monopoly in the production and distribution sectors of the industry. The exhibition level of the industry was still competitive, with more than 10,000 theaters in operation. The exhibitors competed against each other, and this situation was exploited by the GFC. The theaters were forced into exclusive dealings with the GFC out of fear of being blackballed if they were caught showing films from one of the few remaining independent distributors. The exhibitors were kept in line by paying license fees to the GFC for the right to exhibit their films. This was a valuable right, since the GFC controlled so much of the traffic in new films, which were the lifeblood of a theater in the major markets. Without access to the newest films, an exhibitor would be unable to compete. Cassady (1959) analyzes the distribution monopoly in the early twentieth century.

The film trust composed of the MPPC and GFC, however, did not last long. Ultimately, the independent producers and distributors were able to make a large enough crack in the armor of the trust to bring it down entirely. Their failure to anticipate market changes ultimately led to their demise. Allen (1971) provides a nice overview of the history of the MPPC.

Independent producers were historically kept in line by the difficulty they had in finding distributors for their films, and ultimately exhibitors, given the threat of blackballing by the trust. Their rise coincided with important changes in the industry. Primary among those changes was the evolution of the movie-star system, the use of famous actors to market a film, and the metamorphosis of the industry from a novelty, showing generic motion pictures, to one telling stories. In addition to their market failure, the trust was attacked in the courts. The MPPC was found to be in violation of the Sherman and Clayton antitrust acts in 1915.

Until the end of the first decade of the twentieth century, actors in films were primarily anonymous characters. This anonymity served to keep actor salaries down, because it dampened the audience demand for any particular actor, making actors nearly perfect substitutes for one another. As moving pictures morphed into stories with plots and characters, individual actors began to emerge as public favorites. As film companies began publicizing their stars for marketing gains, they increased their own profits and the bargaining power of their stars. This star-driven market survived until the late 1920s, when it gave way to what is known as the "studio system."

Bakker (2001) shows that the high fixed costs and relatively short market window for films led producers to invest in name brand value, much as other consumer goods industries did. They built audience loyalty around stars and stories in order to lower the cost of delivering information about film quality to potential consumers.

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By 1930, vertical integration had returned to the industry, which was dominated by eight studios. They owned theaters, distribution networks, and studios that employed the talent for making the movies. The movie industry oligopoly was made possible by a number of factors, among them the economies of scale resulting from technological changes in the industry, the shift in the balance of power from actors back to studio executives as a result of sound, and the economic hardships of the Great Depression.

The five largest studios each produced 40 to 60 movies per year, about half the industry total, but accounting for 75 per cent of the first-run product. Even though they owned less than 15 per cent of the theaters, their films accounted for 70 per cent of the total box office. The theaters they did own were concentrated in major urban areas, constituting the bulk of the first-run market.

Most of these pictures were what was known in the industry as B films. They were low-cost films, typically rented for flat fees, and serving as second features or fillers between releases of major pictures. Part of their low cost was due to the way in which actors were employed. During the studio system, actors were under contract to a studio for a fixed time period (often extended by the studio due to a system of renewing options, much the same way the professional sports industry tied up talent). The actors were essentially fixed costs to the studios.

The role of the B picture for the studios was to fill their theaters between first-run films, provide a second feature to enhance demand, and basically cover the fixed costs of the theater. They didn't make much money, but, because they sold for flat fees instead of a share of the box office, as the first-run films did, their revenues were predictable. There was a guaranteed market for B films on two fronts. First, studios owned theaters; thus, they could show any of their films, and they did so, keeping the theaters filled in between major hits. Second, studios that did not own theaters sold these low-budget pictures in a package deal with their blockbusters. This made for a guaranteed audience. Independent theaters were subject to these negotiating tactics and had little choice, since they did not have a guaranteed source of films. In order to keep movies in their theaters, they had to book what the studios offered. Kenney and Klein (1983, 2000) and Hanssen (2000) focus on the impact of this "block booking" practice.

The pricing scheme in the movie industry has long been based on revenue sharing. The distributor provides films to the exhibitor in return for a percentage of the box office. Hanssen (2002) finds this change was concomitant with the arrival of sound. The new technology altered the incentive structure of movie-theater owners, significantly reducing the scope for shirking on their part, thus lowering the cost of dividing attendance revenue. The distributor, being in the stronger oligopoly position, was able to pass risk on to the theaters. They got a percentage of the box office, good if the movie was a hit, but negotiated a floor fee payment, protecting them in case it was a bomb. In other work, Hanssen (2010) finds that the vertical integration of studios promoted efficiency in the industry because they were more likely to alter the run lengths of new releases after the initial run contract was written. This promoted efficiency since the demand for a given film is not known until after it begins to play in the cinema.

