



A behavioral economic analysis of excess entry in arts labor markets

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ABSTRACT

Labor markets in the arts often have excessive supply. While economists have recognized that key reasons for excess entry are behavioral in nature, the issue has never been analyzed systematically or in depth. A behavioral economic approach is used to show how numerous known biases can lead to a larger number of entrants in arts markets than would occur in other markets. In addition, special attention is paid to unusual motivations for supplying labor. In particular, the role of intrinsic reward are broken down along with its implications on labor supply and product quality.

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1. Introduction

It has long been recognized by economists that labor markets in the arts often receive an excessive number of applicants (Santos, 1976; Towse, 1993; Throsby, 1994; Menger, 1999; Abbing, 2002). High-entry rates are seen in a number of art markets. Unsolicited novel submissions greatly exceed the opportunity for success, with one estimate indicating that there are 15,000 novel submissions for every one offered a contract (Caves, 2000; Greco, 1996). In fact, the stack of unsolicited manuscripts is so large for most publishers that it makes little economic sense to give them all consideration Hensher (2006). Towse (2001) estimates the ratio of trained singers to regularly working classical singers to be about 500 to 1. It is also fairly well known among the general public that there are a very large number of aspiring actors, screenwriters, musicians, etc.

It has also been recognized by economists that some of the key reasons for excess entry are psychological in nature rather than originating from standard economic theory on labor market dynamics (for example in Towse, 1993; Abbing, 2002). In fact, this observation goes back as far as to Adam Smith. However, the behavioral causes of excess entry in the arts (as well as in other endeavors)

has only received off-hand mention as an aside in material primarily focusing on other topics. Other causes of excess entry have received slightly more attention. For example, Menger (1999) discusses excess entry from a sociological perspective and includes the role of intrinsic reward as well as discussing risk, but risk is discussed primarily as a matter of preferences, not a source of psychological bias. Frey (2003) discusses intrinsic rewards, and in particular the potential for extrinsic reward to “crowd out” intrinsic reward.

A high entry rate in itself can be beneficial in many settings. In labor markets, it allows firms to be more selective across applicants, possibly leading to higher quality laborers hired or contracted. So what makes entry “excessive”?

If markets clear and laborers are making optimal decisions in choosing to enter labor markets, then entry is generally not excessive, even if there are far more prospective laborers than openings. However, entry here is hypothesized to go beyond the point that is optimal for the laborers making the decision as well as the point that is socially optimal, primarily due to cognitive biases and incomplete information. When entry is caused by behavioral biases for the marginal laborer, the expected value of winning minus entry costs may actually be negative but an agent inaccurately assesses the expected value to be positive. Therefore their entry is likely to be “excessive” in the sense that the costs of their entry will be greater than the expected benefits to the artist. Entry is considered excessive here if the marginal entrant results in net negative utility for

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the individual or a net loss in utility for society. This net loss in utility can occur due to behavioral biases, or it can be due to negative externalities caused by additional entrants.

A larger number of entrants can actually lead to a decline in the expected quality of the winning contestant, particularly in the arts (Frank, 2008). This counterintuitive result occurs when there are significant errors in judgment and when the choice to enter is made by heterogeneous agents comparing their cost of entry to their expected benefit from winning. The result occurs because the marginal entrants as the pool size increases are of lower quality. Extremely high numbers of entrants in the arts can lead relationships to become too important in labor markets, leading to increased agency costs and biases in the selection process that ultimately reduce quality (Frank and Carlisle-Frank, 2009).

The problem of excess entry has been discussed in other economic contexts such as industrial organization and game theory. For example, Vickrey (1964), Mankiw and Whinston (1986), Suzumura and Kiyona (1987), and Matsumura and Okamura (2006) all show that excess entry of firms occurs in a spatial model of the market. Excess entry has also been seen in game theory models (Anderson and Engers, 2007).

The full scope of excess entry in the arts as a behavioral phenomenon has never been analyzed systematically or in depth. This paper attempts to bridge that gap by looking at a number of known biases and other reasons why art labor markets may have an excessive number of entrants.

Such an analysis is beneficial for a number of reasons. First, analyzing the causes of excess entry can help to understand the dynamics of the phenomenon which is useful in prediction (for example, what will be the consequence of a change in the distribution of payoffs or technological change). Second, it helps to understand whether there are negative social consequences and how public policy can help to address these (for example, the role of public education on the topic). And third, it can help to identify what other markets are likely to suffer from the same issues.

