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Thomas W. Hazlett: Pay-for-play can help music

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Eliot Spitzer, New York State's crusading attorney-general, has hung another pelt on his office wall. Sony BMG, distributor of tunes from the likes of Aerosmith and Britney Spears, is paying \$10m as part of an agreement to settle his charges of bribing radio stations to pump up the airtime allocated to the songs it sells.

Other music companies are expected to face similar action and the Federal Communications Commission, the US broadcasting regulator, said it would launch an investigation into improper payments in the music business.

A range of "pay-for-play" practices is being exposed. Record labels commonly employ independent promoters who then pay (as much as \$100,000 annually) for a radio station's advance playlists, in thinly disguised baksheesh. Other inducements go directly to station executives, often in the form of flights and hotels. A further ploy is to rig listener song requests. As an internal record company complaint about one botched effort revealed, "my guys on the inside say it's the same couple of girls calling in every week".

Payola was made famous by scandals in the 1950s, when "cash, drugs and women" were traded to rock and roll disc jockeys in exchange for airtime, but the practice has a richer history. In both Britain and the US, 19th- and early 20th-century performers collected side-payments from music publishing houses for singing their songs.

Ronald Coase, the Nobel Prizewinning economist, explained the practice in 1979. Radio stations own something valuable: songs played more tend to sell more. Competition for airtime develops, but how one conducts the best auction – given that station revenues come primarily from selling audiences to advertisers – is complicated.

One view is that radio stations should be faithful to listeners and make choices based only on their DJs' honest musical appreciation. But how do they know what gangsta rap track is top quality? Payola helps them learn, because record companies will tend to value airtime the most for releases for which they have the highest expectations of future sales.

Rock and roll in the 1950s was notorious for payments. US congressmen □ attacked "this so-called junk music . . . which appeals to the teenagers [but] would not be played" in the absence of payola.

Although federal legislation made payments to radio stations or disc jockeys illegal from 1960, enforcement apparently remains imperfect. Airtime continues to be precious to music owners as a marketing tool. As Mr Spitzer and the FCC crack down in the US, competition will perhaps come to entail ever more innovative compensation schemes. Look out for record labels that have plenty of job openings available for friends and relatives of radio station insiders.

In music, bribery stratagems can be amusing but compact disc buyers are not much scandalised by corporate marketing indiscretions. Nor are cinema-goers who applaud films whose producers collect millions of dollars in product-placement fees. Some forms of "plugola" seem downright respectable.

But when news content is compromised by financial conflicts, jaws drop. Because journalism is valued to the degree that it delivers the straight scoop, reputable news organisations maintain rules to ensure independence and, hence, credibility. What, though, of internet-based information? How do online readers avoid trash-for-cash? Already, the blogosphere has been rocked by revelations that political candidates and corporate interests promote their views by paying some – supposedly independent – authors of web diaries to adopt them. How is the reader to know?

The network economy has brought specialised content and a greater variety of opinions, enriching the marketplace of ideas. But the advantages afforded by large, established and respected news organisations are equally real. The demand for authentic information answers the query posed by many as to what traditional media are to do in the internet age. By maintaining their brand names and values, print publications and broadcasting organisations compete to supply journalistic integrity in cyberspace.

In investigating pay-offs, a 1959 congressional panel took testimony from Frank Stanton, then president of the CBS network, who did not object to “the idea that personalities retain agents, public relations people, to try to get as much publicity as possible”. But, he continued, “the place where I draw the line is the passing of money from the act or the personality to the person who writes the column or does the show”.

American regulators are once again flailing at payola in music, where it poses no great threat to society, while ignoring influence-peddling in news and information, where the corruption of public discussion is of potentially grave consequence. This outcome is not improved by similarly flailing at website payola, which would impede free speech. As Mr Stanton was keenly aware, market competition – not government prosecutors – will draw the lines that matter.

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