9-16-2013

Economics behind orchestra dispute: slouching toward the Lake Wobegon Symphony

Louis D. Johnston

College of Saint Benedict/Saint John's University, ljohnston@csbsju.edu

MINNPOST

Economics behind orchestra dispute: slouching toward the Lake Wobegon Symphony

By Louis D. Johnston | 09/16/13

MinnPost photo by Jana Freiband

The Minnesota Orchestra musicians performing Sunday at the Lake Harriet Bandshell to an audience of thousands.

The Minnesota Orchestra and Orchestra Hall play an important part in my life.

I first heard George Gershwin's "Cuban Overture" at one of Leonard Slatkin's "rug concerts" in the 1970s. My wife and I had season tickets while we were college students, putting us in the first row at Orchestra Hall, where we could see the member of the double-bass section who wore soft cloth shoes instead of dress shoes like his section-mates.

At Orchestra Hall I saw Van Cliburn in the 1970s, Maynard Ferguson in the 1980s, Tony Bennett in the 1990s and the Count Basie Orchestra in 2000s.

Over the last year I've observed the lockout and cancellation of the 2012-2013 season at Orchestra Hall and tried to make sense of it. Economic theory suggests two explanations: one that applies to the 2012-2013 lockout and season cancellation and one that illuminates the current contract negotiations, including the potential loss of music director Osmo Vänskä.

Comparing the lockout and restaurants

Have you ever gone to a restaurant and observed: "No one is here. How can this place stay in business?" If you think about it, it's pretty clear what's up: If a restaurateur signs a six-month lease, they might lose less money continuing to hire cooking and wait staff and open every day than by closing the doors and paying off the lease.

Economists call this the shutdown decision. A company must decide whether it will lose less money by operating and earning *some* revenue rather than by closing and earning *no* revenue.

My hunch is that the Minnesota Orchestra board made a similar decision. Faced with the choice of playing concerts away from Orchestra Hall while it was being refurbished, they figured they would incur smaller losses by locking out the musicians and canceling all concerts than by paying the musicians, renting alternative venues and holding performances.

Comparing orchestras and used cars

Suppose you're at a used car lot and find two cars that look exactly the same on the inside and outside, have the same number of miles and are priced the same. Which one should you buy? The dealer might know that one of them has a cracked cylinder head and the other doesn't, but you can't tell. In the absence of some kind of law requiring the dealer to completely disclose all problems with their cars, you're stuck. You'll have to take your chances and pick one of the cars and pay the same price regardless.

This is a situation in which the buyer and seller have asymmetric information. Economists observe this problem in markets ranging from used cars in the United States to milk quality in India to financial markets in developing economies.

I think that the orchestra's governing body, Minnesota Orchestral Association, understands the asymmetric information problem. Specifically, they are betting that a typical concert-goer cannot tell the difference between a top-flight orchestra (the Los Angeles Philharmonic under Gustavo Dudamel) and a very good orchestra (the Minnesota Orchestra under Eiji Oue.) They also estimate that they can generate the same amount of revenue — sell the same number of tickets at the same prices — with a top-flight orchestra and a very good orchestra. So, in this scenario, it makes sense to field a very good ensemble that generates a smaller loss.

If I'm right, then Maestro Vänskä is on his way out and a lot of new musicians will be joining the Minnesota Orchestra. That will be fine with the board, as there are conductors and musicians of good quality who will be happy to come to Minnesota and play in Orchestra Hall. Season-ticket sales will stay about the same and, with a refurbished hall, a reduced orchestra schedule and more non-Minnesota Orchestra events, revenues will rise and costs will fall.

If this happens, it might be best if the board changes the orchestra's name. I suggest that they call the new ensemble the Lake Wobegon Symphony — where the management is strong, the hall is good looking and the orchestra is above average.

ABOUT THE AUTHOR:

Louis D. Johnston

Louis Johnston writes Macro, Micro, Minnesota for MinnPost, reporting on economic developments in the news and what those developments mean to Minnesota. He is Joseph P. Farry professor in the Eugene J. McCarthy Center for Public Policy and Civic Engagement at Saint John's University. He is also a professor of economics at the university.

MinnPost | 900 6th Avenue SE | Minneapolis, MN 55414 | 612.455.6950