

Hannah Economics

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Article:

Americans love free enterprise and free markets. Americans hate free enterprise and free markets. No, I didn't just contradict myself. I think both of these statements are right. Americans have conflicting views about prices and markets. Sometimes the conflict involves serious issues like health care and energy. Sometimes the conflict gets silly.

An example of the silly will play out today, when Hannah Montana performs her only Triad concert at the Greensboro Coliseum. In case you didn't know, Hannah Montana is a Disney Channel character, played by Billy Ray Cyrus' daughter Miley, and her concerts are a smash with tweens and young teens.

The Hannah Montana concerts are such a smash that they've been selling out in record time. In many cases, people standing in line at arenas and concert halls have learned well before getting to the ticket window that the concert was already sold out. Online buyers are reportedly swooping in and buying all the tickets, many of which are soon offered for sale at such websites as StubHub, for many times the highest face value of \$63.

This would annoy any fan, but the Hannah Montana backlash has been severe. In true American style, that means lawsuits. Not only are angry parents suing, but some state attorneys general are looking into the practices of scalpers and ticket brokers. And last month Ticketmaster sued a company called RMG Technologies because it sells software that helps ticket-buying 'bots (robotic programs that can engage in e-commerce) read those boxes of wavy letters that are supposed to separate the men from the machines. The software also helps scalpers portray their purchases as coming from multiple computers, the better to thwart Ticketmaster's safeguards.

Scalping is being treated as a legal and technological problem. But ultimately, it's an economic problem. Let's ignore for now that scalping is illegal. *Why* is it illegal? Does it make any sense to keep ticket prices from rising to match the value people place on those tickets?

When most products are in short supply, their prices rise. Sometimes distant market forces create the upward pressure, as we're seeing with oil and gasoline. Sometimes a government program is the cause, as in the case of federal ethanol subsidies, which are pushing up prices for corn and other grains. Whatever the cause, the higher prices create a mechanism for distributing the scarce product among a large number of buyers. The market allocates the product to those who are the most eager to have it.

Tickets to popular events are *always* in short supply. Whether we're talking about Hannah Montana or the World Series, promoters tend to charge less than the market-clearing price for big events. Any time you see people waiting in line to buy tickets, it means they're willing to spend money *plus* time (which has value).

Therefore, not everyone who prefers to spend money only will be able to buy tickets. That creates the shortage, and that's where scalpers and brokers come in. In the stock market, we characterize such traders as essential cogs in the wheel of commerce because they connect sellers with willing buyers. For Hannah Montana, we sue them.

As effective as markets are, society occasionally prefers a non-market outcome. In the U.S., for example, water is generally produced by local governments and made inexpensive in order to ensure that no one's essential water needs are unmet. Why do we bypass the market in this case? Because water (at least at low levels of consumption) is a necessity.

Hannah Montana tickets are not necessities. They're utterly discretionary, and as such it's hard to justify bypassing the market. But wait, you say, won't poorer folks be unable to buy tickets for hot concerts? Yes, that's probably true. But poorer folks are unable to buy many discretionary items, from fancy cars to spa treatments. Where's the outrage over that? Where were the lawsuits when Toyota Priuses were selling for thousands of dollars over list price?

Economists often ask why Disney and Major League Baseball and all the rest charge less than the full market price. After all, no one ever accused Disney of not knowing how to make a buck. One thesis is that they're actually maximizing their profits once related merchandise, from apparel to DVDs to television contracts, is factored in. The fact that this strategy also creates a market niche for scalpers is an incidental result that promoters can pretend is distasteful. Besides, consumer outrage over high ticket prices probably convinced promoters long ago to back away from anything that would raise prices. Let the evil scalpers take the heat.

New technology is at the fore of the issue. In the past, the rich-poor divide was less pronounced because people could choose to stand in line for tickets. Then, if they wanted, they could turn around and sell their tickets at a premium to richer folk. Obviously, scalping has always been with us, but now it's bigger and faster and harder to contain. Even so, you'd think that image-conscious promoters would set aside more tickets for those who are willing to wait in line. After all, very few of them will be scalpers. Thanks to the new technology, standing in line is a very inefficient way to be a scalper.

We all want to pay as little as possible for everything we buy. That's only natural. But it's hard to justify using taxpayer-supported government resources--whether the courts or the attorney general's office--to fight high prices for Hannah Montana tickets.