Gomery (1980, 1996) provides a historical overview of the studio system. Pokorny and Sedgwick have conducted numerous studies of the film industry during the studio-system era, taking a close look at profitability and the star system at Warner Brothers (2001); product differentiation (Sedgwick 2002); risk management, consumer behavior (Sedgwick and Pokorny 1998, 2010); and a comparative look at the U.S. and UK (Sedgwick and Pokorny 2005).

Bakker (2005) and Miksell (2006, 2009) also look toward the UK for clues to the American domination of the industry during the silent-film era. Bakker determines that the escalation of fixed costs during the rapid phase of U.S. movie industry growth resulted in American

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domination of international film production and distribution. Miksell attributes Hollywood's domination to its ability to tailor its films to the UK market, something the UK studios were ineffective at doing for the U.S. market.

The rise of television spelled the end for the double feature and the B movie – and along with it a host of production companies that survived on the B movie. The mid-1950s also saw the return of antitrust activity, forcing diversification of the major studios and dissolving the near-perpetual contract arrangements they had with the stars. As the era of "free agency" in talent returned, the B picture was priced out of the market. Finally, with so many entertainment options opening up in the postwar boom, consumers began to demand quality instead of mere quantity for their dollar. The cost of supplying B pictures increased, their demand waned, and a chapter of American movie history drew to a close. Gil (2010) looks at the change in production patterns by studios after the forced vertical disintegration of the industry.

By the 1970s, the industry had evolved into its present-day form, with the major studios operating essentially as bankers and distributors. They provide the financing to independent producers in return for the rights to distribute their pictures. Some own production stages that they lease or use primarily for television production. While they don't control the industry from top to bottom as they once did, the distributors are still the least competitive sector of the industry.

Television

The arrival of television was at first thought to be the death knell for the movie industry. Television was considered a cheaper and more convenient substitute. Ultimately, it evolved into a complement to the movie industry. Network and cable television have become havens for recycled older movies, and pay-per-view and movie rentals have become alternate outlets for movies just off the theater circuit. While there is a segment of the market for which television and the theater are close substitutes, there are many people who are not willing to wait for a movie to appear on the rental market or cable television.

Because of its fear of being replaced, the movie industry withheld its films from television until 1955. That year, RKO got out of the movie production business and sold its assets to General Teleradio. This marked the first time a major studio's film library was owned by a broadcaster. Studios that retained their film libraries, such as MGM and Columbia, set up separate departments to handle the leasing of their old films to television.

The licensing of films to television was the first step in an increasingly cooperative relationship between Hollywood and TV. The next step was the production of original programming for TV. As technology made the taping of shows for rebroadcast economically feasible, live television gave way to the taped broadcast. Hollywood studios began to produce filmed product for broadcast on television. Much of this market was filled by independent producers who leased studio space from the major film companies for the purpose of creating television programs.

The rise of the video and pay cable industry and the changing attitude of the major networks have altered the role of networks toward films. They no longer spend as much money buying theatrical releases for broadcast on network TV. In fact, that segment of the market has been in decline since the 1970s. By 1974, the networks began to spend more money to produce original, made-for-television movies than they did for rights to theatrical films. Now the four major networks finance the production of more original movies each year than all the studios combined. Despite this large number of films, the impact on the movie industry is negligible. The only sources of release for these films are domestic and foreign television, the least

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profitable of the venues for feature films. So, while they dominate the industry in sheer quantity, their quality does not rival that of feature films and their financial impact is minimal.

Spectator sports

Big-time sports leagues have all evolved in a monopoly framework, seeking to control the competition, the consumer base, and the labor pool, to varying degrees of success. In team sports, the owners formed cartels. Organizers of individual sports, like tennis and golf, attempted to control the tournaments, while boxing was dominated in the 1940s by promoters (some affiliated with the mob), who controlled the television rights and the heavyweight championship fights. Without fail, the most financially successful sports leagues have been cartels that grew and thrived on the back of exploited labor and monopolized geographic areas for teams. Competing leagues arose to cash in on the monopoly profits of the National Football League (NFL), National Hockey League (NHL), National Basketball Association (NBA), and Major League Baseball (MLB), but in every case they were either bankrupted or merged into the established league. As a result, despite a century of monopoly profits, each of these leagues still enjoys monopoly status. Professional sports leagues in the UK developed differently from those in America. Cain and Haddock (2005) compare and contrast the evolution of American baseball and British football leagues.

Baker *et al.* (2004) argue that stock ownership of clubs won out over player cooperative forms of ownership of baseball teams in the late nineteenth century because the team production problem resulted in players of unknown ability migrating to teams in co-op leagues. Based on this argument, the authors suggest that co-ops functioned as an early minor league system in which untried players could seek to prove themselves and eventually move up to wage teams. Empirical analysis of data on player performance and experience in early professional baseball provides support for this theory.