After a brief discussion of the features that make arts labor markets unusual, the remainder of the paper will analyze one by one the causes of excess entry in arts markets and what they imply for market dynamics. Special attention is paid to breaking down and examining the various types of non-pecuniary rewards in the arts and their implications.

1.1. Unusual characteristics of arts markets that encourage excess entry

Specific causes of excess entry will be discussed in the next section. While laborers in all markets are subject to cognitive biases, certain characteristics of the labor markets for the arts cause it to be more susceptible to bias and other causes of excess entry. Other labor markets may also be particularly susceptible to excess entry if they share these characteristics. These factors include:

- *Traditional/objective qualifications are of low relevance:* Since formal qualifications, education, and experience tend to matter little in the arts (Towse, 1993), subjectivity in self-evaluation of qualifications by artists is higher and more subject to bias. The lack of a formal career path also leaves the field open to all applicants (although these applicants may not in reality receive full consideration). For example, though it is likely many people would like to work as a CEO of a large corporation and think they could do a good job, they realistically know their lack of formal qualifications would eliminate them from consideration.
- *Quality highly subjective/multidimensional:* Judgments of product quality vary greatly across individuals, increasing the opportunity for bias. This is even true among industry experts, where selecting

what the public will like is highly unpredictable (Caves, 2000).

- *Presence of low-quality, successful laborers:* In addition to quality being subjective, it is possible that some dynamics in the arts lead to artists at times other than those of the highest quality becoming highly successful. Reasons can be complex, but various phenomena in arts markets that can lead to this outcome are described in Adler (1985), De Vany and Walls (2004), Frank and Carlisle-Frank (2009) and Frank (2008).
- *Winner-take-all markets:* Extremely high payoffs to the most successful laborers combined with very low probabilities of achieving this level of success (i.e. winner-take-all markets as described by Frank and Cook, 1995) are common in the arts (Menger, 1999) and feed into biases in judgment and preferences for lottery-like payoffs.
- *Information shortfalls:* Fields which have a very specific and formal route for qualification (such as becoming a doctor or accountant) tend to have more information readily available on who is seeking to enter the field (once they have past a certain level), earnings, and process for getting a position. The low importance of formal qualifications, the large portion of people seeking to enter the arts who are unpaid, as well as the contingent and ephemeral nature of arts employment contributes to the low level of good information on entry and labor market dynamics (Menger, 1999). The lack of information among applicants in art labor markets leads to greater possibilities of cognitive bias.
- *Non-pecuniary reward:* The arts are known to have relatively high levels of non-pecuniary reward (Abbing, 2002; Frey, 2003; Menger, 1999; Towse, 2001). This implies that the arts also have a relatively low reservation wage. While this has been acknowledged in prior analysis of the topic, this topic receives a new level of scrutiny and analysis here to more closely examine the types of non-pecuniary reward and their implications.
- *Media attention:* Producers of art are inherently of media interest and depend on the media for marketing their product. There will be a natural tendency for the media to focus on the artists that are most successful and that receive the largest payoff. Industries that receive this kind of media attention will tend to have more biased estimates of success probability and expected payoff.

2. Overview to behavioral economic causes of excess entry

As shown in Table 1, there are a number of behavioral sources of excess entry. These have been broken down into general categories and individual issues. Categories include issues with quality estimation (own quality and competitor's), issues with quantity/payoff estimation, bad assumptions about the selection process, other probability estimation biases, and preference issues. Of these five categories, the first four deal with errors that lead to a socially undesirable outcome in that entrants estimate it is worthwhile to enter the art market when in reality it is not. These errors in some cases are caused by known behavioral biases while some are caused by agent satisficing under a limited information set. However, even when there cause is information shortfalls rather than behavioral bias, there must be some sort of bias in the estimation of outcomes involved so that agent expectations of outcomes systematically deviate from actual outcomes. For example, in estimating the quantity of the competition, the extremely unusual extent of competition in the arts combined with incomplete information may lead to systematic underestimation of the competitor pool size.

The last category, preference issues, on the other hand has to do with non-standard preference functions. While these preference functions deviate from traditional economic theory, the results are not necessarily suboptimal in that the preferences are real and the prospective artists should enter the market given their preferences. Therefore, entry might not be "excessive" for these non-standard

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