Off the field, teams have cooperated for many years in their efforts to control the market for their sport in order to maximize profits. These efforts have taken place in two primary ways: monopolization of the franchises and monopsonization of the labor markets. The franchises have established local monopolies to minimize competition among themselves. At the same time, professional sports leagues originally used a form of labor contract that restricted the ability of players to move to other teams and thus held down their wages. This combination of restrictions allowed teams to maximize their profits by increasing ticket revenue and lowering player salaries (the largest source of expenses for a professional sports team). The owners justified monopsony control on the basis of competitive balance. Rottenberg (1956) cast doubt on this claim, presaging Coase with his argument that the best ballplayers would end up on the teams in the biggest markets regardless of contract status. Hylan *et al.* (1996) and Surdam (2006) each use the Coase Theorem in case studies of professional baseball labor markets. Subsequent studies of sports labor markets have focused on measuring the degree of exploitation due to monopsony markets (Scully 1974a; Zimbalist 1992; Haupert 2009b), discrimination (Lanning 2010; Haupert 2009a; Kahn 1991, 1992, 2006; Kahn and Sherer 1988; Scully 1974b; Lavoie 2000; Krashinsky and Krashinsky 1997), labor relations (Lowenfish 1980; Zimbalist 2003; Abrams 2003), the determinants of salaries (Jones and Walsh 1988; Scully 2002; Haupert and Murray 2012), the Superstar effect (Rosen 1981; Hausman and Leonard 1997; Berri *et al.* 2004, 2006) and general sports labor markets (Fort 2005; Daly and Moore 1981; Kahn 2000; Rosen and Sanderson 2001).

Monopoly control of franchises is the backbone of any sports league. Sports leagues serve to control schedules and maintain the quality of play on the field. But even more importantly,

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they serve to maximize profits for the teams. This is done in a number of ways, beginning with attempts to corner the market on playing talent, desirable markets, and television income. Leagues do this by signing the best available players, and then tying up the next tier of talent at minor-league levels. This prepares them for the major leagues as well as keeping them away from potential competitor leagues.

Leagues also attempt to control the best markets. They locate teams in the largest markets in an effort to make it more difficult for a competitor league to start up. At the same time, leagues limit the number of franchises to fewer than the market will bear. This insures that they can exploit monopoly profits by limiting the output of their product. This is most obvious in the use of relocation of franchises as a threat to get government benefits such as tax breaks and new stadiums. Hardy (1997) provides an overview of the organization of the sports market and Gendzel (1995) provides a specific example of this sort of behavior in his look at the relocation of the MLB Braves from Milwaukee to Atlanta.

The organizational structure of professional sports was fortified by the U.S. Supreme Court when the shunned owner of the Baltimore club of the Federal League, a failed competitor to MLB in 1914 and 1915, sued MLB for violation of antitrust law. *Federal Baseball Club of Baltimore v. the National League* eventually reached the Supreme Court, where in 1922 the famous decision that baseball was not interstate commerce, and therefore was exempt from antitrust laws, was rendered. Baseball alone enjoys this exemption, but the basic league structure is the same for all team sports. Johnson (1979) and Abrams (1998, 2010) provide overviews of the relationship between Congress and professional sports.

The popularity of sports, the quality of competition at the highest level, the vast amounts of television and sponsorship dollars, and the monopoly status of leagues have generated revenues sufficient to guarantee large paychecks for athletes and profits for owners. The last few decades in American sports, however, have been marred by labor unrest between athletes and owners. This fighting has centered around the method of splitting the revenues, and has led to work stoppages in all four major team sports.

Surdam (2007) looks at the NFL revenue sharing in the 1950s and compares it with MLB. He finds that owners were willing to enact regressive aspects in their revenue-sharing plans, possibly to forestall moral hazard possibilities arising from automatically helping teams that remain poor draws or fail to improve.

Labor markets for players have evolved similarly across leagues and national boundaries. In team sports, the original labor pool was exploited because the league, as a monopoly, was the only employer. The standard player contract in professional sports leagues had a form of reserve clause, which the leagues instituted under the guise that it was required to keep teams balanced, games competitive, and the league viable. In the name of preservation, the team owners exercised tight control over athletes, exploiting their labor for monopoly profits. Players were signed to contracts that bound them to the signing team indefinitely. The team had the right to renew the player's contract each year, restricting the player's ability to bargain, thus depressing wages. This right was known as the "reserve clause."

Players began to level the playing field in the 1970s through legal victories and the growing strength of their unions. In all leagues, players eventually won the right to bargain freely with other teams, commonly referred to as "free agency," thus dramatically increasing their wages. While still controlled by the team early in their career, player wages (even for rookies) have climbed, in large part due to collective bargaining and the influx of television revenues.

The right to bargain with other teams for their services changed the landscape of the industry dramatically. No longer are players shackled to one team forever, subject to the whims of the owner for their salary and status. Now they are free to bargain with any team. The average

salary of a professional athlete in the four major team sports skyrocketed from $45,000 in 1975 ($182,000 in 2010 dollars) to more than $3 million by 2010. The dramatic increase in television revenue caused by America's insatiable appetite for sports has contributed to this salary increase. The result is a much larger revenue pie to divide, with the players getting a larger piece of that pie.

The financial success of sports is due to its exposure on television. The most successful professional team sports in the world, soccer, American football, and baseball, generate more money from television rights fees than they do from live attendance. Golf and tennis owe their large purses to the growth of television fees in the last two decades. The less successful professional sports, such as hockey and basketball, have improved their status greatly with television packages, but are still not on the same par as the aforementioned sports.

Municipalities have come to view sports teams as an important and desired element in their economy, so they have used their powers of eminent domain, bond-issuing capacity, and taxation to secure sufficient land for stadiums and parking in the inner city, and to construct grand new cathedrals dedicated to sports in an effort to lure expansion franchises and teams looking to relocate. This is usually done in the name of urban renewal and economic development. Several economic studies of the value of sports facilities and teams to local economies have been conducted, including Baade and Sanderson (1997); Coates and Humphreys (1999); Johnson *et al.* (2001); Long (2005); Noll and Zimbalist (1997); and Siegfried and Zimbalist (2000).

Fans like to see their teams succeed, though evidence also suggests that, if they succeed too much for too long, interest may be lost (Knowles *et al.* 1992). The bottom line is that fans like to be entertained. When they are no longer entertained they will take their money elsewhere. In this regard, sports are no different from any other type of entertainment. Numerous economists have looked at the demand for baseball including Whitney (1988) who focuses on championships as a factor in demand; Schofield (1983) who looks at performance; and Schmidt and Berri (2006) and Ahn and Lee (2003) who develop a life-cycle demand model for MLB. Surdam (2009a, 2009b) looks at the financial records of the New York Yankees and Philadelphia Phillies during the 1930s in order to form his hypothesis about what determines the demand for baseball.

Conclusion

Increasing wealth and innovations in technology led Americans to pursue a variety of different means of entertainment. Still, there are only 24 hours in a day, so inevitably one new means of leisure-time pursuit comes at the expense of another. Radio and phonographs substituted for live music performances, talking films replaced silent films, and television encroached on the movies. Vaudeville could not compete with the movies and Broadway suffered with the rise of movie musicals in the 1930s. The automobile led to an increase in "going out" for entertainment, which in itself did not help the radio and phonograph industry. It was, however, a boon for ballparks and drive-in theaters. Americans have increased their demand for entertainment, but their tastes for specific types of entertainment are constantly evolving. The result is an industry that is monopolistically competitive.

Technology has blurred the distinction between entertainment media and caused upheavals in the industry along the way. Movie and television are good examples. The latter is an extension of the technology that created the former. When television first debuted, it was viewed as the eventual successor to the movie theater. Although it came after the movie industry, it is now difficult to tell the difference between the two industries. They share studio space and producers. Actors and directors frequently cross from one medium to the other in an

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industry that is composed of a shrinking number of companies that produce both television shows and movies. With the growing availability of cable movie channels, on-demand viewing capabilities, and the improvements in technology, the difference between watching a movie in a theater and at home is rapidly diminishing.

The same story can be told about the symbiotic relationships that have developed between radio, television, recorded music, and the movies. Indeed, at one time each of these industries saw one or more of the others as a potential threat to its existence, and instead they have grown to be close complements to one another.

Spectator sports, while initially wary of the growth of radio and television, learned to embrace them and evolve along with them. While technology is not necessary for the production of a sporting event, nor is it needed for it to be consumed, they are closely allied. Over time, spectator sports learned to see technology not as a substitute for ticket sales, but a complementary source of revenue.

Not only has technology revolutionized the quality of the entertainment industry, it has led to substantial price decreases as well. Television sets, radios, and music players are all cheaper today in real dollars than when they debuted. In addition, the quality has made quantum leaps. Nobody would argue that the first record players can compete with today's iPod, and certainly the radios of the 1920s and televisions of the 1950s are no match for today's sets.

The next chapter in the evolution of the entertainment industry is still being written. How the Internet, social media, and wireless reception impact the consumption and production of entertainment remains to be seen. And the property rights issues involved with the ability to share, transfer, and download video and audio files have yet to be clarified. While it is certain that the entertainment industry will survive, its exact nature is yet to be determined.

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